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Q1 2005 Earnings Call

Company Participants

- Fabio Barbosa, CFO
- Lidia Borus

Other Participants

- Alberto Arias, Analyst
- Andrea Weinberg, Analyst
- Ceilia Sundal, Analyst
- Colin Bebe, Analyst
- Daniel Altman, Analyst
- David Mills, Analyst
- Gary Lampard, Analyst
- John Tumazos, Analyst
- Jorge Beristain, Analyst
- Margaret Calver, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. (Operator Instructions) As a reminder, this conference is being recorded. At this time, I'd like to turn the conference over to Miss Lidia Borus, from Financial Investor Relations, Brazil. Please go ahead.

Lidia Borus {BIO 21620257 <GO>}

Good morning, ladies and gentlemen. and welcome to CVRD's conference call to discuss the First Quarter 2005 results. I would like to mention that a slide presentation has also been made available on the Company's website, at www.cvrd.com.br, during this call.

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 may differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today is Mr. Fabio Barbosa, CVRD's Chief Financial Officer. And Mr. Roberto Branco, Investor Relations Director. First, Mr. Barbosa will comment on the First Quarter 2005 results. Afterwards, management will be available for a question and answer session. It's now my pleasure to turn the call over to management. Mr. Barbosa, you may now begin.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you, very much. I'd like to welcome you all to this conference call for the First Quarter results of CVRD in 2005. Our agenda today -- in our agenda today we will discuss our performance in the First Quarter, of course. And then, we will have some comments on the market fundamentals that we continue to believe that they are very strong.

For the First Quarter of 2005, we believe that we delivered a very good result, despite several factors that affected our performance in this period. I would mention the appreciation of the real on a year-over-year basis of 7.8%; a sharp appreciation but it still continues actually. And a 4.1% appreciation against the last quarter of '04.

Some cyclical cost pressures, derived from the very tight market in every industry that is related to us, in a way.

The seasonality that proved the very heavy rainy season that we faced in the First Quarter, particularly heavy season, affected some lines of businesses of ours. And not only that. But also it resulted in less revenues in our Logistics business, due to the harvest in Brazil, starts by April and May. So there was a seasonal adjustment in our revenues in Logistics as well.

And some operational challenges, particularly in the corporate area, that I will comment a little bit further.

In terms of costs, our costs compared to the First Quarter of '04 reflected not only production growth. But also the currency appreciation that we just mentioned. I would like to highlight the increasing costs in materials, particularly parts and components, outsourced services, due to the annual adjustments of costs that we had with federal suppliers. But also due to the increased transportation of ore by MIS to our affiliated MBR in Caemi.

Energy costs, they were affected by a few price increases in Brazil by 31%. And also to the higher energy costs in Albras, an affiliate that we consolidated since the First Quarter of '04.

Of course, the appreciation of the real is an important factor. And again demurrage was at a high level, reaching $21 million in the First Quarter of '05, $9 million above the same period last year. Meaning that our products continue to be fully loaded with ships in line. And we are working hard to optimize the loading capacity in our facilities.

Despite our debt, our top-line growth reached 34.5%. But here I would like to stress again that we did not consider any effect of the iron ore price increase and pellets price increase achieved in 2005. This should be reflected from the Second Quarter onwards.

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Despite that, the price contribution to the First Quarter revenue was very strong. And again iron ore, ferro-alloys and pellets were the main contributors to this very strong result we are showing.

In terms of shipments, we reached a level of almost 60 million tons in the First Quarter of '05, slightly below our own expectations, due to the heavier than anticipated rainy season, particularly in the (northern system), that affected not only our iron ore production but also manganese.

Even with all these difficulties, our operational performance was good and our EBIT margin reached 35.9% in the First Quarter of '05, above the First Quarter of '04 with 35.2%. And above the Fourth Quarter of '04.

Our perception about the good performance, operational performance, is confirmed when we see the performance of the several divisions of CVRD. Ferrous Minerals showed a very strong margin of 38.9%. Aluminum 38.6%, reflecting the additional cost of energy that I just mentioned. Logistics, 22.2%, a little bit below, reflecting the increase costs of parts and components and also the fuel price increase that was observed in this period.

In the Non-Ferrous area, we had some operational challenges and also sale of copper mine. Actually, we under-estimated the hardness of the work here. So we, as a consequence, we had fewer than required drilling equipment available. This is being corrected and we hope to catch up along the year.

It was unfortunate, because this lower production level coincided with the very high prices prevailing in the market. But we also think that those prices should be supported by the very low level of inventories that we are observing right now. Nevertheless, it was not the best performance we could achieve and we are correcting our operational equipment there, in order to reach what we expect for the year.

Then we turn to the EBITDA figures. Again, for the 12th consecutive quarter we are showing a new record. EBITDA was posted at; on an annual basis; $3.972b. Very strong growth performance, again without virtually any impact of the price increase achieved in 2005, just considering the negotiations that took place in 2004.

Ferrous Minerals, 68% of EBITDA. Aluminum had a growing share, 17% of our total EBITDA in the First Quarter of '05. Of course, with the price increase in iron ore and ferrous. And given the level of prices achieved by the aluminum. And the aluminum chain products, we should expect in the next quarters a recovery of the share of Ferrous Minerals in total EBITDA generation.

Another impressive figure has to do with the earnings performance (inaudible) the First Quarter of '05. But if we take out the one-off effect of gains with asset sales in the Third Quarter and the Fourth Quarter, we see there is a continuous growth. Not only did the strong operational performance help. But also the stability in the volatile variation of the exchange rate helped in this direction. So we achieved almost $700 million in net

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earnings in the First Quarter of '05. That compares very well to the previous quarters, when we adjust for those one-off effects.

Another point I'd like to mention is that as scheduled, we started up our third iron ore project in the last 12 months. Fabrica Nova is ramping up right now. And we expect the production to achieve about 10 million tons this year and 50 million tons in 2006. And our CapEx program, as usual in the First Quarter of the year, was lagging a little bit behind the annual amount projected of $3.3b. But again, as happened particularly in last year, we expect this figure to grow faster in the next three quarters of 2005.

And an additional point we'd like to make regarding our CapEx program is that in a comparison with the metals and mining industry, average ratio between growth CapEx and total CapEx, CVRD is by far the more growth-focused Company of the industry, showing our commitment to expand our production and grow over time.

In fact we are, as you know, developing six other iron ore projects beyond the Fabrica Nova that's ramping up right now. Itabira with 3 million tons; that should be ready in 2006. Fazendao; 40 million tons by the end of 2006. Carajas, 85 million tons; that should also be operating fully in 2006. But with the arrival of the shipload by July this year, we should be producing at Carajas around 78 million tons, 77.5 million tons, in 2005 yet.

And then, the 100 million tons Carajas project, expanding it to 100m. That's a very important project, not only due to the expansion of the mine itself. But because it brings a long investment in our railroads that would give far more flexibility to our Carajas (inaudible) increasing cargo capacity by almost 50%. So it's a very important investment there.

Brucutu, as you know, is being implemented and is expected to produce 24 million tons by 2007. And Fabrica, our mine, a former (Tataco) mine, that is currently producing 11 million tons, should be producing about 60 million tons by 2007 as well.

Together with this major investment effort, we are allocating $375 million this year to our R&D investment that is being affiliated. 37% of this amount is invested in (inaudible) in South America except Brazil, Africa and Asia. And they come together with the new projects in our pipeline. The co-projects in Mozambique, our stakes in China for anthracite and coking coal, marking our entrance in this very important market possibility. The new depot -- the potash deposit in Argentina. And the phosphates in Peru, that we just won the bidding process that took place there, enhancing our perspective of sustainable growth with some diversification and also globalization.

With all that. And the strong performance we just showed, we managed to enhance further our cash flow and as you see in this chart, our EBITDA interest coverage reached 13 times, more than 13 times, 13.24; a very strong indicator. And a further decline in our total debt/EBITDA ratio, to 1.05, making our figures much nearer to the top players in this industry.

An important event that took place in the last few weeks was the signing of the contract with several first tier banks to increase our committed bank facility. The (standby) credit that was made available to CVRD now amounts to $750m. And this will certainly help us in our search for the investment grade that's so important for a company like us.

I would like to highlight the current conditions of this new line that we managed to get. We have -- on the $650 million that's contracted was signed this year, because we already have $100 million from the previous year. We now have conditions far superior from those that they gave in the first arrangement. Now we have two years for withdrawal, plus two years for repayment, if we disburse those lines; what we didn't do with the previous $500 million line that was available.

Commitment fees; commitment fee also declined to 30 basis points. And interest rate was even lower. If we disburse, they will pay on this facility Libor plus 75 basis points. And it is very important to remark, there are no restrictions to disburse those lines attached to the (country).

So it's a very important step forward, in our view. As you know we are -- according to Moody's, we are rated BA1 with a positive outlook. And this certainly could help rating agencies in general to assess our actual risk.

Turning now to the market fundamentals, you'll see the cover that we actually see, that they continue to be very strong. In the last few weeks, we saw what is being called the growth scare that reduced sharply the value of the market cap of several mining companies, including ours. In total, we indicate there about $63 billion of mining value has gone.

But in our view, this is most likely to be another sure thing, if we look at the fundamentals of the global macroeconomic framework. In fact, GDP -- global GDP growth is expected to continue slightly above the long-term trend observed during -- since 1970, around 3.5% per year. Also, in the next chart, you'll see the U.S. economy still growing above trend. This is a very interesting indicator. It's a normalized average of 85 indicators. Where it is positive, it shows that most indicators are performing above its long-term trend.

So there are, in our view, several reasons to believe that the U.S. economy will continue to show robust growth, although not in the same levels that were observed in 2004. That was actually a very good year.

As for China, well, you know the figures for the First Quarter of '05, that showed a GDP growth of 9.5%. Our current estimate for this year is 8.5%. I remember that last year, our estimate for 2005 was 7.5% or something. And 2006 was 6%, around 6%. Now we have revised upwards, given the very strong performance in the First Quarter. More than that, if you look at the next slide, you'll see that the fixed asset investments continue to be growing at a very strong pace.

So this allows us to believe that China, at the end of this year, will provide a stronger demand in the world market, particularly in the metals and minerals industries. The fixed

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asset investment has a very strong correlation with the steel consumption. This is very important for our business, of course. So showing there the perspective for further growth in the iron ore market, particularly in that region of the world, we continue to be very strong in our view.

And on the next page, our very traditional chart on the cost of freight differential. Again, it increased in the last few months again, after an important decline until the end of 2004. So, in our view, of course this is (inaudible) model, there are uncertainties regarding this. But it's another indicator that shows the strength of the market out there in particular.

And if you see the spot market prices that we put together, you'll see that the perspectives for iron ore trade in that market continue to be very strong. By definition, there is only a spot market when the so-called regular market is in imbalance. So if there is a spot market showing these very high price levels, it means that you've got imbalance that is in the equilibrium between supply and demand, then this demand has been not met by the regular market.

And even with the price increase we achieved when we concluded the negotiations on March 31, the price of CVRD ton of iron ore will reach about $41, well below the Indian FOB spot price. And even the Chinese domestic ore spot price, that was around $110 per ton.

In fact, the Chinese iron ore imports continue to grow very strongly. And very much in line with our original expectation. China's iron ore imports grew by 23.5% in the First Quarter of '05, compared with the same period last year. And they are very much in line with that, to make up 256 million tons to be imported by China this year.

And another important point, we have been hearing some comments about (cancelled) imports. As usual, this seems to be the season of the (cancelled) imports, because last year was the same. According to our office there in Shanghai, the estimate for the inventories is around 30 million tons. You know that China is growing its industrial steel production by roughly 24% in the First Quarter. It grew, actually, 24% in the First Quarter. If it continues to grow at this trend, it will reach about 330 million tons by the end of the year.

Considering this amount of production. And using simple math, they would require -- this production would require about 500 million tons of very good quality iron ore, as ours. That's not available there, as you know. And then, their stock for a month should be around 40 million or 42 million tons roughly. So they have inventories for just about two weeks. That's a very fragile situation. And that only indicates that the fear about iron ore stock piling; there is no reason, there is no fact to support it.

And another point that I would like to make is that although we expect some more moderate growth in steel output for the world. And for China in particular, there will be a very strong growth yet, compared to the previous years before the China appearance, let's say.

If, in total, between 2001 and 4, world steel output grew by roughly 7.5%, our estimate now is for between 2005 and 7, would be around 4% per year. And this would make the steel production reached by 2007 around 1.2 billion -- 1,190 million of production. And China should be producing 380 million tons, growing about 12% per year from 2005 to 2007.

So, even working with a much more moderate growth expectation, we see that there is a very strong case for additional sales of iron ore in the world. And particularly in China, of course.

For the seaborne trade, we expect it to reach this year 655 million tons. And by 2007, 720 million tons. As for China imports, our idea is that they will reach 256 million tons, as I commented before. And by 2007, they should be around 310 million tons. And we are working hard to meet the requirements of our Chinese clients and other clients around the world.

Turning now very briefly on Copper, I've commented already that the inventories are very low. That is unfortunate from the standpoint of our low production in the First Quarter. But we are taking all the measures necessary to deal with the problems, the operational problems we have there. Again, we are buying more equipment and trying to catch up with the budget for the year. But a very good and strong market for copper, as well as for the aluminum chain.

Aluminum stocks continue to fall. And we believe that aluminum availability, that should -- the shortage should be there until 2007. The shortage of aluminum is constraining as well the production in aluminum. And making -- sustaining very good prices for our producers. And now they are around $1,800 per ton, while the aluminum spot price, as a percentage of the LME price, are on the level of 25%.

Those are the comments I would like to make. Myself and our team, we will be available for any questions you may have on this presentation. Thank you, very much.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Alberto Arias from Goldman Sachs.

Q - Alberto Arias {BIO 18302585 <GO>}

Yes. Good morning Fabio and Roberto. A couple of questions. The first one is, in terms of what you presented on the outlook for China and steel production. I wonder if you have evaluated at which point is the expansions of the steel production capacity in China going to become a negative factor for the global steel industry. And what would happen at the point in which it would lead to shut downs of capacity outside of China?

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I just want to get a sense, because that's one of the key issues that the market is considering at this time.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Alberto. In our view, the increase in capacity in China is driven -- has been driven and will continue to be driven, by the very strong investment; (aggregate) investment (CVRD) has shown. We've just commented on a fixed CapEx investment. And they, in our view, they should continue to post very strong growth rates. There is a very strong level of investment they are presenting in the last few years.

It's important to mention; I frequently get this sort of question; that China should grow down sharply in the near future, that is after a few years. I can't see any objective reason to allow this conclusion. In the first (step), they have a very strong macroeconomic framework, a very strong balance (inaudible) position with over Â£600 billion of reserves, combined with Hong Kong. And the low inflation rate. A very healthy domestic savings rate. And a very high investment rate, that is in line with the Asian experience.

And a few months ago we commented that this pattern is similar to those presented by several Asian economies that grew for 3, 4, 5 decades continuously, with some hiccups here and there. But the trend is undeniably, it's a growth trend.

So, answering your question Alberto, I believe that the fundamentals of Chinese growth continue to be very strong. And it's a growth that is biased towards metals and minerals in general. (inaudible) to grow, develop the investing region of the country, to complete the works for the Olympic games. And others. They (inaudible). And in needing steel they will certainly buy our Iron Ore, because you know how poor the Iron Ore is to produce steel there.

So, we believe that, we do not anticipate in the next few years, this negative factor being derived from China. That's not our opinion.

Q - Alberto Arias {BIO 18302585 <GO>}

So you don't see China becoming a major exporter of steel, because basically you are saying that it's going to be consumed domestically?

A - Fabio Barbosa {BIO 1907620 <GO>}

Yes, I believe that domestic growth, domestic consumption will continue, because they are still consuming, producing about 200 kilos per (capita) Alberto. So they still have a long way to go to reach at least Korean levels, or in the future, Japanese levels.

Q - Alberto Arias {BIO 18302585 <GO>}

And the second question is more specific about the First Quarter results and there were a number of operational disruptions. If you could please elaborate a little bit more, because in the press release you discussed Carajas being affected on an operating level. And that you had to implement an emergency plan.

It seems by the language that it was written that it was more than rain. If you could elaborate exactly what happened there. And also on the Sossego copper mine, you had some reference to lower grades as well. Is there an issue in terms of the quality of the reserves that is not perhaps what you were expecting? If you could give us, kind of a, budget for production for Sossego as well. How extended into the Second Quarter are these operational issues going to be?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay, first of Carajas. Carajas, we had an extremely heavy season, that explains a major part of this, after the problems we faced there. We also had a problem with the conveyor that did not work properly. We had to make some repairs there. And our (inaudible) plants for a few days did not operate at full capacity.

So, because we are in a situation Alberto, that we are operating at full capacity, a little bit, I would say, stretching our capacity to its maximum limit. So any problems, external problem, or even operational problem that eventually (make a mistake) and something goes wrong, it will be reflected in the final production figures.

So, it's, I would say, that it's very much correlated with the level of production we are implementing. But this problem is being corrected. And we hope to catch up with the original plan. And to produce all the 77m, 78 million tons we are expecting for this year.

As for the Copper, there is no issue of the quality of the reserves. The issue there, again, is that we under-estimate the hardness of the work. We bought less drilling machines than we needed. And when we saw that. And given the tightness of the market, it takes a time to correct it. And the machines are not available on the shelf.

But we had 1 machine working. We brought 2 more already. And there are 2 more to come in the next few weeks. So, we hope that this problem will be corrected. But again, it's not a problem of the quality of the reserves. But we continue to be very confident on the production there.

Q - Alberto Arias {BIO 18302585 <GO>}

Okay. And so the Second Quarter will have some lower Copper production as well, because all of the equipment is not in place. Is that right?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well it's too early to say Alberto. It's too early to say. We will have much more equipment working, if they arrive on time, than we anticipated originally. So let's wait for the final quarter numbers, then comment on that, okay?

Q - Alberto Arias {BIO 18302585 <GO>}

Thank you, very much.

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A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

The next question comes from Andrea Weinberg of Merrill Lynch.

Q - Andrea Weinberg {BIO 6591181 <GO>}

Hi Fabio. Good morning. Two quick questions. First, I wanted to know if you were facing any delays in some of your expansions, due to the lack of tires and the long wait for trucks in the industry? This has been a very common problem from a lot of the mining companies. I wanted to know from your point of view.

And the second question will be on the costs in the quarter. I understand costs were higher. But as well as being higher for all the other mining companies. But I wanted to know (if) in this quarter specifically, because of your technical problems that you had, if the cost was higher also because of these problems. And if in the Second Quarter, they could normalize at a slightly lower level?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay, thank you Andrea. On the expansion, the issue we are facing is that we are, as everybody else, we are investing heavily. And the timetable for equipment is key. For instance, we bought 1,000 rail cars in the First Quarter. And that's it. We have to buy this year 5,600. We expected some minor delays in locomotives as well. But as you can see, the major equipment, like the ship (loader) in (inaudible) port is on schedule. This should be operating -- start operations in July.

So. So far we are not anticipating any change in production or expansion due to potential delays. We had an issue in Brucutu. But we are working also on that. We are implementing this operational excellence program. And the issue was, precisely, it had to do with the starting date of the expansion of the new Brucutu, because we have, (a new) Brucutu that's already producing 6.5 million tons Aluminum. So, as yet we don't have major delays in our expansion program.

As for the quarter, there are 2 aspects that I would like to mention. And they have to do precisely with the previous question on Copper and Iron Ore in Carajas. With the reduction -- the relative reduction in production in Iron Ore, some costs that don't increase. And the same applies to Copper. We produce much less than we have to produce. And we have regular costs running. So, in a way, as we resume normal operations, those costs should decrease in line with (the businesses) in production.

Q - Andrea Weinberg {BIO 6591181 <GO>}

Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

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Thank you.

Operator

The next question comes from Jorge Beristain of Deutsche. Hi. Good morning Fabio, Jorge Beristain with Deutsche Ixe. Just 2 questions. One is if you could quantify, or project, with the expansion of the (Ponta de Madera) Pier 3, if you expect that demurrage expenses should finally get under control for your Company in the second half?

And secondly, if you could just discuss the impact that we saw quarter-over-quarter of a very significant decline in interest expense, recorded by CVRD to more normalized levels. And what was behind that?

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay thank you Jorge. On the demurrage costs we, to be very frank with you, we are not happy at all with this level. Of course, although these total levels are not an indicator of the tightness of the market. It's a complex operational programming issue, because you have to combine the ships that are coming, with the availability of the ports. And the variety of products that we offer to our clients.

As you know, we offer over 100 different products to our clients. And that sometimes, when you operate in a stretched system, as we are right now, there are some times that you don't have the specific product for the ship that's waiting to be loaded there. So this happens. And it has to do with the timing of the ships, the timing of production. And this is not (inaudible).

But anyway, we are not happy with that. We want to reduce that, this is direct guidance by our CEO, (and it gives) direction to try to reduce this cost. And certainly the new ship loader in Ponta de Madera could help in this regard.

However, I would mention that we are increasing our production capacity there. And next year we will increase further. And as we mentioned before, there are no signs of (inaudible) of the demand. We will do our best, that has been a tough task.

On the decline of the interest expenses, Jorge, we had a reduction in the derivatives costs there in the First Quarter of '05, compared to the (fourth) quarter of '04. And it was a reverse of about $65 million between what was shown in this the Fourth Quarter. And what was achieved in the First Quarter.

In the derivatives costs, they have to do with -- the reduction has to do particularly with the increase in the interest rates that were observed in the First Quarter, because we have (inaudible) interest rates in the market. And as they are increased in the last two months, this helped, because we have a ceiling for the interest rate. So this helped to reduce the negative position of our derivatives. So that's the explanation for that reversal.

Q - Jorge Beristain {BIO 17554499 <GO>}

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Thanks. And sorry, on that interest rate, do you expect that that's going to be more indicative of your future quarterly interest rate payments?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well, we have -- let's think, roughly we have a (inaudible) of around $4b. And (inaudible) interest rates around 6%. So. And we have some, liquid assets, on the other side of the balance sheet. So, let's roughly think of around $200 million or so, something around this figure. But (both), maybe adjusted as well for the derivative position that I mentioned before.

Q - Jorge Beristain {BIO 17554499 <GO>}

Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

The next question comes from (Colin Bebe) of Lehman.

Q - Colin Bebe {BIO 19492936 <GO>}

Hi, guys. Thank you, very much for the conference. I just have 1 question. Any shareholder friendly actions beyond what the Company has mentioned, in terms of returning money to shareholders?

A - Fabio Barbosa {BIO 1907620 <GO>}

The short answer, no as yet.

Q - Colin Bebe {BIO 19492936 <GO>}

And what's the reason behind that? Have you guys seem to have a pretty solid EBITDA going forward as a result of 71.5% increase in Iron Ore. Unless you guys are seeing a decrease next year, that can be understandable. But, if the prices will at least stay stable, I think it would be fair, from a shareholders' point of view, to kind of return some of that, unless you guys are projecting to do something with regard to expanding beyond the mining business, or have you several CapEx programs over the next 5 to 10 years? Any comments on that?

A - Fabio Barbosa {BIO 1907620 <GO>}

Yes. Well, I would say that, no we do not expect a price decline next year. We are seeing a very strong market next year, as well as in this year. Production growth. And we see no reason to work with a price decline. I have seen some reports showing analysis about this issue. And the only explanation I've got so far, given the strength of the fundamentals, is that people want to work with the concept of the reversal to (inaudible).

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And I don't believe that this would capture the whole picture, in the sense that what we are observing is a structural change in the market, because we have a big major player in the market. And this market could be further enhanced in the future. By and large, the big player, if Indian decides to grow much faster than it's growing right now, as Mr. (Goodyear) mentioned the other day. So I don't see any change in the fundamentals of the market that would allow us to think in a major (inaudible) reversal of the market for the changing conditions of our businesses.

As for our investment plans, it's public. We announced a CapEx program for 2005 of $2.3b. It's a strong CapEx program for the following years until 2010. We should spend only in growth CapEx, about $13b. So a very meaningful investment program. But as we showed before, we have the financial strength to support this strong CapEx program, to keep a very strong balance sheet and to remunerate our shareholders.

(And on that less CapEx), this is a decision, with a feeling that has been (inaudible) by our shareholders, is to pay a minimum dividend of ($12b). We are still releasing the First Quarter results. And no change in this (inaudible) is being considered by our shareholders. Thank you.

Q - Colin Bebe {BIO 19492936 <GO>}

Thank you.

Operator

The next question comes from Daniel Altman of Bear Stearns.

Q - Daniel Altman {BIO 1855515 <GO>}

Hi. Good morning. I'm wondering, first of all, if you are considering in the future, providing more guidance on potential production shortfalls, or issues that you have to avoid the kind of surprises that we saw this quarter? I'm wondering if you are considering implementing like an earnings advance warning, such as, you know what (Phelps Dodge) and other companies have done recently?

Second question is on (Caje), if you see a possibility, not a probability. But a possibility that Caje may ask you to divest Iron Ore assets, or lose the right of first refusal? Also wondering if you've received any more contracts from CSM that you are studying at the moment? Thanks very much.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Daniel. Let me start with your first question on guidance. In general, we have a view that guidance may bring some additional volatility across a performance. That's our perception. We may be wrong. But that's way we have been seeing this issue so far.

I believe that, nevertheless, we still have some improvements to implement in this area. And particularly addressing your concern, is the issue of the production report. That we

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are trying to anticipate it a little bit before the earnings release, in order to precisely give market participants a clearer view of what is going on.

We are working hard in this direction. We are trying to do that. But it's still one issue that requires some additional work. But in this aspect, specific aspect, I agree that we could improve our communication with the market.

As for the Caje, I would not like to make comments in public for the future, or speculate of their future decisions. We are presenting our arguments to them. We are expressing our views. We are showing that we are investing heavily in our operations to meet our clients' needs. We are investing to expand our capacity by 20 million tons this year. We provide Iron Ore to our Brazilian clients at a fraction of the price that is charged to our clients, because they are nearer our mines. So they pay just a percentage of the full price, (FOB) price, as they are closer to our operations.

We are showing that we are the largest investor in Logistics in Brazil. We are the largest investor in Brazil as a private Company. So we are showing our arguments. And more than that, we are indicating our willingness to continue to invest and to provide our clients with the best service and products. And we believe that we have very strong arguments -- very strong facts to show. And let's wait for their decision. We trust they will make a wise decision in this area, because it's important what we did, what we have done and what we can continue to do in our business.

We are a global player. And we compete in a global world, in a globalized world. So, I believe that the facts will prevail. Thank you.

Q - Daniel Altman {BIO 1855515 <GO>}

And just --

A - Fabio Barbosa {BIO 1907620 <GO>}

Oh, the contract. No, there has been no other offer of contract to us so far.

Q - Daniel Altman {BIO 1855515 <GO>}

Okay, thank you very much.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Daniel.

Operator

The next question comes from John Tumazos with Prudential.

Q - John Tumazos {BIO 1504406 <GO>}

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With the production curtailments of several European steel makers. And other steel makers around the world, are you experiencing any postponement or delay of shipments?

And how much is your capacity to hold inventory in Brazil? Physically how much stock or warehouse capacity do you have?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well, thank you. We, on the steel production in general. The First Quarter we showed a very strong performance. We have been hearing things about reduction in production by some players. But so far, no indication by any client of ours of a reduction in shipments. And I would say that this, if this happens, there would be a lot of people waiting to take it. That's what we hear right now.

So we still have clients asking for more ore and (inaudible) that we able to deliver. So there has been. So far, no consequence in our shipments of this merger adopted by some few steel makers.

As for our capacity to stockpile in Brazil. We have a pretty good capacity, if that was the case, given that we not only have several (yards), several ports we operate. But they are empty. There is no stocks inventories in our ports. And that's part of the explanation of our demurrage costs that we just commented on a few questions ago.

So the problem we are facing now is (inaudible) we don't have enough inventories in our ports, this is not an issue all right. And we are also expanding our capacity so future production increases. Thank you.

Q - John Tumazos {BIO 1504406 <GO>}

Thank you.

Operator

The next question comes from (Ceilia Sundal) of (Howe Robinson).

Q - Ceilia Sundal

Hi. I have a question regards; yes Ceilia Sundal from Howe Robinson. The question is the demurrage expenses in Q4 '04 rose to $43 million according to your report. What was the reason for this massive increase in Q4 '04?

A - Fabio Barbosa {BIO 1907620 <GO>}

In that case, it was from accumulated charges that were not fully accounted for previously, due the operational problems with the implementation of our (ESP) system. But now they are fully accounted for in the quarter they are occurring.

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Q - Ceilia Sundal

Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

The next question comes from Margaret (Calver) of Harding Loevner.

Q - Margaret Calver {BIO 18486582 <GO>}

Yes, hi. Could you comment on the current macroeconomic environment in Brazil, particularly on the impact of the exchange rate. And what you see for that going forward?

A - Fabio Barbosa {BIO 1907620 <GO>}

Yes, a little bit. In the case of Brazil, we have been observing the implementation of very (sound) (inaudible) policies. (inaudible) continue to be very strong results. Monetary policy is very tight. And the balance of payments is (showing), indicating a comfortable position.

And the appreciation of the exchange rate, it has to do with, of course, the depreciation of the U.S. dollar and the real. (There have been) several other currencies. But also a little bit with the strong monetary stance that is in place out there.

The international scenario has changed a little bit, particularly after Mr. (Green stern's) move in March, late March. And we have seen in the last few weeks that there has been some turbulences in markets, some additional volatility. We commented on our specific industry that performed very well last year and the beginning of this year. And then in the last two months a major reduction in market (inaudible). And specifically in our industry. And capital markets in general, they are not having a great year so far.

And there was a little change in sentiment, there will be in our view, a little bit less liquidity available worldwide. The U.S. is maybe absorbing a huge volume of dollars with (those) moves in the tax area. And this could affect -- but not something that would change dramatically the international scenario that we see. But it could represent a compression of liquidity for emerging economies like (this). And in this regard could interrupt a little bit the appreciation of the real.

But inflation is under control, given the very strong monetary policy that is in place. The economy should grow again this year. And we believe that it is in the right (place).

Q - Margaret Calver {BIO 18486582 <GO>}

Okay, thank you.

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A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

Next question comes from David Mills of JDM Capital.

Q - David Mills {BIO 4254389 <GO>}

My question has already been answered thank you.

Operator

Okay, the next question comes from Gary Lampard of Canaccord Capital.

Q - Gary Lampard {BIO 2019395 <GO>}

Yes, thanks. My first question. The Q1 results didn't include the higher Iron Ore prices negotiated. Does that mean that none of your contracts are settled on a calendar year basis?

A - Fabio Barbosa {BIO 1907620 <GO>}

No, it means that the negotiations were concluded on March 31. So when we reached final agreement with the (inaudible). So, actually we have contracts that are based on the calendar year. And we have other contracts that are based on the (inaudible) fiscal year, starting April 1. So, it has been our procedure for the last few years to account for a price reduction immediately. And to account for a price increase just when it actually is in place.

But that made us to not include any actual effect of the price increase in the First Quarter, because the negotiations were concluded only on March 31, okay. Then, in the Second Quarter we should see the implementation of this price increase. And also some retracted effect of the contract that we have, based on the calendar year.

Q - Gary Lampard {BIO 2019395 <GO>}

But would I be right in assuming that something like 40% of your contracts are on a calendar year basis?

A - Fabio Barbosa {BIO 1907620 <GO>}

It's a good figure. It's a good figure.

Q - Gary Lampard {BIO 2019395 <GO>}

Sorry.

A - Fabio Barbosa {BIO 1907620 <GO>}

It's a good figure, yes.

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Q - Gary Lampard {BIO 2019395 <GO>}

And should we expect that all of that adjustment will be reported in Q2?

A - Fabio Barbosa {BIO 1907620 <GO>}

We hope so. But as we mentioned, we have to sign the contracts. But there is no reason why they shouldn't be signed by then. But so far, it's our expectation to reflect the price increase from the Second Quarter onwards.

Q - Gary Lampard {BIO 2019395 <GO>}

Okay, thanks.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Q - Gary Lampard {BIO 2019395 <GO>}

You've reported a much lower tax rate this quarter, compared to last. Can you run through the reasons for that. And maybe give some guidance for the rest of the year?

A - Fabio Barbosa {BIO 1907620 <GO>}

Well the tax rate in (inaudible) the last quarter, they suffered from exceptional factors. The sale of CSC that was concluded, the capitalization of (FCS) among others. So that was an exceptional level, that should not prevail. And now we are back to more normal regular levels.

Q - Gary Lampard {BIO 2019395 <GO>}

Okay, thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you.

Operator

That concludes today's question and answer session. Mr. Barbosa at this time you may proceed with your closing statements.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, very much. And just a reminder we will be, myself. And our team available for any further questions you might have in this First Quarter results, or other information about the Company. Thank you, very much.

Operator

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that does concludes today's CVRD's conference. Thank you, very much for your participation. You may now disconnect.

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