

Q2 2007 Earnings Call

Company Participants

- Fabio Barbosa, CFO
- Jose Carlos Martins, Executive Director of the ferrous divisions
- Jose Lancaster, Executive Director of non-ferrous
- Murilo Ferreira, President and CEO
- Roger Agnelli, CEO
- Unidentified Speaker, Analyst

Other Participants

- Felipe Hirai, Analyst
- Gaurav Bana, Analyst
- Jason Miller, Analyst
- Jorge Beristain, Analyst
- Oscar Cabrera, Analyst
- Raphael Biderman, Analyst
- Rodolfo de Angele, Analyst
- Roger Downey, Analyst

Presentation

Operator

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

With us today, in Rio de Janeiro is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. First, Mr. Barbosa will proceed to the presentation and after that, we will open for questions and answers. It is now my pleasure to turn the call over to Mr. Barbosa. Sir, you may now begin.

Fabio Barbosa {BIO 21197136 <GO>}

Thank you very much. Good afternoon, ladies and gentlemen. I have the pleasure to announce that Mr. Roger Agnelli, our CEO, is joining us today. Also, from different locations, Murilo Ferreira, our CEO of CVRD Inco is already taking part of this presentation, Jose Carlos Martins, our Executive Director of the Ferrous Divisions as well.

And from Bela Horizonte, I believe, Jose Lancaster, our Executive Director of Non-Ferrous, also present in our conference call. It's my pleasure to turn the floor to Mr. Agnelli, thank you.

Roger Agnelli {BIO 14016988 <GO>}

Good afternoon, everybody. It's a please to be here with you. We are here in Rio de Janeiro with the very nice weather, it seems like summertime here in Brazil. But in fact it is wintertime. And my colleagues are in different locations, Murilo, where are you, Murilo?

Murilo Ferreira {BIO 1921488 <GO>}

I'm in Toronto, Roger. Good morning and good afternoon for everybody.

Roger Agnelli {BIO 14016988 <GO>}

Lancaster, are you there?

Jose Lancaster {BIO 7335880 <GO>}

Yes. I'm in the technology center in Bela Horizonte.

Roger Agnelli {BIO 14016988 <GO>}

And what about you, Martins?

Jose Carlos Martins {BIO 1715332 <GO>}

Good morning, everybody. I'm in Sao Paolo and the weather here is less than 10 degrees, okay?

Roger Agnelli {BIO 14016988 <GO>}

This Sao Paolo, this is Sao Paolo, really is much better than that.

Well first of all, I'm happy to convey a message to my managing directors. A message of congratulations for the results of the fourth -- the Second Quarter of 2007. The market is still very strong in all areas that we are operating today. We are in the maximum capacity. We are stressing all the systems that we have, mainly in the logistics system. But anyhow I think we could overcome all the difficulties that we faced in this Second Quarter of '07.

First of all, we had some problems in the first and the Second Quarter of this year regarding to engines, regarding to boilers [ph], regarding to some interruptions in our systems, mainly in the north system. But anyhow we beat all the records for the company in terms of production, in terms of profitability. The results are really very, very, very strong.

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Inco, Murilo is doing a very terrific job there in Canada, the integration of Inco to CVRD is going very smoothly. We don't see any major problems there. The production is in line with our budget.

The same thing for the ferrous division, the same thing for copper, the same thing for aluminum, the same thing for potash. So I think everything is under control and according to our budget. I feel that the second part of this year is going to be a little bit better than the First Quarter. Some investments are in place right now, mainly the logistics in the ferrous division for nickel. I think we are going to have an overhaul in the Sudbury mine at the end of this Third Quarter. But anyway, the production for the year is going to be according to the budget.

In terms of investments, everything is going okay. Of course, the cost pressure is still in place, it's very strong. We are trying to reduce the cost of the company. I can tell you that I'm -- really I'm not very happy with the costs that we are facing right now. The oil or the energy cost is going up, the tires are going up, the -- everything is going up and we are taking advantage of our size and we are taking advantage of our supply power to negotiate with our suppliers to have more reasonable price for our spare parts or for our services, et cetera, et cetera, et cetera. So I think we have a lot of work to do in this second part of the year. But I can tell you the market, we feel that it is still very strong. It is going to be positive in the second part of this year.

Next year I feel that the market is going to continue to be very strong and we don't see and we don't feel any problems in terms of the -- in terms of market. The problem is how to keep production going up as it's growing right now and to delivering everything that we have with our clients, all the process delivery, all the volume that the clients are asking right now. The people here are working hard. Of course the projects are on budget, on time, we don't see or we don't predict any deviation in terms of budgets for '07. But anyhow the work or the challenges to keep control or to reduce the costs for the second part of this year is going to be really a challenge because it's going to be really hard work to overcome these cost pressures.

The next part of our call is to go through the presentation to you and I'll be here to answer any questions you may have. Thank you.

Fabio Barbosa {BIO 21197136 <GO>}

Thank you very much, Roger, let's get started then. And I'd like to mention that my -- our colleague, Gabriel Stoliar is also here joining us today. He is in charge of Planning and Management Affairs here at CVRD.

First, on the results of the First Quarter. I would like to highlight the sharp increase of our top line growth as we put there, it's at a brisk pace. So we now have considered in the last 12 months revenues, almost \$30 billion in our total revenues for the group, which is a major change from the \$4.1 billion that we showed back then in 2002. So the company has dramatically changed in the last few years.

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And of course the major driver the last few years has been the increase in iron ore production, as you can see, from the first half of '03, when we produced 90 million tons to the first half '07 and this production increased to almost 140 million tons. We came a long way and this, of course, was essential to achieve the position of number one supplier to China, which is the most dynamic market as you all know. We now have a market share that is about 24% of the total Chinese imports, a long way again from the almost -- the less than 15% that we had back there in 2003.

Despite all the difficulties, we have implemented our projects, as Roger has been mentioning, in terms of environmental permits and other all requirements. For instance, we are planning our expansion to reach the capacity by 2011 of 450 million tons. We are taking issues, particularly in the northern system related to the N5, right, Martins? Could you comment a little bit on that please?

Roger Agnelli {BIO 14016988 <GO>}

Martins, are you there?

Fabio Barbosa {BIO 21197136 <GO>}

Martins?

Jose Carlos Martins {BIO 1715332 <GO>}

Yes, could you repeat please?

Fabio Barbosa {BIO 21197136 <GO>}

Oh, I was commenting on the difficulties that we are facing to expand further our capacity given the constraints that we have in terms of equipment and the cost pressures. But also the associated environmental permits that we are trying to get, particularly in Carajas where we have this difficulty related to the N5 operation.

Jose Carlos Martins {BIO 1715332 <GO>}

Yes. We are facing a lot of difficulties in obtaining the permits, environmental permits to moving forward with our works and to tell the truth, the main problems are in the logistics area and the railway and ports. We have some -- the scale up of Bruco 2 [ph] mine was not so easy. We are now reaching the region of 20 million tons per year. But we didn't get the right performance during this first half of the year. Now it's running much better. But Bruco 2 was not a smooth startup as we expected.

We also had a rather rainy season this year. It rained much more than usually, more than 40% above historical levels. And this affected a lot, mainly in the north system. But in the last 2 or three months, the operation is moving better, it's smooth and we are beating our targets from now on.

Fabio Barbosa {BIO 21197136 <GO>}

Yes. So thank you, Martins. And I would also like to mention that our sales in Brazil are increased -- are expected to have a significant increase as we put there as a result of our efforts to stimulate new investments in the steel industry in Brazil. As you all know, the third blast furnace of then CST, now Arcelor Mittal Tubarao operation is ramping up in this month of August and this is an increase of production of 2.5 million tons of steel per year and that should represent additional consumption of iron ore of around 4 million tons per year. So we are delivering in away what we indicated to the market. Of course this is Arcelor Mittal's doing. But it counted on our very strong support, not only providing the additional supply. But back then when we were part of the controlling group of the company.

I would also like to mention the other investments with CSA it's going according to plans and it's scheduled to start up in 2009. And Ceara Steel that we are discussing the -- trying to implement this very important project for the Ceara Steel, that we believe it's a very positive one.

And finally, our (inaudible) just signed a memorandum of understanding with our Chinese counterparts to implement a new project in Espirito Santo state, a new plant by Baosteel that will be producing 5 million tons of steel when concluded.

So a major impact in terms of the increasing steel production in Brazil that with all these projects together we should reach an additional 13 million tons of steel derived from efforts that CVRD was a major, major player in achieving this. So this is to give you an idea, about 40% of the current steel production in Brazil. So it's a major drive that is there and it's of course, we are part of these efforts that involve our clients.

In terms of COGS, as you saw or you heard -- you just heard Jose mentioning that our battle continues. If we adjust our COGS, our cost of goods sold, for the foreign exchange rate change and the volumes, we actually would notice very small cost reduction. It's important that it's no longer increasing. But we have to be aware that this is not satisfactory to us as yet. We are not happy with the results, we continue to pursue a better position in terms of our cash cost position overall.

In terms of the margins of course, they are reflecting the very good, strong momentum of the industry. Our total margin reached an all-time high of 51.3%, our EBIT margin, with the (inaudible) highlighted a very strong contribution of the non-ferrous minerals with almost 60% net margin. Ferrous minerals, in line with previous quarters, around 49, 50% and aluminum a decline associated with costs because prices are steady, energy costs particularly that brought down this margin to some 34%. And logistics, holding around the same level as 27%, 28% EBIT margin.

Our net earnings remains in a very strong upward trend with the last 12 months. We reached the double-digit figure of \$11.1 billion. That again, I would like to call your attention to the figure in the First Quarter of '03 that's less than \$1 billion. So we came a very long way to reach this position.

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Our EBITDA, a record level increased by \$1 billion -- almost \$1 billion compared to the First Quarter of '07. Of course, prices played a major role. But the volumes, as you can see also, responded for an important 25% of the total increase in EBITDA in the Second Quarter of '07. And we achieved a mark of 22 consecutive quarters of EBITDA growth.

Then I would like to mention that the composition of the EBITDA highlighting the contribution of non-ferrous minerals, that is reflected precisely the very strong performance of the nickel division and copper in the first -- in the Second Quarter of the year, despite the very good performance of the iron ore division as well. But you just saw the margins that we observed in the non-ferrous and so the result is that the company was in a way more non-ferrous into the Second Quarter of '07 than ever. And this is a challenge our colleague Martins has to keep up with its market share, let's say, in our company and he working very hard to reach that.

I would like also to mention that we also believe the sharp reduction in our total debt, our debt was reduced by almost \$4.5 billion and our total debt to EBITDA is now 1.3 times against 2 times that we reached at the end of 2006, when we concluded the acquisition of Inco. So it's a major achievement of course, we count on a very strong performance of the market. But at the same time, we showed the market that we were capable of implementing a very smooth integration. And by acquiring a major asset like Inco and keeping the production as it was and even increasing it and keeping the key staff and allowing the company to perform better than expected by ourselves by the time we acquired it. So it's a very good performance that Murilo will comment later on during this presentation.

And again, not only the debt reduction was impressive in our view. But also the debt profile is improved sharply, with the average debt cost around 7% per year and the average maturity reaching more than 10 years. So it's a very comfortable debt profile that allows us to have all the required flexibility to pursue our strategic goals. And our return on capital invested, again, above 60%, well above I would say, compared to the last 12 months at the end of the Second Quarter, 54.2%, very much in line with the returns observed in 2006. So despite the major acquisition, that main big addition to our asset base, we are able to deliver very strong returns on the capital invested. It means that we continue to invest. We continue to deliver very strong results to our shareholders.

Turning now to the outlook, our view, as Roger already indicated, is that we have a very positive view about the global economy and in our view it is a long cycle. We have commented on this for some time now and you can see the global PMI indicating it is rebounding, indicating a very strong performance of the economy worldwide is expected. This is confirmed by the very, very forecast issued, recently issued by the IMF that revised upwards the growth for 2007 and '08 now and it is 5.2 level for both years. Well above the 4.9 that they used to have before.

And interestingly enough this is also including redistribution of the growth among countries because the IMF assumed a lower growth rate for the U.S., around 2%. And a much stronger growth rate for China and India, in particular. So it was a sort of redistribution of growth price [ph] driving force that we observed in accordance to the IMF forecast. This means that growth in the world economy is less risky than before

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because it's better distributed and less concentrated than in the previous years. So this is another positive.

Another important point, indicating that we have a very good expected moving forward, is this ratio that is shown there in the next slide, slide 19, on the -- is indicating, sorry, excuse me, the ratio of new orders to inventory, to inventories, that is rebounding as well and is V-shaped. So there was an adjustment in the last few months so there was some inventories consumption. But now the new orders are recovering, it's now well above 1 and this is a clear leading indicator for future growth in industrial production on a global basis. So when we -- this chart here is adjusted for three months lag and you'll see that there's almost a perfect correlation between this ratio and the global growth in the industrial production.

The same is happening with the steel production. It is increasing. The prices are also increasing, showing again, confirming, the very good momentum that is of course associated with this environment of strong demand that is being observed. The economy, the world economy, is going above 5% and this is a natural and expected result, particularly when this growth in the world economy is driven by economies in the development stage that is lower than the so-called developed countries. So it's, in other words, metals intensive compared to the usual growth that we had a few years growth -- ago.

Indian ore exports, another point that we would like to mention, that we have been talking about the Indian threat in a different way that was commented initially by the market participants. The Indian threat is much more on the supply side and these first half figures are just the confirmation of our view that we should expect some disturbances coming from the Indian exports on the supply side because they are growing. In the last three years, between 2004 and 2006, they increased their steel production by 40% to 45 million tons and -- of steel and now the first half of '07, their exports, their shipments were, of course, affected by the monsoon season. But it happens every year. But the effect is that they are exporting -- they exported less in the first half of '07 than they exported in '06. It means that there is less supply available that may have constrained the growth of the Chinese imports of iron ore.

And another indication of the strength of the market. And I would like to have Martins commenting on that as well, is the fact that the spot price of Indian ore is now \$117 per ton and the Chinese iron ore spot is \$114 per ton and these numbers are not adjusted for quality. And this is a clear indication that the market isn't balanced. And I would like to have Martins comment a little bit on the market, please, Martins.

Jose Carlos Martins {BIO 1715332 <GO>}

Yes. The landscape for iron ore market is really brilliant to say the less. You raised the main points. It seems that the main producers are not able to increase capacity in the same pace that the market is growing. We have now a very strong market in Europe also. All our big customers in Europe are asking for more iron ore and everybody knows that the European market commands a better (inaudible) for iron ore than Asian markets and all

the conditions are very good. I think that our main task is first to increase production in the way the market is asking more. And we are working very hard on it.

Second is to keep the costs -- control on costs. Because when you are operating in the way that we are, it's really difficult to control costs because you -- every additional ton you get, you have much more margin on it. So it's very difficult to control costs and we are developing a very strong discipline to keep costs under control.

We're able now to keep costs under control on the Brazilian currency basis. For sure, we are not able to overcome, for the time being, the impact of the devaluation, the revaluation of the Brazilian currency. So it is impacting costs a lot. But we are working very hard to keep it under control also. But you need very structural needs -- measures to overcome this impact of the currencies. So our main task is to keep production increasing and we are doing that. I think in the next half, operational performance will be much better than the first one, the first half. And all the conditions are very good for, I would say, in my view, a very easy negotiation period this year because all the basics in the market indicates the lack of iron ore in the market and also I think the customers are clear for them that the situation is very well for a new price increase.

So a look at volumes that we can increase our results based on volumes. I think the situation is good for a better price and also the mix can improve because Europe is now demanding more iron ore. So every ton that we sell in Europe, where we are a natural supplier for the European market, we can command a better price and a better margin. So the full-out fold, the landscape is very good for iron ore looking forward.

Fabio Barbosa {BIO 21197136 <GO>}

Thank you, Martins. And now I would like to ask Murilo to comment on the nickel market. Murilo, please.

Murilo Ferreira {BIO 1921488 <GO>}

Okay, Fabio, I --.

Fabio Barbosa {BIO 21197136 <GO>}

(inaudible) on the first half and also on the market moving forward.

Murilo Ferreira {BIO 1921488 <GO>}

Okay. We think that the fundamentals remain positive in 2007, in the next few years, demand for nickel is remaining strong. The economy is strong. the outlook positive, Chinese growth remains robust and expect to continue. Of course, we know very well that the new supply, we are working very hard in order to offer new supply. But new supply remains limited in the next few years. We note significant movement in nickel price, just recently in the beginning of the year, it was 33,000 to a peak of 54,000 in May, the end of May. And today around 31,000.

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We expect some volatility in the Third Quarter. But we are very positive about the economic growth and we will remain healthy and the lead indicators are good. Worldwide demand for nickel in stainless steel is not so huge at this point of time, it's not so good. But in the medium term outlook, it's strong.

The good demand across most of non-stainless steel applications, mainly into aerospace, the Chinese, they are growing very fast and we are very positive and the -- and one point that we needed to add in terms of information is about the current situation of the nickel pig iron, which is a tough issue. Nickel pig iron producers, has spent a lot of money buying nickel ore when nickel prices were still high and now their finished products, they can hardly sell at good price to cover their costs and continue operations.

We saw that some of the smaller nickel pig iron producers have been forced to shut down in the recent weeks, faced with huge losses. We know that it's an issue with several players into this market, trying to be lighter [ph] ore off to China, shipping from the Philippines and Indonesia and what we know just recently is that the last 2 or three months that the market is changing substantially for them. Thank you, Fabio.

Fabio Barbosa {BIO 21197136 <GO>}

Thank you, Murilo. Now, as you can see on the right on page 24, of course, we see a very (inaudible) adjustment in the stainless steel industry reflecting in this nickel price decline as you see it there. But as we mentioned, the fundamentals remain very strong. And this could be, again, the first leg of the V-shaped curve that you can see the copper prices in the next slide precisely, where we have major adjustments in demand in the first few months of 2007 by the Chinese. But once the fundamentals prevail, meaning that once the demand was affected, the -- and the resumption of Chinese imports occurred the prices reacted and again are moving around these levels, \$8,000, -- \$7,800 per ton. So this is very much consistent with how we see the world, the world moving forward. A very strong demand, strong growth and of course demand for metals and minerals are positively correlated with the economic growth.

And finally, on the aluminum prices, also remaining in the very steady position around \$2,800 per ton. Then as you can see, we have the Chinese exports as we put there. And at this stage, I would like to invite Lancaster to comment a little bit on the new aluminum refinery, the agreement that we signed just a few weeks ago. It's an important thing. And also, if I may ask Lancaster to comment on our first month of operations of CVRD Australia in coal and the perspectives of more deals [ph]. Could you comment on that please, on those?

Jose Lancaster {BIO 7335880 <GO>}

(inaudible). Just -- I think about 10 days ago, we signed a memorandum of understanding with Norsk Hydro that has to do with a new refinery there in Bacarama [ph]. We signed for the first phase of this refinery, which will be about 1.8 million tons of aluminum. The engineering studies are officially concluded and there is the construction of this site will start in mid-2008. And it's a great event for us.

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I mean, in terms of CVRD Australia, we bought the, what used to be the MC operations. We are now in the process of studying these operations under the pressures that you have today in terms of the markets of Australia. We have problems in the ports. And -- but at the same time, we have already starting dropping the cost of production, this year we will have about 4 million tons of coal coming from the operations there in Australia. We will be able, next year, to have an increase in production from our mines.

Moatize is going very well. We've obtained the mining permit from the Mozambiquean authorities. We are finalizing our logistics contracts. We expect the construction to start probably in the last quarter or First Quarter of 2008. The project is about 11 million tons of coal, of which 8.5 million are of metallurgical coal and 2.5 million are of thermal coal.

Fabio Barbosa {BIO 21197136 <GO>}

Okay. Thank you, Lancaster. So at this stage, I would like to conclude our first comments. So I would like to open the floor for the Q&A session, mentioning that again our CEO, Roger Agnelli, is here and all the colleagues that took part in this first part of the conference call.

Roger Agnelli {BIO 14016988 <GO>}

If I may, Fabio, I would like to just remark on some very important things. First of all, in terms of volume, we are okay. In terms of margins, we are okay. In terms of productivity, in terms of performance in all our operations, I think we are okay.

Another point that I consider very important is that we have been growing a lot in the last years. And we have a lot of projects to be developed and I think we can manage or we can have the same profile of growth that we have been showing to the market. I think there is no other company in the industry today that has the same pipeline of projects that we have. So we are able to increase production organically. We were able to acquire Inco last year, that was a very important step forward for CVRD because we bought it in this very good momentum in the industry and we are facing -- we have all the benefits for the very strong markets that nickel is facing right now. The purchasing coal, the purchasing of bauxite, the projects that we have in let's say like that fertilizers [ph] right now in terms of partnership for sales [ph] are very good. The projects really are very, very good.

The movement that we did two weeks ago to sign an agreement to explore revenue in Australia, I think, can open a very good opportunity for us to have the same thing here in Brazil. And we are working with the federal government to allow us to mine or to export what we have here in Brazil. So I'm very positive, I'm very optimistic about the future of CVRD. I think we are on track with the strategy we are following with all the discipline that is necessary to have. Of course we are analyzing all the opportunities that can appear in the market to take advantage of some acquisition movement. But this is not really our main objective, it's just a matter of opportunities. So I think we can celebrate that the first half of '07 was according to our expectations. I think we work it very well to deliver this good -- the results and I think we have the opportunity to show more to the market in terms of that what we can do to keep growing and to guarantee a very good results for our shareholders. Thank you.

Fabio Barbosa {BIO 21197136 <GO>}

Thank you, Roger. Hello?

Unidentified Speaker

Hello. (speaking in Portuguese)

Fabio Barbosa {BIO 21197136 <GO>}

Just a moment. Let's start the Q&A please.

Questions And Answers

Operator

Okay. (Operator Instructions) Our first question comes from Felipe Hirai

Excuse me. Our first question comes from Mr. Roger Downey with Credit Suisse.

Q - Roger Downey {BIO 7419641 <GO>}

Good afternoon, everyone. Congratulations on a very solid set of results again, another set of records. I'm getting used to that already. Usual two questions. First one, looking at the first half operations, having not reached the rate of 300 million tons per annum for this year yet, my question is does the 300 million ton mark for 2007 seem likely? Is it still feasible? And does that still leave you confident with the 450 mark for 2011 in iron ore production of course.

And the second question is related to the -- your cost challenge. I think the whole industry is facing a huge challenge in terms of cost pressures. And we've noticed that despite the 9.5% price increase in iron ore, the ferrous division EBIT margin dropped from 5 -- 50.9 to 49.4. Would you be able to give us some more clarity on that and maybe tell us by how much the unit costs actually rose this year in the first half?

A - Fabio Barbosa {BIO 21197136 <GO>}

Martins, if you may please answer those questions?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Okay. Related to the volume, we continue to work with the target to reach 300 million tons this year. As (inaudible) probably knows, always the second half is better production and also we have the scale up of Bruco 2 mine moving forward. So we expect to reach the 300 million tons this year.

The very question is the bottlenecks we have in the logistics system. So part of this volume. We can produce. But probably we wouldn't be able to deliver during this year

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because only next year [ph] we are going to debottleneck the railway system mainly in the north system. Relating to the costs, we'll have two points to raise. One is the -- a little bit bigger proportion of iron ore instead of pellets. If you look in the first half, in the First Quarter, we have a big proportion of pellets in the mix, okay? Which commands a better price and a better margin.

Another issue to consider is the fact of the devaluation. Because in the iron ore, a big part of the costs is in local currencies. And we have a big devaluation of the Brazilian currency during this period. So as I told you before, we are controlling the costs in the Brazilian currency. But in a very short period of time, it's very difficult to overcome the revaluation, the almost 10%, which we had in this specific period. So as I told you before, we are working very hard to get the structural measures in order to decrease our cost structure and overcome the impact of the revaluation. But it's not something that you can get in a quarter-to-quarter basis. You need more time to develop new ways of mining, to develop new mines and then to reduce your cost structure and also to overcome the impact of the currencies on the costs.

Q - Roger Downey {BIO 7419641 <GO>}

Okay. Thank you very much.

A - Roger Agnelli {BIO 14016988 <GO>}

Roger, this is Roger. I think one point that is very important is we are not sleeping with these cost pressures. So we are working hard, we are working automation, we are working in terms of processes, we are working to find new suppliers for tires, for spare parts in order to reduce the costs.

In terms of production, we feel that the second half of '07 is going to be much better than what -- the first half of this year. We had several problems with communities in the last system. We had some problems in the plants, in the beneficiation plant there. We had some problems in the port facility due to the heavy rain that we faced the first and the Second Quarter of this year. So I think for the second part of '07, we are going to face a much better environment to increase production.

In terms of a target, Martins mentioned, 300 million tons is our target and we are going to deliver it. In terms of growth for 2011, I think we are going to be able to deliver these 450 million tons capacity. I think we are growing and we speeding up the investments, we are training our people. We are doing everything that's possible to do in order to reach these production levels.

The problems are permits that everybody in the world is facing these kinds of problems. The problem is the capacity that our suppliers are going to have to deliver their commitments. For example, the plants or the beneficiation plants or tractors or locomotives or tires or whatever, everybody in the industry or everybody that supplies the mining industry is facing problems with first capacity. This is a reality. So it is not only for CVRD, it is for everybody. And more than that, newcomers are coming to the industry and

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they are going to face the same problems and they are increasing the pressure in terms of availability of materials and in price also.

Thank you.

Q - Roger Downey {BIO 7419641 <GO>}

Thank you, Roger. I think you're right (inaudible) that all these pressures, I think are shared by everyone and I think it's reassuring to know that -- to see that you guys are really focusing on these issues.

If I may, I just wanted to get a little bit of clarity, if I understood something that Martins said. Martins, you mentioned that you would be producing those 300 million tons this year. But you wouldn't be shipping them because of logistics constraints. Is that correct, did I understand well?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes, because as I -- we talked before, we are operating at full capacity, okay? So the volumes that we are not able to ship during the first half, now we need to ship over the budget, okay? We have a higher target for the second half and we need it to recover what we left behind. So we are going to work with very big constraints in the logistic systems. Though maybe we can produce more ore. But we aren't going to be able to ship all of them. Because mines are now operating on a higher volume, we have more capacity in the mines that we are able to transport and ship.

But all of these areas are improving very strongly against the first half. So it's too early to say exactly what will happen. We are working to debottleneck, we are working to increase the capacities, we need -- we have a lot of investments being done in the logistics systems and that will be delivered during the second half. So maybe we can get a better performance in the second half.

But anyway, the targets for production is kept and we are able to get there. And you also know that we buy normally 10 to 15 million tons of ore from third-parties every year. So all of this ore will be put in the system also. And if you produce more, we can buy less. So we can handle this in order to get the best performance for the whole system or in terms of volumes or in terms of costs.

A - Roger Agnelli {BIO 14016988 <GO>}

Yes. And Martins this is very much in line with what we just said. We just were informed by Eduardo Bartolomeo, our Assistant Director in charge of logistics that we've reached the record in transportation and shipments in July. And with almost 32 million tons for all the systems, integrated systems that we operate, the Southern system, the Southeastern system and the Northern system. So it was a very good indication in the very direction that you mentioned.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes, yes, we are working very hard to recover the volumes that we lost in the first half, okay? So it's very difficult to say how much we're going to be able to recover. But some of the tons will be recovered.

A - Roger Agnelli {BIO 14016988 <GO>}

And there is a lot of things that -- the internal market is much more strong today. So even if we don't -- if we are not able to ship, we can deliver the material here in Brazil.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes. That's a very important point because when you deliver to the domestic systems, for the domestic market, you use less infrastructure, less logistics systems. You don't use the ports. You don't use the railway in the same extent. So every time the domestic market is performing better, it's much easier for us to get additional volumes. And now it's going on, as Fabio mentioned before, we have the new blast furnace of Arcelor Mittal now. It started during July so in a yearly basis it's almost 4 million additional tons.

And not only Arcelor Mittal. But all the other Brazilian steel mills are operating at much higher volumes and are demanding more iron ore. So there is -- even if you are not able to deliver all the volume because of the logistics constraints, we have this better situation in the domestic market that we can deliver more volume in this market and compensate part of the volume that we are not able to deliver to the -- to external markets.

Q - Roger Downey {BIO 7419641 <GO>}

Okay. Thank you, Martins. Yes. That's clear. Thank you, Roger, thank you, Martins.

A - Roger Agnelli {BIO 14016988 <GO>}

Okay.

Operator

. (Operator Instructions) The next question comes from Felipe Hirai from Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hi. Good morning everyone. So I have two questions here as well. So the first one is regarding the CapEx. We saw the total CapEx for the first half of the year was at \$2.8 billion, that's a little short of the 40% of the CapEx budget for 2007. So do you expect to achieve this CapEx in 2007 or was there a problem the first half of the year?

And my second question is regarding your leverage ratio. So we saw that you have a net debt to EBITDA at 1.3 times. Now after the Second Quarter, it is definitely below the 2 times after Inco. But we also saw that the media reported some news that you were actually bidding for Alcan, which in the case you bought Alcan, the net debt to EBITDA ratio would go above that previous 2 times after Inco. So my question is what is the -- is there any limit for this ratio that you're seeing going forward that could prevent then for you making new acquisitions?

A - Unidentified Speaker

Okay, Felipe, I will start with the first one, on the CapEx. We faced a lot of issues regarding permits to implement the investment program. There are some delays in our infrastructure in the northern corridor that we are not able -- we were -- we are facing a delay that's around nine months now and according to the; or compared to the original schedule. So we have this issue regarding the environmental permits for N5 and Northern system and still all the issues related to institutional aspects of the investment.

But also, as Roger already mentioned before, we are facing difficulties in finding contractors available to implement new projects. There is a shortage of equipment and there's a shortage of people. So we are facing actually all the constraints that one should expect in a very positive environment as we are living through right now. So our expectation is to get very close to the original plan of \$7.3 billion for the end of the year. But we are facing a lot of constraints on several characteristics.

And the second point, I'll ask Roger to comment on.

A - Roger Agnelli {BIO 14016988 <GO>}

Hello, Felipe, how are you?

Q - Felipe Hirai {BIO 15071781 <GO>}

Good, Roger, thank you.

A - Roger Agnelli {BIO 14016988 <GO>}

Let me say one thing that for me is important. The first half of any year has, in Brazil, the rainy season. So we have a lot of new investments that we need to work with earth removal, we needed to invest in the logistics. So in '07 we have -- we had a very heavy rain season here in Brazil. So that really delayed some start ups of the implementation of some projects in Brazil.

I think this is an issue that we need to consider. In the second part of the year, I think we are going to be able to speed up all the investments. Because right now it is not raining so much, mainly there in the North system, okay?

In terms of leverage, I think we are in a very good position right now. We are reducing the debt, we are going to reduce more of the debt in '07, this is our main target for '07. Thanks God that the Inco is providing us more cash than we were expecting. So I think we are going to be able to reduce the debt faster than we were expecting.

We are okay. We are in a very good position right now in terms of prospective -- in terms of future because the pipeline of new projects and expansion of the existing operations is huge. So we can keep investing and we are going to provide a very healthy growth rate for CVRD. We doubt any problem in terms of leverage.

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The banks are eager to lend more money for CVRD. We are very, disciplined in terms of acquisitions. Of course we need to analyze carefully any acquisition. If we feel that we can go for a major transaction, I think we have the balance sheet to do that. We don't see any change in the market for the near future. So I think we are in a very good position. We have options. We can keep growing with our brownfield projects, greenfield projects and of course we can take advantage of our financial situation right now to go for a major acquisition. This is not our priority. But anyhow we are aware that we can do that, with discipline of course.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. But is there any theoretical limitation to your leverage ratios that you would have to -- not to surpass that amount of -- so that you can keep your investment grade rating? Something like that?

A - Roger Agnelli {BIO 14016988 <GO>}

The investment grade rating is very important to have and to be honest with you I feel that we deserve a better rating because we are delivering everything according to the budget, according to our expectations. Fabio Barbosa promised in fact that he is going to work very hard to achieve this upgrade of our rating to the end of the year. I think it's possible to get that.

This is something that really we care. We would like to keep it, we would like to improve it. But if we signed out an opportunity that we can really deliver a better return to our shareholders at great value or integrate with our current operations. We analyze it carefully and see what we can explain to the rating agencies that we are doing. I think we have the right profile of the debt, we have long-term loans. We have long-term bonds to finance these projects. It's easy right now. We don't see any big problem. So we have room in our balance sheet to move ahead without -- to jeopardize the investment rating -- the investment grade rating.

A - Unidentified Speaker

Thank you.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you.

Operator

Thank you for your question. (Operator Instructions) And our next question comes from Jorge Beristain from Deutsche Bank.

Q - Jorge Beristain {BIO 17554499 <GO>}

Hi good morning, Roger, it's Jorge Beristain with Deutsche Bank. I had a question, just following up again on the cost inflation issue in the iron ore business, it seems like a pretty simple equation, you increased your contract prices this year by 9.5%. But cost inflation

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seems to be running at roughly 10 to 11% therefore your EBITDA margins are falling. Has this changed or is this sudden change in currencies changed your view as to how aggressive you want to be going into the 2008 iron ore negotiations? Because it would seem that CVRD is taking a significant currency risk on its balance sheet in locking in these long-term contracts. That's my first question.

And secondly, just maybe for Fabio, if you could explain what exactly you're doing to mitigate the exchange rate risk embedded in your operations given that it would seem that the exchange rate was 100% to blame for the higher quarter-on-quarter cost inflation that we saw from the company?

A - Roger Agnelli {BIO 14016988 <GO>}

Hi Jorge. It's nice to talk to you. First of all, for the price negotiation, I think we needed to analyze the dollar value against the other currencies. If we analyze the dollar against euro, I think we have a margin to deal with that. If we analyze the dollar against the Asian currencies, I think we have a margin to work on it. In terms of the demand, the demand is very strong. So I think we can compensate the appreciation of the real in the next price negotiation. That's for sure. Because the dollar is weak right now against the major currencies in the world. Of course the cost is going up and the demand, we feel that it is going to be very strong for next year. So I think we have a very good opportunity here.

Another issue in terms of cost as Martins mentioned, we've been working in this level sometimes brings more costs than benefits. But we are able to manage that during the time. So we need more time to calm down this (technical difficulty) and we are working hard with our contractors, some activities we are (speaking in Portuguese), we are doing it by ourselves. I think it's -- we are reducing the cost, bringing some activities to -- for example, maintenance. In some areas we use this tool to work with contractors. Right now we are doing it by ourselves. So these contracts we are analyzing each one carefully how we can reduce the cost.

A - Fabio Barbosa {BIO 21197136 <GO>}

Okay. On your second issue, Jorge, I would mention several measures that we adopt to mitigate the exchange rate risk. First, of course, it's not -- it was not driven by this. But the result of the Inco acquisition was a structural reduction in our exposure to the real. It's something. So CVRD group today is less exposed to the Real than it was before the acquisition in relative [ph] terms.

A second point is that if you recall, we issued debentures in the domestic market last year and we swapped the debt into dollars. So this, if you notice that in the financial statement there is a very important gain associated with the appreciation of the REAL in the financial expenses. That is precisely related with the successful swap of the debentures, it's over \$1 billion if I'm not mistaken. So this is just a sample of what we have been doing to mitigate this squash [ph].

Another point is that we included our head of procurement, Mr. Almir Rezende, in our risk management committee because we want to increase our dollar denominated purchases.

So in order to reduce, again, the structural exposure to the real.

And finally -- our final comment is that one of the benefits of the diversification is that if you have one division more affected by specific costs, you have other divisions could offset or more than offset this specific cost pressure that is more, let's say, specific to a given division. You can see by our EBIT margins that, again, reached an all-time high of 51.3%. So it's not simple. We have sometimes a narrow market, we have some structural constraints, for instance, in buy equipment or pay the payroll. But we have progress in the balancing our exposure to the sale [ph] of currencies (technical difficulty) for the group.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Fabio, it is Martins speaking.

A - Fabio Barbosa {BIO 21197136 <GO>}

Go ahead.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes, I would like to address the issue of costs because it's a main issue in our agenda, okay? In mind, when you produce more than normally, your cost goes up because you have to go deeper in the mines and you have to move further the iron ore. And also you generate more waste. So the more you produce, more pressure on costs. I'm not talking about the exchange rate variations. But I'm talking about structural costs. So the way to overcome this is to open up new mines.

For instance, Bruco 2 mines operate at much lower cost than the old ones mines. In the North system, we do new projects to bring 150 million tons of iron ore in the North system. We are going to reduce costs a lot because the new mines we operate at much lower cost than the old ones. But in the short term as we are trying to get an additional ton of iron ore from the existing mines. So we have an additional source of cost pressure. So it's really a tough question to keep constantly under control. Because we have the pressure to produce more and this brings additional pressure on costs. And we have also the exchange valuation.

But one thing is very interesting to mention. In the Brazilian currency, we are now keeping our costs under control so we needed to improve our productivity in the existing systems and to bring these new iron ore mines on stream and then we can change our cost structure a lot. So if you think about bringing 160 tons of additional production with a much lower cost structure in the system and we can have an idea then how much we can reduce our cost structure going forward.

A - Fabio Barbosa {BIO 21197136 <GO>}

Okay. Thank you, Martins.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay. Thank you.

Operator

Excuse me. Our next question comes from Mr. Raphael Biderman with Bradesco Bank.

Q - Raphael Biderman {BIO 1529743 <GO>}

Good morning, everybody. Congratulations for the results. My first question is regarding consolidation, follow-up of the previous question that was asked. What -- typically you guys cannot to be more open about it. But could you -- if you could give some indications in terms of CVRD when you think about consolidation they focus in some metals or others? If they have a focus in terms of metals? And in terms of size of acquisitions, if they look, you just acquired a junior mining exploration company in Kazakhstan, I think, it's Caribou [ph] mine. Did you look for movements like that? And also if there is an opportunity for a bigger move, how can you fund that considering that the acquisitions are getting close to \$50 billion level?

My second question is regarding the investment project. I mean, if you could give us a follow-up on Goro and also on Puma and also Paragominas? Is Goro and also Puma the technological issue is still an issue now that you guys are really building the plant? Or is this something of the past?

A - Unidentified Speaker

Okay, Raphael, thank you very much. So the first question, we -- our priority as Roger mentioned is organic growth. We are -- we have one of the largest pipelines of projects in the industry, one of the most interesting in terms of opportunities in the several products and industries that we operate, in iron ore, in copper, nickel, aluminum. So we are very happy with that. And again we are always pursuing new opportunities and that's why we invest so heavily in mineral exploration in order to find new alternatives for organic growth. But we've never -- we always look at the market and analyze opportunity that could arise in terms of acquisitions as we did in NCI [ph], as we did in the case of MBR. So we are always ready when the opportunity comes to proceed with it, to generate value for our shareholders.

And to answer your second question, I would ask Murilo to comment very briefly as -- on Goro and also on Carto Cargogomino [ph] if you could please, Murilo, start.

A - Murilo Ferreira {BIO 1921488 <GO>}

Okay. I think that now you are much more positive about the Goro project. We did a big effort in order to bring the project into track, the best way. Mainly the environment, we did a huge reduction in terms of the emissions related to the manganese, from 100 BPMs to less than 1.

The relationship with the community is much better. We are -- we're talking with everybody in an open dialogue and in the technology point of view, we are doing our

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best to recognize that our team, the expertise with the CVRD Inco is we work with the technicians with the high expertise and we are very positive about the project, Fabio.

A - Fabio Barbosa {BIO 21197136 <GO>}

Okay. Lancaster, would you like to comment briefly on Paragominas?

A - Jose Lancaster {BIO 7335880 <GO>}

Okay. Paragominas, we -- most people we know we had a delay of a quarter to start our mine and pipeline projects. During the First Quarter operating the pipeline, we achieved about 75% of the transport capacity, which is very good. I mean, considering that Paragominas is the first bauxite project in the world that transports bauxite with a pipeline. This month, we're already about 85%. So I think it's going to be an extremely successful project that will allow us to keep growing, to provide additional bauxite for the new refinery. And also will allow us to perhaps use our additional bauxite reserves in Brazil and overseas.

A - Roger Agnelli {BIO 14016988 <GO>}

I'd like to add some information [ph] about the -- those comments. First of all, I think we have been playing this game of consolidation successfully in the last few years, including iron ore, including nickel and other areas also.

The point is we have a huge capacity to grow in aluminum business, in bauxite and aluminum. What we are looking for is an energy source. As you know, Brazil is a little bit short in terms of energy supply for the future. But we have some opportunities here in South America. We have some opportunities there in Africa. So I think we are going to have opportunities to expand our primary aluminum production in the next few years. So of course aluminum is a very important business for us and I feel that the future is going to be very good for this industry also.

In terms of nickel, Goro, you remembered that we increased the budget for the Goro nickel project, up to \$3 billion. Part of this increase is due to the bypass that we projected for the Goro project. We wanted to reduce the risk of the technological problem in this part of the process. So for Goro, of course, there is a challenge for us, I think we are able to deliver it. But anyhow, the project is always considering a bypass in order to avoid any technological problem.

Also at Puma, we don't have any problems there because there is no challenge in terms of technology, in terms of processes and anything else. So I think we are very comfortable with this challenge in terms of technology.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay. Thank you.

A - Roger Agnelli {BIO 14016988 <GO>}

Is that right, Murilo?

A - Murilo Ferreira {BIO 1921488 <GO>}

Yes. That is absolutely, Roger. We are very confident about the whole process, the implementation of the Onca Puma project is going smoothly and we spent a lot of time with big efforts into restore everything in New Caledonia. But you are extremely confident that we will be able to deliver the project in the last quarter of 2008.

Q - Raphael Biderman {BIO 1529743 <GO>}

Roger, when you mentioned about the -- thank you all, guys for the response and just a follow-up --, when you mentioned about interested in aluminum assets, in about copper, is copper an interesting asset to go after? And also a follow-up is like if acquisitions movement -- if acquisition movement starts going up above a certain level of \$50 billion, if it's funding with shares is also an option to help acquisition movements or the acquisitions you guys are looking at are just with just cash?

A - Roger Agnelli {BIO 14016988 <GO>}

Copper is another very interesting industry and we are implementing the Salabo project. And 118 projects also. And we'll have some opportunities in Chile also in terms of rights and resources and we are keeping exploring in Africa, et cetera, et cetera, et cetera.

A - Unidentified Speaker

We need to analyst area by area to see if it's better. You increased your projection over time, through our greenfield projects, or if it's interesting to acquire a company. The point is, there is a rush right now for minerals, including copper and iron ore, et cetera, et cetera, et cetera. We feel that the resources that we have, the capabilities that we have right now in terms of people, engineering, et cetera, et cetera to implement a new project it's better implementing or growing organically. It's much better. It's cheaper. It's -- the return is better. The point is there is a lack of ore, there is a time to implement all these projects. But of course we are always open and we have the option to analyze every opportunity, analyze acquisitions also. That is not our priority. I would like to stress that we are not looking to acquire anybody right now. Only we are -- what we are doing is our homework to see if there is an opportunity in the market.

Q - Raphael Biderman {BIO 1529743 <GO>}

Thank you.

A - Unidentified Speaker

Thank you very much.

Operator

Excuse me. (Operator Instructions) Our next question comes from Mr. Rodolfo De Angele from JP Morgan.

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Q - Rodolfo de Angele {BIO 1541593 <GO>}

Hi. Good morning, everyone. My question is on the iron ore capacity increase and the constraints that you guys just mentioned that you're facing there. Just wanted to clarify, what does that mean in terms of risks to the schedule to the capacity increases that you guys have? And also in terms of the total CapEx?

A - Unidentified Speaker

Martins, could you please comment?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Okay. We're referring to the terms of this project, we are keeping the schedule because we are working in all the basic engineering of this project, for the parcel, we are working on getting the permits involved. So we are confident that we can keep the schedule and to increase 150 million tons capacity by the end of 2011 as we stated before.

Related to the CapEx, we are working on this and we are not prepared to deliver the number of how much we are going to invest on this. Because we didn't finish all the basic engineering related to this project.

A - Unidentified Speaker

Thank you.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Just a follow-up, Martins. What about the 130 million project at Carajas?

A - Jose Carlos Martins {BIO 1715332 <GO>}

It's going very well and we are going to present to our Board next month, considering the system we use to evaluate this project is front-end loading. We are going to present this project to our Board in cell [ph] three. So we have a very much -- we are very much confident that we can bring this production during 2009 to the market.

A - Unidentified Speaker

Thank you, Martins.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Gaurav Bana from Alliance Capital.

Q - Gaurav Bana {BIO 7323040 <GO>}

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Would you sacrifice your investment grade ratings for a short time in the interim if it means getting yourselves a well priced, attractive asset or a company? Thank you.

A - Unidentified Speaker

It's hard to say that in principle. In principle, no, we would like to keep the investment grade. Of course. And I don't see any possibility in short term to lose the investment grade to go for an acquisition. But in any case, what we have been analyzing right now, we don't feel that we are losing or we can have any transaction that can bring us to a downgrade.

Q - Gaurav Bana {BIO 7323040 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Oscar Cabrera from Goldman Sachs.

Q - Oscar Cabrera {BIO 7553392 <GO>}

Good afternoon, everybody. Congratulations on the solid results. The first question has to do again with the cost pressures related to the iron ore business. And in effect if you are still planning on increasing your production by 150 million tons, I'm assuming that you're stripping your mines already preparing for this expansion. If you're facing delays in terms of environmental permitting, does that mean that the stripping at the mines has stop and ergo your cash flows then would be less pressure from that perspective? That's the first question.

And the -- and then I'll just follow up with a quick question on nickel.

A - Unidentified Speaker

Martins, could you please?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Yes. Relating to this capacity increase, we are not stripping the mine yet, okay? We didn't start working on the land in this moment, okay? So this will be done after the project is approved.

To tell the truth, we are facing some difficulties to -- for stripping the existing mines because even for the existing mines. And in the nearby areas, when we needed to start moving there, we need to confirm it. And we are -- yes, we are facing difficulty with the permits. So this is bringing additional costs to existing operations because sometimes we cannot start stripping a new mine in the existing area because we have enough permits to eliminate the forests that are there. And in this case, we have to go deeper in the existing mines. So we are now facing some cost pressures because of it, okay? But we are working very hard to get the permits and I think I told you before in Brazil, normally we have a lot

of constraints in this aspect. But you always get the permits. The question is the timing you need for getting the permits. But the permits will be get at the end.

So that's the way things are in Brazil. You have a lot of bureaucratic work, a lot of agencies involved. So it takes a lot of time to get the permits. So for the future projects, 150 million tons project, we are looking for the permits. But for the time being, we are not affected, the schedule is not affected because of the permits. In the existing mine, yes, we are facing some difficulties to get the permits to work there and this is really affecting our cost structure.

A - Unidentified Speaker

And Martins, I would like to add that we have been increasing ore production at a rate of more than 30 million tons per year. Which is up, successful. We are successfully dealing with this issue here in Brazil. Of course, everything is not exactly as we would like to have. But I think we are dealing very well with this issue.

Q - Oscar Cabrera {BIO 7553392 <GO>}

And another (inaudible), Roger. I just wanted to get an idea in terms of the timing with those permits because in your EBITDA margin would certainly increase or be better than what you have currently. And also in terms of the iron ore pricing, that normalization that you're facing this year, that'll help NRV.

Anyway, the second question, with regards to the departure of Mark Cutifani, I believe Mark one of the architects that turned Sudbury around in 2003. And it is our understanding that he's going to become the next CEO at Anglo Gold. So just in terms of succession there, just to keep the integration smooth in Inco, have you guys -- do you guys have a successor in mind as -- were you aware of his departure before or is -- does this come as a surprise to the company? Thank you.

A - Roger Agnelli {BIO 14016988 <GO>}

Well Mark Cutifani is really a very nice and very good professional. He was promoted to be CEO of Anglo Gold. So good for him. In terms of people, of course, we have a lot of talent that can take this job or take his position to continue to deliver good results and very good work, effort there. So we don't have any problems to replace Mark Cutifani. Mark is a very nice guy, he received a very, very strong proposal for Anglo Gold -- on Anglo Gold. Good for him, good luck for him and life continues. So no problem. No big problem at all.

I think CVRD is a window for the executives because major or very good executives that we have here, they become CEOs in different companies. So I can tell you (inaudible) that left CVRD and became CEOs of other companies and we didn't have any problem here. So I think we have a very good team. That's it.

Operator

Thank you. Our next question comes from Jason Miller from Twin Capital.

Q - Jason Miller {BIO 21715616 <GO>}

My question's already been answered. Thank you.

A - Fabio Barbosa {BIO 21197136 <GO>}

Okay. I think we'll go to the final statement and what I would like to say that we are continuing to work with discipline following the strategy and I can tell you that you are not going to have any surprises down the road. What we are -- we have as a priority is to reduce the debt, continue to reduce the debt. Continue to invest to increase our capacity in all the activities that we are involved. We feel that the market is strong and it continues to be very strong in the near future.

CVRD is very well positioned in the industry to be a major player in this industry. And we are analyzing everything carefully here, with discipline, we are always considering the environmental issues as a core business for us, we need to treat it very well and I think we are addressing all the issues that we have around the globe properly. I think we are very good citizens where we are present here in Brazil, in Canada, in Italy, down in Africa and Australia et cetera and we would like to continue to be good citizens where we are.

Thank you very much for your support. Thank you very much for your interest in CVRD and I can tell you, we are going to work hard to have CVRD as a star in the mining industry. Thank you very much.

Operator

That does conclude our Companhia Vole do Rio Doce Second Quarter 2007 Earnings Conference for today. Thank you very much for you participation. You may now disconnect.

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