

John Tumazos Very Independent Research, LLC  
11 Yellow Brook Road, Holmdel, NJ 07733  
732 444 1083 or 732 740 3574 (cellular)

[john@veryindependentresearch.com](mailto:john@veryindependentresearch.com) or

[johnstumazos@comcast.net](mailto:johnstumazos@comcast.net) or [tumazos@monmouth.com](mailto:tumazos@monmouth.com)

October 16, 2007 @ 10 pm

## ***Registration Effective August 27<sup>th</sup> and Now Operational***

*(Note: In June we visited CVRD in Toronto and Sudbury, and in August in Rio de Janeiro, Carajas and Sossego. It has been tedious writing up all of our notes on the many product lines of the diverse company, and in this report we comment on one specific topic, the recent large internal investment program.)*

### **CVRD (RIO \$34.23, rating under development) ANALYSIS OF WORLD'S LARGEST EVER METALS CAPITAL BUDGET**

It must be remembered that CVRD has created substantial new capacity in recent years "by clever operations management" such as the increase in 1Q03 from 6.9 to 12.0 Carajas railroad trains per day, the addition of over 400 locomotives and 20,000 wagons, port expansions and mine capacity to increase quarterly iron ore shipments from 39.2 to 61.4 mmt.

While all commodities are cyclical, CVRD spreads its capital investments among eight businesses. The \$3 billion spent for iron ore within the \$11 billion is the biggest concentration of investment in the biggest existing business. While iron ore prices may rise another 25% in 2008 and iron and steel show little cyclical since 2007, CVRD's only cyclical defenses are its best-in-world costs and infrastructure cost advantages both of which it will strengthen with these investments..

CVRD's new capital budget suggests a roughly 10% CAGR of unit volume in 2007-12, which is better than most of the top 25 global metals companies. Xstrata, Southern Copper or First Quantum may be the only companies of any size even close to CVRD.

We are not critical of any particular large project within CVRD's capital program. Sure, community support for Goro has not been perfect or slab steel mills can be volatile, but each project interacts and benefits the remainder of the business group for each unit.

The increase from \$7 billion several months ago to \$8 and now \$11 billion announced on October 11<sup>th</sup> for the 2008 capital budget and \$20-\$25 billion of the five year 2008-12 \$59 billion budget were larger than expected.

The increases involved more iron ore capacity, logistics, captive electricity plants, copper capacity in Chile and phosphate in Peru. We attribute most of the increase to "more capacity" and "lower cost capacity," although real appreciation or inflation may account for up to 25%.

The allocation to Brazil of 73% of the proposed \$11 billion 2008 capital budget or majority of the \$59 billion five-year budget is an advantage because the money buys at least 25% “more factory” in lower wage Brazil, CVRD spends wisely there and has “great infrastructure concentration” in iron ore, bauxite, nickel and copper deposits in the lateritic or iron-oxide-copper-gold (IOCG) Amazon domains.

Its future iron ore output will be about double its nearest competitor, and the combined revenues with ni, cu, and bauxite suggest close to three times as much CVRD revenues from iron ore and nearby minerals than Rio Tinto enjoys from iron ore. Economies of scale in infrastructure are a benefit.

Other multinational mining companies do not enjoy the economies of concentration CVRD enjoys. Witness large gold mines active in almost ten nations.

The well-measured investment in captive projects appears better than paying a \$30 billion premium to tangible book value as Rio Tinto did for Alcan.

The emphasis on railroad, hydropower and other large infrastructure projects for 21% of the total reduces future costs while improving accountability, reliability and control. Such investments permanently lower costs of the product lines they support.

The 2012 15.2 mmt output target for coal appears eminently exceedable under 0.5% of world output. Mongolian properties, acquisitions and exploration easily could permit output several times more than CVRD projects.

The company’s targets for 2012 output for iron ore are over 35% of world use, nickel 20%, alumina 13% and copper near 3% of world use.

## TARGETING HIGH GROWTH MARKETS

Construction of a 9 mmt pellet plant in Oman will position CVRD well to serve the growing Mideast steel industry.

A 1+ mmt new aluminum smelter with captive alumina refining in Saudi Arabia will source its bauxite from Brazil and Greece, with CVRD likely to provide a good portion.

CVRD is the largest iron ore supplier to China, and its nickel investments position it well to serve Asia as well.

## CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar

owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

## DISCLOSURES

“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure. Our only financial interest in a stock we regularly cover is Polymet Mining shares bought in April 2007.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d'Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphyn Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or "due diligenced" for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage. Bowater, which will merge with Abitibi-Consolidated, also will be dropped after the merger completion.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining, CVRD and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor's

decision to buy or sell a security should always take into account, among other things, that the investor's particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to "balance" the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a "bottoms up" manner based on the assets of each individual company.

### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

**© pending John Tumazos Very Independent Research, LLC, 2007, all rights reserved, 11 Yellow Brook Road, Holmdel, NJ 07733**

Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. Any statements nonfactual in nature constitute only current opinions, which are subject to change.

There are risks inherent in international investments, which may make such investments unsuitable for certain clients. These include, for example, economic, political, currency exchange rate fluctuations, and limited availability of information on international securities. John Tumazos Very Independent Research, LLC, and its affiliates, make no representation that the companies which issue securities that are the subject of their research reports are in compliance with certain informational reporting requirements imposed by the Securities Exchange Act of 1934.

If you did not receive this research report directly from John Tumazos Very Independent Research, LLC ("JTVIR"), you may be in violation of an existing subscription or copyright. Your access to, and receipt of, this report does not by itself operate to establish a relationship between you and JTVIR, as the case may be. Please note that JTVIR bears no responsibility for any recommendation(s) or advice that such firm or its representatives may provide to you, regardless of whether any such recommendation or advice is based in whole or in part on this report.

The views and the other information provided are subject to change without notice. This report and the others posted on [www.veryindependentresearch.com](http://www.veryindependentresearch.com) are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed on any JTVIR product, service, report, email or website are proprietary to JTVIR. and constitute valuable intellectual

property. No material from any part of <http://www.veryindependentresearch.com> may be downloaded, transmitted, broadcast, transferred, assigned, reproduced or in any other way used or otherwise disseminated in any form to any person or entity, without the explicit written consent of JTVIR. All unauthorized reproduction or other use of material from JTVIR shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. JTVIR expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. JTVIR reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights. The recipient should check any email and any attachments for the presence of viruses. JTVIR accepts no liability for any damage caused by any virus transmitted by this company's emails or website.

Additional information on the securities discussed herein is available upon request. The applicable disclosures can be obtained by writing to: John Tumazos Very Independent Research, LLC, 11 Yellow Brook Road, Holmdel, NJ 07733 Attn: John C. Tumazos.