Companhia Vale do Rio Doce
Form 20-F
May 25, 2006

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As filed with the Securities and Exchange Commission on May 25, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2005
Commission file number: 001-15030

COMPANHIA VALE DO RIO DOCE	**VALE OVERSEAS LIMITED**
(Exact name of Registrant as specified in its charter)	(Exact name of Registrant as specified in its charter)
Federative Republic of Brazil	**Cayman Islands**
(Jurisdiction of incorporation or organization)	

Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Preferred class A shares of CVRD, no par value per share	New York Stock Exchange*
American Depositary Shares (as evidenced by American depositary receipts) each representing one preferred class A share of CVRD	New York Stock Exchange
Common shares of CVRD, no par value per share	New York Stock Exchange*
American Depositary Shares (as evidenced by American depositary receipts) each representing one common share of CVRD	New York Stock Exchange
8.25% Guaranteed Notes due 2034, issued by Vale Overseas	New York Stock Exchange
6.25% Guaranteed Notes due 2016, issued by Vale Overseas	New York Stock Exchange

* Shares are not listed for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The number of outstanding shares of each class of stock of CVRD as of December 31, 2005 was:

735,803,919 common shares, no par value per share

415,716,278 preferred class A shares, no par value per share

3 golden shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

CVRD: Yes þ No o

Vale Overseas: Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

CVRD: Yes o No þ

Vale Overseas: Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

CVRD: Yes þ No o

Vale Overseas: Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

CVRD: Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Vale Overseas: Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark which financial statement item the registrant has elected to follow.

CVRD: Item 17 o Item 18 þ

Vale Overseas: Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

CVRD: Yes o No þ

Vale Overseas: Yes o No þ

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GLOSSARY

Alumina	Aluminum oxide. It is the main component of bauxite, and extracted from bauxite ore in a chemical refining process. It is the principal raw material in the electro-chemical process from which aluminum is produced.
ANEEL	*Agência Nacional de Energia Elétrica*, the Brazilian electrical energy regulatory agency.
Anthracite	The hardest coal type which contains a high percentage of fixed carbon and a low percentage of volatile matter. Anthracite is the highest rank coal and it contains approximately 90% fixed carbon, more than any other form of coal. Anthracite has a semi-metallic luster and is capable of burning with little smoke. Mainly used for metallurgical purposes.
ANTT	*Agência Nacional de Transportes Terrestres*, the Brazilian regulatory agency for the transportation sector.
Bauxite	A rock composed primarily of hydrated aluminum oxides. It is the principal ore of alumina, the raw material from which aluminum is made.
Beneficiation	A variety of processes whereby extracted ore from mining is reduced to particles that can be separated into mineral and waste, the former suitable for further processing or direct use.
BNDES	*Banco Nacional de Desenvolvimento Econômico e Social*, the Brazilian National Development Bank.
Coal	Coal is a black or brownish-black solid combustible substance formed by the decomposition of vegetable matter without access to air. The rank of coal, which includes anthracite, bituminous coal (both are called hard coal), subbituminous coal, and lignite, is based on fixed carbon, volatile matter, and heating value.
Coke	Coal that has been processed in a coke oven, for use as a reduction agent in blast furnaces and in foundries for the purposes of transforming iron ore into pig iron.
Coking coal	A bituminous hard coal with a quality that allows the production of coke. Normally used in coke ovens for metallurgical purposes.
Concentration	

	Physical, chemical or biological process to increase the grade of the metal or mineral of interest.
Copper	A reddish brown metallic element. Copper is remarkably conductive, both thermally and electrically. It is highly malleable and ductile and is easily rolled into sheet and drawn into wire.
Copper concentrate	Material produced by concentration of copper minerals contained in the copper ore. It is the raw material used by the smelters to produce copper metal.
DR	Direct Reduction. Process that removes oxygen from iron ore by using natural gas. The resulting product has an iron content of 90% to 92%.

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DRI	Direct Reduced Iron. Iron ore (lump or pellets) converted by the Direct Reduction process, used mainly as a scrap substitute in electric arc furnace steel making.
DWT	Deadweight ton. The measurement unit of a vessel s capacity for cargo, fuel oil, stores and crew, measured in metric tons of 1,000 kg. A vessel s total deadweight is the total weight the vessel can carry when loaded to a particular load line.
Fe unit	A measure of the iron content in the iron ore that is equivalent to 1% iron content in one ton of iron ore.
Ferroalloys	Ferroalloys are alloys of iron that contain one or more other chemical elements. These alloys are used to add these other elements into molten metal, usually in steel making. The principal ferroalloys are those of chromium, manganese, and silicon.
FOB	Free on Board. It indicates that the purchaser pays for shipping, insurance and all the other costs associated with transportation of the goods to their destination.
Gold	A precious metal sometimes found free in nature, but usually found in conjunction with silver, quartz, calcite, lead, tellurium, zinc or copper. It is the most malleable and ductile metal, a good conductor of heat and electricity and unaffected by air and most reagents.
Grade	The proportion of metal or mineral present in ore or any other host material.
HBI	Hot Briquetted Iron. Direct reduced iron that has been processed into briquettes. Because DRI (direct reduced iron) may spontaneously combust during transportation, HBI is preferred when the metallic material must be stored or moved.
Kaolin	A fine white aluminum silicate clay used as a coating agent, filler, extender and absorbent in the paper, ceramics and pharmaceutical industries.
Lump ore	Iron ore or manganese ore with the coarsest particle size in the range of 6.35 mm to 50 mm diameter, but varying slightly between different mines and ores.
Manganese	

	A hard brittle metallic element found primarily in the minerals pyrolusite, hausmannite and manganate. Manganese is essential to the production of virtually all steels and is important in the production of cast iron.
Methanol	An alcohol fuel largely used in the production of chemical and plastic compounds.
Mineral deposit(s) or mineralized material(s)	Refers to a mineralized body that has been intersected by a sufficient number of closely spaced drill holes and/or underground/surface samples to support sufficient tonnage and grade of metal(s) or mineral(s) of interest to warrant further exploration-development work.

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Nickel	A silvery white metal that takes on a high polish. It is hard, malleable, ductible, somewhat ferromagnetic, and a fair conductor of heat and electricity. It belongs to the iron-cobalt group of metals and is chiefly valuable for the alloys it forms, such as stainless steel and other corrosion-resistant alloys.
Ntk	Net ton (the weight of the goods being transported excluding the weight of the wagon) kilometer.
Open pit mining	Method of extracting rock or minerals from the earth by their removal from an open pit. Open-pit mines for extraction of ore are used when deposits of commercially useful minerals or rock are found near the surface; that is, where the overburden (surface material covering the valuable deposit) is relatively thin or the material of interest is structurally unsuitable for underground mining.
Oxides	Compounds of oxygen with another element. For example, magnetite is an oxide mineral formed by the chemical union of iron with oxygen.
Pellet feed fines or PFF (Ultra-fine)	Ultra-fine iron ore (less than 0.15 mm) generated by mining and grading. This material is aggregated into pellets through an agglomeration process.
Pellets	Agglomerated ultra-fine iron ore particles of a size and quality suitable for particular steel making processes. Our pellets range in size from 8 mm to 18 mm.
Pig iron	Product of smelting iron ore with coke and limestone in a blast furnace.
Potash	A potassium chloride compound, chiefly KCl, used as simple fertilizer and in the production of mixture fertilizer.
Primary aluminum	White metal that is obtained in the electro-chemical process of reduction of the aluminum oxide.
Probable reserves	Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Proven reserves	Reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (2) grade and/or quality are computed from the results of detailed sampling; and (3) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.
Reserve	Refers to that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.

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Run-of-mine	Ore in its natural (unprocessed) state, as mined, without having been crushed.
Seaborne market	Comprises the total ore trade (exports) between countries using ocean bulk vessels.
Sinter feed (Fines)	Refers to iron ore with particles in the range of 0.15 mm to 6.35 mm diameter. Suitable for sintering.
Sintering	Refers to the agglomeration of small particles into a coherent mass by heating without melting.
Slabs	The most common type of semi-finished steel. Traditional slabs measure 10 inches thick and 30-85 inches wide (and average approximately 20 feet long), while the output of the recently developed thin slab casters is approximately two inches thick. Subsequent to casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.
Thermal coal	Refers to the type of hard coal that is suitable to energy generation after its steaming properties (for use in thermal power stations).
Ton	Metric ton, equaling 1,000 kilograms.
Troy ounce	One troy ounce equals 31.103 grams.
Underground mining	Mineral exploitation in which extraction operations are carried out beneath the earth s surface.

PRESENTATION OF FINANCIAL INFORMATION

We have prepared our financial statements appearing in this annual report in accordance with generally accepted accounting principles in the United States (U.S. GAAP), which differ in certain respects from accounting practices adopted in Brazil (defined as Brazilian GAAP). Brazilian GAAP is determined by the requirements of Law No. 6,404, dated December 15, 1976, as amended (the Brazilian Corporate Law), and the rules and regulations of the *Comissão de Valores Mobiliários*, or CVM, the Brazilian Securities Commission. We also publish Brazilian GAAP financial statements in Brazil, which we refer to as our Brazilian Corporate Law financial statements. We use our Brazilian Corporate Law financial statements for:

- reports to Brazilian shareholders;
- filings with the CVM;
- determination of dividend payments; and
- determination of tax liability.

Our financial statements and the other financial information appearing in this annual report have been translated from Brazilian *reais* into U.S. dollars on the basis explained in Note 3 to our financial statements unless we indicate otherwise.

References to *real,* *reais* or R$ are to Brazilian *reais* (plural) and to the Brazilian *real* (singular), the official currency of Brazil. References to U.S. dollars, dollars or US$ are to United States dollars.

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Unless otherwise specified, we use metric units. For example, tons refer to metric tons.

References to CVRD are to Companhia Vale do Rio Doce. References to Vale Overseas are to Vale Overseas Limited. References to us or we are to CVRD and, unless where the context otherwise requires, its consolidated subsidiaries.

References to our ADSs or American Depositary Shares include both our common American Depositary Shares (our common ADSs), each of which represents one common share of CVRD, and our preferred American Depositary Shares (our preferred ADSs), each of which represents one preferred class A share of CVRD. American Depositary Shares are represented by American depositary receipts (ADRs) issued by JPMorgan Chase Bank, as depositary.

PRESENTATION OF INFORMATION CONCERNING RESERVES

The estimates of the proven and probable reserves at our mines and the estimates of mine life, as of December 31, 2005, included in this annual report have been calculated according to the technical definitions required by the U.S. Securities and Exchange Commission, or the SEC. Our staff of experienced geologists prepares our reserve estimates. We derived estimates of mine life described in this annual report from such reserve estimates. We periodically engage independent mining and geological consultants to review estimates of our mineral reserves. We have adjusted ore reserve estimates for extraction losses and metallurgical recoveries during extraction for manganese ore and bauxite deposits. Our reserve estimates of iron ore, kaolin, copper and potash are reported as *in situ* tons with adjustments for dilution and mining losses. See *Item 3. Key Information Risk Factors Risks Relating to Our Business* for a description of risks relating to reserves and reserves estimates. Except as otherwise indicated, AMEC E&C Services, Inc. (AMEC) has audited the estimates of proven and probable reserves as of December 31, 2005 presented in this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as anticipate, believe, could, expect, should, intend, estimate and potential, among others. Those statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations with respect to:

our direction and future operation;

the implementation of our principal operating strategies, including our potential participation in privatization, acquisition or joint venture transactions or other investment opportunities;

our acquisition or divestiture plans;

the implementation of our financing strategy and capital expenditure plans;

the implementation of our operational excellence program;

the exploration of mineral reserves and development of mining facilities;

the depletion and exhaustion of mines and mineral reserves;

the declaration or payment of dividends;

industry trends, including the direction of prices and expected levels of supply and demand;

other factors or trends affecting our financial condition or results of operations; and

the factors discussed under *Item 3. Key Information Risk Factors.*

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We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, including those identified under *Item 3. Key Information Risk Factors*. These risks and uncertainties include factors relating to the Brazilian economy and securities markets, which exhibit volatility and can be adversely affected by developments in other countries, factors relating to the iron ore business and its dependence on the global steel industry, which is cyclical in nature, and factors relating to the highly competitive industries in which we operate. For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see *Item 3. Key Information Risk Factors*, and our reports filed with the SEC. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED FINANCIAL DATA

The table below presents selected consolidated financial information as of and for the periods indicated. You should read this information together with our consolidated financial statements appearing in this annual report.

Statement of Income Data

	For the year ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(in millions of US$)				
Net operating revenues	US$ 3,935	US$ 4,123	US$ 5,350	US$ 8,066	US$ 12,792
Cost of products and services	(2,272)	(2,263)	(3,128)	(4,081)	(6,229)
Selling, general and administrative expenses	(241)	(224)	(265)	(452)	(583)
Research and development	(43)	(50)	(82)	(153)	(277)
Employee profit sharing plan	(38)	(38)	(32)	(69)	(97)
Other expenses	(379)	(119)	(199)	(188)	(174)
Operating income	962	1,429	1,644	3,123	5,432
Non-operating income (expenses):					
Financial income (expenses)	(200)	(248)	(249)	(589)	(437)
Foreign exchange and monetary losses, net	(426)	(580)	242	65	299
Gain on sale of investments	784		17	404	126
Subtotal	158	(828)	10	(120)	(12)
Income before income taxes, equity results and minority interests	1,120	601	1,654	3,003	5,420
Income taxes benefit (charge)	218	149	(297)	(749)	(880)
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	(53)	(87)	306	542	760
Minority interests	2	17	(105)	(223)	(459)
Change in accounting practice for asset retirement obligations			(10)		
Net income	US$ 1,287	US$ 680	US$ 1,548	US$ 2,573	US$ 4,841
Total cash paid to shareholders(1)	US$ 1,066	US$ 602	US$ 675	US$ 787	US$ 1,300

(1) Total cash paid to shareholders consists of cash paid during the period in respect to interest on

shareholders equity and dividends.

Per Share Data Earnings and Dividends

	For the year ended December 31,				
	2001 (1)	**2002 (1)**	**2003 (1)**	**2004 (1)**	**2005**
	(in US$ except recorded dividends and interest on shareholders equity per share in *reais* and share numbers)				
Basic earnings per Common and Preferred Class A Share(2)	US$ 1.11	US$ 0.59	US$ 1.34	US$ 2.23	US$ 4.20
Diluted Earnings per Common and Preferred Class A Share (2)	US$ 1.11	US$ 0.59	US$ 1.34	US$ 2.23	US$ 4.20
Distributions on shareholders equity per share in US$(3)	US$ 0.88	US$ 0.56	US$ 0.59	US$ 0.68	US$ 1.14
Distributions on shareholders equity per share in *reais*(3)	R$ 1.88	R$ 1.66	R$ 1.68	R$ 1.95	R$ 2.68
Weighted average number of shares outstanding (in thousands):					
Common shares(2)	749,592	749,592	734,804	735,804	735,804
Preferred class A shares(2)	405,126	405,126	415,714	415,716	415,716
Total	1,154,718	1,154,718	1,151,518	1,151,520	1,151,520

(1) In August 2004, a three for one stock split was carried out. Share and per-share amounts for all periods give effect to the stock split. The share numbers set forth in this table do not give effect to the two for one stock split approved by our shareholders in April 2006.

(2) Each common American depositary share represents one common share and each preferred American depositary share represents one preferred class A share.

(3) Our distributions to shareholders may take the form of dividends or of interest on shareholders equity. From 1997 to 2003, all distributions were in the form of interest on shareholders equity. From 2004 to 2005, part of the distribution was made in the form of interest on shareholders equity and part as dividends. The amount shown represents distributions paid during the year.

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Balance Sheet Data

	At December 31,				
	2001	2002	2003	2004	2005
	(in millions of US$)				
Current assets	US$ 2,638	US$ 2,589	US$ 2,474	US$ 3,890	US$ 4,775
Property, plant and equipment, net	3,813	3,297	6,484	9,063	14,166
Investments in affiliated companies and joint ventures and other investments	1,218	732	1,034	1,159	1,672
Other assets	1,839	1,337	1,442	1,603	2,031
Total assets	US$ 9,508	US$ 7,955	US$ 11,434	US$ 15,715	US$ 22,644
Current liabilities	1,921	1,508	2,253	2,455	3,325
Long-term liabilities (1)	772	774	1,201	1,867	2,410
Long-term debt (2)	2,170	2,359	2,767	3,214	3,714
Total liabilities	4,863	4,641	6,221	7,536	9,449
Minority interest	5	27	329	788	1,218
Shareholders equity:					
Capital stock	2,211	2,446	2,869	3,209	5,868
Additional paid-in capital	498	498	498	498	498
Reserves and retained earnings	1,931	343	1,517	3,684	5,611
Total shareholders equity	4,640	3,287	4,884	7,391	11,977
Total liabilities and shareholders equity	US$ 9,508	US$ 7,955	US$ 11,434	US$ 15,715	US$ 22,644

(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

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EXCHANGE RATES

The Central Bank of Brazil (the Central Bank) allows the *real*/U.S. dollar exchange rate to float freely, and it has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see *Item 3. Key Information Risk Factors Risks Relating to Brazil*.

Prior to March 14, 2005, under Brazilian regulations, foreign exchange transactions were carried out on either the commercial rate exchange market or the floating rate exchange market. Rates in the two markets were generally the same. The table uses the commercial selling exchange rate prior to March 14, 2005.

The following table sets forth the selling exchange rate, expressed in *reais* per U.S. dollar (R$/US$), for the periods indicated.

Year ended December 31,	Period-end	Average for Period (1)	Low	High
2001	R$ 2.320	R$ 2.353	R$ 1.936	R$ 2.801
2002	3.533	2.998	2.271	3.955
2003	2.889	3.060	2.822	3.662
2004	2.654	2.917	2.654	3.205
2005	2.341	2.412	2.163	2.762
Month				
December 2005	2.341		2.180	2.373
January 2006	2.216		2.212	2.346
February 2006	2.136		2.118	2.222
March 2006	2.172		2.107	2.224
April 2006	2.089		2.089	2.154
May 2006 (until May 23)	2.260		2.059	2.288

(1) Average of the rates of each period, using the average of the exchange rates on the last day of each month during each period.
Source: Central Bank of Brazil.

On May 23, 2006, the selling exchange rate was R$2.260 per US$1.00.

RISK FACTORS

Risks Relating to Our Business

Due to our dependence on the global steel industry, fluctuations in the demand for steel could adversely affect our business.

Sales prices and volumes in the seaborne iron ore market depend on the prevailing and expected level of demand for iron ore in the world steel industry. The world steel industry is cyclical. A number of factors, the most significant of these being the prevailing level of worldwide demand for steel products, influence the world steel industry. During

periods of sluggish or declining regional or world economic growth, demand for steel products generally decreases, which usually leads to corresponding reductions in demand for iron ore.

Driven primarily by strong demand from Chinese steel makers, together with a modest expansion in other markets, the global seaborne iron ore market experienced high demand and rising iron ore and pellet prices in 2005. We cannot guarantee how long that demand will remain at current high levels or the direction of future prices. Sustained declines in world contract prices or sales volumes for iron ore could have a material adverse effect on our revenues.

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The mining industry is an intensely competitive industry, and we may have difficulty effectively competing with other mining companies in the future.

Intense competition characterizes the worldwide iron ore industry. We compete with a number of large mining companies. Some of these competitors possess substantial iron ore mineral deposits at locations closer to our principal Asian and European customers. Competition from iron ore producers may result in our losing market share and revenues. Our aluminum, manganese ore, copper concentrate and other activities are also subject to intense competition and are subject to similar risks.

Demand for iron ore and pellets in peak periods may outstrip our production capacity, rendering us unable to satisfy customer demand.

Our ability to rapidly increase production capacity to satisfy increases in demand for iron ore is limited. In periods when customer demand exceeds our production capacity, we generally satisfy excess customer demand by reselling iron ore and pellets purchased from joint ventures or third parties. If we are unable to satisfy excess customer demand by purchasing from joint ventures or third parties, we may lose customers. Similarly, because it takes time to increase production capacity, we may fail to complete our iron ore expansion projects in time to take advantage of the current high levels of worldwide demand for iron ore. In addition, operating at or above full capacity may expose us to higher costs, including demurrage fees due to capacity restraints in our mines, railroads and ports.

Adverse economic developments in our principal markets, especially China, could reduce demand for our products, leading to lower revenues and profitability.

The world economy is the primary driver of demand in the global seaborne market for iron ore and pellets. In recent years, China has been the main driver of our sales increases. In 2005, 20.0% of our iron ore and pellet gross revenues were attributable to customers in China, and customers in China accounted for 15.0% of our total gross revenues. During the same period, 14.2% of our gross revenues were attributable to customers from Asian countries other than China and 28.4% were attributable to sales to European customers. A weakened global economy or a weakened economy in specific markets where we sell our products, such as China, could reduce demand, leading to lower revenues and profitability.

Aluminum and copper are actively traded on world commodity exchanges and their prices are subject to significant fluctuations.

Aluminum and copper are sold in an active world market and traded on commodity exchanges, such as the London Metal Exchange and the New York Mercantile Exchange (NYMEX). Prices for these metals are subject to wide fluctuations and are affected by many factors, including actual and expected global economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers, investments by commodity funds and others, and actions of participants in the commodity markets. Prices for these metals are more volatile than iron ore and pellet prices because they respond more quickly to actual and expected changes in market conditions.

A reduction of global demand for Brazilian steel and/or agriculture products could reduce the demand for our logistics services.

The Brazilian agriculture and steel industries are currently the primary drivers of demand for our logistics services to customers. In 2005, approximately 78.6 % of our logistics revenues were attributable to these markets. A reduction in world demand for Brazilian steel and/or agriculture products could reduce demand for our logistics services and harm the profitability of our logistics business.

Our reserve estimates may be materially different from mineral quantities that we may actually recover, our estimates of mine life may prove inaccurate and market price fluctuations and changes in operating and capital costs may render certain ore reserves or mineral deposits uneconomical to mine.

Our reported ore reserves and mineral deposits are estimated quantities of ore and minerals that have the potential to be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including many factors beyond our control.

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Reserve engineering is a subjective process of estimating underground deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Estimates of different engineers may vary, and results of our mining and production subsequent to the date of an estimate may lead to revision of estimates. Reserve estimates and estimates of mine life may require revision based on actual production experience and other factors. For example, fluctuations in the market prices of ores and metals, reduced recovery rates or increased production costs due to inflation or other factors may render proven and probable reserves containing relatively lower grades of mineralization uneconomic to exploit and may ultimately result in a restatement of reserves.

We may not be able to replenish our reserves, which could adversely affect our mining prospects.

We engage in mineral exploration, which is highly speculative in nature, involves many risks and frequently is nonproductive. Our exploration programs, which involve significant capital expenditures, may fail to result in the expansion or replacement of reserves depleted by current production. If we do not develop new reserves, we will not be able to sustain our current level of production beyond the remaining life of our existing mines.

Even if we discover mineral deposits, we remain subject to drilling and production risks, which could adversely affect the mining process.

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production is possible, during which the economic feasibility of production may change. Substantial time and expenditures are required to:

establish ore reserves through drilling;

determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;

obtain environmental and other licenses;

construct mining, processing facilities and infra-structure required for greenfield properties; and

obtain the ore or extract the metals from the ore.

If a project proves not to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs. In addition, potential changes or complications involving metallurgical and other technological processes arising during the life of a project may result in cost overruns that may render the project not economically feasible.

We may experience delays, higher than expected costs, difficulties in obtaining environmental permits and other obstacles when implementing our capital expenditure projects.

We are investing heavily to further increase our production capacity, logistics capabilities and to expand the scope of minerals we produce. Our expansion and mining projects are subject to a number of risks that may make them less successful than anticipated, including:

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- we may encounter delays or higher than expected costs in obtaining the necessary equipment or services to build and operate our projects;

- we may fail to obtain or experience delays or higher than expected costs in obtaining the required environmental permits to build our projects;

- changes in market conditions may make our projects less profitable than expected at the time we initiated work on the project; and

- adverse mining conditions may delay and hamper our ability to produce the expected quantities of minerals.

If we are unable to successfully manage these risks, our growth prospects and profitability may suffer.

We face rising extraction costs over time as reserves deplete.

Reserves are gradually depleted in the ordinary course of a given mining operation. As mining progresses, distances to the primary crusher and to waste deposits become longer and pits become steeper. As a result, over time, we usually experience rising unit extraction costs with respect to each mine. Several of our mines have operated for long periods, and we will likely experience rising extraction costs per unit in the future at these operations.

An increase in fuel costs may adversely affect our business.

Our operations rely in part on oil and gas, which represented 10.1% of our cost of goods sold in 2005. Fuel costs are a major component of our total costs in our logistics and pellets businesses, and indirectly affect numerous other areas of our business, including our mining and aluminum-related businesses. An increase in oil and gas prices adversely affects margins in our logistics, mining, pellets and aluminum-related businesses.

We are involved in ongoing antitrust proceedings that could result in divestitures, fines or other restrictions that could harm our business.

We are currently involved in seven proceedings before the Conselho Administrativo de Defesa Econômica, or CADE, which is the primary Brazilian antitrust regulator. Five of these proceedings involve post-transaction review of acquisition or joint venture transactions, which is required for nearly all of our acquisitions and joint ventures. The remaining two proceedings are administrative proceedings alleging that we have engaged in illegal anticompetitive conduct in connection with our logistics business. We intend to defend these claims vigorously, but cannot predict their outcome. If CADE were to find that we have engaged in anticompetitive conduct, it could order us to cease the conduct and/or to pay fines.

CADE recently rendered its decision in connection with its post-transaction review of our acquisitions of Socoimex, Samitri, Ferteco, Belém and CAEMI, and the agreement to unwind the cross-shareholdings between us and Companhia Siderúrgica Nacional, or CSN. On August 10, 2005, CADE issued a decision approving these acquisitions, subject to certain conditions. Under the conditions set forth in CADE s decision, we must either (i) fully waive our preemptive rights relating to the Casa de Pedra iron ore mine and restructure our equity stake in MRS Logística or (ii) sell all our assets that were previously owned by Ferteco Mineração S.A., a company we acquired in 2001 and consolidated in August 2003. For more information, see Item 8. *Financial Information Legal Proceedings*. If we are required to implement the steps called for in CADE s decision, our iron ore and logistics operations may be adversely affected.

Our principal shareholder could have significant influence over our company.

On April 30, 2006, Valepar owned 53.3% of our outstanding common stock and 32.3% of our total outstanding capital. For a description of the ownership of our shares, see *Item 7. Major Shareholders and Related Party Transactions Major Shareholders Principal Shareholder*. As a result of its share ownership, Valepar can control the outcome of any action requiring shareholder approval, except for the appointment of certain directors and certain members of our fiscal council. Further, the Brazilian government owned three golden shares of CVRD that give it limited veto powers over certain actions that we could otherwise take. For a detailed description of the veto powers granted to the Brazilian

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government by virtue of its ownership of these golden shares, see *Item 10. Additional Information Common Shares and Preferred Shares General.*

Many of our operations depend on joint ventures; our business could be adversely affected if our joint venture partners do not observe their commitments.

We currently operate important parts of our pelletizing, electric energy, aluminum, bauxite, coal and steel businesses through joint ventures with other companies. Our forecasts and plans for these joint ventures assume that our joint venture partners will observe their obligations to make capital contributions, purchase products and, in some cases, provide managerial talent. If any of our joint venture partners fails to observe its commitments, the affected joint venture may not be able to operate in accordance with its business plans or we may have to increase the level of our investment to give effect to these plans. For more information on our joint ventures, see *Item 4. Information on the Company Lines of Business*.

Our market risk management strategy may not be effective.

We are exposed to traditional market risks such as fluctuations in interest rates, exchange rates and commodity prices. In order to protect ourselves against market volatility, our Board of Directors has approved a risk management policy. See *Item 11. Quantitative and Qualitative Disclosures About Market Risk.* Our strategy may not be successful in minimizing our exposure to these fluctuations, and we may fail to identify correlations between the various market risks to which we are subject. In addition, to the extent we partially hedge our commodity price exposure, we may limit the upside benefits that we would otherwise experience if commodities prices were to increase.

Failure to maintain effective internal control over financial reporting could harm investor confidence in the integrity of our financial information, which could have an adverse impact on the trading price of our securities.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 20-F for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Such report will also contain a statement that our auditors have issued an attestation report on management s assessment of such internal controls.

If we identify material weaknesses in our internal control over financial reporting and we are unable to correct them in a timely manner, our management may be unable to conclude in its internal control report that our internal control over financial reporting is effective, which could cause investor confidence in the integrity of our financial reporting to suffer, lead to a decline in the trading price of our securities or limit our ability to access the capital markets.

We may not have adequate, if any, insurance coverage for some business risks that could lead to economically harmful consequences to us.

Our businesses are generally subject to a number of risks and hazards, including:

- industrial accidents;
- railroad accidents;
- labor disputes;
- slope failures;
- environmental hazards;

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electricity stoppages;

equipment or vessel failures; and

severe weather and other natural phenomena.

These occurrences could result in damage to, or destruction of, mineral properties, production facilities, transportation facilities, equipment or vessels. They could also result in personal injury or death, environmental damage, waste of resources or intermediate products, delays or interruption in mining, production or transportation activities, monetary losses and possible legal liability. The insurance we maintain against risks that are typical in our business may not provide adequate coverage. Insurance against some risks (including liabilities for environmental pollution or certain hazards or interruption of certain business activities) may not be available at a reasonable cost or at all. As a result, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

If we are unable to successfully manage the health and safety risks to which our business exposes our employees, our business may be adversely affected.

We operate in regions where tropical diseases are prevalent, and we are developing a potential coal mining operation in Mozambique, where AIDS, malaria and other contagious diseases endemic to that area are a major public health issue. If we are unable to adequately protect our employees from these diseases or are unable to ensure the health and safety of our employees, our business may be adversely affected.

We may face a shortage in our supply of mining equipment due to increased consumption by mining companies that exceeds suppliers capacity.

Although manufacturers of mining and drilling equipment have increased their capacity in the last two years, the capacity increases were not sufficient to compensate for the significant increase in demand for mining equipment. The increase in delivery lead times is expected to continue, which may lead to higher costs and delays in our production.

In particular, since early 2004, the global mining industry has experienced shortages of off-the-road (OTR) tires. There are only five radial tire factories worldwide and each is working at maximum capacity. Although the three major suppliers have announced more than US$300 million in investments to increase capacity over the next three years, these capacity increases are not expected to meaningfully reduce the risk of shortages before late 2007. In response to these shortages, mining industry participants are exploring alternatives, such as bias ply tires, which have lower performance ratings than radial tires. If we are unable to secure sufficient OTR tires or alternative tires to maintain our operations, we may suffer temporary reductions in our production capacity.

Actions by protestors, including from indigenous communities that live near our mining sites, may hamper our mining and logistic operations.

Protestors, including from indigenous communities living in areas where we operate, may take actions to disrupt our operations in an effort to influence us to continue or increase the level of support we provide to such communities. Additionally, protestors from such communities may take actions to hamper the operations of certain of our railroads, in an effort to influence other institutions, such as local governments, to respond to their social claims. Future efforts by protestors to disrupt our operations could have an adverse impact on our results of operations.

Risks Relating to Brazil

The Brazilian government has historically exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business and the market price of our securities.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes substantial changes in policy, as often occurs in other emerging economies. The Brazilian government s actions to control inflation and carry out other policies have in the past involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. Our business, financial

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condition and results of operations may be adversely affected by factors in Brazil including:

currency volatility;

inflation acceleration;

monetary policy and interest rate increases;

fiscal policy and tax changes;

international trade policy including tariff and non-tariff trade barriers;

foreign exchange controls;

energy shortages; and

other political, social and economic developments in or affecting Brazil.

Inflation and government measures to curb inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of our securities.

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2.567% in 1993 (as measured by the *Índice Geral de Preços do Mercado* published by *Fundação Getúlio Vargas*, or IGP-M Index). More recently, Brazil s rates of inflation were 25.3% in 2002, 8.7% in 2003, 12.4% in 2004, 1.2% in 2005 and 0.27% in the four months ended April 30, 2006 (as measured by the IGP-M Index). Inflation, governmental measures to combat inflation and public speculation about possible future actions have in the past had significant negative effects on the Brazilian economy, and have contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs may increase, our operating and net margins may decrease and, if investor confidence declines, the price of our securities may fall. Inflationary pressures may also curtail our ability to access global financial markets and may lead to further government intervention in the economy, which could involve the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

Fluctuations in the value of the* real *against the U.S. dollar may result in uncertainty in the Brazilian economy and the Brazilian securities market and could have a material adverse effect on our net income and cash flow.

The Brazilian currency has historically suffered frequent devaluation. In the past, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally is correlated with the differential in the inflation rate in Brazil versus the inflation rate in the U.S., depreciation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* appreciated by 11.8% against the U.S. dollar in 2005, and appreciated by 10.7% during the first four months of 2006. The exchange rate between the *real* and the U.S. dollar may continue to fluctuate and may rise or decline substantially from current levels.

Depreciation of the Brazilian real against the U.S. dollar reduces the U.S. dollar value of the dividends paid to holders of our American Depositary Shares. We attempt to mitigate this risk by setting our dividends in U.S. dollars. However, shareholders are still exposed to currency volatility risk for a period of at least two weeks, as the U.S. dollar value of dividends is converted into *reais* at least two weeks prior to its distribution due to operational requirements to process the dividend payment. Exchange rate volatility may have an impact on the price of our shares and bonds and can have a significant impact on our net income. Depreciation of the *real* relative to the U.S. dollar may require us to

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record substantial foreign exchange and monetary losses on our U.S. dollar-denominated debt, whereas appreciation of the *real* against the U.S. dollar generally leads to the opposite effect. These foreign exchange and monetary gains or losses can be substantial, which can make our earnings from one period to the next more volatile. Exchange rate variations also have a substantial impact on our revenues and costs, because most of our revenues are in U.S. dollars and most of our costs are in *reais.* As a result, appreciation of the *real* against the U.S. dollar generally results in lower revenues and higher costs, which can hurt our operating profitability. Exchange rate variations also influence the Brazilian economy and inflation rates, which may lead the Brazilian government to adopt policies that may have an adverse impact on our business. For additional information about historical exchange rates, see *Item 3. Key Information Exchange Rates*.

Access to and the cost of borrowing in international capital markets for Brazilian companies are influenced by investor perceptions of risk in Brazil and other emerging economies, which may hurt our ability to finance our operations at an acceptable cost or reduce the trading price of our securities.

International investors generally consider Brazil to be an emerging market. As a result, economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Brazilian companies. Economic crises in one or more emerging market countries may reduce overall investor appetite for securities of emerging market issuers. Past economic crises in emerging markets, such as in Southeast Asia, Russia and Argentina, have resulted in significant outflows of U.S. dollars from Brazil and caused Brazilian companies to face higher costs for raising funds, both domestically and abroad, and have effectively impeded the access to international capital markets for extended periods. We cannot assure you that international capital markets will remain open to Brazilian companies or that prevailing interest rates in these markets will be advantageous to us. In addition, future financial crises in emerging market countries may have a negative impact on the Brazilian markets, which could adversely affect the trading price of our securities.

Brazilian government policies in the energy sector may have an adverse impact on the cost or supply of electricity for our aluminum-related and ferroalloy operations.

We are a significant consumer of Brazil s electricity production, and accounted for 4.4% of total consumption in Brazil in 2005. Electricity costs are a significant component of the cost of producing aluminum and ferroalloys and represented 7.3% of our total cost of goods sold in 2005.

Brazil faced a shortage of electric energy during the second half of 2001, which led to an energy-rationing program that required a decrease in electric energy consumption by at least 20%. As a result of this program, we experienced a temporary reduction in our aluminum and ferroalloy production, both of which use significant amounts of electricity. Although the electric energy shortages ended in late 2001, and energy-use restrictions were lifted in March 2002, we cannot assure you that Brazil will not experience future electric energy shortages. Future shortages and government policies to respond to or prevent shortages may have an adverse impact on the cost or supply of electricity for our aluminum and ferroalloy operations.

The Brazilian power generation business depends on concessions granted by the government and is regulated and supervised by ANEEL. A new law for the electricity sector was approved by the Brazilian Congress in March 2004 and established public auctions in order to trade excess electric energy available in the market. Lower prices established in these auctions could discourage investments in additional generation capacity, which would increase the risk of energy shortages in the future. Changes in the laws, regulations or governmental policies regarding the power sector or concession requirements could lower the returns we are expecting from our investments in power generation. For more information on the regulations governing our energy production, see *Item 4. Information on the Company Regulatory Matters.*

Our mining and logistics activities depend on authorizations of regulatory agencies, and changes in regulations could have an adverse effect on our business.

Our mining and logistics activities in Brazil depend on authorizations and concessions by regulatory agencies of the Brazilian government. Our exploration, mining, mineral processing and logistics activities are also subject to Brazilian laws and regulations, which can change at any time. If these laws and regulations change in the future, modifications to our technologies and operations could be required, and we could be required to make unexpected capital expenditures. For a more detailed discussion about the authorizations and concessions by regulatory

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agencies of the Brazilian government upon which our mining and logistics activities depend, see *Item 4. Information on the Company Regulatory Matters.*

Brazilian environmental laws may adversely affect our mining and energy businesses.

Our operations often involve using, handling, disposing and discharging hazardous materials into the environment or the use of natural resources, and are therefore subject to the environmental laws and regulations of Brazil. Environmental regulation in Brazil has become stricter in recent years, and it is possible that more regulation or more aggressive enforcement of existing regulations will adversely affect us by imposing restrictions on our activities, creating new requirements for the issuance or renewal of environmental licenses, raising our costs or requiring us to engage in expensive reclamation efforts.

Our projects often require us to obtain or renew environmental licenses. Difficulties in obtaining those licenses may lead to construction delays or cost increases and in some cases may lead us to abandon a project.

We are also subject to Brazilian environmental legislation that requires companies undertaking projects with significant environmental impact to pay an environmental compensation fee in the amount of at least 0.5% of the total investment in the venture. There are numerous uncertainties about how this law will be applied in practice. If the level of the fees actually charged were increased above 0.5%, it would significantly increase our costs and, depending on the magnitude of the fees involved, could have a material adverse effect on our liquidity and return on investments. Uncertainties regarding calculation and payment of these fees may strain our relations with the Brazilian environmental authorities or lead to delays in obtaining necessary environmental permits.

Brazilian laws restricting development in the Amazon region for legal reserve purposes may place limits on our ability to expand certain of our operations and to fully exploit our mineral rights in those regions. See *Item 4. Information on the Company Regulatory Matters Environmental Matters.*

Several Brazilian states in which we operate are currently considering implementing water usage fees under the National Hydrological Resources Policy. This may require us to pay usage fees in the future for water rights that we currently use for free, which could considerably increase our costs in areas where water resources are scarce.

In addition, we are currently a defendant in an action brought by the municipality of Itabira, in the state of Minas Gerais, Brazil, which alleges that our iron ore mining operations have caused environmental and social damages in Itabira. If we do not prevail in this lawsuit, we could incur a substantial expense. For more information on environmental laws and the legal challenges we face, see *Item 4. Information on the Company Regulatory Matters Environmental Matters* and *Item 8. Financial Information Legal Proceedings.*

Risks Relating to the American Depositary Shares

Restrictions on the movement of capital out of Brazil may hinder your ability to receive dividends and distributions on American Depositary Shares and the proceeds from any sale of American Depositary Shares.

The Brazilian government may impose restrictions on capital outflows whenever there is a serious imbalance in Brazil s balance of payments or reason to foresee a serious imbalance. This would hinder or prevent the custodian who acts on behalf of the depositary for the American Depositary Shares from converting proceeds from the shares underlying the American Depositary Shares into U.S. dollars and remitting those proceeds abroad.

The Brazilian government imposed remittance restrictions for approximately six months in 1989 and early 1990. If enacted in the future, similar restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of shares from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. In that event, the custodian, acting on behalf of the depositary, will hold the *reais* it cannot convert for the account of the holders of American depositary receipts who have not been paid. The depositary will not invest the *reais* and will not be liable for interest on those amounts. Furthermore, any *reais* so held will be subject to devaluation risk.

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If you exchange American Depositary Shares for the underlying shares, you risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the shares underlying our American Depositary Shares will obtain an electronic registration from the Central Bank to entitle it to remit U.S. dollars abroad for payments of dividends and other distributions relating to the shares underlying our American Depositary Shares or upon the disposition of the underlying shares. If you decide to exchange your American Depositary Shares for the underlying shares, you will be entitled to continue to rely, for five business days from the date of exchange, on the custodian s electronic registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of, or distributions relating to, the underlying shares unless you obtain your own electronic registration by registering your investment in the underlying shares under Resolution No. 2,689 of the National Monetary Council, which entitles foreign investors to buy and sell securities on the São Paulo stock exchange, or BOVESPA. For more information regarding these exchange controls, see *Item 10. Additional Information Exchange Controls and Other Limitations Affecting Security Holders*. If you attempt to obtain your own electronic registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to the underlying shares or the return of your capital in a timely manner. We cannot assure you that the custodian s electronic registration or any certificate of foreign capital registration obtained by you will not be affected by future legislative changes, or that additional restrictions applicable to you, the disposition of the underlying shares or the repatriation of the proceeds from disposition will not be imposed in the future.

Because we are not obligated to file a registration statement with respect to preemptive rights relating to our shares, you may be unable to exercise those preemptive rights.

Holders of American depositary receipts that are residents of the United States may not be able to exercise preemptive rights, or exercise other types of rights, with respect to the underlying shares. Your ability to exercise preemptive rights is not assured unless a registration statement is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to the underlying shares or to undertake steps that may be needed to make exemptions from registration available, and we cannot assure you that we will file any registration statement or take such steps. If a registration statement is not filed and an exemption from registration does not exist, JPMorgan Chase Bank, as depositary for our American Depositary Shares, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the underlying shares, see *Item 10. Additional Information Common Shares and Preferred Shares Preemptive Rights*.

Holders of our American Depositary Shares may encounter difficulties in the exercise of voting rights.

Holders of our common and preferred class A shares are entitled to vote on shareholder matters. You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold our American Depositary Shares rather than the underlying shares. For example, if we fail to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary on how to vote for you.

Our corporate affairs are governed by our bylaws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or elsewhere outside Brazil. Under the Brazilian Corporate Law, holders of our common and preferred class A shares may have fewer and less well-defined rights to protect their interests relative to actions taken by our Board of Directors or by Valepar than under the laws of some jurisdictions outside Brazil.

Although Brazilian law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of minority shareholder interests may be less well-developed and enforced in Brazil than in the United States, which could potentially disadvantage you as a holder of the underlying shares and American Depositary Shares. For example, when compared to Delaware general corporation law, Brazilian corporate law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale-of-business transactions.

In addition, shareholders in Brazilian companies ordinarily

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do not have standing to bring a class action.

In addition, as a foreign private issuer, we are not required to follow many of the corporate governance rules that apply to U.S. domestic issuers with securities listed on the New York Stock Exchange, or the NYSE. For more information concerning our corporate governance policies, see *Item 6. Directors, Senior Management and Employees.*

Item 4. Information on the Company

BUSINESS OVERVIEW

General

We are the world s largest producer and exporter of iron ore and pellets, the largest metals and mining company in the Americas and one of the largest private sector companies in Latin America by market capitalization. We hold exploration claims that cover 8.7 million hectares (21.5 million acres) in Brazil, and 19.8 million hectares (48.9 million acres) in Angola, Argentina, Australia, Chile, Gabon, Guinea, Mongolia, Mozambique, Peru and South Africa. We operate large logistics systems, including railroads and ports that are integrated with our mining operations. Directly and through affiliates and joint ventures, we have major investments in the aluminum-related, energy and steel businesses. We are investing in copper, nickel and coal exploration, and our first copper mine began operations in June 2004.

Our main lines of business are:

Ferrous minerals (75% of 2005 consolidated gross operating revenues). We operate two fully integrated world-class systems in Brazil for producing and distributing iron ore (the Northern System and the Southern System), consisting of mines, railroads and port and terminal facilities, and a third system consisting of MBR s mines and port facilities. At December 31, 2005, we had a total of 7,981 million tons of proven and probable iron ore reserves in our three systems in Brazil, with an average grade of 52.1% iron in our Southern System, 66.8% in our Northern System and 59.8% in MBR s iron ore mines. We also operate ten pellet-producing facilities, six of which are joint ventures with partners, and have a 50% stake in a joint venture that owns and operates two pelletizing plants. We are one of the world s largest producers of manganese ore and ferroalloys.

Non-ferrous minerals (5.4% of 2005 consolidated gross operating revenues). We are the world s third largest producer of kaolin and Brazil s sole producer of potash. Our Sossego copper mine in Carajás, in the state of Pará, Brazil, began production of copper concentrate in June 2004 and is Brazil s largest producer of copper.

Aluminum-related operations (10.5% of 2005 consolidated gross operating revenues). Through subsidiaries and joint ventures, we conduct major operations in the production of aluminum-related products. They include:

- *Bauxite mining*, which we conduct through our 40.0% interest in Mineração Rio do Norte S.A., or MRN, which holds substantial bauxite reserves with a low strip ratio and high recovery rate. MRN, one of the largest bauxite producers in the world, has a nominal production capacity of 16.3 million tons per year and produced 17.2 million tons of bauxite in 2005. We are developing a wholly owned bauxite mine in the Paragominas region, in the state of Pará, that is expected to begin commercial production in the first half of 2007.

- *Alumina refining*, which we conduct via our 57.0% interest in our alumina refining subsidiary, Alunorte-Alumina do Norte do Brasil S.A., or Alunorte, which currently has a nominal production capacity of 4.4 million tons of alumina per year, including the latest expansion, through the construction of stages 4 and 5, which added 1.8 million tons to the plant s annual capacity. We are currently developing another two stages, scheduled to start up by 2008, which are expected to bring the plant s annual capacity to 6.3 million tons. We are also negotiating the terms of a potential joint venture with Aluminum Corporation of

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China Limited (Chalco) to construct a new alumina refinery in the state of Pará.

- *Aluminum metal smelting*, which we conduct through our subsidiary, Albras - Alumínio Brasileiro S.A., or Albras, which produces aluminum ingots and in which we have a 51.0% interest, and our joint venture, Valesul Alumínio S.A., or Valesul, which produces aluminum ingots, billets and alloys and in which we have a 54.5% interest. These companies currently have a combined production capacity of approximately 540,000 tons of aluminum per year.

Logistics (9.1% of 2005 consolidated gross operating revenues). We are a leading provider of logistics services in Brazil, with railroad, coastal shipping and port handling operations. Each of the iron ore complexes of our Northern and Southern Systems incorporates an integrated railroad network linked to automated port and terminal facilities, and is designed to provide our mining products, general cargo and passenger rail transportation, bulk terminal storage and ship loading services to us and third parties. In 2005, our railroads transported approximately 66% of the total freight tonnage transported by Brazilian railroads, or 146.5 billion ntk of cargo, of which 119.6 billion ntk were our iron ore and pellets.

Other investments. In addition to our core mining activities, we currently have investments in three steel companies, and our Board of Directors recently approved a joint venture, Ceará Steel, with Dongkuk, a Korean steelmaker, and Danieli, an Italian equipment provider. This slab plant will be located in the state of Ceará, Brazil and CVRD will invest US$25 million. Our Board of Directors has also approved an investment stake in Companhia Siderúrgica do Atlântico, a joint venture with ThyssenKrupp Stahl AG, to build a slab plant in the state of Rio de Janeiro, Brazil. We will invest a total of US$200 million in Companhia Siderúrgica do Atlântico. We are in the process of conducting feasibility studies to determine whether to implement joint ventures with Baosteel Shanghai Group Corporation (Baosteel), Arcelor Group (Arcelor) and Posco to construct and operate steel slab plants in São Luís, in the state of Maranhão. We also hold stakes in eight hydroelectric power generation projects with a total projected capacity of 2,509 MW (of which our share is 991.4 MW), six of which are already under operation, and the remainder of which are scheduled to start operations within the next four years.

Through our mineral prospecting and development activities in Brazil, we have acquired extensive experience in exploration techniques and processes, and maintain an active mineral exploration program in Brazil and overseas. In 2005, our mineral exploration efforts were focused on copper, gold, nickel, manganese ore, iron ore, kaolin, bauxite, potash, phosphate, coal, diamond and platinum group metals.

CVRD and Vale Overseas

CVRD

CVRD s legal and commercial name is Companhia Vale do Rio Doce. CVRD is a stock corporation, or *sociedade por ações*, duly organized on January 11, 1943, and existing under the laws of the Federative Republic of Brazil.

CVRD was privatized in three stages between 1997 and 2002, beginning with the sale by the Brazilian government of a controlling stake in CVRD to Valepar in 1997. The last stage of the privatization took place in 2002, when the Brazilian government sold a remaining minority stake of common shares through a global equity offering. CVRD is organized for an unlimited period of time. Its head offices are located at Avenida Graça Aranha, No. 26, 20030-900 Rio de Janeiro, RJ, Brazil, and its telephone number is 55-21-3814-4540.

Vale Overseas

Vale Overseas is a finance company wholly owned by CVRD. It was registered and incorporated as a Cayman Islands exempted company with limited liability on April 3, 2001. Vale Overseas is incorporated for an indefinite period of time. Its registered office is at Walker House, P.O. Box 908 GT, Mary Street, Georgetown, Grand Cayman, Cayman Islands. Vale Overseas business is to issue debt securities to finance CVRD s activities. It has no other operations or employees.

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Business Strategy

Our goal is to strengthen our competitiveness among the leading global mining companies by focusing on diversified growth in mining operations, principally through organic growth. We are pursuing disciplined capital management in order to maximize return on invested capital and total return to shareholders. Although we are emphasizing organic growth in our core businesses, we may pursue strategic acquisitions in order to create value for our shareholders.

Over the past several years, we have developed a robust long-term strategic planning process. We have ambitious long-range plans in each of our principal business areas, including substantial capital expenditures for organic growth through 2012.

The following paragraphs provide some highlights of our major strategies.

Maintaining Our Leadership Position in the Iron Ore Market

In 2005, we continued to consolidate our leadership in the seaborne iron ore market, with an estimated 32.2% of the total 670 million tons traded in the year. We are committed to maintaining our position in the global iron ore market by strengthening relationships with clients, focusing our product line to capture industry trends, increasing our production capacity in line with demand growth and controlling costs. We believe that our strong relationships with major customers (reinforced through long-term contracts), tailored product line and high quality products will help us to achieve this goal.

We are also taking steps to encourage several steel makers to develop slab plants in Brazil in order to create additional demand for our iron ore.

Growing Our Logistics Business

We believe that the quality of our railway assets and our many years of experience as a railroad and port operator, together with the lack of efficient transportation for general cargo in Brazil, position us as a leader in the logistics business in Brazil. We are also expanding the capacity of our railroads through the purchase of additional locomotives and wagons to serve the increasing needs of our own businesses and of our customers.

Increasing Our Aluminum-Related Activities

We plan to develop and increase production capacity in our aluminum-related operations, focusing on the upstream portion of the production chain, developing low-cost bauxite and alumina projects. We have large undeveloped high-quality bauxite reserves and opportunities for low-cost expansions in our alumina refinery. We are working on the development of these opportunities. We are also investing in mineral exploration to increase our bauxite reserves. We may pursue acquisitions and/or partnerships in the production of primary aluminum to guarantee demand for our alumina.

Developing Our Copper Resources

We believe that our copper projects, which are all situated in the Carajás region, in the state of Pará, can be among the most competitive in the world in terms of investment cost per ton of ore. Our copper mines will benefit from our infrastructure facilities serving the Northern System.

Investing in Nickel and Coal

We are pursuing various opportunities to become a large global player in the nickel and coal businesses. As an important supplier of raw materials to the steel industry, nickel and metallurgical coal will complement our portfolio of products.

Globalization of Multi-Commodity Exploration Efforts

We are engaged in an active mineral exploration program, with efforts in several countries and regions around the globe, including Angola, Argentina, Australia, Brazil, Chile, Gabon, Guinea, Mozambique, Mongolia, Peru and South Africa. We are mainly seeking new

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deposits of copper, gold, manganese ore, iron ore, nickel, kaolin, bauxite, phosphate, potash, coal, diamond and platinum group metals. Mineral exploration is an important part of our organic growth strategy.

Developing Power Generation Projects

Energy management and efficient supply have become a priority for us. Driven by structural changes in the industry and regulatory uncertainties, and by the risk of rising electricity prices and energy shortages, we have invested in seven consortia to develop eight hydroelectric power generation plants and we plan to use the electricity from these projects for our internal needs. As a large consumer of electricity, we expect that investing in power projects will help protect us against volatility in the price of energy.

Recent Acquisitions, Dispositions and Significant Changes

The following discussion describes significant acquisitions, dispositions and other changes in our business in 2005 and 2006 to date.

Iron Ore and Pellets

Brucutu expansion project. We plan to expand the capacity of our Brucutu mine in two phases. Phase I of the Brucutu expansion project is expected to be completed in the third quarter of 2006, which would bring the nominal production capacity to 12 million tons per year. Phase II is expected to be completed in the third quarter of 2007, bringing capacity to 24 million tons per year. We are currently conducting studies in contemplation of expanding the production capacity at Brucutu to 30 million tons per year.

Carajás expansion. We are expanding the iron ore production capacity of Carajás to 100 million tons per year. This project is in the detailed planning phase for engineering and related equipment, works and services supply processes. We expect that our total capital expenditures for this project will be approximately US$366 million. Conclusion of this project is scheduled for 2007.

Samarco expansion. We are increasing pellet production capacity at Samarco, our 50% joint venture with BHP Billiton. The expansion at Samarco is expected to add 7.6 million tons per year of capacity to Samarco and to involve an investment of US$1,183 million including the construction of an iron ore concentration plant, a pelletizing plant and a second pipeline. Samarco has targeted startup for the first half of 2008. Samarco will obtain its own financing for the project.

Fábrica Nova iron ore mine. Our greenfield iron ore project at Fábrica Nova, which has a capacity of 15 million tons per year, began operations in the second quarter of 2005 and produced 7.8 million tons in 2005.

Itabiritos project. We are building a concentration plant (with a capacity of 10 million tons per year), an ore pipeline (4 km in length) and a pelletizing plant with a capacity to produce 7 million tons of pellets per year at an estimated cost of US$759 million, and have targeted startup for 2008.

Acquisition of Rio Verde Mineração. In January 2006, we acquired the mineral resources, land and mining equipment of Rio Verde Mineração for US$47 million. Rio Verde Mineração is located in the Iron Quadrangle region of the state of Minas Gerais, near the operations of MBR in the municipality of Nova Lima.

Stock merger with CAEMI. In May 2006, we completed a stock merger with our controlled company CAEMI. Pursuant to the stock merger, all preferred shares of CAEMI owned by its non-controlling shareholders were exchanged for new preferred shares issued by us, and CAEMI became our wholly-owned subsidiary. The exchange ratio was one CAEMI share per 0.04115 CVRD preferred class A share.

Aluminum-Related Operations

Paragominas project. We are developing a new wholly owned bauxite mine located in Paragominas, in the state of Pará, which is expected to begin commercial production in the first half of 2007 with an initial capacity of 5.4 million tons per year and a capital expenditure of US$352 million. By 2008, its capacity will reach 9.9 million tons per year, which will require an additional investment of US$196 million. The bauxite produced at Paragominas will be used to supply Alunorte s expansion needs. The bauxite quality will be similar to MRN s, and the

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project will use the strip mining method of extraction and have a beneficiation plant including milling and a 244-kilometer long slurry pipeline.

Alunorte expansion. We are increasing alumina production capacity at our Alunorte refinery, and we expect to increase capacity from 4.4 to 6.2 million tons per year at an estimated investment of US$846 million. Expected startup for this project is in 2008.

ABC refinery project. We are discussing with Chalco a potential joint investment in an alumina greenfield refinery in the state of Pará, near the existing facilities of Alunorte in Brazil (ABC refinery), expected to have an initial capacity of 1.8 million tons per year. Bauxite for the project would be supplied from our Paragominas bauxite mine. If the terms of the project are agreed, the first stage of the refinery is expected to be completed and operational within three years. We signed a framework agreement and two memoranda of understanding with Chalco, but the project remains subject to the negotiation of final documentation and receipt of approvals from the Boards of Directors of both companies.

Copper

118. We plan to develop the 118 copper mining project, located in the state of Pará, Brazil. In 2005, pursuant to our Mineral Risk Agreement with BNDES, we entered into a specific agreement under which we will pay to BNDES a variable percentage of any net revenues produced by 118. We currently estimate that capital expenditures for the project will amount to approximately US$232 million and have targeted startup for the first half of 2008. The estimated production capacity of the project is 36,000 tons of copper cathode per year.

Nickel

Vermelho. In July 2005, our Board of Directors approved the investment to develop the Vermelho nickel project. The Vermelho nickel project is located in the Carajás region in the state of Pará, Brazil, 70 km south of our Carajás iron ore mines and 15 km east of our Sossego copper mine. As currently planned, its estimated production capacity is 46,000 tons per year of metallic nickel, and 2,800 tons per year of metallic cobalt. We estimate that our total capital expenditures to develop the project will amount to approximately US$1.2 billion, and currently expect the project to begin operations on or about the fourth quarter of 2008.

Onça Puma. In a series of transactions in late 2005 and early 2006, we acquired all the shares of Canico Resources Corp. for US$806 million. Canico owns the Onça Puma nickel laterite project, an iron-nickel deposit located in the Brazilian state of Pará. According to a feasibility study, the plant will have a nominal capacity to produce 57,000 tons of nickel per year and we currently estimate that its development will require investments of US$1.1 billion. Production is scheduled to begin in 2008. We are developing the engineering project and studies to assess synergies between Onça Puma and the Vermelho nickel project.

Potash

In September 2005, we completed our capacity expansion project at the Taquari-Vassouras potash mine, increasing its capacity from 600,000 tons per year to 850,000 tons per year. We expect a significant increase in production in 2006.

Phosphates

In March 2005, CVRD won an international bidding process to explore the Bayóvar phosphate deposit located in the Piura region in Peru. CVRD will have the right to evaluate and develop a multipurpose maritime terminal in the Piura region to ship phosphate and leverage other projects in northern Peru. The feasibility study is expected to be completed in the second quarter of 2007.

Coal and Coke

We are pursuing several efforts to become a large global player in the coal business.

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Mozambique coal mine feasibility study. In November 2004, CVRD won an international auction to explore coal deposits in the Moatize region, in the north of Mozambique for US$122.8 million. We own 95% of the winning consortium; American Metals & Coal International (AMCI), an American coal producer, owns the remaining 5%. Moatize is believed to have coal reserves that might allow the extraction of coking and thermal coal. The project s conceptual study has been concluded and the feasibility study is expected to be completed in the second half of 2006. If the project proceeds, the total investment will include mine development costs, the construction of a maritime terminal for ship loading, related investments and social projects.

Shandong coke and coal projects. In July 2004, we agreed to acquire a 25% stake in a joint venture with the Yankuang Group (Yankuang), one of the largest coal producers in China, and with Itochu Corporation, a Japanese trading company. Our equity investment commitment was approximately US$26 million. The purpose of the joint venture is to operate a plant in Jining City, Shandong province, China, that would produce two million tons of coke and 200,000 tons of methanol per year. In December 2004, the Chinese government approved the incorporation of the joint venture, which is named Shandong Yankuang International Coking Company Limited. After the incorporation, we made an initial capital contribution of US$10.6 million. Currently, we own a 25% interest, Yankuang holds a 70% equity interest and Itochu holds the remaining 5%. As currently planned, the plant would begin operations in 2006 and we have the right to off take approximately 25% of the plant s production, which will be exported primarily to Brazil. We are also exploring with Yankuang the possibility of participating in a joint venture to develop a new coal mine in the city of Zhaolou, Shandong province, China. The Zhaolou mine has an expected production capacity of approximately 3.0 million tons of coal per year, and if the project proceeds, the mine is expected to start operations in 2007.

Belvedere. In July 2005, we signed an agreement with the Australian mining companies Aquila Resources Limited and AMCI Holdings for an exploration study of the Belvedere Coal Underground Project, or Belvedere. Belvedere is an estimated 2.7 billion ton hard coking coal resource located in the state of Queensland, Australia. At the conclusion of the pre-feasibility study, we have the option to acquire a 51% interest in Belvedere at a price of US$90 million. We have further options to increase our stake in the project to 100% by acquiring our partners interests at a fair market value determined at the time of our exercising each option.

Steel and Metallics

Steel slab projects. We are taking steps to encourage several steel makers to develop slab plants in Brazil in order to create value and additional demand for our iron ore.

Ceará Steel. In November 2005, we agreed to acquire a minority stake in Ceará Steel, an export-oriented steel slab project in the state of Ceará, Brazil, with a nominal capacity of 1.5 million tons of slabs per year. The main shareholders are Dongkuk Steel, a Korean steel maker, and Danieli, an Italian equipment supplier, and we will invest US$25 million. The total cost of the project will be US$750 million and we will be the exclusive supplier of pellets for Ceará Steel. The plant is expected to start production in 2009 and we have put options to divest our stake in the future.

ThyssenKrupp Companhia Siderúrgica do Atlântico (CSA). In December 2004, we signed a memorandum of understanding with ThyssenKrupp Stahl A.G., one of the largest European steel makers, for the construction of a 4.4 million ton integrated slab plant in state of Rio de Janeiro, Brazil. The project has been formally approved by both ThyssenKrupp Stahl A.G. and CVRD, and is now being implemented. Commissioning of the plant is foreseen for 2009, and our Board of Directors has approved an investment of US$200 million in CSA. We intend to have a put option to divest our stake in the future.

Baosteel. In February 2004, we agreed with Baosteel, China s largest steel maker, to study the feasibility of a joint venture to build and operate an integrated steel plant to produce 4 million tons of slabs per year in São Luís, in the state of Maranhão. The basic engineering and formal feasibility study for the project have been

concluded, but issues related to environmental licensing have delayed the final decision regarding this project. Arcelor has also participated in the feasibility study, but no agreement has been reached regarding its potential participation in the project.

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Posco. In September 2004, we signed a memorandum of understanding with Posco, the largest Korean steel maker, to carry out a pre-feasibility study for the construction of an integrated slab plant in São Luís, in the state of Maranhão. The pre-feasibility has been concluded and submitted to Posco. The project is pending approval by Posco to proceed.

Electricity

Aimorés hydroelectric power plant. In July 2005, the Aimorés hydroelectric power plant began operations with the start up of its first turbine. The plant reached full operation in December 2005 with the start of the third turbine.

Start up of Capim Branco I. The Capim Branco I project obtained its operational license during December 2005, which allowed for the filling of the reservoir. This milestone allowed the project to begin commercial operations in February 2006.

Power Purchases. Under new electricity sector regulations, we conducted a successful power purchase bid in a governmental auction in August 2005 for the supply of electricity to several of our units. We have also negotiated a new long-term supply agreement for the pelletization units of the Tubarão Complex, in the state of Espírito Santo, for the next 10 years. Both deals should generate savings for us of approximately US$80 million.

Dispositions and Asset Sales

In line with our strategy, we have continued to pare down our holdings of non-strategic assets. We summarize below our key dispositions and asset sales since the beginning of 2005.

QCM. In July 2005, our subsidiary CAEMI sold its shareholdings in Quebec Cartier Mining Company, or QCM, an iron ore and pellets producer with operations in Quebec, Canada, for US$126 million, to Dofasco Inc. This transaction completed our compliance with the undertakings required by the antitrust authorities of the European Union in connection with the acquisition of CAEMI.

Foz do Chapecó and Santa Isabel hydroelectric power projects. In February 2006, we sold to Furnas Centrais Elétricas for approximately R$10 million our 40% stake in the consortium to build and operate the Foz do Chapecó hydroelectric power plant. The closing of this transaction is subject to certain conditions precedent, including ANEEL s approval of the transfer of control and the revision of the timetable for the project. We are also continuing our efforts to return the concessions for the Santa Isabel hydroelectric power project to ANEEL due to difficulties related to environmental issues.

Nova Era Silicon. In February 2006, we sold to our partner JFE Steel Corporation our 49% stake in Nova Era Silicon, a ferrosilicon producer with operations in the state of Minas Gerais, Brazil, for US$14 million.

LINES OF BUSINESS

Our principal lines of business consist of mining and logistics. We also invest in energy to supply part of our consumption. For internal management purposes, we group our aluminum-related operations together with our other significant equity participations in other companies.

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The following map shows the location of our current operations in Brazil.

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Mining

Ferrous Minerals

Our ferrous minerals business segment includes iron ore mining, pellet production, manganese ore mining and ferroalloy production.

The table below sets forth our ferrous minerals gross revenues by category for the periods indicated.

	For the Year ended December 31,		
	2003 (1)	**2004**	**2005**
		(in millions of US$)	
Gross revenues classified by category			
Iron ore	US$ 2,662	US$ 3,995	US$ 7,396
Pellets	838	1,148	2,083
Manganese ore and ferroalloys	349	701	571
Total	US$ 3,849	5,844	US$ 10,050

(1) The operations of MBR are reflected in the above table as of September 2003, the date on which we acquired and began consolidating its operations.

Iron Ore

We conduct our iron ore business primarily at the parent company level and through our subsidiaries Urucum Mineração S.A., or Urucum, and MBR.

Reserves

The table below sets forth information regarding our proven and probable iron ore reserves and projected exhaustion dates as of December 31, 2005. The projected exhaustion dates are estimated based on our estimates of future production levels.

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Mine(1)	Began Operations	Projected/Actual Exhaustion Date	Production For the Year Ended December 31,			Proven and Probable Reserves at December 31, 2005	
			2003	2004	2005	Ore Tonnage(2) (in millions of tons)	Grade (% Fe)
			(in millions of tons)				
Southern System							
Itabira mines:							
Cauê(3)	1942	2005	22.3	22.0	23.5		
Conceição(4)	1957	2023	20.8	21.6	22.2	395.6	54.4
Minas do Meio(5)	1976	2023				635.7	54.8
Centrais mines							
Água Limpa / Cururu(6)	2000	2013	4.0	4.1	3.9	63.8	45.0
Gongo Soco (7)	2000	2013	3.2	5.4	5.7	96.2	64.0
Brucutu(8)	1994	2027	1.6	6.0	7.2	736.6	51.8
Baú(9)	2006	2029				37.1	55.6
Maquiné(10)	2009	2029				278.7	58.3
Córrego do Meio (11)	2000	2005	1.2	1.9	0.9		
Andrade (19)	2005	2027			1.5	129.2	59.0
Mariana mines							
Alegria(12)	2000	2029	9.9	12.2	12.3	281.8	50.4
Fábrica Nova(12)	2005	2023			7.8	946.3	46.8
Fazendão(13)	1976	2032	0.3	0.6	0.8	351.3	50.0
Timbopeba(14)	1984	2008	5.8	6.2	4.6	81.7	55.0
Capanema/Ouro Fino(15)	1982	2003	6.4				
Oeste mines							
Córrego do Feijão(16)	2003	2014	7.2	7.7	8.1	51.3	66.5
Segredo/João Pereira(17)	2003	2025	9.9	11.1	11.5	501.5	50.7
Total Southern System			92.6	98.8	109.9	4,586.8	52.1
Urucum	1993	2024	0.8	0.7	1.1	64.3	61.1
Northern System (18)							
Serra Norte							
N4W	1994	2020	13.2	19.4	21.9	601.2	66.4
N4E	1984	2017	21.4	21.9	27.2	438.8	66.7
N5-W	1998	2023	6.1	5.0	8.4	325.4	66.3

N5E	1998	2017	17.9	21.7	12.7	55.7	67.3
N5E-N	2003	2016	0.3	1.4	2.4	28.2	65.9
N5S	2006	2024				607.0	67.5
Serra Leste	2007	2037				60.8	66.2
Total Northern System			58.9	69.4	72.5	2,117.1	66.8
MBR System							
Pico Complex:							
Pico / Sapecado/ Galinheiro(20)	1942	2030	12.6	13.1	14.1	662.0	54.6
Vargem Grande Complex							
Tamanduá(21)	1993	2016	10.2	10.5	9.1	99.3	66.5
Capitão do Mato(21)	1997	2016	10.2	10.8	9.6	147.5	66.2
Abóboras(21)	2004	2024		0.2	2.5	32.2	66.0
Paraopeba Complex							
Jangada(21)	2001	2017	3.0	3.6	4.0	92.8	66.0
Capão Xavier(21)	2004	2021		4.2	11.1	179.8	65.6
Total MBR System			35.9	42.4	50.4	1,213.6	59.8
Total CVRD			188.3	211.3	233.9	7,981.8	57.2

(1) Open pit mines. CVRD s equity interest in mines is 100% unless otherwise noted.

(2) Reserves are in wet, run-of-mine (ROM) metric ore tons unless otherwise noted.

(3) Reserves were not reported for 2005 due to the mine s depleted state. The Cauê plant beneficiates iron ore from Minas do Meio mines.

(4) Average product recovery after beneficiation is 76.2%. The Conceição plant beneficiates iron ore from Conceição mine and Minas do Meio mines.

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(5) Average product recovery after beneficiation is 73.2%. The run-of-mine is sent to Cauê Concentration Plant and Conceição Concentration Plant. The production is declared in Cauê and Conceição.

(6) Average product recovery after beneficiation is 73.8%.

(7) Average product recovery after beneficiation is 84%.

(8) Average product recovery after beneficiation is 100% (direct shipping).

(9) Average product recovery after beneficiation is 100% (direct shipping).

(10) Average product recovery after beneficiation is 84%.

(11) Reserves were not reported for 2005 due to the mine s depleted state.

(12) Average product recovery after beneficiation is 71.5%.

(13) Average product recovery after beneficiation is 100% (direct shipping).

(14) Average product recovery after beneficiation is 77.8%.

(15) CVRD s ownership interest is 51%. Reserves were not reported for 2005 due to the mine s depleted state.

(16) Average product recovery after beneficiation is 79%.

(17) Average product recovery after beneficiation is 70%. The run-of-mine is sent to Fábrica Concentration Plant.

(18) Average product recovery after beneficiation is 92%.

(19) Average product recovery after beneficiation is 100% (direct shipping). In 2004, we entered into an

agreement to lease the Andrade iron ore mine, but we only started to run this mine in January 2005.

(20) Average product recovery after beneficiation for Pico and Sapecado is 82%. Average product recovery after beneficiation for Galinheiro is 81%.

(21) Average product recovery after beneficiation is 81%.

Integrated Systems

Our iron ore mining and related operations are concentrated in three systems in Brazil, the Southern System, the Northern System and the MBR System. The Southern System is located in the states of Minas Gerais, Espírito Santo and Rio de Janeiro, and the Northern System is located in the states of Pará and Maranhão. Each of our Northern and Southern Systems includes iron ore reserves and other mineral deposits, mines, ore processing facilities and integrated railroad and terminal transportation facilities. Our railroads connect the Northern System mines to the Ponta da Madeira Maritime Terminal Complex and the Southern System mines to the Tubarão Maritime Terminal Complex. A small part of the iron ore produced in our Southern System is transported via MRS Logística, a railway company in which we have, directly and indirectly, 37.2% of the voting capital and 40.5% of the total capital, to our wholly owned CPBS maritime terminal (Sepetiba terminal). The operation of these separate systems, each with its own transportation capability, enhances the reliability of service to our customers. We also operate the MBR System which similarly contracts freight services from MRS Logística to transport all of its products from its mines in the Iron Quadrangle region in the state of Minas Gerais, to the Guaiba Island maritime terminal in the state of Rio de Janeiro.

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Southern System

The Southern System is an integrated system consisting of iron ore mines, the Vitória a Minas railroad, and the Tubarão Maritime Terminal (located in Vitória, in the state of Espírito Santo). The iron ore mines of the Southern System are divided into four mining areas (Itabira, Centrais Mines, Mariana and Oeste Mines) and located in a region called the Iron Quadrangle in the state of Minas Gerais, in the southeast of Brazil. The Southern System is accessible by road or by spur tracks of the Vitória a Minas railroad. Transportation of the iron ore produced in the Southern System is discussed below in *Item 4. Information on the Company Line of Business Logistics*.

Iron ore in the Southern System is mined by open pit methods. These ore reserves have high ratios of itabirite ore relative to hematite ore. Itabirite is a quartz-hematite rock with an average iron content ranging from 35% to 60% requiring concentration to achieve shipping grade, which is above a 64% average iron content. Hematite is a high-grade ore with an average iron content of approximately 66%. Mines in the Southern System generally process their run-of-mine by means of standard crushing, classification and concentration steps, producing sinter feed, lump ore and pellet feed in the beneficiation plants located at the mining sites.

In 2005, we produced 53% of the electric energy consumed in the Southern System at our Igarapava, Porto Estrela, Funil, Candonga and Aimorés hydroelectric power plants.

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Northern System

The Northern System is an integrated system, including open pit mines and an ore processing complex in the Carajás region, in the state of Pará, the Carajás railroad and the Ponta da Madeira Maritime Terminal, in the state of Maranhão. The mines are located in the north of Brazil (in the Amazon river basin) on public lands for which we hold mining concessions. The Northern System s reserves are among the largest iron ore deposits in the world. These reserves are divided into two main ranges (north and south), situated approximately 35 kilometers apart. Iron ore mining activities in the Northern System are currently being conducted in the northern range, which is divided into five main mining bodies (N4E, N4W, N5W, N5E and N5EN). Industrial scale mining operations began in 1985.

Because of the high iron content (66.8% on average) in the Northern System, we do not have to operate a concentration plant at Carajás. The beneficiation process consists simply of sizing operations, including screening, hydrocycloning, crushing and filtration. This allows us to produce marketable iron ore in the Northern System at a lower cost than in the Southern System. Output from the beneficiation process consists of sinter feed, pellet feed, special fines for direct reduction processes and lump ore. After the beneficiation process, our Carajás railroad transports Northern System iron ore to the Ponta da Madeira Maritime Terminal.

Our complex in Carajás is accessible by road, air and rail. It obtains electrical power at market rates from regional utilities. To support our Carajás operations we have housing and other facilities in a nearby township.

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MBR System

We operate some of our iron ore activities through our subsidiary MBR. MBR operates mines in the Iron Quadrangle in the state of Minas Gerais and ships through its own maritime terminal on Guaiba Island in Sepetiba Bay, in the state of Rio de Janeiro. MRS Logística plays a major role in MBR s operations, transporting all of MBR s iron ore destined for the Guaíba Island maritime terminal.

MBR presently operates three major mining complexes:

- the Pico complex, which includes Pico, Sapecado and Galinheiro mines, with a major and three secondary plants;
- the Vargem Grande complex, comprising Tamanduá, Capitão do Mato and Abóbodas mines, with one major beneficiation plant; and
- the Paraopeba complex, consisting of Jangada (with a beneficiation plant) and Capão Xavier (Mutuca plant) mines.

All MBR mines are served by MRS Logística. Lump ore, sinter feed fines and pellet feed fines, in addition to hematitinha, a product used essentially by domestic pig-iron producers, are produced mostly via wet beneficiation processes from run-of-mine of the open pit mining operations.

Casa de Pedra Iron Ore Mine

In March 2001, as part of the negotiation to unwind the cross-shareholdings with CSN, CSN granted us the following rights of first refusal relating to CSN s Casa de Pedra iron ore mine, each of which lasts for a period of 30 years:

- the right to purchase at market prices any iron ore produced by the mine beyond CSN s internal requirements,
- the right to purchase or lease the mine should CSN decide to sell or lease it, and

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the right to become a joint venture partner should CSN decide to form a pelletizing joint venture with a third party with iron ore produced by the mine.

On August 10, 2005, CADE issued a decision approving certain of our acquisitions, which imposed certain conditions on us, including a full waiver of our preemptive rights relating to the Casa de Pedra iron ore mine. See *Item 3. Key Information Risk Factors We are involved in ongoing antitrust proceedings that could result in divestitures, fines or other restrictions that could harm our business*.

Pellets

The table below sets forth information regarding pellet production by our plants and our joint venture partners as of April 30, 2006.

	System	Our Direct or Indirect Share of Capital		Partners	Total Pellet Production (1) for the Year Ended December 31,			Nominal Capacity
		Voting	Total		2003	2004	2005	
		%			(in millions of tons)			
CVRD	Tubarão, Fábrica and São Luis	n.a.	n.a.		13.0	16.3	16.4	16.7
GIIC	Bahrain	50.0	50.0	GIC	3.7	3.7	4.0	4.0
Hispanobras	Tubarão	51.0	50.9	Arcelor	3.6	4.0	4.2	3.8
Itabrasco	Tubarão	51.0	50.9	Ilva	3.3	3.5	3.9	3.3
Kobrasco	Tubarão	50.0	50.0	Posco	4.4	4.5	4.9	4.3
Nibrasco	Tubarão	51.1	51.0	Nippon Steel Sumitomo JFE Steel Kobe Steel Nisshin Steel SOJITZ Corp.	7.7	8.3	9.0	8.4
Samarco	Ponta do Ubú	50.0	50.0	BHP Billiton	13.3	13.8	13.7	14.0
Total					49.0	54.1	56.1	54.5

(1) Total production by joint venture entity.

In March 2006, we temporarily suspended operations of our São Luís pelletizing plant. Whereas we continue to see a persistent global excess demand for iron ore fines and lumps, with expansion in demand mainly driven by China, the seaborne demand for pellets, which is more concentrated in North America and Europe, has declined. We expect to resume operations at our São Luis pelletizing plant as soon as the current level of excess inventories is eliminated.

We sell pellet feed to our pelletizing joint ventures at market-based prices. Historically, we have supplied all of the iron ore requirements of our wholly owned pelletizing plants and our joint ventures, except for Samarco and GIIC, to which we supply a portion of their needs. Besides blast furnace pellets, some of the pellets we and our pelletizing joint ventures produce are direct reduction pellets, which are used in steel mills that use the direct reduction process rather

than blast furnace technology.

We are the operator of the pelletizing joint ventures located in the Tubarão Port area. In 2005, we received US$66 million in fees for operating these joint ventures.

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The table below sets forth information regarding our iron ore sales to our pelletizing joint ventures for the periods indicated.

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of tons)		
GIIC	2.7	3.5	4.0
Hispanobras	3.8	4.2	4.5
Itabrasco	3.5	3.7	4.1
Kobrasco	4.7	4.8	5.2
Nibrasco	7.1	7.1	7.9
Samarco	2.0	2.0	2.0
Total	23.9	25.3	27.7

Customers, Sales and Marketing (Iron Ore and Pellets)

We use all of our iron ore and pellets (including our share of joint venture pellet production) to supply the steel making industry. Prevailing and expected levels of demand for steel products affect demand for our iron ore and pellets. Demand for steel products is influenced by many factors, such as expected rates of economic growth.

Most of our iron ore and pellets are shipped to Asia and Europe, with customers in China, Japan, South Korea, France and Germany accounting for approximately 48.7% of our total iron ore and pellets shipments in 2005. In 2005, China accounted for 21.2% of our iron ore and pellets sales, Brazil accounted for 22.6% and Europe 28.7%. Our 10 largest customers collectively purchased 125 million tons of iron ore and pellets from us, representing 49.2% of our 2005 iron ore and pellet shipments and 49% of our total iron ore and pellets revenues. With the exception of Arcelor, which accounted for 13.3% of our sales of iron ore and pellets in 2005, no individual customer accounted for more than 10% of our sales of iron ore and pellets for any of the three years ended December 31, 2005.

We strongly emphasize customer service in order to improve our competitiveness. We work with our customers to understand their principal objectives and to provide them with iron ore solutions to meet specific customer needs. To provide tailored solutions, we take advantage of our large number of iron ore mines and pellet plants to produce multiple iron ore products with different grades of iron, silica and alumina, and varying physical properties. We believe that our ability to provide our customers with a total iron ore solution and the quality of our products are very important advantages helping us to improve our competitiveness in relation to competitors who may be more conveniently located geographically. In addition to offering technical assistance to our customers, CVRD operates sales support offices in Tokyo, Japan; Saint Prex, Switzerland; New York, U.S. and Shanghai, China. These offices allow us to stay in close contact with our customers, monitor their requirements and our contract performance, and ensure that our customers receive timely deliveries. Our central sales office in Rio de Janeiro coordinates the activities of these offices. MBR s sales support offices are located in The Hague, The Netherlands and Shanghai, China.

Distribution (Iron Ore and Pellets)

Our ownership and operation of transportation systems designed for the efficient transportation of iron ore products complement our iron ore mining business in the Northern and Southern Systems. We operate an integrated railroad and terminal network in each of our Northern and Southern Systems. These networks transport our iron ore products from interior mining locations to maritime terminals and Brazilian customers. For a more detailed description of the networks see *Logistics* below.

We do not own or operate an integrated transportation system for our MBR System. Instead we enter into freight contracts with MRS to transport our iron ore products at market rates from MBR s mines to its maritime terminal on Guaiba Island.

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Competition (Iron Ore and Pellets)

In general, the international iron ore market is highly competitive. Several large producers operate in this market. The principal factors affecting competition are price, quality, range of products offered, reliability, operating costs and transportation costs. In 2005, the Asian market (primarily China, Japan and South Korea) and the European market were the primary markets for our iron ore.

Our biggest competitors in the Asian market are located in Australia and include subsidiaries and affiliates of BHP Billiton PLC and Rio Tinto Ltd. Although the transportation costs of delivering iron ore from Australia to Asian customers are generally lower than ours as a result of Australia s geographical proximity, we believe we are able to remain competitive in the Asian market for two principal reasons. First, steel producers generally seek to obtain the types (or blends) of iron ore that can produce the intended final product in the most economic and efficient manner. Our iron ore has low impurity levels and other properties that generally lead to lower processing costs. For example, the alumina content of our iron ore is very low compared to Australian ore. Our ore also has high iron grade, which improves productivity in blast furnaces, which is important during periods of high demand. Second, steel mills often develop sales relationships based on a reliable supply of a specific mix of iron ore. We have a customer-oriented marketing policy and place specialized personnel in direct contact with our clients to determine the blend that best suits each particular client. We sell most of our products FOB from our ports, which means that the invoice price includes delivery at our expense to our ports and no further. In general, in the Northern and Southern Systems, our ownership of the process of transporting iron ore to our ports makes it easier for us to ensure that our products get to our ports on schedule and at competitive costs.

We are competitive in the European market for the reasons we described above, as well as the proximity of the Ponta da Madeira and Tubarão port facilities to European customers. Our principal competitors in Europe are:

Kumba Resources (South Africa);

Luossavaara Kiirunavaara AB LKAB (Sweden);

Sociétè Nationale Industrielle et Minière SNIM (Mauritania);

Rio Tinto PLC (UK), Rio Tinto Ltd (Australia) and their subsidiaries and affiliates; and

BHP Billiton (Australia) and its subsidiaries and affiliates.

The Brazilian iron ore market is competitive with a wide range of smaller producers and integrated steel producers such as CSN and Mannesmann. Although pricing is relevant, quality and reliability are important competitive factors as well. We believe that our integrated transportation systems, high-quality ore and technical services make us a strong competitor in Brazilian sales. Prices to Brazilian customers are based on global reference prices discounted by the transportation costs to their facilities. Therefore, prices to these clients are lower than to customers located outside Brazil.

Manganese Ore and Ferroalloys

We conduct our manganese ore and ferroalloy businesses through four subsidiaries, Rio Doce Manganèse Europe (RDME), Rio Doce Manganese Norway AS (RDMN), Rio Doce Manganês S.A. (RDM) and Urucum Mineração S.A. (Urucum). In 2005, we were one of the largest producers in the global seaborne market, with total shipments of approximately 907 thousand tons of manganese ore and 529 thousand tons of ferroalloys. We had US$571 million in gross revenues in 2005 from manganese ore and ferroalloy sales.

We produce manganese ore products from the Azul mine in the Carajás region in the state of Pará and from the Urucum mine in the Pantanal region in the state of Mato Grosso do Sul, Brazil. We operate on-site beneficiation plants at both the Azul and Urucum mines. Both mines are accessible by road and obtain electrical power at market rates from regional electric utilities. We also operate minor mines in the states of Minas Gerais and Bahia.

Our manganese ore mines produce three types of manganese ore products:

metallurgical ore used primarily for the production of ferroalloys;

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natural manganese dioxide suitable for the manufacture of electrolytic batteries; and

chemical ore used in several industries for the production of fertilizer, pesticides and animal food, and used as a pigment in the ceramics industry.

The table below sets forth information regarding our manganese ore mines and manganese ore production for the periods indicated. We own 100% of all mines.

	Began Operations	Projected Exhaustion Date	Production For the Year Ended December 31, In million of tons			Proven and Probable Reserves		
			2003	2004	2005	Type	Ore Tonnage (1)	Grade(2)
Azul(3)	1985	2017	1.5	2.0	2.2	Open Pit	45.7	35.7
Urucum(4)	1976	2020	0.4	0.4	0.4	Underground	8.2	45.3
Morro da Mina(5)	1902	2030	0.1	0.2	0.3	Open Pit	9.6	23.0
Bahia mines (6).	1972	n.a.	0.2	0.1	0.1	Open Pit	n.a.	n.a.
Total			2.2	2.7	3.0		63.5	35.0

(1) Reserves reported as run-of-mine wet tons, in millions of tons.

(2) Reported as run-of-mine Mn% grade.

(3) Average product recovery after beneficiation is 78% of ROM tons.

(4) Average product recovery after beneficiation is 75% of ROM tons.

(5) Morro da Mina mine is located

in the state of Minas Gerais. Average product recovery after beneficiation is 88% of ROM tons.

(6) There are no proven and probable manganese reserves at the mines located in the state of Bahia.

We currently operate eight plants that produce ferroalloys and special alloys Santa Rita, Barbacena, Ouro Preto, São João del Rey (all located in the state of Minas Gerais), Simões Filho (in the state of Bahia), Corumbá (in the state of Mato Grosso do Sul), RDME (in Dunkerque, France) and RDMN (in Mo I Rana, Norway). The production of ferroalloys consumes significant amounts of electricity corresponding to 11.8% of our total consumption in 2005. For information on the risks associated with potential energy shortages, see *Item 3. Key Information Risk Factors*. The table below sets forth information regarding our production in 2005:

	Production Capacity (In thousands of tons per year)	**Production in 2005 (In thousands of tons)**
Rio Doce Manganèse Europe (RDME)	136	118
Rio Doce Manganese Norway (RDMN)	110	77
Rio Doce Manganês S.A. (RDM)	368	347
Urucum Mineração S.A.	20	22
Nova Era Silicon S.A. (NES) (1)	45	38
Total	651	602

(1) Sold in February 2006.

Given the global excess supply that resulted in inventory accumulation and falling ferroalloy prices, we decided to shut down our ferroalloy plant in Norway between August and November 2005. We also decided to operate our ferroalloy plant in France below its nominal capacity. As ferroalloy inventories were consumed and prices stabilized, we resumed full capacity operation at our Norwegian and French plants in December 2005. On the other hand, given the weakness in Brazilian demand for ferroalloys, we have decided to shut down temporarily three furnaces of our Simões Filho plant, in the state of Bahia, Brazil, since January 2006.

Competition (Manganese Ore and Ferroalloys)

The markets for manganese ore and ferroalloys are highly competitive. Competition in the manganese ore market takes place in two segments. High-grade (40% Mn or more) manganese ore competes on a global seaborne basis, while low grade ore competes on a regional

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basis. For some ferroalloys high-grade ore is mandatory, while for some others high and low grade ores are complementary. Besides manganese ore content, cost and physical-chemical features play an important role in competition (*e.g.* moisture, impurities). The main suppliers of high-grade (HG) ores are located in South Africa, Gabon and Australia. The main producers of low-grade (LG) ores are located in Ukraine, China, Ghana, Kazakhstan, India and Mexico. CVRD is one of the world s largest suppliers of manganese ores, with HG ores in our Azul and Urucum mines, and LG ores in the smaller mines in the states of Minas Gerais and Bahia. The ferroalloy market is characterized by a large number of market players who compete primarily on the basis of price (which is a function of lower costs). CVRD produces several types of ferroalloys, such as manganese ferro-silicon alloys (SiMnFe), ferro-manganese high-carbon alloys (HCFeMn), ferro-manganese mediumcarbon alloys (MCFeMn) and cored wire (special alloys). The principal competitive factors in this market are costs of manganese ore, electricity, logistics and carbon. We compete both with standalone producers and integrated producers that also mine their own ore. Our competitors are located principally in manganese ore or steel producing countries.

Coal

We have a 25% interest in Henan Longyu Energy Resources Co., Ltd. (Longyu), a joint venture with Yongcheng Coal & Energy Co, one of the largest coal producers in China, and Baosteel International, the largest steel producer in China. Longyu is located in the Henan province, China. We expect Longyu to produce around 4.5 million tons per year of coal when it is fully operational. We invested US$86.4 million for a 25% equity participation in Longyu, and have the right to off take 25% of coal produced by the joint venture. In January 2006, CVRD received its first trial shipment of coal, approximately 40 thousand tons, from China to Brazil.

Non-Ferrous Minerals

Our non-ferrous minerals business segment includes the production of non-ferrous minerals, such as kaolin, potash and copper. The table below sets forth information regarding our non-ferrous minerals gross revenues for the periods indicated.

	For the Year Ended December 31,		
	2003(1)	2004	2005
	(in millions of US$)		
Gross revenues classified by category			
Gold	US$ 21	US$	US$
Potash	94	124	149
Copper		201	391
Kaolin	96	164	177
Total	US$ 211	US$ 489	US$ 717

(1) The operations of CADAM are reflected in the above table as of September 2003, the date on which we acquired and began consolidating its operations.

Kaolin

We conduct our kaolin business through CADAM S.A. (CADAM), which began operations in 1976, and Pará Pigmentos S.A. (PPSA), which began operations in 1996. PPSA and CADAM are subsidiaries of CAEMI. CAEMI holds 82.04% of PPSA total capital and 61.48% of CADAM total capital. These companies produce kaolin for paper coating and conduct research and development in other uses for kaolin products to create a more diversified portfolio.

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	Began Operations	Projected Exhaustion Date	Production For the Year Ended December 31, (in tons per year)			Proven and Probable Reserves(1)				
								Grade(%)		
			2003	2004	2005	Ore Type	Tonnage	Brightness	Grit	PSD
Morro do Felipe	1976	2013	711.2	750.0	701.0	Open Pit	36.7	86.7	n.a.	n.a.
Rio Capim (2)	1996	2008	423.0	460.1	517.0	Open Pit	33.5	82.8	34.5	66.6
Total			1,134.2	1,210.1	1,218		70.2			

(1) Expressed as dry *in situ* metric ore tons.

(2) Average recovery of Century product is 55% of the ore tons.

PPSA sold approximately 515 thousand tons of kaolin in 2005, generating revenues of US$68 million. PPSA s open pit Rio Capim mine and beneficiation plant are located in Ipixuna, in the state of Pará. These operations are linked to the land and port facilities in Barcarena, also in the state of Pará, via an 180km pipeline. The beneficiated kaolin is pumped through a slurry pipeline. In 2005, PPSA reached the production capacity of 600,000 tons per year, which enhances the portfolio of products that may be offered to customers. In July 2004, PPSA signed a contract with International Paper, the world s largest paper producer, to supply 110,000 tons of kaolin per year between 2005 and 2009. Sales under the contract started in July 2005. PPSA produces the following products: Century, Century S, Paraprint, Paraplate and Paralux. They are sold mainly in the European, Asian and North American markets.

CADAM sold approximately 703 thousand tons of kaolin in 2005, generating revenues of US$109 million. CADAM is located on the border of the states of Pará and Amapá, in the Amazon area in Northern Brazil. CADAM s reserves are principally concentrated in the open-pit Morro do Felipe mine, in Mazagão, in the state of Amapá. The beneficiation plant and private port are situated on the west bank of the Jari river, in Munguba, in the state of Pará.

Potash

We conduct our potash operations at the parent company level. We lease a potash mine (Taquari-Vassouras mine) in Rosario do Catete, in the state of Sergipe, Brazil, from Petrobras Petróleo Brasileiro S.A. (Petrobras), a Brazilian state-owned oil company. The lease was signed in 1991 for a period of 25 years, and is renewable for another 25 years. The mine is the only potash mine in Brazil and has a current nominal capacity of 850,000 tons per year. Taquari Vassouras is an underground mine with a depth that varies from 430 to 640 meters. In 2005, we produced 641 thousand tons of potash with total shipments of 640 thousand tons, and we had gross revenues of US$149 million. All sales from Taquari Vassouras mine are destined for the Brazilian market.

	Leased Since	Projected Exhaustion Date	Production For the Year Ended December 31,	Proven and Probable Reserves

				(in thousands of tons per year)					
				2003	2004	2005	Ore Type	Tonnage	Grade(%)
Taquari	Vassouras(1)	1992(2)	2012	658	638	64	Underground	19.2	31.0
Total								19.2	31.0

(1) Expressed as dry *in situ* metric tons; equivalent to 5.9Mt of KCl. Average mining extraction is 46% of the in situ ore, giving 8.8Mt of recoverable ore and 2.7Mt of recoverable KCl.

(2) The mine began operations in 1986.

Copper

Sossego is our first copper mine and began commercial production of copper concentrate in June 2004. The Sossego copper mine is located in Carajás, in the state of Pará. We conduct our Sossego operation at the parent company level. In 2005, we shipped 398 thousand tons of

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copper concentrate and we had gross revenues of US$391 million.

The Sossego copper mine has two main ore bodies, Sossego and Sequeirinho. The copper ore is mined by open pit method and the run-of-mine is processed by means of standard primary crushing and conveying, SAG milling (a semi-autogenous mill which uses a large rotating drum filled with ore, water and steel grinding balls which transforms the ore into a fine slurry), ball milling, copper concentrate flotation, tailings disposal, concentrate thickening, filtration and load out. Projected annual operating capacity is 15 million tons of run-of-mine, to produce an average of 140,000 tons of copper contained in concentrate (30% grade). The operation is still in the ramp-up process, which will continue throughout 2006. The ramp-up phase has been longer than expected because of operational challenges requiring equipment changes. The concentrate is trucked to a storage terminal in Parauapebas and then transported via the Carajás railroad to the Ponta da Madeira maritime terminal in São Luís, in the state of Maranhão.

	Began Operations	Projected Exhaustion Date	Production of copper contained in concentrate for the Year Ended (tons) 2004	2005	Proven and Probable Reserves Type	Ore Tonnage	Grade
Sossego	2004	2021	73,000	107,000	Open pit	225.1	0.98% Cu and 0.271 Au (GPT)

We have constructed an 85-kilometer road to link Sossego to the Carajás air and rail facilities and a power line that allows us to purchase electrical power at market rates. We have a long-term energy supply contract with Eletronorte, which sells us energy from the Tucuruí hydroelectric power plant located on the Tocantins river.

We have four copper projects: Salobo, Cristalino, Alemão and 118. Salobo, in which we own a 100% stake, has a feasibility study in progress, Cristalino, in which we own a 50% stake, has a pre-feasibility study concluded and Alemão, in which we own a 67% stake, has a pre-feasibility study in progress. BNDES is our partner in Cristalino and Alemão. In addition, we and BNDES are prospecting the Carajás region for new copper exploration projects. See *Item 4. Information on the Company Lines of Business Mining Mineral Risk Contract.*

We are constructing a semi-industrial plant to process copper using the hydrometallurgical route. The objective of this plant, which will have capacity to produce 10,000 tons of copper cathodes per year, is to test a new technological route to produce the metal from copper sulphide concentrates. We will use copper concentrate from the Sossego mine to feed the plant, which is expected to start up by the second quarter of 2007 and be productive for two years. We estimate that this period will be sufficient to prove the feasibility of industrial production through the hydrometallurgical route, supporting the construction of a larger plant to process copper ore from other deposits owned by CVRD, including the Salobo project. The capital expenditures estimated for the construction of this semi-industrial plant amount to US$58 million.

In October 2005, our Board of Directors approved our investment in the 118 copper mining project, located in the state of Pará, Brazil. In 2005, in compliance with the Mineral Risk Contract we have with BNDES, we have entered into a specific agreement with BNDES, which establishes that CVRD shall pay to BNDES a specified percentage of 118 net revenues that varies in accordance with copper market prices. As an example, if the copper price on the London Metal Exchange is US$1.00 per pound, we must pay 3.8% of 118 net revenues to BNDES. We currently estimate that capital expenditures for the project will amount to approximately US$232 million and have targeted startup for the first half of 2008. The estimated production capacity of the project is 36,000 tons of copper cathode per year.

Mineral Prospecting and Development

As part of our mineral prospecting and development activities in Brazil, we have acquired extensive experience in exploration techniques and processes specifically designed for use in tropical areas of the world. Our current mineral exploration efforts are mainly in Angola, Argentina, Australia, Brazil, Chile, Gabon, Guinea, Mozambique, Mongolia, Peru and South Africa and focus on copper, gold, nickel,

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manganese ore, kaolin, bauxite, coal, potash, phosphates, diamond and platinum group metals.

Among the large variety of projects in which we are engaged in conceptual and feasibility studies, the most important are the following:

copper exploration projects in Salobo, Cristalino and Alemão sites, located in the state of Pará, Brazil;

a phosphates exploration project in Bayóvar deposit located in the department of Piura, Peru;

a potash exploration project in the province of Neuquen, on the banks of Colorado river in Argentina;

coal exploration projects in the Moatize region, in the north of Mozambique (Moatize Project), and in the state of Queensland, Australia (Belvedere Project); and

a bauxite exploration project in Pitinga region, in the state of Amazonas, Brazil.

Feasibility studies were concluded for the following projects, for which our Board of Directors has already approved the investments:

Vermelho nickel project, located in the state of Pará, Brazil; and

118 copper project, also located in the state of Pará, Brazil.

For the Onça Puma nickel project, we are reviewing the feasibility study prepared by Canico Resources Corp. before seeking Board of Directors approval for further investments.

The costs of exploration and feasibility studies are recorded as expenses until the economic viability of mining activities is established (see Note 3 to our financial statements). The capital expenditures budget for mineral exploration (included in the research and development budget) for 2006 is US$491 million.

Mineral Risk Contract

We and BNDES entered into a Mineral Risk Contract in March 1997, relating to prospecting authorizations for mining regions where drilling and exploration are still in their early stages. The Mineral Risk Contract provides for the joint development of certain unexplored mineral deposits in approximately 2.5 million identified hectares of land in the Carajás region, which is part of the Northern System, as well as proportional participation in any financial benefits earned from the development of such resources. Iron ore and manganese ore deposits already identified and subject to development were specifically excluded from the Mineral Risk Contract.

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide US$205 million, which represents half of the US$410 million in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region. In April 2004, the Mineral Risk Contract was renewed for an additional period of five years or until the total value of US$410 million is spent (including disbursements already made, which amounted to US$392.8 million as of December 31, 2005), whichever occurs first.

We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of March 31, 2006, the remaining contributions towards exploration and development activities totaled US$5 million. The contract provides that each party may choose not to contribute and have its financial interest proportionally diluted. If a party s participation in the Mineral Risk Contract is diluted to an amount lower than 40% of the amount invested in connection with exploration and development projects, then it provides that the diluted party will lose all the rights and benefits provided for in the Mineral Risk Contract and any amounts previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us for our contribution of existing development and ownership rights in the Carajás region through a finder s fee production royalty on mineral resources that are discovered and placed into production. This finder s fee is equal to 3.5% of the revenues derived from the sale of gold, silver and platinum group metals and 1.5% of the revenues derived from

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the sale of other minerals, including copper, except for gold and other minerals discovered in the Serra Leste region, state of Pará, for which the finder s fee is equal to 6.5% of revenues.

Aluminum-Related Operations

The table below sets forth information regarding our consolidated bauxite, alumina and aluminum gross revenues for the periods indicated. These figures do not include the revenues of our unconsolidated joint ventures.

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of US$)		
Revenues classified by category			
Bauxite	US$ 37	US$ 53	US$ 54
Alumina	495	458	531
Aluminum	320	739	823
Total	US$ 852	US$ 1,250	US$ 1,408

We operate our aluminum-related businesses through the following subsidiaries and joint ventures, as of April 30, 2006:

	Business	Our Direct or Indirect Share of Capital (Voting, Total)		Partners
		Voting	Total	
		(%)		
Albras-Alumínio Brasileiro S.A. (Albras)	Aluminum	51.00%	51.00%	Nippon Amazon
Alunorte-Alumina do Norte do Brasil S.A. (Alunorte) (1)	Alumina	59.53	57.03	Companhia Brasileira de Alumínio CBA JAIC Mitsui Mitsubishi Nippon Amazon Norsk Hydro
Mineração Rio do Norte S.A. (MRN)	Bauxite	40.00	40.00	Abalco Alcoa Alcan AWA BHP Billiton Metais Companhia Brasileira de Alumínio CBA Norsk Hydro BHP Billiton
Valesul Alumínio S.A. (Valesul)	Aluminum	54.51	54.51	Metais

(1) The percentages reflecting our

direct or indirect share of capital for Alunorte refer to paid-in capital.

These subsidiaries and joint ventures engage in:

- mining bauxite,
- refining bauxite into alumina, and
- smelting alumina to produce primary aluminum and aluminum alloys.

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Bauxite

MRN. MRN, the largest bauxite operation in the world, produces bauxite for sale to our joint venture partners and us. Excess production may be sold to customers. MRN operates three open-pit bauxite mines, which produce high quality bauxite. In addition, MRN controls substantial additional high quality bauxite resources that it believes can be produced economically in the future. MRN had gross revenues of US$432 million and net income of US$160 million in 2005. MRN s mines are located in the northern region of the state of Pará.

The table below sets forth information regarding MRN s bauxite reserves as of December 31, 2005.

		Proven and Probable Reserves(1)		
	Projected Exhaustion Date	**Type**	**Ore Tonnage (millions of tons)**	**Grade(2) (% $Al_2 0_3$)**
Mineração Rio do Norte S.A.				
Almeidas	2009	Open pit	11.7	51.2
Aviso	2012	Open pit	48.2	51.1
Bacaba	2009	Open pit	6.2	53.1
Saracá V	2010	Open pit	5.7	47.2
Saracá W	2015	Open pit	17.1	50.3
Total			88.9	50.8(3)

(1) CVRD s ownership of MRN s bauxite reserves is 40%.

(2) Expressed as available $Al_2 0_3$.

(3) Expressed as dry product metric tons. Recovery of dry product from dry ROM bauxite ranges from 69 to 82%, depending on the deposit, with a weighted average of 74%.

Operations at MRN s mines commenced in 1979. For 2003, 2004 and 2005 production equaled 14.4, 16.7, and 17.2 million tons, respectively.

MRN operates ore beneficiation facilities at its mines, which are connected by rail to a loading terminal and port facilities on the Trombetas river. The Trombetas river is a tributary of the Amazon river and MRN s port facilities can handle vessels of up to 60,000 DWT. MRN owns and operates the rail and the port facilities serving its mines. The MRN bauxite mines are accessible by road from the port area and obtain electricity from their own thermoelectric power station. MRN completed the expansion of its capacity from 11.0 million tons to 16.3 million tons in 2003.

Our MRN bauxite joint venture produces bauxite for sale on a take-or-pay basis to us and our joint venture partners at a price that is determined by a formula linked to the price of aluminum for three-month contracts in the London Metal Exchange and to the price of alumina exported from Australia. Our Alunorte alumina subsidiary, which we began consolidating in July 2002, purchases all of its bauxite requirements from MRN.

Paragominas project. We hold active mining rights in the Paragominas region in the state of Pará, where a new wholly-owned bauxite mine is expected to begin commercial production in the first half of 2007 to supply Alunorte s new expansion with 5.4 million tons per year of wet 12% moisture bauxite. The bauxite quality will be similar to MRN s, and the project will use the strip mining method of extraction, and have a beneficiation plant including milling and a 244-kilometer long slurry pipeline. We expect that total capital expenditures on this project will be approximately US$352 million. Additionally, our Board of Directors has approved a further expansion at Paragominas, which will require an additional investment of approximately US$196 million to produce an additional 4.5 million tons. After the conclusion of these two stages of expansion, we expect the Paragominas mine to achieve a nominal production capacity of 9.9 million tons by 2008.

The table below sets forth information regarding the Paragominas bauxite reserves as of December 31, 2005.

	Proven and Probable Reserves (1)	
	Ore Tonnage (millions of tons)	**Grade (% Al_2O_3)**
Miltonia 3	204.9	49.4
Miltonia 5	98.6	47.3
Total	303.5	48.7

(1) Expressed as dry product metric tons. Planned product recovery is an average of 70% of the dry ROM tons.

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Alumina

Alunorte began operations in July 1995 and produces alumina by refining bauxite that MRN supplies. The Alunorte plant concluded its first expansion of capacity (stage 3) in 2003 and its second expansion (stages 4 and 5) in the first quarter of 2006, reaching a nominal production capacity of 4.4 million tons of alumina per year and becoming the largest alumina refinery in the world. In 2005, Alunorte produced 2.6 million tons. Alunorte sells alumina to Albras, Valesul and unaffiliated customers. The Alunorte plant is located in the city of Barcarena, in the state of Pará, next to Albras aluminum production facilities. This allows Alunorte and its principal customer, Albras, to share infrastructure and other resources. Alunorte had gross revenues of US$625 million and net income of US$121 million in 2005. This refinery has one of the lowest conversion costs in the world (US$79.16 per ton in 2005).

Each Alunorte partner must purchase on a take-or-pay basis all alumina produced by Alunorte in proportion to its respective interest. The partners each pay the same price, which is determined by a formula based on the price of aluminum for three-month contracts on the London Metal Exchange.

The table below sets forth information regarding Alunorte s alumina production for the periods indicated.

	For the Year Ended December 31,		
	2003	2004	2005
	(millions of tons)		
Alunorte production	2.323	2.548	2.570

We are currently investing in a further expansion through the construction of stages 6 and 7, which will require investments of US$846 million and add 1.8 million tons per year of capacity to the plant. Alunorte s capacity is expected to reach 6.3 million tons per year by 2008.

Aluminum

Albras and Valesul each produce aluminum using alumina provided by Alunorte. Alunorte supplied all of Albras alumina requirements and 54.5% of Valesul s alumina requirements in 2005. Albras produces aluminum ingots and Valesul produces aluminum ingots, slabs, bars, billets and alloys. Aluminum is produced from alumina by means of a continuous electro-chemical process, which requires substantial amounts of electricity.

Albras. The Albras plant is one of the largest aluminum plants in the Americas, with a nominal capacity of 445,000 tons per year. Albras started its operations in 1985 at a plant located in Barcarena, in the state of Pará. Albras had gross revenues of US$808 million and net income of US$101 million in 2005.

The Albras partners must purchase on a take-or-pay basis all aluminum produced by Albras in proportion to their ownership interests. We generally market our aluminum in the global markets to clients in the aluminum industry.

The table below sets forth information regarding Albras recent aluminum production.

	For the Year Ended December 31,		
	2003	2004	2005
	(thousands of tons)		
Albras production	432.1	435.0	445.8

Albras purchases electrical power from Eletronorte, a state-owned electric power utility. Eletronorte generates electricity at the Tucuruí hydroelectric power plant located on the Tocantins river. This plant is the sole source of electrical power in the region in

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the quantities required for Albras operations. Albras consumes approximately one-quarter of the non-peak period output of the Tucuruí plant.

In May 2004, Albras successfully executed an auction to purchase electricity for a 20-year period. This agreement became effective beginning June 2004. The basic purchase price is R$ 53.00 per MWh, indexed to the general market price index, IGP-M, as calculated by *Fundação Getúlio Vargas*. In addition to the basic price, a premium is paid that is linked to the amount by which the price of primary aluminum exceeds US$1,450.00 per ton, as registered at the London Metal Exchange (LME). See *Item 4. Information on the Company Regulatory Matters Energy*.

Valesul. Valesul started its operations in 1982 and operates a plant located in the state of Rio de Janeiro with a nominal capacity of 95,000 tons per year. Valesul produces primary aluminum and aluminum alloys in the form of ingots and billets. Valesul s aluminum products are sold primarily in the Brazilian market on a spot basis. Valesul had gross revenues of US$229 million and net income of less than US$1 million in 2005. Valesul sells directly to its own clients. Valesul produced 92.6, 95.8 and 94.0 tons of aluminum and aluminum alloys and recycled 11.7, 14.4 and 16.7 tons of third-party aluminum scrap in 2005, 2004 and 2003, respectively.

Valesul currently obtains a portion of its electrical energy requirements from four wholly owned small hydroelectric power plants located in the state of Minas Gerais, a portion from the Machadinho hydroelectric power plant, in the state of Santa Catarina, in which Valesul has a share of 7.28%, and the remainder from a third-party power company at market rates. Valesul is able to supply 40% of its own energy requirements. Valesul is currently engaged in litigation regarding the rates that Light Serviços de Eletricidade S.A., or Light, the electricity utility company of the state of Rio de Janeiro, charges Valesul for the transmission of electricity. See *Item 8. Financial Information Legal Proceedings.*

Competition in Bauxite, Alumina and Aluminum

The global aluminum market is highly competitive. The largest producers are Alcoa, Rusal, Alcan, Norsk Hydro, BHP Billiton and Chalco. The alumina and bauxite markets are also competitive, but are much smaller, because many of the major aluminum-producing companies have integrated bauxite, alumina and aluminum operations.

Bauxite. Most of global bauxite production is not traded, as it is dedicated to integrated alumina refineries. Competition in the bauxite market is based primarily on two key factors: quality of bauxite and reliability of supply. We believe that MRN remains competitive in this market because of the high quality of Brazilian bauxite, and our aluminum production system, which ensures internal use of our bauxite production. We use a major part of our take of MRN s bauxite production to supply Alunorte.

Alumina. Competition in the alumina market is based primarily on quality, reliability of supply and price, which is directly related to lower costs. We believe that Alunorte is competitive in the alumina market because of the high quality of its alumina, its advantages in scale and technology, low conversion cost, its efficient port facilities, and the ongoing commitment of its shareholders to purchase a substantial portion of its annual production. We use a substantial portion of our share of Alunorte s alumina production to supply the Brazilian market (Albras and Valesul), and sell the remainder to customers in other countries, such as Canada, Argentina and Norway.

Aluminum. As primary aluminum is a commodity, competition in the aluminum market is based primarily on the economics of transportation and the costs of production. We believe that Albras is competitive in the aluminum market because of its relatively efficient and accessible port facilities, and its generally prevailing lower costs of production. We generally market aluminum to customers in Asia and Europe.

Logistics

Our logistics business comprises the transportation of customers products and passengers. We conduct this business at the parent company level, by operating the Vitória a Minas and Carajás railroads, the Tubarão port complex, the Inácio Barbosa maritime terminal and the Ponta da Madeira maritime terminal, as well as through subsidiaries. Our subsidiaries include Cia. Portuária Baía de Sepetiba, or CPBS, and Terminal de Vila Velha S.A., or TVV, which operate ports and terminals; Navegação Vale do Rio Doce S.A. Docenave, or Docenave, and DCNDB Overseas S.A., or DCNDB, which conduct shipping activities; and Ferrovia Centro-Atlântica S.A., or FCA, which operates railroads.

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We also hold, directly and indirectly, 37.2% of the voting capital and 40.5% of the total capital in MRS Logística S.A., a railroad joint venture with Brazilian steel industries.

The table below sets forth information regarding our third-party logistics gross revenues for the periods indicated.

	For the Year Ended December 31,		
	2003(1)	2004	2005
Revenues classified by category			
Railroads	US$ 373	US$ 612	US$ 881
Ports	144	173	230
Ships	87	92	105
Total	US$ 604	US$ 877	US$ 1,216

(1) The operations of CAEMI and FCA are reflected in the above table as of September 2003, the date on which we acquired and began consolidating their operations.

Railroads

Vitória a Minas railroad. The Vitória a Minas railroad links our Southern System mines in the Iron Quadrangle region in the state of Minas Gerais with the Tubarão Port, in Vitória, in the state of Espírito Santo. We operate this 905-kilometer railroad under a 30-year renewable concession, which expires in 2027. The Vitória a Minas railroad consists of two lines of track extending for a distance of 601 kilometers to permit continuous railroad travel in opposite directions, and single-track branches of 304 kilometers. Industrial manufacturers are located near this area and major agricultural regions are adjacent and accessible to the Vitória a Minas railroad. The Vitória a Minas has a daily capacity of 312,000 tons of iron ore. In 2005, the Vitória a Minas railroad carried a total of 68.7 billion ntk of iron ore and other cargo (of which 18.3 billion ntk, or 26.7%, consisted of cargo transported for customers, including iron ore for Brazilian customers). The Vitória a Minas railroad also carried approximately 1.1 million passengers in 2005.

The principal cargo of the Vitória a Minas railroad consists of:

- iron ore and pellets, carried for us and customers;
- steel, coal, pig iron, limestone and other raw material carried for customers with steel mills located along the railroad;
- agricultural products, such as soybean, soybean meal and fertilizers; and
- other general cargo, such as building materials, pulp, fuel and chemical products.

We charge market rates (which are limited by the tariffs fixed by ANTT) for customer freight, including pellets originating from joint ventures and other enterprises in which we do not own 100% of the equity interest. Market rates vary based upon the distance traveled, the kind of product and the weight of the freight in question.

Carajás railroad. We operate the Carajás railroad under a 30-year renewable concession, which expires in 2027. This railroad, located in the Northern System, starts at our Carajás iron ore mine in the state of Pará, and extends 892 kilometers to our Ponta da Madeira Maritime terminal complex facilities located near the São Luís Port in the state of Maranhão. The Carajás railroad consists of one line of track, with spur tracks and turnouts to permit the passage of trains in opposite directions. The Carajás railroad has a daily capacity of 200,000 tons of iron ore. In 2005, the Carajás railroad carried a total of 69.5 billion ntk of iron ore and other cargo (of which 5.0 billion ntk, or 7.2%, consisted of cargo transported for customers, including iron ore for Brazilian customers). The Carajás railroad also carried approximately 369 thousand passengers in 2005. The main cargo of the Carajás railroad consists of iron ore, principally carried for us. In the third quarter of 2006, we also intend to begin operations of the largest capacity train in Latin America. This train, which will have 312 cars, measures 3.2 kilometers long and weighs 319 gross tons, will help us meet the growing demand for sources of the Carajás railroad.

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Ferrovia Centro-Atlântica. Our subsidiary FCA operates the central east regional railway network of the Brazilian national railway system under a 30-year renewable concession granted in 1996. The central east network contains approximately 7,000 kilometers of track extending into the states of Sergipe, Bahia, Espírito Santo, Minas Gerais, Rio de Janeiro and Goiás and Brasília, the Federal District, Brazil. It connects with our Vitória a Minas railroad near the cities of Belo Horizonte, in the state of Minas Gerais and Vitória, in the state of Espírito Santo. FCA operates on the same track gauge as our Vitória a Minas railroad. The section of the network of Ferroban-Ferrovias Bandeirantes S.A. (Ferroban) between Araguari and Vale Fértil rail station, near the city of Uberaba, in the state of Minas Gerais, has been operated by FCA since 1998 and in January 2002, FCA began operating the section between Vale Fértil in the state of Minas Gerais and Boa Vista Nova in the state of São Paulo, Brazil. This connection allows FCA to reach the Santos Port, in the state of São Paulo. In November 2005, FCA consolidated a portion of Ferroban s spun-off assets related to the operation of the section between Araguari, in the state of Minas Gerais, and Boa Vista Nova, in the state of São Paulo. As a result of this consolidation, FCA directly holds the railroad concession related to this section and no longer holds a stake in Ferroban s capital. In 2005, the FCA railroad transported a total of 10.7 billion ntk of cargo for clients.

MRS. We own, directly and indirectly, 37.2% of the voting capital and 40.5% of the total capital in MRS. MRS is a 1,674-kilometer railroad, which links the states of Rio de Janeiro, São Paulo and Minas Gerais and transported 107 million tons in 2005. MRS operates under a 30-year renewable concession granted in 1996. As a result of our acquisitions of CAEMI and Ferteco, our current participation in the voting capital of MRS is higher than the limit of 20%, imposed at the time of the bid for the MRS railroad concession. CADE has approved these acquisitions, subject to certain conditions, including restructuring of our equity stake in MRS. We are currently contesting certain procedural defects in the CADE decision. *See Item 3. Risk Factors Risks Related to Our Business We are involved in ongoing antitrust proceedings that could result in divestitures, fines or other restrictions that could harm our business* and *Item 8. Financial Information Legal Proceedings.* On April 13, 2006, ANTT published a resolution requiring us to (i) sell those common shares we hold in MRS as a result of our acquisition and consolidation of Ferteco which are covered by the MRS Shareholders Agreement; or (ii) (a) cause the shareholders of MRS to approve certain changes in the capital structure of MRS, or (b) waive our voting and veto rights specifically in connection with the MRS shares we hold as a result of our acquisition and consolidation of Ferteco. The ANTT resolution also recommends that we comply with the CADE decision requirement that we unify our MRS shareholding in a single block. On May 10, 2006, we informed the ANTT of our decision to waive our voting and veto rights in connection with the MRS shares mentioned above, which represent 10.9% of the total capital stock and 19.3% of voting capital stock of MRS. See *Item 4. Information on the Company Regulatory Matters Railroads.*

Ports and Terminals

We operate ports and terminals principally as a means to complete the distribution of our iron ore and pellets to seaborne vessels serving the export seaborne market. See *Item 4. Information on the Company Lines of Business Mining Ferrous Minerals Pellets Distribution (Iron Ore and Pellets).* We also use our ports and terminals to handle third-party cargo. In 2005, 19% of the cargo handled by our ports and terminals represented cargo handled for third parties.

Tubarão Port. The Tubarão Port, which covers an area of approximately 18 square kilometers, is located near the Vitória Port in the state of Espírito Santo. The iron ore maritime terminal located in this area has two piers. Pier I can accommodate two vessels at a time, one of up to 170,000 DWT on the southern side and one of up to 200,000 DWT on the northern side. Pier II can accommodate one vessel of up to 360,000 DWT at a time, limited at 20 meters draft plus tide. In Pier I there are two ship loaders, which can load up to a combined total of 14,000 tons per hour. In Pier II there are two ship loaders that work alternately and can each load up to 16,000 tons per hour. In 2005, 84.1 million tons of iron ore and pellets were shipped through the terminal for us. Praia Mole Terminal, also located in the Tubarão Port, is principally a coal terminal and handled 11.3 million tons in 2005. We operate a grain terminal called Terminal de Produtos Diversos, in the Tubarão area, which handled 5.5 million tons of grains and fertilizers in 2005. We also operate a bulk liquid terminal that handled 1.1 million tons in 2005.

Vitória Port. Until September 2006, CVRD is authorized to operate the Paul Terminal, which specializes in pig iron handling and is located near the Vitória Port, in the state of Espírito Santo. This terminal has one pier that can

accommodate one vessel of up to 75,000 DWT, which can load up to 900 tons per hour. The Paul Terminal handled 2.2 million tons of pig iron in 2005.

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Ponta da Madeira maritime terminal. The Ponta da Madeira maritime terminal is located near the Itaqui Port in the state of Maranhão. The terminal facilities can accommodate three vessels. Pier I can accommodate vessels displacing up to 420,000 DWT. Pier II can accommodate vessels of up to 155,000 DWT. The two berths have a maximum loading rate of 16,000 tons per hour at Pier I and 8,000 tons per hour at Pier II. In February 2004, Pier III began operations. Pier III has two berths, can accommodate vessels of up to 220,000 DWT and has a maximum loading rate of 8,000 tons per hour in each berth.

Cargo shipped through our Ponta da Madeira maritime terminal consists principally of our own iron ore production. Other cargo includes manganese ore and copper concentrate produced by us and pig iron and soybeans for third parties. In 2005, 70.1 million tons were handled through the terminal for us and 4.3 million tons for customers.

Inácio Barbosa maritime terminal (TMIB). Since November 1994, CVRD has operated the Inácio Barbosa maritime terminal located in the state of Sergipe. This terminal was built by Petrobras Petróleo Brasileiro S.A. and transferred to Sergiportos, a state-owned company. In December 2002, Petrobras took over control of Inácio Barbosa maritime terminal in exchange for the cancellation of a liability of the state of Sergipe. CVRD and Petrobras entered into an agreement in December 2002, which allows CVRD to run this terminal for a period of ten years ending in December 2012. In 2005, 954 thousand tons of fuel and agricultural and steel products were shipped through Inácio Barbosa maritime terminal.

Terminal de Vila Velha S.A. (TVV). In May 1998, we entered into a 25-year lease for the Capuaba maritime terminal in Vitória, in the state of Espírito Santo. To run this terminal CVRD established Terminal de Vila Velha S.A. (TVV). TVV is a terminal for loading and unloading of containers, in addition to being an alternative for general cargo and automobile operations in Southeast and Midwest Brazil. It is connected to the Vitória a Minas railroad and with easy access to the BR101 and BR262 highways. The terminal is formed by berths 203 and 204 at the Capuaba Quay and has a 450-meter berth area and retro-area measuring nearly 100 thousand square meters. It has a covered storage area measuring 13,300 square meters and a yard with capacity for 3,300 containers. TVV is equipped with two quays cranes, two portainers and four transtainers. In 2005, 165.6 thousand containers and 54 thousand tons of general cargo were shipped through TVV.

Cia. Portuária Baía de Sepetiba (CPBS) *Itaguaí maritime terminal*, CPBS is a wholly-owned subsidiary that operates the Itaguaí terminal, in the Sepetiba Port, in the state of Rio de Janeiro. Itaguaí s maritime terminal has a pier that allows the loading of ships of up to 18.1 meters and up to 230,000 DWT. In 2005, the terminal uploaded approximately 21 million tons of iron ore.

Guaíba Island maritime terminal. MBR has its own maritime terminal on Guaiba Island, also in the Sepetiba Port. The iron ore terminal has a pier that allows the loading of ships of up to 300,000 DWT. In 2005, the terminal uploaded approximately 39 million tons of iron ore.

Shipping

We operate in three distinct shipping areas: seaborne dry bulk transportation services, coastal shipping liner service and tug boat services.

In seaborne dry bulk transportation service, we carried 4.325 million tons of dry bulk, generating gross revenues of US$30 million in 2005. The table below sets forth information on the volume of cargo that our seaborne dry bulk shipping service carried for the periods indicated.

	For the Year Ended December 31,		
	2003	2004	2005
	(thousands of tons)		
Iron ore:			
CVRD	4,386	5,291	1,981
Third party	1,860	312	148
Coal	256	306	
Other	2,819	830	2,196
Total	9,321	6,739	4,325

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For the transportation of the cargo shown above for 2005, we operated a fleet of bulk vessels, which is comprised of three capesize vessels owned by us and a few other capesize and panamax vessels chartered on a spot basis. Our own capesize vessels have been trading worldwide carrying primarily iron ore. The chartered vessels (two capesize and eight panamax) have been contracted for the transportation of iron ore from Ponta da Madeira maritime terminal, in the state of Maranhão, to Praia Mole Terminal, in the Tubarão Port, in the state of Espírito Santo. We intend to sell our remaining three capesize vessels by the end of 2006.

The coastal shipping liner service is operated by five vessels, chartered on a bare boat basis, which cover the South American east coast from Buenos Aires, in Argentina to Fortaleza, in the state of Ceará, in the northeast of Brazil, providing weekly service. This service generated gross revenues of US$75 million with 93,813 twenty equivalent units (teus) transported in 2005.

We also operate a fleet of sixteen tug boats (seven owned and nine chartered) in the ports of Vitória in the state of Espírito Santo, Trombetas in the state of Pará, São Luís in the state of Maranhão and Aracaju in the state of Sergipe. These services generated gross revenues of US$26 million in 2005.

Competition in the logistics industry. Our railroads compete with road transport, including trucks, with the main factors being cost, safety and shipping time. We also have many competitors in the coastal shipping liner service.

Investments in Steelmaking

We have investments in the following joint ventures in the steel business, as of April 30, 2006:

	Our Direct or Indirect Share of Capital (Voting Total)				
	Voting	Total	Partners	2005 Net Revenues (in millions of US$)	Principal Products
	(%)				
CSI (California, United States)	50.00%	50.00%	JFE Steel	US$ 1,234	Hot-rolled steel; cold-rolled steel; galvanized steel; steel tubes
Siderar (Argentina)	4.85	4.85	Ternium Employees Others	1,454	Steel slabs; hot-rolled steel; cold-rolled steel; galvanized steel; tin plates
Usiminas (Brazil)	22.99	11.46	Nippon Usiminas Previ Caixa dos Empregados da Usiminas Others	5,548	Hot-rolled steel; cold-rolled steel; heavy steel plates; electro galvanized steel

The market value of our investments in Usiminas and Siderar, both of which are publicly traded companies, was US$566 million and US$142 million, respectively, at December 31, 2005. The aggregate net book value of these investments was US$423 million at December 31, 2005. The aggregate net book value of our total investments in steel producing companies (including CSI, a privately held company) was US$584 million at December 31, 2005. We earned US$90 million in dividends from these investments in 2005.

Since the third quarter of 2005, Nucor Corporation and we have jointly operated an environmentally friendly pig iron project in Northern Brazil. The project utilizes two conventional mini-blast furnaces to produce approximately

380,000 metric tons of pig iron per year, using iron ore from our Carajás mines in Northern Brazil. The charcoal source is exclusively from eucalyptus trees grown in a cultivated forest of 82,000 acres with the total project encompassing approximately 200,000 acres. We and Nucor own a joint venture company, Ferro Gusa Carajás S.A., to operate the facility. We have a 50% take of Ferro Gusa Carajás S.A. output. Approximately 78% and 22% of the voting shares are held by CVRD and Nucor, respectively.

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Energy Investments

In 2005, we consumed 16.9 TWh of electricity. Energy management and efficient supply have become priorities for us, driven by the uncertainties associated with changes in the regulatory framework, which increased the risk of rising electricity prices and electrical energy shortages, such as the one Brazil experienced in the second half of 2001. We perceived favorable investment opportunities in the Brazilian electricity sector and took advantage of them by investing in the eight hydroelectric power generation projects set forth in the table below. We plan to use the electricity produced by these projects for our internal needs. We may experience construction delays in certain generation projects due to environmental and regulatory issues, which may lead to higher costs. Analysis of each project s feasibility and investments will depend on the new laws and regulations applicable to the electricity sector, which are currently under review by the Brazilian Federal government, and their impact on electricity prices and supply. As a large consumer of electricity, we expect that investing in power projects will help to reduce costs and protect us against energy price volatility.

We currently have six hydroelectric power plants under operation and two under construction. Our total projected investment in these hydroelectric projects is estimated at approximately US$880 million. We cannot assure you that the aggregate cost will not escalate or that the projects will be completed on schedule. We also hold 43.85% of a consortium that has the concession right to build the Santa Isabel hydroelectric power plant at the Araguaia river, Brazil. In 2005, we continued our efforts to return the concessions for the Santa Isabel hydroelectric project to ANEEL due to difficulties in obtaining the necessary environmental license to begin its construction. In addition, some of our affiliates generate part of their own electric energy. The following table sets forth information regarding our power generation projects as of April 30, 2006:

	Location	Our Ownership Interest (1) (%)	Partners	Begins/Began Operations	Capacity/ Projected Capacity (in MW)	Our Investment As of December 31, 2005 (in millions of US$)	Projected Total (in millions of US$)
Aimorés	Rio Doce basin, in the state of Minas Gerais.	51.00%	Cemig	July 2005	330	US$136.5	US$141
Candonga	Rio Doce basin, in the state of Minas Gerais.	50.00	Novelís	September 2004	140	46.0	
Capim Branco I (3)	Araguari river, in the state of Minas Gerais.	48.42	Cemig Suzano Votorantim	February 2006	240	87.1	90
Capim Branco II (3)	Araguari river, in the state of Minas Gerais.	48.42	Cemig Suzano Votorantim	December 2006(2)	210	63.0	90
Estreito	Tocantins river, on the border of the states of Maranhão and	30.00	Suez Alcoa Camargo Correia	August 2009(2)	1,087	4.3	355

	Tocantins.					
Funil	Rio Grande river, in the state of Minas Gerais.	51.00	Cemig	December 2002	180	49.0
Igarapava	Rio Grande, on the border of the states of São Paulo and Minas Gerais.	38.15	Votorantim CSN Cemig Anglo-American	January 1999	210	88.1
Porto Estrela	Santo Antonio river, in the state of Minas Gerais.	33.33	Cemig Coteminas	September 2001	112	20.0

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(1) In February 2006, we sold to Furnas Centrais Elétricas for approximately R$10 million our 40% stake in the consortium to build and operate the Foz do Chapecó hydroelectric power plant. The closing of this transaction is subject to certain conditions precedent, including ANEEL s approval of the transfer of control.

(2) Projected date for commencement of the first unit of the project.

(3) Capim Branco I and Capim Branco II are two different plants operated by the same consortium.

In July 2005, Aimorés began operations with the start up of three turbines. It has an installed capacity of 330 MW and generation capacity of 172 average MW, equivalent to 1,560,720 MWh per annum.

The Capim Branco I project obtained its operational license during December 2005, which allowed for the filling of the reservoir. This milestone allowed the project to begin commercial operations in February of 2006.

REGULATORY MATTERS

Mining

Under the Brazilian Constitution, all mineral resources in Brazil belong to the Brazilian government. The Brazilian Constitution requires that mining companies incorporate in accordance with Brazilian law.

The Brazilian Constitution and Mining Code impose on mining companies various regulatory restrictions relating to, among other things:

the manner in which mineral deposits are exploited,

the health and safety of workers,

the protection and restoration of the environment,

the prevention of pollution, and

the promotion of local communities where mines are located.

Mining companies in Brazil can only prospect and mine for mineral resources pursuant to prospecting authorizations or mining concessions granted by the National Mineral Production Department, *Departamento Nacional de Produção Mineral*, or DNPM, an agency of the Ministry of Mines and Energy of the Brazilian government. DNPM grants prospecting authorizations to a requesting party for an initial period of three years. These authorizations are renewable at DNPM s discretion for another period of one to three years, provided that the requesting party is able to show that the renewal is necessary for proper conclusion of prospecting activities. On-site prospecting activities must start within 60 days of official publication of the issuance of a prospecting authorization. Upon completion of prospecting activities and geological exploration at the site, the grantee must submit a final report to DNPM. If the geological exploration reveals the existence of a mineral deposit that is economically exploitable, the grantee will have one year (which DNPM may extend) from approval of the report by DNPM to apply for a mining concession or to transfer its right to apply for a mining concession to a third party. When a mining concession is granted, the holder of the concession must begin on-site mining activities within six months. DNPM grants mining concessions for an indeterminate period of time lasting until the exhaustion of the mineral deposit. Extracted minerals that are specified in the concession belong to the holder of the concession. With the prior approval of DNPM, the holder of a mining concession can transfer it to a third party that is qualified to own concessions. In some cases, mining concessions are challenged by third parties.

Pursuant to Article 20 of the Brazilian Constitution of 1988, as implemented by Law No. 8,001/1990, the Brazilian government charges us a royalty, known as *Compensação Financeira pela Exploração de Recursos Minerais* (CFEM), on the revenues from the sale of minerals we extract, net of taxes, insurance costs and costs of transportation. The annual rates we pay on our products are:

bauxite, potash and manganese ore, 3%;

iron ore, kaolin, copper, nickel and fertilizers, 2%; and

gold, 1%.

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The Mining Code and ancillary mining laws and regulations also impose other financial obligations. For example, mining companies must compensate landowners for the damages and loss of income caused by the use and occupation of the land (either for exploitation or exploration) and must also share with the landowners the results of the exploration based on 50% of the CFEM. Mining companies must also compensate the government for damages caused to public lands. A substantial majority of our mines and mining concessions are on lands owned by us or on public lands for which we hold mining concessions.

We are currently engaged in a series of administrative and other legal proceedings alleging that we have failed to collect the proper amount of CFEM. In addition, we are discussing with DNPM what is the CFEM rate applicable to potash. Because potash is used as a fertilizer, we believe the applicable rate is the 2% rate that applies to fertilizers, but DNPM has asserted that CFEM should be levied on all potash products, regardless of how they are used, at the higher rate of 3% that generally applies to potash products. See *Item 8. Financial Information Legal Proceedings.*

Railroads

The Brazilian government, acting through the Ministry of Transportation and the ANTT, regulates and supervises the policies for the railroad transportation sector. The Federal government may grant private companies concessions for the construction, operation or commercial exploration of railroads. Railroad concession contracts granted by the Federal government impose certain shareholder ownership limitations. For FCA, the concession contract provides that each shareholder can only own up to 20% of the voting capital of the concessionaire, unless otherwise permitted by ANTT. The 20% ownership limitation does not apply to our Vitória a Minas and Carajás railroads. We are in compliance with the requirements imposed by the concession contracts for our FCA railroad operations, for which we have received an authorization from the ANTT for our current 99.99% ownership stake.

The MRS concession contract also provides that each shareholder can only own up to 20% of the voting capital of the concessionaire, unless otherwise permitted by ANTT. However, as a consequence of our acquisitions of CAEMI and Ferteco in 2003, we increased our stake in MRS to 37.2% of the voting capital and 40.5% of the total capital. On April 13, 2006, ANTT published a resolution requiring us to (i) sell those common shares we hold in MRS as a result of our acquisition and consolidation of Ferteco which are covered by the MRS Shareholders Agreement; or (ii) (a) cause the shareholders of MRS to approve certain changes in the capital structure of MRS, or (b) waive our voting and veto rights specifically in connection with the MRS shares we hold as a result of our acquisition and consolidation of Ferteco. The ANTT resolution also recommends that we comply with the CADE decision requirement that we unify our MRS shareholding in a single block. On May 10, 2006, we informed the ANTT of our decision to waive our voting and veto rights in connection with the MRS shares mentioned above, which represent 10.9% of the total capital stock and 19.3% of voting capital stock of MRS. See *Item 4. Information on the Company Lines of Business Logistics* and *Item 8. Financial Information Legal Proceedings.*

The ANTT also sets different tariff limits for railroad services for each of the concessionaires and each of the different products transported. So long as these limits are respected, the actual prices charged can be negotiated directly with the users of such services.

Electric Energy

The power industry in Brazil is regulated by the Brazilian government, acting through the Ministry of Mines and Energy and ANEEL. The role of ANEEL is to implement and enforce policies and regulations designated by the Ministry of Mines and Energy and aimed at organizing and regulating the electricity sector and power companies. ANEEL should ensure consumers an efficient and economical energy supply through regulation enforcement and the monitoring of prices and the operational efficiency of power companies.

Under the law governing the electricity sector, concessions grant exclusive rights to generate and transmit or to distribute electricity in a particular area for a period of time that should be sufficient for the concessionaire to recover its investment. The concessions for power generation are granted for up to 35 years and may be renewed at the Federal government s discretion for an additional period of up to 35 years. Concessionaires (distributors) are required to supply electricity for public services, on a continuing basis, in sufficient quantity and within approved standards of quality, provided.

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Given the hydrologic and integrated nature of the Brazilian electricity generation matrix, Decree No. 2655/1998 created the *Mecanismo de Realocação de Energia* (Energy Reallocation Mechanism), known as MRE, as a mechanism for sharing hydrological risk, and consequently reducing generation volatility among all generators. In order to implement the MRE, ANEEL designates a level of energy production, known as Assured Energy, for each generator, every five years. Assured Energy is calculated in accordance with a statistical model based on average rainfalls in the relevant region, water flows of rivers and water levels in each plant s reservoir over a multi-year time frame. Each generator is allowed to enter into contracts to sell up to 100% of its Assured Energy. To the extent a generator has signed contracts for the sale of its Assured Energy, and as long as MRE members as a whole are able to meet MRE Assured Energy levels, it receives payments based on these contractual terms, regardless of its level of actual generation. If all MRE members meet their contracted energy and there is a surplus of energy remaining, the net regional surplus generation is allocated among generators in different regions and this energy surplus may be sold in the wholesale market.

All contracts for wholesale energy purchases and sales are currently recorded in the wholesale market, *Câmara de Comercialização de Energia Elétrica*, or CCEE. The CCEE is a nonprofit private entity subject to the authorization, regulation and supervision of ANEEL, and is responsible for operating the wholesale energy market and for ensuring that energy transactions in the short-term market are settled and cleared in an efficient manner. The CCEE is primarily designed to effect the settlement of differences between the amount of energy contracted under bilateral contracts of the several market agents (generators, distributors, traders and large consumers), and the amount of energy actually consumed and produced. The settlement is done in accordance with the CCEE spot prices, which are expressed in R$/MWh and are calculated for each settlement period for each sub-market.

In March 2004, the Brazilian government approved Law No. 10,848/2004, for the electricity sector. Although the full regulations under the law have not yet been enacted and some conditions are regulated in Decree No. 5163/2004, this law created an even tighter regulated sector, especially in the generation segment. The new law transfers jurisdiction of some regulatory areas from ANEEL to the Ministry of Mines and Energy. Under this new law, all consumers of electricity, including large consumers, such as CVRD, must contract the totality of their energy needs through contracts and penalties may apply for errors above 5% of consumed energy. This law created two parallel markets for energy: a regulated market, in which a distributor will enter into contracts to supply its regulated customers, subject to regulated prices, and an unregulated market, in which a *consumidor livre,* or free consumer, will enter contracts with independent power producers at prevailing market prices. Regulated consumers may migrate to the unregulated market. However, consumers must wait until the termination of their long-term contracts.

The energy trading commission, CCEE, created by the new law to replace the Mercado Atacadista de Energia, or MAE, will be responsible for settling all energy transactions between distributors, consumers, traders and generators. Apart from the replacement of the MAE by CCEE as the wholesale energy market, we do not expect significant changes in the settlement procedures for short-term transactions. Other factors which have not yet been determined include sectorial contributions, including the regulated prices that ANEEL will charge self-generators for the use of transmission lines, and the way in which energy projects will be auctioned.

In 2005, the new regulatory framework was consolidated, with the regulation of issues particularly relevant for CVRD, including Resolution No. 166, which exempts self-producers such as CVRD from certain regulatory fees levied on the energy used by the producers themselves, and Decree No. 5,597, which allows industrial units to opt between accessing the transmission systems directly or indirectly through a distributor. Decree No. 5,597 is particularly important for our operations, because it allows us to more efficiently access our energy supply, incurring lower costs and obtaining higher quality.

Other important milestones were reached in 2005, such as the power purchase auctions for distribution companies and the competitive auctions for new generation licenses. The auction for new generation licenses should help ensure supply for the next few years but there is still uncertainty regarding the reliability of supply beyond 2010.

Because the regulation for the sector is relatively recent and not yet fully implemented, we cannot be certain of the material impact that this new law could have on our energy business. Changes in the regulatory environment could adversely impact our energy investments. Valesul is currently engaged in litigation regarding the rates that Light charges Valesul for the transmission of electricity. See *Item 8. Financial Information Legal Proceedings.*

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Environmental Matters

Federal, state and municipal legislation contain provisions for the control and protection of the environment in Brazil. These laws govern the use of natural resources, the reclamation and restoration of mined areas, the control of atmospheric emissions, the treatment of industrial effluents, as well as the use, handling and final disposal of hazardous materials, and the control of water resources under the National Hydrological Resources Policy, which establishes hydrologic use rights and the fees applicable to that use. It is possible that environmental regulations will become stricter in the future. Any strengthening of these laws may lead to greater costs for environmental compliance.

In order to conduct our mining, energy generation and industrial activities, we must prepare environmental impact assessments and submit them to authorities that oversee the granting of environmental permits. We seek to comply with all legal requirements and to achieve good relationships with interested parties, especially communities located near our operations. Our environmental management system is designed to provide a systematic approach to environmental issues.

Under Brazilian Federal Law No. 9,605/1998, non-compliance with environmental laws and regulations can result in criminal penalties, such as imprisonment and other restrictions for individuals (including directors, officers and managers of companies), and fines and the mandatory rendering of public services by companies. Administrative penalties range from warnings and fines to the suspension of corporate activities, and may also include the loss or reduction of incentives, or the cancellation or interruption of credit facilities granted by governmental institutions.

Issuance of Environmental Licenses. We must obtain environmental licenses in order to build, develop, expand and operate facilities that use natural resources or may pollute the environment. We seek to obtain the legally required licenses for each of our facilities and activities. In some cases, this process requires a significant amount of time for the preparation of comprehensive environmental reports and their evaluation, as well as for the establishment of appropriate programs for environmental education of communities residing in areas affected by the proposed projects. We have entered into agreements with the appropriate federal and state governmental environmental authorities with respect to facilities where environmental non-compliance has been detected in order to make these facilities compliant.

Environmental Compensation. Environmental Law No. 9,985/2000 requires us to pay environmental compensation to state and federal authorities, in order to create and maintain protected sites, in the amount of at least 0.5% of the total investment of each venture with a material environmental impact. There are a number of uncertainties regarding the scope and application of this law, including what rate will be applied by the federal or state governments environmental agencies, how such a rate will be applied and under what basis an investment will be valued.

Legal Reserve. Under the Brazilian Forest Code, as amended, the exploration of economic activities in the Amazon basin can only reach 20% of a project s land. We have a number of projects in the Amazônia Legal region (comprised by the states of Acre, Amazonas, Amapá, Pará, Rondônia, Roraima and Tocantins, as well as part of the states of Mato Grosso and Maranhão), such as the mining sites of CVRD, MRN, PPSA and CADAM. We are currently below the exploitation threshold in all of these projects. However, some of our mines may approach this threshold as we expand our operations. There are a number of uncertainties regarding the scope and application of the Brazilian Forest Code, as amended, in particular where a company has pre-existing operations, as is the case with our current mining operations.

Prevention and Environmental Control Measures. Our environmental policies also aim to prevent, control and reduce the environmental impact caused by our business operations. To that end, we have made significant environment-related investments in our facilities and in employee training programs (approximately US$44.5 million in 2005). We are also investing to develop environmental projects directed at the communities located near our facilities (approximately US$9 million in 2005).

Water Use. We are intensive water users in eleven states with hydrological resources that vary from very high water availability in the Amazon region to the scarcity in the northeast of Brazil. The Hydrological Resources Management System that is being implemented throughout CVRD includes evaluation of the availability of water in the areas where we operate and programs to rationalize and control water use. We continually monitor new water

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legislation and regulations and take particular interest in requirements adopted under the National Policy of Hydrological Resources, established by Law No. 9,433/1997, which defines the conditions for obtaining water use grants and for effluents disposal. CVRD also participates in the National Council of Hydrological Resources and the Local River Basin Committees, which provides the strategic approach and taxation criteria for each basin. Water use taxation has been discussed since 2002. Valesul, which is located in the Paraíba river basin, in the state of Rio de Janeiro is the first of our affiliates to be requested to pay a fee for water use and began paying nominal fees in 2004. No decision has yet been made in any other region where CVRD operates.

ISO Certifications. Our environmental management system is based on International Organization for Standardization (ISO) standard 14001. We have obtained 20 certificates covering iron ore and manganese ore production, pelletizing and ferroalloys plants, port operations, our research center, operations of the aluminum production cycle (alumina and aluminum) and kaolin production facilities. Samarco and MRN are also certified under this standard.

Environmental Control Systems: As a mining company, air emissions control is one of our main objectives, including in our pelletizing plants. Control equipment and systems, such as stockpiles and road water aspersion and use of chemical dust suppressants or installation of filters and electrostatic precipitators at our facilities are complemented by comprehensive monitoring systems and control software. Besides achievement of legal compliance, air quality in the installations and its effects in the neighboring communities are continuously evaluated and we make necessary investments for air quality improvement.

With respect to improvements in water quality, we strive to treat and control the pollutants disposed into the sea and local rivers or other water sources and also use extensive water recycling in our operations. We are researching new processes and technologies for the improvement of water use and recycling and treatment.

Through our comprehensive waste management system, we aim to achieve greater control of the generation and disposal of our waste, to develop opportunities to reuse, recycle and to reduce waste.

In 2003, our mine decommissioning manual was developed, which described a complete set of directives, including technical practices and procedures to be followed during mine closures. The manual outlines procedures for the rehabilitation and monitoring of degraded areas, the main steps and sequence to be followed during closure, and any liabilities that may result after mine closure. The manual also provides standardized basic criteria and procedures, based on the directives of the CVM and the SEC (FAS 143), for cost evaluation, the establishment of current budgets, future decommissioning and reclamation (see Note 4 to our consolidated financial statements).

Our environmental program also includes reforestation projects, which are intended to protect the soil against erosion and to create buffers between our activities and communities in the surrounding areas. We partner with universities and governmental research entities to conduct extensive research to develop procedures for reforestation, soil protection using native species of the managed regions and for the improvement of the growth and growth rate of seedlings. Comprehensive fauna and flora investigations are performed as an ongoing activity, mainly in the Carajás region, to comprehend and avoid the environmental risks involved in investing in potentially sensitive areas.

We also participate in the maintenance and preservation of approximately 1.3 million hectares of Brazilian forests, including the National Carajás Forest in the Amazon, and we own and preserve the Vale do Rio Doce Natural Reserve, one of the remaining areas of the Atlantic Forest in the state of Espírito Santo. In 2005, US$1.4 million was spent on this activity.

In the last twenty years we have provided support to the indigenous communities in the areas of education, health, infrastructure development and technical assistance with the aim of enhancing life quality and self-sustainability of these communities. Expenditures on these programs amounted to US$7.4 million in 2005.

In the first quarter of 2006, protesters blocked the Carajás railroad on three occasions. These blockages had a negative impact on our iron ore shipments, causing a reduction of approximately one million tons. We immediately took all legal measures required to remove the protestors. Although we will defend ourselves vigorously against such actions, and will continue to provide support to the communities that live in the vicinity of the Carajás railroad, future efforts by protestors to disrupt our logistic operations could have a negative impact on our activities. See *Item 3. Risk Factors Risks Related to Our Business Actions by protestors, including from indigenous communities that live*

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near our mining sites, may hamper our mining and logistic operations.

CAPITAL EXPENDITURES

The table below sets forth our historical capital expenditures by business area for the periods indicated. See *Item 5. Overview Key Factors Affecting Revenues and Results of Operations Divestitures and Asset Sales*, for a description of our divestitures.

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of US$)		
Ferrous Minerals	US$ 698	US$ 636	US$ 1,584
Non-ferrous Minerals	332	302	264
Logistics	274	484	1,092
Aluminum	79	224	669
Coal		10	135
Energy	40	79	125
Corporate center	120	178	108
Acquisitions and other investments	448	143	840
Total	US$ 1,991	US$ 2,056	US$ 4,817

2005 Capital Expenditures and Budgeted Capital Expenditures for 2006

The information above on capital expenditures is based on average monthly exchange rates. The consolidated statement of cash flows presents information on additions to investments, additions to property, plant and equipment and acquisitions recognized on an accrual basis. The value of acquisitions still unpaid or partially paid is registered as increase in liabilities, suppliers in the consolidated statement of cash flow.

We also track our capital expenditures on the basis of daily cash disbursements. On this basis, during the year 2005, CVRD made capital expenditures and other investments of US$4,161 million, of which US$2,604 million was in organic growth, composed of US$2,314 million in projects and US$290 million in research and development; while US$757 million was invested in maintaining existing business, and US$800 million in acquisitions. Total capital expenditures in 2005, excluding spending on acquisitions and other investments, were US$3,361 million. The difference between these figures and our accounting figures is due to carry over of due payments in the amount of US$258 million and differences in exchange rates of US$398 million.

In 2005, CVRD concluded three important projects: the Aimorés hydroelectric power plant, the Fábrica Nova iron ore mine and the expansion of our Taquari-Vassouras potash mine. See *Item 4 Acquisitions, Asset Sales and Significant Changes in 2005 and 2006*.

In our financial planning for 2006, we have budgeted US$4,626 million for capital expenditures in 2006. Of this total, 86.2%, or US$3,558 million, will be growth capital expenditures and the remaining US$1,068 million will be capital expenditures for maintaining existing operations (stay-in-business capital expenditures).

The following table describes our expenditures for our main investment projects in 2005 and our budgeted expenditures for projects in 2006, together with estimated total expenditures for each project:

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Area	Project	Actual	Budgeted		Status
		2005	2006	Total	
		(in millions of US$)			
Ferrous Minerals	Expansion of Carajás iron ore mines to 85 million tons per year (Northern System)	168	41	296	This project will add 15 million tons per year to our production capacity and is scheduled to be completed in the third quarter of 2006.
	Expansion of Carajás iron ore mines to 100 million tons per year (Northern System)		289	366	This project will add 15 million tons per year to our production capacity and is scheduled to be completed in the second half of 2007.
	Brucutu iron ore mine (Southern System)	354	310	856	Phase I of the project is expected to be completed in the second quarter of 2006, bringing nominal production capacity to 12 million tons per year. Completion of Phase II is planned for the first quarter of 2007, bringing capacity to 24 million tons per year. Studies are in progress for expansion to 30 million tons per year.
	Expansion of Fazendão iron ore mine (Southern System)	3	39	100	Project for 14 million tons per year of run-of-mine (ROM) iron ore. Work is planned to begin in the first half of 2006, with targeted completion and start-up in the fourth quarter of 2007.
	Expansion of Fábrica iron ore mine (Southern System)	7	88	144	Project to expand capacity by 5 million tons per year from 12 to

					17 million tons per year, with targeted start-up in the fourth quarter of 2007.
	Expansion of the Tubarão Port (Southern System)	31	20	65	Project to expand conveyor belt systems and cargo handling area machinery, and build new cargo handling areas. Completion scheduled for the first quarter of 2007.
	Itabiritos pelletizing plant (Southern System)		338	759	This project comprises a pelletizing plant, located in the state of Minas Gerais, with nominal capacity of 7 million tons per year, and an iron ore concentration plant. Start up is targeted for the second half of 2008.
	Tubarão VIII palletizing plant (Southern System)		31	516	Pelletizing plant with nominal capacity of 7 million tons per year located at the Tubarão Complex. Completion and start-up scheduled for 2008. This project is subject to CVRD Board of Directors approval.
Coal	Metallurgical coke plant	11	9	26	Acquisition of a 25% stake, in association with the Chinese coal producer Yankuang, in Shandong Yankuang International Coking Ltd, to produce metallurgical coke. The project has estimated production capacity of 2 million tons per year of coke and 200,000 tons per year of methanol. Start-up scheduled for the first half of 2006.

Non-ferrous minerals	118 copper mine		21	232	118 is expected to have production capacity of 36,000 tons per year of copper cathode. The principal equipment has been ordered. Start-up is scheduled for the first half of 2008.
	Vermelho nickel mine	5	97	1,200	The estimated production capacity of 46,000 tons per year of metallic nickel and 2,800 tons per year of cobalt. The main equipment has been ordered. The EPCM (Engineering, Procurement Construction Management) was contracted in December 2005. Work on obtaining the environmental license is in progress. Start-up of the mine is scheduled for the fourth quarter of 2008.
Aluminum	Expansion of Alunorte: stages 4 and 5 alumina	396	144	583	Stages 4 and 5 will increase the alumina refinery s capacity to 4.4 million tons per year from the current 2.4 million tons per year. Stage 4 and 5 were completed in the first quarter of 2006.
	Paragominas I bauxite mine	182	210	352	Our construction of the first module of this mine with estimated production capacity of 5.4 million tons per year is scheduled to be completed in the first quarter of 2007. The construction of the 244-km ore pipeline,

			which will carry bauxite from the mine to the alumina refinery in Barcarena, state of Pará, is expected to be completed on March 2006.
Expansion of Alunorte: stages 6 and 7 alumina	239	846	Stages 6 and 7 will increase alumina refinery capacity to 6.26 millions tons per year, with start-up planned for the second quarter of 2008.

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Area	Project	Actual 2005	Budgeted 2006	Budgeted Total	Status
		(in millions of US$)			
	Paragominas II bauxite mine		14	196	The second module of Paragominas will add 4.5 million tons per year of bauxite to the production capacity of 5.4 million tons per year achieved on the first module. Start-up is scheduled for the second quarter of 2008.
Logistics	EFVM, EFC, FCA: acquisition of locomotives and wagons	465	379	379	In 2006, we expect to purchase 22 locomotives (all of them for iron ore transportation) and 1,426 wagons (150 for general cargo transportation and 1,276 for iron ore transportation).
Power Generation	Capim Branco I and II hydroelectric power plants	90	61	181	These two power plants on the Araguari river in the state of Minas Gerais will have generation capacity of 240MW and 210MW respectively. Capim Branco I started operating in the first quarter of 2006, while the start-up of Capim Branco II is planned for the first quarter of 2007.
	Estreito hydroelectric power plant		68	355	Located on the Tocantins river, between the states of Maranhão and Tocantins. It will have generation capacity of 1,087 MW. Construction is planned for the first half of 2006, subject to obtaining operational license. The

				start-up of its first rotor is expected for the second half of 2009.
Steel joint ventures	Ceará Steel	11	25	Steel slab project located at Ceará state, with nominal production capacity of 1.5 million tons per year. Operations are scheduled to start in 2009.
	CSA	72	200	Steel slab project located at Rio de Janeiro state, with nominal production capacity of 4.4 million tons per year. Operations are scheduled to start in 2009.

In addition to these projects, CVRD has budgeted US$491 million for research and development. Of the total budgeted, 57% is expected to be spent in Brazil and 43% in South America, Africa, Asia and Australasia.

All figures reported in the table above are presented on a cash basis, according to our financial planning for 2005 and 2006.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

Overview

In 2005, we saw our third consecutive year of record growth in revenues, operating income and net income. In spite of increasing cost pressures due primarily to higher prices for equipment and raw materials reflecting the high production levels in the mining industry, higher costs for fuel and energy, and the appreciation of the *real* against the U.S. dollar we generated net income of US$4,841 million in 2005, an 88.1% increase over 2004. Our results were driven primarily by a 73.9% increase in operating income, reflecting a 58.6% increase in net revenues and improved overall operating margins, which increased from 38.7% of net revenues in 2004 to 42.5% in 2005. The increase in revenues reflected strong demand and rising prices for our principal products driven principally by continued strong demand from China and expanded demand from our other markets in Asia and Europe, as well as high production levels supported by new projects coming on stream, operation at full capacity at most of our units and productivity gains. The higher overall operating income margins resulted primarily from a significant increase in average selling prices for iron ore and pellets. The increase in iron ore and pellet operating margins more than offset operating margin declines in our other operating segments.

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Demand

Demand for iron ore and pellets

In recent years, we have experienced a significant increase in demand, particularly from China. Demand for our iron ore products is a function of global demand for steel, which is, in turn, heavily influenced by worldwide economic activity. Global demand for steel has been growing since 2002. Global demand for seaborne iron ore grew at a rate of approximately 11% in 2005.

Demand for iron ore and pellets exceeded our production capacity throughout 2005, and we expect that this situation will also prevail in 2006. We continue to invest to increase capacity, and our programmed iron ore production for 2006 is higher than in 2005, but we continue to face excess demand. We expect to continue purchasing and reselling iron ore from third parties to meet the shortfall. In 2005, we purchased 16.4 million tons of iron ore and pellets from third parties, and we expect these purchases to remain at similar levels in 2006.

Demand for aluminum-related products

Demand for aluminum-related products is driven primarily by world economic conditions. In recent years, China has been the primary driver of demand in the aluminum sector. World demand continues to be strong, especially for alumina.

Demand for transportation services

Demand for our customers transportation services in Brazil is primarily driven by growth in the Brazilian economy, mainly in the agricultural and steel sectors. Demand for rail transportation grew more slowly in 2005 than in recent years, but we expect renewed growth in 2006 particularly due to the recovery in agricultural production. We are better positioned to meet demand after enlarging our wagon and locomotive fleets and improving the reliability of our rail networks, particularly FCA.

Production Capacity

Capacity expansions are a key factor influencing our revenues. We continue to invest in expanding capacity at a large number of facilities. Completed expansions that had a significant effect on 2005 results included the following:

- Our greenfield iron ore project at Fábrica Nova, which has a capacity of 15 million tons per year, began operations in the second quarter of 2005 and produced 7.8 million tons in 2005.

- We completed our capacity expansion project at the Taquari-Vassouras potash mine in September 2005, increasing its capacity from 600,000 tons per year to 850,000 tons per year. We expect a significant increase in production in 2006.

- We purchased 125 locomotives and 5,414 wagons in 2005 to expand the general cargo and iron ore transportation capacity of our railroads.

In 2006, we expect to complete the following major projects:

- An expansion project at Carajás, designed to increase the nominal capacity of the mine to 85 million tons per year from the current 70 million tons per year, is

expected to be completed in the second half of 2006.

Phase I of the Brucutu iron ore mine, with nominal production capacity of 12 million tons per year, is targeted for completion in the third quarter of 2006.

The expansion of our Tubarão Port in the Southern System is targeted for completion by December 2006.

Our Yankuang metallurgical coke plant, with an estimated production capacity of 2 million tons of coke per year and 200,000 tons per year of methanol, is targeted to begin production in the first half of 2006.

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Stages 4 and 5 of the expansion of Alunorte, designed to increase nominal capacity to 4.4 million tons per year from the current 2.4 million tons per year, were completed in the first quarter of 2006.

We are purchasing an additional 22 locomotives (all for iron ore transportation) and 1,426 wagons (primarily for iron ore transportation).

See *Item 4. Information on the Company Capital Expenditures* for more details concerning our 2006 capital expenditures budget.

Prices

Ores and metals

Iron ore. Our iron ore sales are made pursuant to long-term supply contracts, which provide for annual price adjustments. Cyclical changes in the global demand for steel products affect sales prices and volumes in the world iron ore market. Different factors influence prices for iron ore, such as the iron content of specific ore deposits, the various beneficiation and purifying processes required to produce the desired final product, particle size, moisture content and the type and concentration of contaminants (such as phosphorus, alumina and manganese ore) in the ore. Fines, lump ore and pellets typically command different prices. We generally conduct annual price negotiations beginning in November of each year and ending early in the following year. Due to the wide variety of iron ore and pellet quality and physical characteristics, iron ore and pellets are not considered commodities. This factor combined with the structure of the market has prevented the development of an iron ore futures market. We do not hedge our exposure to iron ore price volatility.

Reference Prices for Europe in US$ cents/metric ton Fe unit

Year	Carajás fines	Standard sinter feed	Blast furnace pellets
2003	31.95	31.04	52.00
2004	37.90	36.45	61.88
2005	65.00	62.51	115.51
2006	77.35	74.39	112.05

Driven by continued high levels of demand in the global seaborne iron ore market, customer demand for iron ore and pellets continued to exceed our production capacity in 2005. Reflecting this excess demand, we reached agreements with major steelmakers in February 2005 under which our reference prices for iron ore and pellets increased by an average of 71.5% and 86.67% respectively. These price increases had a significant positive effect on our gross revenues in 2005. Our reference prices per Fe unit for Carajás iron ore fines increased across-the-board in 2005 by 71.5% from 2004 levels, after increasing by 18.62% in 2004 from 2003 levels. We experienced similar trends in the market for pellets, where reference prices increased by 86.67% in 2005, after increasing by 20.1% in 2004.

In May 2006, we reached agreements with major steelmakers under which our reference prices for Carajás (SFCJ) and Southern System (SSF) iron ore fines increased by 19.0% relative to 2005. Blast furnace pellet prices, both from the Tubarão and São Luís plants, will be reduced by 3.0% relative to 2005.

Aluminum-related operations. Aluminum is sold in an active world market where prices are determined by reference to prices prevailing on terminal markets, such as the London Metal Exchange and the New York Mercantile Exchange or NYMEX, at the time of delivery. The following table sets forth the three-month average market prices for aluminum on the London Metal Exchange for the periods indicated.

	Aluminum
1Q03	1,392.04
2Q03	1,379.55
3Q03	1,419.94
4Q03	1,519.80
1Q04	1,667.37
2Q04	1,687.60
3Q04	1,716.60

4Q04	1,813.80
1Q05	1,888.60
2Q05	1,796.32
3Q05	1,847.49
4Q05	2,066.54
1Q06	2,443.54

Source: Bloomberg.

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We are engaged in the production and sale of bauxite, alumina and aluminum primarily through several joint ventures. Some of them are consolidated subsidiaries and others are unconsolidated, and we account for them on the equity method. The basic arrangements are as follows:

MRN (an unconsolidated joint venture) produces bauxite. It sells on a take-or-pay basis to us and the other joint venture partners, at a price that is determined by a formula linked to the price of aluminum for three-month contracts in the London Metal Exchange and to the price of alumina exported from Australia.

Alunorte (a consolidated subsidiary) produces alumina. It purchases all of its bauxite requirements from MRN, and its annual purchase commitment for 2005 was approximately US$150 million. It sells alumina on a take-or-pay basis to us and the other joint-venture partners in proportion to their respective interests, at a price which is determined by a formula based on the price of aluminum for three-month contracts on the London Metal Exchange. In 2005, Alunorte s alumina production was sold 60.2% to clients located in other countries than Brazil, 33.4% to Albras, and 6.4% to Valesul.

Albras (a consolidated subsidiary) produces primary aluminum. It sells on a take-or-pay basis to us and the other joint-venture partners, in proportion to their respective interests. We sell the aluminum we purchase from Albras directly to customers.

Valesul (an unconsolidated joint venture) also produces aluminum. We do not have a take-or-pay commitment to Valesul, which sells aluminum products directly to its customers.

Manganese ore and ferroalloys. Manganese ore and ferroalloy prices are influenced by trends in the steel market. Manganese ore prices are generally negotiated on an annual basis using a benchmark established in the Japanese market based on the reference price for the related ferroalloys. Ferroalloy prices are negotiated in open bids, quarterly contracts (particularly in Europe) or on a spot basis. They are influenced by a number of factors and are more volatile than prices for manganese ore. Among the principal factors are the price of manganese ore, the inventories held by producers or traders, occasional interruptions in production and anti-dumping tariffs in the main markets (U.S., Europe, Japan and South Korea). Average manganese ore prices increased 11.2%, rising from US$75.8 per ton in 2004 to US$84.3 per ton in 2005. Average ferroalloy prices decreased 11.5%, from US$957.1 per ton in 2004 to US$846.8 per ton in 2005, reflecting oversupply in the ferroalloy market due to significant global production growth in 2004.

Given the global excess supply that resulted in inventory accumulation and falling ferroalloy prices, we decided to shut down our ferroalloy plant in Norway between August and November 2005. We also decided to operate our ferroalloy plant in France below its nominal capacity. As ferroalloy inventories were consumed and prices stabilized, we resumed full capacity operation at our Norwegian and French plants in December 2005. On the other hand, given the weakness in Brazilian demand for ferroalloys, we have decided to shut down temporarily three furnaces of our Simões Filho plant, in the state of Bahia, Brazil, since January 2006.

Potash and kaolin. Our average selling prices for potash increased 18.3%, from US$196.8 per ton in 2004 to US$232.9 per ton in 2005. Our average kaolin prices increased 6.1% from US$136.7 per ton in 2004 to US$145.0 per ton in 2005.

Copper. We sell our copper concentrate in an active world market where prices are determined on the basis of (i) prices on terminal markets, such as the London Metal Exchange and the COMEX, at the time of delivery and (ii) treatment and refining charges negotiated with each customer. World copper prices increased 40.5% in 2005 relative to 2004. These high prices reflect increased global demand, primarily from China, and the historically low level of inventories.

Logistics. We earn our logistics revenues primarily from fees charged to customers for the transportation of cargo via our railroads, ports and ships. Most of these revenues are earned by our railways, and nearly all of our logistics revenues are denominated in reais.

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Prices in the Brazilian railroad market are subject to maximum levels set by the Brazilian regulatory authorities, but they primarily reflect competition with the trucking industry.

Currency Exchange Rates

Most of our revenues are U.S. dollar-denominated, while most of our costs (other than debt service expenses) are denominate