

Q2 2004 Earnings Call

Company Participants

- Eduardo Hoffman, IR
- Fabio Barbosa, CFO
- Thomas Carson, Unknown

Other Participants

- Alberto Arias, Analyst
- Andrea Weinberg, Analyst
- Andres Perez, Analyst
- Claire O'Hare, Analyst
- Daniel Altman, Analyst
- Iram Aquida, Analyst
- Jorge Beristain, Analyst
- Raphael Biderman, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. At this time all lines are in listen only mode. Later there will be a question and answer session. Instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I would like to turn the conference over to Thomas Carson from Thompson Financial Investor Relations. Please go ahead sir.

Thomas Carson {BIO 17738572 <GO>}

Good afternoon, ladies and gentlemen and welcome to the CVRD conference call to discuss the Second Quarter 2004 results. I would like to mention that a slide presentation has also been made available at the company's website at www.cvr.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macro economic conditions, market risks and other factors.

With us today is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First Mr. Barbosa will comment on the Second Quarter 2004 results and afterwards management will be available for a question and answer session. It is now my pleasure to turn the call over to him. Mr. Barbosa, you may now begin.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you, very much. Good afternoon, ladies and gentlemen and thank you for joining us today on this conference for the Second Quarter results. We are of course very happy with the results we

managed to show you. The results show disciplined capital spending. A strategy that is consistent and focused on mining and productivity gains across the board of Company's operations.

We showed you a much stronger group. CVRD today is a different group than what it was just a few years ago.

In our agenda in this presentation we will comment in more detail the Second Quarter results. Then we will comment on our businesses outlook as we see it and finally a statement on our growth strategy and value creation opportunities.

Starting with the Second Quarter results, of course one has to point out the very strong top line growth; 66.8% on a year-over-year basis; mostly driven by volumes. So responding volumes or about two-thirds of the total increase in sales growth.

Of course we have some effect of the consolidation of several companies. That's why I mentioned that we had a different and stronger group in 2004. But also there is the effect of the organic growth opportunities that we managed to implement in the last few years resulting in further increase in our production and sales.

Iron ore and Pellets at 33% and 44% respectively. Very strong position. Ferro alloys 33%. Aluminum and Kaolin were helped by the consolidation we managed to achieve right now in Albras and previously with Caemi. So very strong performance in our alliance of businesses.

Sales revenue by product showing that the Ferrous division is still a very important part of our business. But a growing importance of our segments. Iron Ore and Pellets responded for 61% and if we add Manganese and Ferro-alloy would be also 70% of our gross revenues. That reached \$2 billion and paid \$2.03 million in the Second Quarter. So Ferrous division responded for 70% of this total. Aluminum sales 14.2% and Logistics reached almost 11%.

I will call your attention for the Copper, for the first time appearing in those statistics just a small volume shipment in the Second Quarter of 2004 and it already responded for 1.2% of the total sales.

In terms of geographic distribution, we continued to have a broad presence in the global arena. Europe is our most important market in the region, almost 35% followed by Asia and China and Japan are the most important countries to where we sell right now in Asia. America 6.5% and Brazil taking 8.5% of the total revenue of \$2.33b.

A new record was reached in Iron Ore and Pellet sales. Almost 56 million tons in the Second Quarter of 2004. That compares very nicely with the Second Quarter of 2003 and even with the First Quarter of 2004. A very strong performance. Pellet sales reached 7.5 million tons. Also a record. And our Iron Ore sales 44.4 million tons. Slightly below our record figure for the Fourth Quarter of 2003.

In Logistics, general cargo transportation, also a new record was achieved with 7.6 billion net tons per kilometer. That compares with the Second Quarter of 2003 very nicely when we reached the 6.9 billion net tons per kilometer.

So a steady growth of our general cargo business provided by the new equipment we have bought in the rolling stock and the rail costs and locomotives that we managed to bring into provide logistics service in Brazil. It's a major bottleneck today for Brazilian growth. But we are growing faster than the Brazilian economy.

In terms of EBIT margin, a new record as well. We reached \$832 million and the EBIT margin reached 43.3%. It is a remarkable figure considering the effort we are all putting together to reach record figures for our business in terms of volumes, in terms of production. We are stretching to the limit our capacity in all segments of operation.

Our EBIT margin improved of course due to the very important, very strong markets. So prices were up. But volumes were also up and responded for about 600 basis points of the total increase we saw in the Second Quarter of 2004.

I would like to call your attention that for the fact that even with this very strong volume performance, costs were very much under control. So that provided us with this very nice result in terms of margins. In fact, we are able to show you today a consistent across the board operational (inaudible) measured by EBIT as you see in the next slide on the Ferrous, Minerals, Logistics and Aluminum businesses.

So in the Ferrous Minerals in the Second Quarter with the price increase and economies of scale, we were able to reach almost 46%. Logistics, 28% from 22% in 2003 and the Aluminum business 47.5%.

With this very strong operational performance we believe that we delivered very nice earnings figures for the first half of 2004 and our accumulated figure reached \$909m. That compares with the other players in this market. We were the third largest net earnings figure and we were the fourth in terms of market share as of June 30, 2004. So much better relative performance as well.

In terms of EBITDA, for the ninth consecutive quarter we showed a record. \$971 million was the EBITDA figure for the Second Quarter of 2004. Of course we were helped by the consolidation of Albras compared to last year Caemi and FCA. But again, we did have a very strong performance of what's called the Old Company.

As it was in 2003 and 2002 and the result was that the last 12 months our EBITDA figure reached almost \$3 billion and we still have a lot more to come, mainly from the Copper given the fact that only 34,000 tons of copper concentrate were recorded in the Second Quarter of 2004.

In terms of EBITDA by business area, Ferrous Minerals almost 70% of the total EBITDA generated this quarter and I would like to highlight the Aluminum contribution now incorporating the contribution of our Albras Holdings reaching almost 17%. Logistics 10% of the total EBITDA.

In terms of CapEx spending we spent \$846 million in the first half of 2004. Very much in line with the expected figure of \$1.8 billion for this year. We spent \$550 million in growth CapEx and \$286 million in stay-in-business CapEx. We delivered sustainable Carajas \$70 million is a reality and Candonga is ready. Is just waiting for the official approvals to operate. This was fulfilled and it will be operating very soon as we expect.

At the same time we are implementing a very broad investment program. We are able to keep a more sound balance sheet as you see in the next slide. The total debt to EBITDA, the ratio total debt to EBITDA, declined further in the Second Quarter of 2004 and reached an all time low of 1.5 times.

At the same time, the last 12 months EBITA in terms of interest coverage reached almost 13 times. So it shows market participants the strength of our balance sheet and if you go to the next slide you will also see that there was a major change in quality of our indebtedness with the market. In fact, our floating interest rate debt was reduced from 71% to about 53% by the end of the Second Quarter.

At the same time we were able to increase average debt life to about 6.4 years. So it's a company with a much lower financial risk that we are able to present to you today. At the same time we are implementing a very sound investment program.

In terms of business outlook, how we see the market. Ahead of us the word to describe the market is tight. We believe that the tightness of the market will remain. The global economy should continue to grow despite energy price increases we are observing in several markets.

But the bottom line is that several indicators confirm our expectations that the world economy will show a very strong performance this year as we can see in the global PMI. As we see in the figures for the industrial production growth in the US that in our view remains very robust and should deliver very strong growth for the US economy this year.

I would also like to call your attention to the performance of the Japanese economy. That seems to be in a very different trend of what it used to be in the last 15 years. It has shown a very strong performance helped by the world environment. But also by in part by the performance of the Chinese economy.

In our view, in terms of the Chinese economy, we believe that if there is a landing it will be soft and what we are observing right now is a very modest slowdown in industrial production and steel production grew by 21% in the first half of the year. And we believe that the Chinese economy will keep our expectation of GDP growth close to 8% this year for the Chinese economy. Chinese GDP.

In terms of Aluminum prices, they are still lagging behind compared to Copper and Steel prices showing some growth of further increase.

In terms of Iron Ore, the Chinese, the seaborne trade of the Chinese imports and you can see in the next slide what we anticipated to you in the last conference is happening. We said that the Chinese measures they would have a negative impact. Only the more speculative light demand and that's what happened. In our own portfolio of clients there was no change downwards. We did the very contrary and what we had was.

And what we saw was additional repairs for Iron Ore in order to feed the steel industry there in China. So we continue to believe in a very strong performance. Chinese imports could reach 180 million tons for 2004 and the seaborne trade should reach 575 million tons. The first half Chinese imports were about 97 million tons. But part of those imports were the more speculative type and more the spot markets. So we believe that things will grow more normally in the second half of 2004.

In terms of Alumina, world alumina demand, it rose 7.3% last year to 54.4 million tons. We are well positioned given our pipeline of projects with expansion of Alunorte and Paragominas. We expect that the consumption, the world consumption could reach about 70 million tons by 2008 and by the very time we'll have 3.6 million tons of alumina provided by our investments I just mentioned; Alunorte stages 4 and 5 and ABC; 1.8 million tons for each investment.

They are scheduled to be ready in the first half of 2006 and 2007 respectively and they would be fed by the Paragominas mine now extended to 9 million tons and should be operating also by 2006.

In terms of Copper, given the very strong market we are observing increase in the TC/RC charges prices. However, there is a lag until it is translated in costs for copper concentrate producers like us. But what we see in the copper market as a whole is a very strong performance in terms of prices and inventories are at a very low measure indicating that the market should remain very tight for a long-term.

Finally, now in terms of our growth strategy, we would like to show again a chart that we have been showing to you for some time now stating how we see the different segments to profitable growth to generate shareholder value. In fact, we believe that CVRD is on the right track because it is maximizing asset performance with consecutive production records as you saw there. You just saw.

We had a Grupo [ph] type commodity mineral exploration program and we are trying to find mineral opportunities for organic growth for finding giant deposits that would be more in line with the scale we operate.

We are implementing the very rich pipeline of Greenfield and Brownfield projects that you all know and add in new projects as we are able to discuss with all the parties. We are constantly monitoring opportunities around the globe for joint ventures and acquisitions of projects and companies.

We believe that we have a very good reputation with regard we have been a consistent value add to our shareholders. Returns on invested capital of around 30% and we continue, we remain very committed, very strongly committed to generate value to our shareholders.

Our projects are experienced according to our strategic pipelines with the focus on the Mining business with associated business of Logistics and using energy investment as a tool to reduce costs in the long-term.

We've tried to evaluate all risks, all the relevant risks regarding our investments, markets, regulatory, labor, tax, environmental, legal and we put together a project to do this job in our corporation. Our projects they have to satisfy a minimum criteria for cash flow at risk and shareholder value creation.

So the results we are seeing are the result of disciplined focus, consistence in implementing the strategy our shareholders approve.

Thank you, very much and myself and my colleagues will be available for any questions you may have.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Our first question comes from Rodrigo Barros of Banco Pactual.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Good afternoon, Fabio.

A - Fabio Barbosa {BIO 1907620 <GO>}

Good afternoon.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Congratulations on the outstanding results. I have 2 questions. First of course it's too early to discuss iron ore prices for 2005. But I wonder if you could give us a figure to reasonable [ph] that say what would be the factors contributing to a favorable price increase and what could be the risk for a not so favorable price increase?

My second question regards MRS regarding the (inaudible) MRS and how these discussions are proceeding?

A - Fabio Barbosa {BIO 1907620 <GO>}

I'll take your first question. First on prices, what will be certain is that the world economy is growing very strongly as we tried to show. The capacity remains. The market is very tight. Our clients continue to ask for more ore and we are having to say no.

We are trying to organize a queue in other words because we simply don't have enough ore to deliver this year, or next year or the following three or four years, despite both of our expansions.

So we believe that our competitors are in the same position and even with this more disciplined market in China we believe that the tightness of the market could remain. The world economy should continue to show a very benign environment. All the aspects are very positive here.

We don't believe in a scenario the central economies; the US and Europe; due to the oil prices. We believe that energy prices increase due to a structural change in the world arena given the strong performance of the Chinese -- the strong demand of the Chinese and also problems faced by the Russian producers. So we believe that there may be some very slight reduction here and there of growth rates. But there should be a positive growth rate for the world economy as a whole.

There is a favorable scenario to discuss prices with our clients. But it is too early to say what will happen from November onwards.

On the MRS issue, what we will discuss with MI's [ph] shareholders in the records is the possibility of adding a new logistical facility, or enhanced FCA capabilities of providing logistic service to our clients through directly for FCA. In this regard we have to adapt the railway to build the third rail.

It is a very simple operation in terms of investment. A very small investment. But that could open a new channel to deliver, to the (inaudible) port that could help us to enhance our general cargo production. But we have to discuss here with the relevant parties there.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay, if I can just make sure, this is going to be a proposal that VALE is going to make MRS and is it true MRS to decide whether or not to peruse it?

A - Fabio Barbosa {BIO 1907620 <GO>}

This is the proposal that FCA will present to MRS.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Okay. Thank you, very much.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question Mr. Barros. The next question we have comes from Alberto Arias from Goldman Sachs.

Q - Alberto Arias {BIO 18302585 <GO>}

Yes good afternoon Fabio. Congratulations on the good results.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Q - Alberto Arias {BIO 18302585 <GO>}

A couple of questions. You mentioned in your presentation the strength of the results and the potential acquisitions as a way of growing the Company. How much consideration has the Company given a share buyback program as an alternative to an international acquisition given the great potential that CVRD has and asset quality relative to what is available out there? Is the Company considering increasing its share buyback? What is the share buyback policy of CVRD at this time?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well we are considering any share buyback program. We have a very strong investment pipeline and we would like to keep our balance sheet in a very strong position. In this regard we of course know that CVRD is one of the best investments available here. But so far we don't have any buyback program designed to implement in soon.

Q - Alberto Arias {BIO 18302585 <GO>}

I think it will be probably the best acquisition opportunity buying your own shares, that's my personal view. The second question was with regards to the high oil prices and the impact that it would have in different parts of the Company. We saw the strength of the railroad division in the Second Quarter as an important positive surprise.

What is the impact of high oil prices on some of the margins that we see out of your railroad business and if you could expand that to perhaps other parts of the company? How exposed is CVRD potentially on this high oil price environment?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well that all depends on what will be Petrobras's policy regarding this price increase. It cannot be immediately translated into our costs because Petrobras has a different policy.

It's interesting, that we studied a possibility of trying to hedge a little bit our exposure to this risk. But Petrobras policies regarding prices are not matched by instrument in the market. So it all depends on what Petrobras will do and we can do very little to reduce our exposure there.

But on the other side, the Brazilian economy is showing a very good performance and inflation is under control. A little bit pressured by public utility prices and may be Petrobras would wait a little bit until it decides to pass through the price increase.

This is funny (inaudible) is that Petrobras prices I believe for what we've seen they of course are not -- their own costs are not immediately affected by the oil prices abroad because this is much more a reference for their pricing policy rather than a cost issue.

So we have to consider what Petrobras will be doing in the future. In the meanwhile we will continue to do what we have been doing in terms of increasing the efficiency of our locomotives and try to improve its efficiency and to deal with this potential cost increase.

A - Eduardo Hoffman

I would like to highlight that although fuel costs (inaudible) of our railroads, for the Company as a whole fuel costs represent 11% of the cost of goods sold.

FINAL

Bloomberg Transcript

Q - Alberto Arias {BIO 18302585 <GO>}

Thank you, Eduardo. Thank you, Fabio.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Alberto.

Operator

Thank you, Mr. Arias for your question. (Operator Instructions) The next participant that does have a question is Andrea Weinberg of Merrill Lynch.

Q - Andrea Weinberg {BIO 6591181 <GO>}

Hi Fabio, Eduardo. Good morning. Congratulations again for the results. First question. Significant improvement in your gross margins in the Second Quarter to 53%. Do you think that the lower costs in the quarter reflect economies of scale from your expansions and do you think that these reductions should be maintained going forward? That means what portion of the lower costs do you expect to be recurring going forwards?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well I'll take the first question. This is actually we believe that several factors should continue to prevail in the next few months. First we have the fact of alumina and the consolidation of Albras in the aluminum costs. That's something that is for good.

Second, economies of scale were reality in fact. We were able to expand our production and aggregate more volumes to our sales and of course we are very much in line with marginal increase, if any.

Thirdly, I would mention the increasing efficiency and the reduction in fuel consumption of our railroad as we mentioned before. That also is, in our view, a structural trend.

Fourthly, Albras. We used to buy aluminum, permanent aluminum for Albras. It used to be bought by Epaco [ph] and to be resold in the market and we bought from Albras at market prices. That will no longer happen. With the consolidation of Albras this cost would not be relevant anymore because they are two companies that they have consolidated in US GAAP.

So I believe that the structural factors behind this cost performance. But of course as the previous questioner mentioned, there are risks too like what Petrobras is going to do with the fuel costs. But what is mitigated by what Alberto just mentioned in terms of the relative importance of fuel now to costs.

Q - Andrea Weinberg {BIO 6591181 <GO>}

My second question will be on Pellets. The Pellets sales volume increased 22% quarter-over-quarter. I would like to have some guidance in terms of total Pellets for this year and what are your expansion plans for Pellets going forward?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well Pellets is the result of the full operation of our St. Louis plant mainly. We are operating at full capacity, slightly above it, in some respect. In the first half of 2003 it did not happen. So it mostly is a combination. Very strong performance this year. We saw very low production in the first half of 2003.

Our expansion plans involve further increase in production in our Tubarao plant. We are studying the possibility of margin increases to increase operational efficiency of several of our plants. We are studying a second unit for our pelletizing plant in Minas Gerais, (inaudible) one. The previous (inaudible).

But we of course could, if the market is there. And you know the pellets markets are much more volatile than the fine market. But if the market is there we could of course go further and expand capacity even in the northern system and the southern system.

Q - Andrea Weinberg {BIO 6591181 <GO>}

Thank you.

A - Eduardo Hoffman

Long-term basis, on the long-term basis there is some factors that we assimilate expansions in pellet capacity. We are seeing new products of aluminum using GR. (inaudible) in the Middle East and secondly there is new regulations on environment protection that make the use of pellets much more appropriate than iron ore.

Q - Andrea Weinberg {BIO 6591181 <GO>}

Thank you.

Operator

We thank for your question Ms Weinberg. The next question we have comes from Andres Perez of Morgan Stanley.

Q - Andres Perez {BIO 18609546 <GO>}

Hi Fabio. Hi Eduardo. Just two quick questions. One on your Logistics division. If you can give us a sense of the growth that we saw in the quarter, how much do you attribute to the overall growth in market demand versus how much market share you're gaining? Given the expansions you have in place, in your Logistics division you estimate is you can grow above the incremental market demand by how much over the next couple of years?

A - Fabio Barbosa {BIO 1907620 <GO>}

We thought we are able to add 2,500 new rail cars in the first half. About one-third of it or more. A major part to general cargo. In locomotive we are able to bring almost 40 new locomotives to our operations.

The problem is not demand. We are facing a clear supply constraint there. Every single rail car we are able to bring to our railroads, the rail car will be busy transporting steel products and culture products and (inaudible) etc. There is no idle capacity. The only problem is to get the rolling stock in place in order to produce generic services.

This situation should remain for the whole year. The only constraint would be the timing of the corporation of the rolling stock and this situation should remain for the next couple of years. That we believe.

Q - Andres Perez {BIO 18609546 <GO>}

Okay great. My second question is more from a strategic point of view. It seems quite clear that you're obtaining very high margins from most all of your divisions. You know Iron Ore, Copper, Aluminum etc. If you were to look at investing in incremental expansions, what are some of the

factors you consider you know in addition to just the returns? What kind of a value do you place on diversification of your product mix? How does this factor into the overall calculation?

A - Fabio Barbosa {BIO 1907620 <GO>}

This is very important because we must be able to diversify because we have already a very strong position in the Iron Ore market; the seaborne trade. So we believe that our Iron Ore should grow in line with the seaborne trade and we will try to keep our market share there in which we are the leaders.

At the same time we have several growth opportunities, mainly in our Carajas region. There the infrastructure is already there so the cutbacks, whilst it's much lower than any other alternative, it's very hard to think of the Sossego project by itself. If we did not have all the infrastructure we already have in Carajas it would be very hard to implement.

That's why the Sossego project was so effective and the cutbacks was so low compared to other projects in the industry. So the opportunities are there. The deposits are there. As we showed with the Sossego project, we are able to deliver very good results in the non-ferrous area. That's one example.

The other example is the aluminum chain. We have 2 billion tons of reserves in the Paragominas district and altogether our reserves amount to about 2.7 billion tons. We are very efficient operators in the bauxite mines and also in the alumina refinery. We are able to build very competitive plants there.

So diversification just makes sense considering how the positive factors that we are able to build over the last few decades.

Q - Andres Perez {BIO 18609546 <GO>}

So would it be fair to say that for the incremental dollars investment, you may give a slight priority to copper, or one of the other areas?

A - Fabio Barbosa {BIO 1907620 <GO>}

No, we give a very strong priority to iron ore. The issue there is that the investment in iron ore is much smaller compared to any other project. A copper project like Sossego to produce 140,000 tons per year, on average we spent \$430m. A project like Paranajas we have a \$10 per ton.

An average of our projects in the Northern System and Southern System has been below \$10 per ton in terms of expansion. We expand 73 million to 75 million ton until the end of the decade. So it's a matter of market performance. It's a matter of allocation of capital and there is no trade off. CVRD is able to generate enough cash flow to deal with all the advancement opportunities it has at its disposal.

Q - Andres Perez {BIO 18609546 <GO>}

Okay great. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question Mr. Perez. (Operator Instructions) The next question we have comes from Claire O'Hare of Schrodgers.

Q - Claire O'Hare

Hi. I have 2 questions. The first one, the cost control, or the margin expansion we saw in the Second Quarter, how much would you say is related to the depreciation of the Reais of 6.8% in the quarter?

My second question is you mentioned that TC/RC costs were going out. So what kind of prices are you getting for your concentrate?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well first question, we as you know with our cost structure, about 30% of our costs are dollar denominated. So we benefit from the depreciation of the real. The depreciation of the real, it was much more concentrated I believe in the third month in June. So of course it helped.

But I believe that the other aspects and the issue of alumina the economies of scale, you see the volumes we added there, a slight reduction in fuel consumption and the issue of Albras no longer impacted on the bank alumina there. So I believe that it helped and this is as you know Brazil had a floating exchange rate regime and this is something that could change in the future given our cost structure and given the very strong performance of the trade balance there.

In terms of the TC/RC charges, they are negotiated once a year. We are not factoring in yet this potential increase in our costs and we'll negotiate for the next year facing this reality. The market is very tight. There is no longer too much idle capacity.

There is not a business. So we should see some cost increase over the former years. But not enough to penalize aggressively I would say our margin in the Copper business given the very strong performance we are expecting for the Copper prices in the next few months in a couple of years.

The prices we are getting, the prices (inaudible) prices so.

Q - Claire O'Hare

We'll you're getting an extra \$0.10. I'm wondering of the next price notification?

A - Fabio Barbosa {BIO 1907620 <GO>}

It will be effective next year. Next year and we will start rising by the end of this year.

Q - Claire O'Hare

And (inaudible).

A - Fabio Barbosa {BIO 1907620 <GO>}

Slightly lower than that.

Q - Claire O'Hare

Okay thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Okay Mr. Barbosa are you ready for the next question sir?

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Okay sir and we thank you for your question Ms. O'Hare. The next question we have comes from Jorge Beristain from Deutsche Ixe.

Q - Jorge Beristain {BIO 17554499 <GO>}

Hi Fabio and Roberto. It is a problem I seem to have right now. Some clients are wondering given your excess cash flow in coming quarters which is becoming apparent, what you're planning on doing with this. My question is would CVRD contemplate the payment of an extraordinary dividend on top of what's already been forecasted for the full year? That's my first question.

Secondly, is there any update on the potential divestiture of QCM?

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. On the dividend, we as you know our policy establishes a minimum payment which we announced in January and that was \$550 million and depending on the performance we can pay more.

So far our Executive Board and our Board of Directors have not decided on any change of that figure of \$550m. If and when the Board decides that, we will of course announce it to the market. But the bottom line is that the Company has had a very strong performance and that will be certainly analyzed by our Directors.

On the divestiture of QCM, we don't have any news there. We believe that we are doing our best in order to comply with the European Commission requirement and we also believe that they know that and they appreciate that and we are comfortable there. There is just a matter of finding the right way out. So we have not been approached by the European Commission on this issue and we are just showing them our commitment to comply with their requirements.

Q - Jorge Beristain {BIO 17554499 <GO>}

Could I just follow up and try to understand what is the difficulty in finding a buyer for an iron ore producer in the current market environment?

A - Fabio Barbosa {BIO 1907620 <GO>}

You tell me. The asset is there and we'll be happy to consider an alternative. But I don't know. I don't know.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question Mr. Beristain. (Operator Instructions) Our next question comes from Mr. Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Congratulations on the quarter.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Q - Daniel Altman {BIO 1855515 <GO>}

Two questions. One is can you give us how much additional iron ore capacity you'll have for the entire 2005 and also for the entire 2006? I have a fair idea what the new capacity will be. But can you give us incremental capacity for the entire year for 2005 and 2006?

Second question is relating to Niranda. I think it's pretty clear after this result that the market, despite seeing the extraordinary result, that the market is still assigning rightly or wrongly some sort of a discount because of Niranda. I just wonder if the Company has any strategy to deal with that such as putting out a press release saying that there will not be a bid or CVRD is not interested in this company?

A - Fabio Barbosa {BIO 1907620 <GO>}

Thanks for your questions. Let's start with the first on the additional I want to pass. We are forecasting for 2004 this year production of around, on a US GAAP basis, of about 202 million tons. Next year we should have (inaudible) Harbor. That should be operating at 10 million tons capacity.

In 2006 we have Grupo 2 and Itibera at 12 million tons in Grupo 2 and 3 million tons in Itibera. We also have our expansions in the Northern System at 85 million tons. So that's very much it. (Inaudible) could reach by 2007 50 million tons and that's about it. And also sorry, I forgot, (inaudible) with 40 million tons by 2006 as well.

Q - Daniel Altman {BIO 1855515 <GO>}

When you say by 2006, like January 2006?

A - Fabio Barbosa {BIO 1907620 <GO>}

Hopefully. Hopefully. Hopefully.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. As for your second question, we don't have any additional comment for this issue and of course we only find it appropriate if and when necessary we also have the issue of (inaudible) on any concern the market may have regarding given assets. But I don't have any additional comments on that as yet.

Q - Daniel Altman {BIO 1855515 <GO>}

I thought I would try. Thanks.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question Mr. Altman. The next question we have comes from Raphael Biderman of BBVA.

Q - Raphael Biderman {BIO 1529743 <GO>}

Good afternoon, Fabio. Congratulations for the results.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Q - Raphael Biderman {BIO 1529743 <GO>}

My first question is regarding there was some news here today about you starting a project of metering [ph] in kaolin and in Matto Grosso. I just would like to get more details I mean how much in advance is this project?

Also going back to Niranda, I understand that you cannot talk about it as it is strategic. But as it's extremely relevant for the stock performance in one of the most important issues. And as Niranda has not given -- they said in their conference call that they are still analyzing the proposals.

Can you just say if CVRD can say CVRD is not -- there was some news (inaudible) made an offer of high density agenda for CVRD would be out of the race. I mean is it official that CVRD is out of the race on Niranda, or can you mention anything?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. Thank you for the question Raphael. Of the projects mentioned. And I commented yesterday, we are the little project is part of our mineral exploration effort in the region of San Juan County [ph]. There is a potential deposit there. We are analyzing it and this deposit, if the final feasibility shows a good result, it would fit very nicely in our strategy in the nickel market.

But we are still in the mineral exploration effort and try to check on the potential production of this deposit. But there is a possibility there yes.

On the Matto Grosso du Sul, my comment was a general comment. Has the same approach we are having towards the (inaudible) live plant, or the Gerais State steel mill. We understood Dos Santo project there if the gas is available. In the case of Matto Grosso, in the region of (inaudible) we already have operations there. The Iripu mine and manganese and iron ore.

The government of Matto Grosso du Sul is willing to support growth initiatives there to build a steel industry there. So we will be happy to support with iron ore and try to develop, to attract investors to develop new projects there. That comment is part of our overall strategy of attracting new investment in the steel industry in Brazil which development is in our best interest. So my comment there should be seen in this context.

Regarding your second question, I'm afraid I'll have to repeat I have no further comment on this issue okay.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

I would thank you for your question Mr. Biderman. The next question comes from Iram Aquida of Banco Itau.

Q - Iram Aquida

Hi Fabio. I have two questions. The first question is regarding your corporate operations. I saw in your release on US GAAP and FRS18 that you had revenues of \$24 million on your Copper business and operating results of \$18m, which means an operating margin of 75%. Could you please comment on that as where this margin should go going forward? Is that correct, is it not relevant for projections going forward?

A - Fabio Barbosa

 {BIO 1907620 <GO>}

No there is no mistake there. There was a just a fourth shipment and the fact the margins have been very high given the varying high price of the Itapu Valley in the markets. However we to see a few more data in order to confirm that it would be the 75%. So a little bit higher than we ourselves were expecting.

May be some costs would be accrued for the next following quarter. I would advise to wait for the next figures in order to confirm the trend. But at these price levels, I have no doubt that the margin will be extremely close to the levels we just showed. But I can assure you that will be the same next quarter. We are just starting operations there.

Q - Iram Aquida

Okay and secondly, if you could comment on the restructuring of Caemi and the (inaudible) relate to Caemi? How advanced is this project and if you could give us some color on that please?

A - Fabio Barbosa

 {BIO 1907620 <GO>}

According to Time SU [ph] it just makes sense for them to consolidate the operations and we agree with that. So we believe that we can have some economies of scale in joining the two businesses and to capture several synergies the companies may have. So the discussions are proceeding and when we reach an agreement on the final structure of the transaction, if there is a transaction we will announce it to the market.

Q - Iram Aquida

Okay. Thank you.

A - Fabio Barbosa

 {BIO 1907620 <GO>}

Thank you.

Operator

Thank you for your question sir and this concludes today's question and answer session. Mr. Barbosa, at this time you may proceed with your closing statement sir.

A - Fabio Barbosa

 {BIO 1907620 <GO>}

Well, I would like to thank you again for attending this conference and as usual, myself and my colleagues will be available to any further questions you may have. See you next quarter. Thank

you, very much.

FINAL

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