



## **MAINTAINING GROWTH MOMENTUM**

### **Performance of CVRD in the second quarter of 2006 (2Q06)**

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Rio de Janeiro, August 2, 2006 - Companhia Vale do Rio Doce (CVRD) reports in the second quarter of 2006 (2Q06) performance consistent with its path of continuous improvement in results, which begun in the last quarter of 2002 – once again posting records for sales volume, revenue, net earnings, and cash generation.

#### **The main highlights of 2Q06 results are:**

- Quarterly sales volume records in iron ore (62.5 million tons) and alumina (867,000 tons).
- Gross revenue of US\$ 4.3 billion, 15.9% higher than in 2Q05, and 15.1% above the previous quarterly record, of US\$ 3.7 billion in 4Q05. Revenue in 1H06 was US\$ 7.8 billion, vs. US\$ 6.0 billion in 1H05.
- Operational profit as measured by adjusted EBIT<sup>(a)</sup> (earnings before interest and taxes) reached an all-time high of US\$ 1.9 billion, a 5.8% yoy increase.
- Adjusted EBIT margin of 45.2%, vs. 50.1% in 2Q05 and 40.0% in 1Q06.
- Cash flow as measured by adjusted EBITDA<sup>(b)</sup> (earnings before interest, taxes, depreciation and amortization) was US\$ 2.2 billion, US\$ 143 million higher than 2Q05. In 1H06, adjusted EBITDA reached US\$ 3.8 billion, against US\$ 3.0 billion in 1H05.
- Record quarterly net earnings, of US\$ 1.9 billion, US\$ 0.77 per share, 15.3% more than in 2Q05. In 1H06 net earnings totaled US\$ 3.0 billion, which compares with US\$ 2.3 billion in 1H05.
- Return on equity (ROE) of 32.3%, vs. 39.0% in 2Q05, and 32.1% in 1Q06.
- Capital expenditure was US\$ 1.9 billion in 1H06, compared with US\$ 1.4 billion in 1H05. Capex in 2Q06 reached US\$ 818 million, of which US\$ 518 million was related to organic growth and US\$ 300 million to sustaining existing operations.

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Except where otherwise indicated the operational and financial information in this release is based on the consolidated figures in accordance with USGAAP and, with the exception of information on investments and behavior of markets, quarterly financial statements reviewed by the company's independent auditors. The main subsidiaries that are consolidated are the following: Caemi, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Docenave, Ferrovia Centro-Atlântica (FCA), CVRD International, CVRD Overseas and Rio Doce International Finance.

| SELECTED FINANCIAL INDICATORS       |              |             |             |            |            |
|-------------------------------------|--------------|-------------|-------------|------------|------------|
|                                     | US\$ million |             |             |            |            |
|                                     | 2Q05<br>(A)  | 1Q06<br>(B) | 2Q06<br>(C) | %<br>(C/A) | %<br>(C/B) |
| Gross revenues                      | 3,721        | 3,490       | 4,313       | 15.9       | 23.6       |
| Adjusted EBIT                       | 1,771        | 1,336       | 1,873       | 5.8        | 40.2       |
| Adjusted EBIT margin (%)            | 50.1         | 40.0        | 45.2        |            |            |
| Adjusted EBITDA                     | 2,033        | 1,629       | 2,176       | 7.0        | 33.6       |
| Net earnings                        | 1,630        | 1,171       | 1,880       | 15.3       | 60.5       |
| Earnings per share (US\$)           | 0.71         | 0.51        | 0.77        | 9.3        | 52.1       |
| Annualized ROE (%)                  | 69.1         | 32.3        | 43.5        |            |            |
| Total debt/ adjusted LTM EBITDA (x) | 0.83         | 0.84        | 0.80        |            |            |
| Capex *                             | 821.3        | 1,126.0     | 818.0       | -0.4       | -27.4      |

\* including acquisitions

## BUSINESS OUTLOOK

The economic cycle that began in 2002, and which supports the present cycle of expansion in metals – the longest in the last 40 years – has alternated phases of acceleration and deceleration of the global economy growth, with an average duration of four quarters. The most recent period of acceleration began in the second quarter of 2005 and continued at least until the second quarter of 2006, characterized by global GDP growth rates close to 5% per year.

The normalization of monetary policies, led by the US Federal Reserve Bank and followed by the world's main central banks, brings the world economy into a transition in which the rate of increase of GDP is moving from a pace above that of its long-run capacity to a more moderate and sustainable rate. Although the current level of interest rates does not constrain economic growth, they are not stimulating factors to the acceleration of the economic activity.

Leading indicators are showing signs that expansion of the world economy should continue to be robust in the next six months, though more moderate than in recent quarters.

The *OECD Composite Leading Indicator* (OECD CLI) rose, in May, for the 13<sup>th</sup> consecutive month, but with a lower growth rate. This indicates continuing vigorous economic growth in the coming quarters, but at a slower pace, especially in the USA. Simultaneously, the OECD CLI indicates improvement in the performance of the economies of Japan and the Euro Zone.

The *Global Manufacturing PMI*, a leading indicator for performance of the world's manufacturing industry, increased in July, reaching a level consistent with a 5% annual growth in industrial production. This index projects a similar outlook to the OECD CLI for the near future – moderation, with regional rotation in the growth dynamics, with acceleration in Europe and Japan, and deceleration in the USA.

In the US, consumer spending has grown more slowly, due to the effect of the increase in energy prices on consumers' real income and a negative wealth effect derived from housing prices. The interest rate rise produced a reduction in new home construction and sales, with a direct negative impact on economic growth

while the end of the housing price boom generating a negative wealth effect on consumer spending.

On the other hand, the US unemployment rate continues to fall, from 5.0% in the second half of 2005 to 4.7% in the second quarter of 2006; capital spending on equipment and software is rising, at approximately 10% per year; and investment in non-residential construction, after a weak year in 2005, has recovered considerably in first half 2006. Productivity is growing consistently, benefiting from technological innovation, organizational changes and improvements in processes. Companies continue to return excellent profitability and, in spite of the increase in long-term interest rates, credit quality continues to be good.

In spite of the concerns expressed by the capital markets in 2Q06 on the future performance of the US economy, which resulted in a strong increase in price volatility of financial assets and commodities, the outlook is good, with GDP growth in the US expected to be around 3.5% per year, a rate that is compatible with its potential.

The Bank of Japan's 25-basis-point increase in short-term interest rates on July 14 ended almost six years of a zero per cent interest rate policy, used to reverse the process of deflation that had taken over the Japanese economy – officially closing the longest period of economic stagnation in a developed economy since the Great Depression of 1929.

The emerging economies maintain growth of about 6% per year, which acts in favor of the development of global demand for minerals and metals. China and India, which together account for 21% of the world's GDP, have been characterized by considerable dynamism.

In India, where industrial production is expanding at an annualized rate of 10%, steel production is growing at 16% for the second consecutive year.

In 2Q06 the economy of China posted its highest quarterly GDP growth rate – 11.3% – since fourth quarter 1994, when it grew 12.8%. The extraordinary performance of the Chinese economy has been primarily due to growth of exports, totaling US\$ 429 billion in 1H06, 25.2% more than in 1H05, and investment in fixed assets, of 31.3%. As in 2004, the economic authorities are beginning to adopt restrictive measures, directing the economy to a growth rate closer to 9% p.a., which represents the long-term trend.

The Brazilian economy grows for the third consecutive year, along with consistent reduction of inflation rate and of its vulnerability to external shocks. The Brazilian real shows signals of stabilization after strong appreciation since the last quarter of 2002.

The increase in global demand for steel caused a clear reversal of the trend to falling prices shown in 2005, with the CRU Steel Price Index returning to the record levels of second half 2004 reported in North America, Europe and Asia. In reaction to the price incentives, world crude steel production is growing at 9% p.a. – and, respectively, at 21.3%, 6.7% and 5.5%, in China, the US and Europe of the 25.

The rising global steel output has caused an increase in prices of metallic products – pig iron, HBI and scrap – in all regions of the world since March 2006, and had a direct effect on demand for iron ore.

Chinese iron ore imports in 1H06 totaled 161.4 million tons, which was 30 million tons – or 22.9% – more than in the first half of 2005. Spot iron ore market prices

continued to be above the reference prices for long-term contracts even after the 19% increase for 2006, showing that the disequilibrium between global demand and supply persists.

The world steel production ex-China, which has decreased in 2H05 and part of 1Q06, is recovering – with growth of 3.7% in 1H06. This fact has strengthened demand for iron ore, and also contributed to resumption of growth in seaborne demand for pellets, which caused the return of operation at the São Luís plant on July.

The good outlook for maintenance of the solid performance of the global economy sustains expectations that the current minerals and metals cycle will be prolonged, which clearly has positive implications for the performance of CVRD, whose production in the various sectors of the mining industry is in a process of strong expansion.

## MATERIAL EVENTS

- **Reference prices of iron ore and pellets for 2006**

Negotiation of iron ore and pellet prices for 2006 was concluded with an increase of 19% in prices of fines and lumps, and a reduction of 3% in prices of blast furnace and direct reduction pellets.

The raise in the price of iron ore reflects the imbalance between global demand and supply resulting from significant expansion in demand, which grew at an average annual rate of 11% in the first half of this decade.

- **Asset portfolio**

In July CVRD acquired 45.5% of total capital of Valesul Alumínio S.A., an aluminum smelter located in the state of Rio de Janeiro, Brazil, for US\$ 27.5 million, increasing its stake to 100%.

The acquisition is aligned with CVRD's strategy for the aluminum business of focusing on organic growth in the upstream of the value chain and strategic partnership in smelters. Valesul will begin to be consolidated in our financial statements in 3Q06.

At the same time, the Company disposed of its 50% stake in Gulf Industrial Investment Company (GIIC), a pelletizing plant in Bahrain, for US\$ 418 million. CVRD and Gulf Investment Corporation – the holder of the other 50% of GIIC, developed different views on management of the joint venture, and entered into a mandatory buy-sell agreement to solve the divergences in accordance with the shareholders' agreement.

- **Financial management and risk perception**

CVRD contracted a revolving credit line in the amount of US\$ 500 million, with tenor of five years, with a syndicate of global commercial banks. The commitment fee is 0.09% p.a., and the cost of its utilization is Libor plus 0.235% p.a. The transaction was structured in such a way as not to have any restrictions on disbursement of funds related to sovereign risk.

With this new credit line CVRD now has, in addition to its own cash holdings, a liquidity cushion of approximately US\$ 1.2 billion, which makes an important contribution to its risk perception by the financial markets.

Recognition of CVRD's financial strength is evidenced by its investment grade rating from the world's four largest rating agencies: Standard & Poor's (BBB+), Moody's (Baa3), Dominion Bond Rating Services (BBB *high*) and Fitch Ratings (BBB-), with a positive contribution to its cost of capital reduction.

In 2Q06, the rating of CVRD by S&P was improved from BBB, given in October 2005, to BBB+, two notches above the lowest investment grade level. Dominion Bond Rating Services also upgraded its risk rating for the Company, from BBB (low), given in August 2005, to BBB (high).

- **Shares**

In April CVRD's Extraordinary General Meeting of Shareholders approved a one-for-two forward stock split, for both the common and preferred shares.

This was made effective on the São Paulo Stock Exchange – Bovespa - on May 25, 2006 for shareholders record on May 19, 2006.

For the American Depository Receipts (ADRs) traded on the New York Stock Exchange (NYSE) the distribution of new ADRs - one new ADR for each existing ADR - took place on June 7, for record date May 24, 2006. Each ADR, whether RIO or RIOPR, continues to represent one common or preferred share.

The split increased CVRD's total number of shares to 2,459,657,056, of which 1,499,898,858 are common shares and 959,758,198 are PNA preferred shares.

On June 21 CVRD announced a 180-day buy-back program for up to 47,986,763 of its preferred Class A shares, or 5% of the total number of PNA preferred shares outstanding on May 31, 2006.

By the end of July, 15,149,600 preferred shares had been acquired, involving the spending of US\$ 301.3 million.

## ◆ REVENUES: US\$ 4.3 BILLION

Gross revenue in 2Q06, at US\$ 4.313 billion, increased 15.9% yoy, outstripping the previous record of US\$ 3.746 billion reached in 4Q05. Revenue in the half-year was equal to US\$ 7.803 billion, 29.0% higher than the revenue of US\$ 6.049 billion in 1H05.

Increases in sales volume were responsible for 61.3% of revenue increase of US\$ 592 million in 2Q06 compared to 2Q05: US\$ 251 million arose from increased shipments of iron ore and US\$ 182 million from larger shipments of alumina. On the other hand, the reduction in pellet sales caused by the temporary closure of the São Luís plant had a negative effect on revenue of US\$ 88 million.

The change in prices contributed with US\$ 228 million to the revenue growth. In 2Q06, the accrual of the retroactive effect of the new iron ore prices on sales made in 1Q06 added US\$ 142 million to revenue in 2Q06, and in pellets the price reduction had a similar negative impact of US\$ 4 million. Since the price negotiation with our clients in China was concluded at the end of 2Q06, a net amount of US\$ 217 million – related to shipments realized in 2Q06 - has yet to be added to revenue in 3Q06. Eliminating the retroactive effects, the impact of prices on revenue growth from 2Q05 to 2Q06 should be US\$ 625 million.

# US GAAP

The ferrous minerals division was responsible for 69.8% of gross revenue; the aluminum chain – bauxite, alumina and primary aluminum – for 14.8%; logistics services for 8.4%; and non-ferrous minerals 6.4%.

The Americas were once again the primary sales destination, providing 32.6% of total revenue, close to Asia with 32.1%, and followed by Europe with 27.4%.

The revenue of US\$ 1.018 billion accounted in the Brazilian market includes US\$ 245 million from sales of pellet feed to the Tubarão joint ventures (Nibrasco, Itabasco, Hispanobras and Kobrasco) which, after transformation into pellets, is shipped to other markets.

China, an important market for CVRD's products, provided 18.9% of the Company's total revenue in 2Q06 – more than double the portion it represented three years ago, of 7.6% in 2Q03.

| GROSS REVENUE BY DESTINATION |              |              |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                              | US\$ million |              |              |              |              |              |
|                              | 2Q05         | %            | 1Q06         | %            | 2Q06         | %            |
| <b>Americas</b>              | <b>1,414</b> | <b>38.0</b>  | <b>1,156</b> | <b>33.1</b>  | <b>1,404</b> | <b>32.6</b>  |
| Brazil                       | 1,013        | 27.2         | 850          | 24.3         | 1,018        | 23.6         |
| USA                          | 119          | 3.2          | 69           | 2.0          | 99           | 2.3          |
| Others                       | 282          | 7.6          | 237          | 6.8          | 287          | 6.7          |
| <b>Asia</b>                  | <b>922</b>   | <b>24.8</b>  | <b>1,224</b> | <b>35.1</b>  | <b>1,384</b> | <b>32.1</b>  |
| China                        | 431          | 11.6         | 653          | 18.7         | 814          | 18.9         |
| Japan                        | 324          | 8.7          | 373          | 10.7         | 388          | 9.0          |
| Others                       | 167          | 4.5          | 198          | 5.7          | 182          | 4.2          |
| <b>Europe</b>                | <b>1,149</b> | <b>30.9</b>  | <b>959</b>   | <b>27.5</b>  | <b>1,183</b> | <b>27.4</b>  |
| <b>Rest of the World</b>     | <b>236</b>   | <b>6.3</b>   | <b>151</b>   | <b>4.3</b>   | <b>342</b>   | <b>7.9</b>   |
| <b>Total</b>                 | <b>3,721</b> | <b>100.0</b> | <b>3,490</b> | <b>100.0</b> | <b>4,313</b> | <b>100.0</b> |

## ■ COSTS: SCENARIO BEGINNING TO CHANGE

In 2Q06 cost of goods sold (COGS) reached US\$ 1.884 billion, with an increase of US\$ 376 million, or 24.9%, related to 2Q05 and US\$ 189 million, or 11.2% qoq.

The 13.3% appreciation of the Real against the US dollar was responsible for 51.9% - or US\$ 195 million – of the variation in COGS between 2Q05 and 2Q06, while the higher level of production and sales generated an effect of 14.4% and, the increase in prices of inputs and services contributed to the remaining 5.3%.

Though costs continued to increase, these figures reflect a different situation in 2Q06 from those for the comparison between 2005 and 2004. In 2Q06 the year-on-year comparison for COGS was much smaller (24.9% vs. 52.6%). While in 2005 the major sources of cost increase were higher prices (55.7%) and currency appreciation (29.6%), in 2Q06 they were the Brazilian real appreciation against the US dollar and the expansion of production and sales, as mentioned above.

The Company is making efforts to reduce costs, and expects to achieve significant results over the next 12 months.

Outsourced services, the main item of costs, representing 24.2% of total costs, were US\$ 456 million in 2Q06, contributing US\$ 114 million – or 30.3% - to the raise of COGS between 2Q05 and 2Q06. Compared to 1Q06, the raise was US\$ 37 million.



In 2Q06 rail freight costs, contracted with MRS for transport of the iron ore produced by MBR and the Oeste mines, of the Southern System, amounted to US\$ 132 million. US\$ 106 million was spent on waste and ore removal and US\$ 80 million on maintenance services for equipment and facilities – this last figure was US\$ 22 million lower than in the previous quarter (1Q06), while the US\$ 31 million increase in freight costs reflected higher volumes transported. The expenses on waste and ore removal have remained constant, given the higher usage of own workforce.

Material costs were 18.3% of COGS, totaling US\$ 345 million, or US\$ 66 million more than in 2Q05, representing 17.6% of the growth in COGS. The main components of material costs in 2Q06 were: machinery parts and components, US\$ 124 million, input materials US\$ 45 million, conveyor belts US\$ 13 million, and tires, US\$ 12 million.

Energy expenses - 17.5% of COGS – summed up US\$ 330 million in 2Q06, with an increment of US\$ 65 million year-on-year, or 17.3% of the difference in total costs. The raise in this item was due to consumption growth, currency appreciation and higher prices in Reais.

The cost of acquisition of iron ore and pellets amounted to US\$ 177 million, US\$ 38 million less than in 2Q05, reflecting lower volume of iron ore and pellets purchased, and differences in the retroactive price adjustments (between 2005 and 2006) in relation to the first quarter.

In the quarter, CVRD bought 3.689 million tons of iron ore from other mining companies, which compares with 4.140 million in 2Q05, and 3.663 million in 1Q06. The Company also acquired 2.227 million tons of pellets from the Tubarão joint ventures (Nibrasco, Itabasco, Kobrasco and Hispanobras) to sell to its own clients, compared with 2.322 million in 2Q05 and 2.102 million in 1Q06.

The cost of acquisition of other products, US\$ 118 million, was 45.7% higher than in 2Q05. This reflects the increase in purchases of bauxite from Trombetas to supply the expanded operation of the alumina refinery of Barcarena. When the Paragominas mine starts operating in 2007, bauxite purchases will return to their normal level, corresponding to CVRD's "take" in MRN.

Personnel expenses in 2Q06 reached US\$ 159 million, US\$ 42 million higher than in 2Q05. Beside the effect of the annual salary increase, valid from July 2005, the costs were negatively affected by the currency appreciation and by the higher number of employees due to the expansion of the Company's activities.

Demurrage expenses – penalty payments for delay in loading ships in the Company's ports – were US\$ 15 million, compared with US\$ 16 million in 2Q05. Therefore, there was a 15.2% reduction in the demurrage per ton shipped, from US\$ 0.33 in 2Q05 to US\$ 0.28 in 2Q06.

Total depreciation and amortization in the quarter was US\$ 56 million higher than in 2Q05, at US\$ 183 million, due to the raise in the value of the Company's asset base, and accounts for 14.9% of the variation in COGS.

Sales, general and administrative (SG&A) expenses amounted to US\$ 212 million in 2Q06, US\$ 77 million more than in 2Q05, basically reflecting higher sales expenses (US\$ 33 million), administrative personnel expenses (US\$ 14 million), and depreciation (US\$ 14 million).

In line with the capex programmed for 2006, research and development (R&D) expenses, accounted as current costs, totaled US\$ 101 million in 2Q06, compared to US\$ 54 million in 2Q05 and US\$ 71 million in 1Q06.

| COST OF GOODS SOLD                 |              |              |              |              |              |              |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                    | US\$ million |              |              |              |              |              |
|                                    | 2Q05         | %            | 1Q06         | %            | 2Q06         | %            |
| <b>Outsourced services</b>         | <b>342</b>   | <b>22.7</b>  | <b>419</b>   | <b>24.7</b>  | <b>456</b>   | <b>24.2</b>  |
| <b>Material</b>                    | <b>279</b>   | <b>18.5</b>  | <b>292</b>   | <b>17.2</b>  | <b>345</b>   | <b>18.3</b>  |
| <b>Energy</b>                      | <b>265</b>   | <b>17.6</b>  | <b>290</b>   | <b>17.1</b>  | <b>330</b>   | <b>17.5</b>  |
| Fuels                              | 148          | 9.8          | 171          | 10.1         | 197          | 10.5         |
| Electric energy                    | 117          | 7.8          | 119          | 7.0          | 133          | 7.1          |
| <b>Acquisition of products</b>     | <b>296</b>   | <b>19.6</b>  | <b>285</b>   | <b>16.8</b>  | <b>295</b>   | <b>15.7</b>  |
| iron ore and pellets               | 215          | 14.3         | 201          | 11.9         | 177          | 9.4          |
| Bauxite and other products         | 81           | 5.4          | 84           | 5.0          | 118          | 6.3          |
| <b>Personnel</b>                   | <b>117</b>   | <b>7.8</b>   | <b>146</b>   | <b>8.6</b>   | <b>159</b>   | <b>8.4</b>   |
| <b>Depreciation and exhaustion</b> | <b>127</b>   | <b>8.4</b>   | <b>158</b>   | <b>9.3</b>   | <b>183</b>   | <b>9.7</b>   |
| <b>Others</b>                      | <b>82</b>    | <b>5.4</b>   | <b>105</b>   | <b>6.2</b>   | <b>116</b>   | <b>6.2</b>   |
| <b>Total</b>                       | <b>1,508</b> | <b>100.0</b> | <b>1,695</b> | <b>100.0</b> | <b>1,884</b> | <b>100.0</b> |

## RECORD OPERATIONAL PERFORMANCE

Operational profit, measured by adjusted EBIT, was once again a record in 2Q06, at US\$ 1.873 billion, 5.8% more than in 2Q05 and 40.2% more than in 1Q06.

The improvement of US\$ 610 billion in net sales revenue, partially offset by the increase of US\$ 376 million in COGS, US\$ 77 million in SG&A, and US\$ 47 million in R&D expenses, contributed to the increment of US\$ 102 million in adjusted EBITDA.

Adjusted EBIT margin was 45.2%, vs. 50.1% in 2Q05 and 40.0% in 1Q06. Average operational margin over the last 18 quarters – from 1Q02 through 2Q06, has been 37.2%, and since 2Q05 this average has been above or equal to 40.0%.

## CASH FLOW REACHES AN ALL-TIME HIGH FIGURE

CVRD's adjusted EBITDA in 2Q06 – a new record, and once again above US\$ 2 billion, at US\$ 2.176 billion – was 7.0% higher than in 2Q05, US\$ 2.033 billion.

Eliminating the effects of the retroactive adjustments of iron ore and pellet prices gives a more balanced view of the change in adjusted EBITDA: the value for 2Q06 would be US\$ 2.255 billion, compared with US\$ 1.715 billion in 2Q05, showing a higher growth rate, of 31.3%, than the one considering the reported figures, of 7.0%.

Adjusted EBITDA in the last-12-months until June 2006 was US\$ 7.319 billion, 45.4% more than in the same period of 2Q05. This quarter was the 17<sup>th</sup> consecutive quarter of growth in adjusted LTM EBITDA.

The main components in the US\$ 143 million increase in adjusted EBITDA from 2Q05 to 2Q06 are US\$ 102 million growth in adjusted EBIT, US\$ 69 million increase in depreciation and US\$ 28 million decrease in dividends paid by non-consolidated companies.

Dividends paid by non-consolidated companies, affiliated companies and joint ventures, in 2Q06 totaled US\$ 98 million, vs. US\$ 126 million received in 2Q05. They include US\$ 28 million from Usiminas, US\$ 22 million from MRN, US\$ 20 million from MRS, US\$ 15 million from Henan Longyu Resources and US\$ 11 million from Kobrasco.



From 2001 to 2005, the dividends received by CVRD had average annual growth rate of 39.3%, while the average amount of the last four quarters was US\$ 126 million. Although, in the meantime, the consolidation of several companies previously not consolidated, such as Caemi, Albras and Alunorte, and sale of our stakes in some non-consolidated companies contributed to diminish the dividends received, the improvement in the financial performance of the remaining affiliated companies and joint ventures more than offset such effect.

By business area, cash flow in 2Q06 breaks down as follows: ferrous minerals 73.0%; aluminum 15.6%; non-ferrous minerals 8.0%; and logistics 6.2%. Expenses on R&D not allocated to the business areas reduced adjusted EBITDA by a total of US\$ 101 million.

| QUARTERLY ADJUSTED EBITDA               |              |              |              |
|---|--------------|--------------|--------------|
|   | US\$ million |              |              |
|   | 2Q05         | 1Q06         | 2Q06         |
| Net operating revenues                  | 3,536        | 3,340        | 4,146        |
| COGS                                    | (1,508)      | (1,695)      | (1,884)      |
| SG&A                                    | (135)        | (168)        | (212)        |
| Research and development                | (54)         | (71)         | (101)        |
| Other operational expenses              | (68)         | (70)         | (76)         |
| <b>Adjusted EBIT</b>                    | <b>1,771</b> | <b>1,336</b> | <b>1,873</b> |
| Depreciation, amortization & exhaustion | 136          | 181          | 205          |
| Dividends received                      | 126          | 112          | 98           |
| <b>Adjusted EBITDA</b>                  | <b>2,033</b> | <b>1,629</b> | <b>2,176</b> |

## ◆ FINANCIAL REVENUE (EXPENSES)

CVRD reported net financial expenses of US\$ 172 million in 2Q06. This result is US\$ 452 million lower than in 2Q05, when the Company posted net financial revenues of US\$ 280 million.

Financial revenues amounted to US\$ 45 million, vs. US\$ 27 million in 2Q05, as a result of higher interest rates and a higher average in cash balance.

Financial expenses added US\$ 245 million, US\$ 194 million more than in 2Q05. The most important components for this increment were losses on derivatives transactions, of US\$ 54 million, and the negative effect from marking to market of the non-convertible shareholders debentures.

The losses on derivatives resulted from remaining hedge transactions on aluminum prices. In addition to this effect, since the cost of electricity consumed by Albras is indexed to the LME aluminum price, FASB 133 considers this as a derivative. Thus, as fluctuations on the LME aluminum price change the present value of the electricity expenses related to the energy amount under the contract, the Company is obliged to register in its financial results such effect as loss or gain. Given the metal price increased in 2Q06 compared to 1Q06, the effect on the present value of the contract was accounted as loss of US\$ 13 million.

In May 1997, due to its privatization process, CVRD issued non-convertible shareholders debentures, whose remuneration was established as a percentage of revenues related to future exploration of certain mineral assets. These debentures were registered at CVM - Comissão de Valores Mobiliários do Brasil (the Brazilian Securities and Exchange Commission) in 2002 and are traded at the SND - Sistema Nacional de Debêntures (the National Debenture System), under the supervision of ANDIMA - Associação Nacional das Instituições do Mercado Aberto (the National Association of Open Market Institutions), [www.debentures.com.br](http://www.debentures.com.br).

# US GAAP

These debentures are liabilities of the Company and, therefore, their value is marked to market. The higher liquidity of these securities on SND transactions and the significant rise of their average prices, from R\$ 0,060999 in 1Q06 to R\$ 0,325928 in 2Q06, led to the update of the book value of these liabilities on June 30, 2006 to US\$ 59 million – resulting in an accounting loss of US\$ 48 million.

Interest expenses were US\$ 9 million higher since the reduction in the average cost of debt partially offset the enlargement in the gross debt, from US\$ 4.168 billion on June 30, 2005 to US\$ 5.883 billion on the end of this quarter.

The 8.6% appreciation in the BRL/USD exchange rate from June 30, 2005 to the end of 2Q06 generated a positive accounting effect – monetary variation - of US\$ 28 million in the result for 2Q06. This amount is US\$ 276 million lower than in 2Q05, when exchange rate variations gave rise to an accounting gain of US\$ 304 million.

## ■ EQUITY INCOME

Equity income from subsidiaries contributed US\$ 184 million to the net earnings for 2Q06. The figure was 16.4%, or US\$ 36 million, lower than in 2Q05. The companies in the ferrous minerals business was responsible for 47.3% of this total; steel companies 25.0%; aluminum production chain 12.0%; logistics 13.0%; and coal 2.2%.

The pelletizing joint ventures – Nibrasco, Hispanobras, Kobrasco, Itabasco, Samarco and GIIC – returned US\$ 87 million, which was US\$ 41 million lower than the amount for 2Q05. The lower figure reflects the sale of GIIC, reducing the total by US\$ 19 million. Samarco was the joint venture providing the highest contribution to CVRD's earnings, with US\$ 67 million.

Equity income from the aluminum production chain, at US\$ 22 million, was 22% higher than in 2Q05. The contribution of MRN reduced from US\$ 17 million to US\$ 14 million, and the contribution of Valesul was US\$ 1 million higher, at US\$ 8 million.

CVRD's investment in Henan Longyu Energy Resources Ltd., the Chinese anthracite coal producing company, produced equity income of US\$ 4 million.

Investments in the logistics companies yielded US\$ 24 million in the quarter, twice the return achieved in 2Q05.

Equity income from the holdings in the steel industry totaled US\$ 46 million in 2Q06, vs. US\$ 62 million in 2Q05.

| RESULT FROM SHAREHOLDINGS     |              |            |            |
|-------------------------------|--------------|------------|------------|
|                               | US\$ million |            |            |
|                               | 2Q05         | 1Q06       | 2Q06       |
| Iron Ore and Pellets          | 128          | 80         | 87         |
| Aluminum, Alumina and Bauxite | 18           | 16         | 22         |
| Logistics                     | 12           | 14         | 24         |
| Steel                         | 62           | 41         | 46         |
| Coal                          | -            | 7          | 4          |
| Others                        | -            | (2)        | 1          |
| <b>Total</b>                  | <b>220</b>   | <b>156</b> | <b>184</b> |

## ◆ RECORD QUARTERLY NET EARNINGS: US\$ 1.9 BILLION

CVRD reached record net earnings of US\$ 1.880 billion in 2Q06, US\$ 250 million more than the previous record of US\$ 1.630 billion obtained in 2Q05. Net earnings in the first half of 2006 was US\$ 3.051 billion, and in the last-12-months (LTM) until June 2006 was US\$ 5.564 billion.

Components of the improvement of US\$ 102 million in operational profit between 2Q05 and 2Q06 included elimination of the negative effect of US\$ 99 million in minority shareholding participating as a result of the stock merger with Caemi, and US\$ 338 million as gain on sales of assets, from the sale of the stake in GIIC.

## ◆ A HEALTHY BALANCE SHEET: RATING UPGRADED

CVRD's total debt on June 30, 2006 was US\$ 5.883 billion, vs. US\$ 6.063 billion on March 31, 2006 and US\$ 4.168 billion on June 30, 2005. Net debt <sup>(c)</sup> at the end of June 2006 was US\$ 3.989 billion, compared to US\$ 4.419 billion at the end of March 2006, and US\$ 3.212 billion at the end of June 2005.

The average tenor of the debt on June 30, 2006 was 8.27 years, longer than the average tenor of 6.57 years at June 30, 2005, and 8.15 years at the end of March 2006. Of the total debt on June 30, 2006, 53% was indexed to floating rates, and 47% was at fixed rates of interest.

Total debt/LTM adjusted EBITDA <sup>(d)</sup> diminished from 0.84x on March 31, 2006 to 0.80x on June 30, 2006. Meanwhile, total debt/EV <sup>(e)</sup> was maintained in the level of 10%.

Interest coverage as measured as LTM adjusted EBITDA/Interest paid <sup>(f)</sup> was slightly reduced, from 27.08x at the end of the first quarter to 23.76x on June 30, 2006.

Thus, in spite of the increase of total debt in first half of 2006, which was largely due to the anticipation of fund raising to take advantage from lower interest rates, our debt leverage and interest coverage indices are at extremely comfortable levels.

In 2Q06 Fitch Ratings gave CVRD investment grade rating (BBB-), becoming the fourth rating globally-operating agency to do so. Simultaneously, Standard & Poor's (S&P) and Dominion Bond Rating Services (DBRS) also upgraded CVRD's risk rating – S&P from BBB to BBB+, and DBRS from BBB<sub>low</sub> to BBB<sub>high</sub>. These two changes place CVRD only one notch below the A band, the highest on the credit rating agencies' classification scale.

| FINANCIAL EXPENSES                           |              |              |              |
|--|--------------|--------------|--------------|
|  | US\$ million |              |              |
| Financial expenses on:                       | 2Q05         | 1Q06         | 2Q06         |
| Debt with third parties                      | (57)         | (66)         | (68)         |
| Debt with related parties                    | (4)          | (2)          | (2)          |
| <b>Total debt-related financial expenses</b> | <b>(61)</b>  | <b>(68)</b>  | <b>(70)</b>  |
| <b>Gross interest on:</b>                    | <b>2Q05</b>  | <b>1Q06</b>  | <b>2Q06</b>  |
| Tax and labour contingencies                 | (13)         | (26)         | (26)         |
| Tax on financial transactions (CPMF)         | (16)         | (21)         | (18)         |
| Derivatives                                  | 56           | (66)         | (54)         |
| Others                                       | (17)         | (32)         | (77)         |
| <b>Total gross interest</b>                  | <b>10</b>    | <b>(145)</b> | <b>(175)</b> |
| <b>Total</b>                                 | <b>(51)</b>  | <b>(213)</b> | <b>(245)</b> |

| DEBT INDICATORS                                 |              |       |       |
|---|--------------|-------|-------|
|   | US\$ million |       |       |
|   | 2Q05         | 1Q06  | 2Q06  |
| Total debt                                      | 4,168        | 6,063 | 5,883 |
| Net debt  | 3,212        | 4,419 | 3,989 |
| Total debt / adjusted LTM EBITDA (x)            | 0.83         | 0.84  | 0.80  |
| Adjusted LTM EBITDA / LTM interest expenses (x) | 17.73        | 27.08 | 23.76 |
| Total debt / EV (%)                             | 10.98        | 10.31 | 9.85  |

*Enterprise Value = market capitalization + net debt*

## PERFORMANCE OF THE BUSINESS SEGMENTS

### • Ferrous minerals

Shipments of iron ore and pellets in 2Q06 totaled 67.583 million tons, 8.3% more than in 2Q05, reflecting an expansion in the production of iron ore at all the Company's sites, and the continuing high demand for fines and lumps.

In the first half of 2006, iron ore and pellet sales were 131.469 million, showing a 7.6% growth compared to 1H05, when sales reached 122.182 million tons.

Iron ore sales were 62.518 million tons in 2Q06, 11.3% more than in 2Q05, a new quarterly record, exceeding the 4Q05 quarterly volume record by 3.368 million tons.

At the same time, as expected, sales of pellets, at 5.065 million tons, were lower than in 2Q05 (5.894 million tons) and 1Q06 (6.219 million tons). São Luís remained closed in 2Q06, but with resumption of vigorous demand for pellets in the seaborne market, was started up again in the second half of July.

In 2Q06 CVRD acquired 3.689 million tons of iron ore from mining companies in the Iron Quadrangle in state of Minas Gerais, Brazil, to complement its own production – which once again was a record in the quarter, at 65.9 million tons.

CVRD sold 19.967 million tons of iron ore and pellets to China in 2Q06, 29.5% of its total sales volume, and 70.0% more than in 2Q05. The Japanese market absorbed 6.057 million tons, or 9.0% of CVRD's total sales in the quarter; Germany, 5.093 million tons, 7.5%; and France 2.290 million tons, 3.4%.

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Sales to Brazilian steel makers and pig iron producers added 9.010 million tons, 13.3% of total shipments, and sales to the Tubarão joint ventures were 5,597 million tons, 8.3% of total shipments.

If the effect of the retroactive price adjustment is eliminated, the average price realized for iron ore shipments in 2Q06 was US\$ 40.79 per ton, 18.3% more than in 1Q06. In pellets, the adjusted price is US\$ 76.21 per ton, the same as the figure for 1Q05 – reflecting the higher proportion, in this quarter's shipments, of direct reduction pellets, which command a 10% premium over blast furnace pellets.

Shipments of manganese ore in the quarter were 198,000 tons, and sales of ferro-alloys reached 144,000 tons. These figures are at the same levels as in 2Q05, when the sales volume were, respectively, 194,000 tons and 147,000 tons.

The average price of manganese ore sales in 2Q06 was US\$ 55.56 per ton, 43.3% lower than in 2Q05, reflecting the excess of global supply.

After a significant decline which began in mid 2004, alloy prices began to stabilize at the end of 2005 and recovered slightly in the first half of 2006 as a result of the contraction of supply and expansion of steel production. Therefore, the average price of our shipments in 2Q06 was US\$ 805.56, 14.2% lower than in 2Q05, but 6.8% higher than in 1Q06.

Revenues from ferrous minerals – iron ore, pellets, manganese and ferro-alloys – in 2Q06 amounted to US\$ 3.011 billion in 2Q06, slightly more than in 2Q05, of US\$ 2.908 billion. Removing the effects of the retroactive price adjustments in the two periods (US\$ 318 million in 2Q05 and US\$ 138 million in 2Q06), the yoy variation would be US\$ 283 million, or 10.9%, higher than in 2Q05.

The revenue from sales of iron ore in the quarter was US\$ 2.471 billion; pellet sales summed up US\$ 386 million; operational services for the Tubarão pelletizing plants US\$ 17 million; manganese ore US\$ 11 million, and ferro-alloys US\$ 116 million.

Adjusted EBIT margin was 48.4%, which compares with 56.7% in 2Q05 and 44.8% in 1Q06.

Adjusted EBITDA in 2Q06 reached US\$ 1.588 billion, vs. US\$ 1.690 billion in 2Q05 and US\$ 1.334 billion in 1Q06.

| FERROUS MINERALS               |       |       |       |
|--------------------------------|-------|-------|-------|
|                                | 2Q05  | 1Q06  | 2Q06  |
| Adjusted EBIT margin (%)       | 56.7  | 44.8  | 48.4  |
| Adjusted EBITDA (US\$ million) | 1,690 | 1,334 | 1,588 |

- **Aluminum products**

CVRD sold 867,000 tons of alumina in 2Q06, beating the prior quarterly record of 4Q03 (756,000 tons). The positive variation of 115.7% from 2Q05 reflects completion of the ramp-up of the capacity expansion at the Barcarena refinery to 4.4 million tons. The refinery achieved quarterly production record of one million tons in the quarter.

Average price realized, of US\$ 391.00 per ton, was 42.9% higher than in 2Q05, representing 14.6% of the average LME price of aluminum.

Sales of primary aluminum totaled 112,000 tons in 2Q06, equal to the level of 1Q06, and 2,000 tons higher than the total shipments in 2Q05 – result of

productivity gains in operation of the Barcarena smelter, which also posted a quarterly production record.

The average sale price of aluminum in 2Q06, US\$ 2,607.14 per ton, was 40.6% higher than in 2Q05, of US\$ 1,854.55 per ton.

Revenue from sales of bauxite, alumina and aluminum in the quarter consisted of US\$ 640 million, vs. US\$ 327 million in 2Q05.

The operational margin in the aluminum chain increased substantially, from 32.7% in 2Q05 to 35.8% in 1Q06, and 47.4% in 2Q06.

Hence, adjusted EBITDA in 2Q06, US\$ 339 million, was more than double of 2Q05, US\$ 154 million, and 64.6% more than the EBITDA of US\$ 206 million posted in 1Q06.

| ALUMINUM PRODUCTS              |      |      |      |
|--------------------------------|------|------|------|
|                                | 2Q05 | 1Q06 | 2Q06 |
| Adjusted EBIT margin (%)       | 32.7 | 35.8 | 47.4 |
| Adjusted EBITDA (US\$ million) | 154  | 206  | 339  |

- **Non-ferrous minerals**

The improved copper concentrate sales were central to the achievement of adjusted EBIT margin of 53.8% in the non-ferrous minerals business, 144 basis points higher year-on-year, and the US\$ 175 million adjusted EBITDA in this business division, vs. US\$ 79 million in 2Q05, and US\$ 74 million in 1Q06.

Volumes of copper concentrate shipped in 2Q06 amounted to 105,000 tons, similar to the level of 2Q05, and 35,000 tons more than in 1Q06 – reflecting recovery of production at Sossego.

Average price for copper concentrate in 2Q06 was US\$ 1,952 per ton, more than double the figure for 2Q05. Copper concentrate sales produced revenue of US\$ 205 million, US\$ 112 million higher than in 2Q05.

In kaolin, volume sold was 305,000 tons, on a level with 2Q05 sales of 303,000 tons. Average price, at US\$ 154.10 per ton was 3.8% more than in 2Q05. Revenue from kaolin was equal to US\$ 47 million in 2Q06.

The reduction in the area of land planted by farmers in Brazil, a response to fall in profitability resulting from the appreciation of the Real against the US dollar, and also the reduction in the price of soybeans since 2Q04 and increased input prices, led to a strong retraction in consumption of potash. Meanwhile, the price of potash, after a peak in 2Q05, continued to decline, due to contraction in the global demand.

Therefore our potash sales in 2Q06 were 121,000 tons, 6.2% less than in 2Q05. With the reduction of average price from US\$ 240.31 per ton in 2Q05 to US\$ 190.08 per ton, revenue was US\$ 8 million lower, at US\$ 23 million in 2Q06, than in 2Q05, of US\$ 31 million.

| NON FERROUS MINERALS           |      |      |      |
|--------------------------------|------|------|------|
|                                | 2Q05 | 1Q06 | 2Q06 |
| Adjusted EBIT margin (%)       | 39.4 | 27.9 | 53.8 |
| Adjusted EBITDA (US\$ million) | 79   | 74   | 175  |



- **Logistics services**

The pursuit for productivity gains in the railroad operations has resulted in improved energy efficiency, with fuel consumption per gross ton-kilometer 3.2% lower on the Vitória a Minas railroad, and 6.3% lower on the Centro-Atlântica (FCA) – and unchanged on the Carajás railroad, which has the lowest fuel consumption of the three.

The problems of Brazilian agriculture, and the 8.4% lower steel production in Brazil in the first half of the year, were adverse for performance of CVRD's railroads since these sectors are their main clients. Our railroads carried 7.365 billion ntk (net ton-kilometers) of general cargo for clients in 2Q06, almost unchanged from the 7.418 billion ntk carried in 2Q05. The principal cargoes were agricultural products 47.3% of the total, steel industry inputs and products, 38.1%; and fuels, 6.5%.

CVRD's ports terminals handled 7.818 million tons of general cargo, compared with 8.336 million tons in 2Q05.

Logistics services provided revenue of US\$ 362 million in 2Q06, 14.6% more than their revenue of US\$ 316 million in 2Q05. Revenue per ntk increased on the FCA and Carajás railroads – by 18.9% and 26.4%, respectively – and was 9.1% lower on the Vitória a Minas railroad.

Rail transport for clients produced revenue of US\$ 273 million, and port services US\$ 58 million; coastal shipping and port support services US\$ 31 million.

Adjusted EBIT margin in 2Q06 was 28.7%, slightly lower than in 2Q05, when it was 30.0%.

Adjusted EBITDA in 2Q06 was US\$ 135 million, vs. US\$ 130 million in 2Q05.

| LOGISTICS                      |      |      |      |
|--------------------------------|------|------|------|
|                                | 2Q05 | 1Q06 | 2Q06 |
| Adjusted EBIT margin (%)       | 30.0 | 20.8 | 28.7 |
| Adjusted EBITDA (US\$ million) | 130  | 80   | 135  |

## VOLUME SOLD, PRICES AND REVENUES

| VOLUME SOLD: IRON ORE AND PELLETS |               |              |               |              |               |                   |
|-----------------------------------|---------------|--------------|---------------|--------------|---------------|-------------------|
|                                   |               |              |               |              |               | thousands of tons |
|                                   | 2Q05          | %            | 1Q06          | %            | 2Q06          | %                 |
| Iron ore                          | 56,167        | 90.0         | 57,992        | 90.8         | 62,518        | 92.5              |
| Pellets                           | 6,219         | 10.0         | 5,894         | 9.2          | 5,065         | 7.5               |
| <b>Total</b>                      | <b>62,386</b> | <b>100.0</b> | <b>63,886</b> | <b>100.0</b> | <b>67,583</b> | <b>100.0</b>      |

| VOLUME SOLD: MINERALS AND METALS |      |      |      |                   |
|----------------------------------|------|------|------|-------------------|
|                                  |      |      |      | thousands of tons |
|                                  | 2Q05 | 1Q06 | 2Q06 |                   |
| Manganese ore                    | 194  | 149  | 198  |                   |
| Ferro-alloys                     | 147  | 126  | 144  |                   |
| Alumina                          | 402  | 504  | 867  |                   |
| Primary aluminum                 | 110  | 112  | 112  |                   |
| Bauxite                          | 475  | 319  | 265  |                   |
| Potash                           | 129  | 103  | 121  |                   |
| Kaolin                           | 303  | 321  | 305  |                   |
| Copper concentrate               | 105  | 70   | 105  |                   |

## IRON ORE AND PELLET SALES BY DESTINATION

|                                    | thousands of tons |              |               |              |               |              |
|------------------------------------|-------------------|--------------|---------------|--------------|---------------|--------------|
|                                    | 2Q05              | %            | 1Q06          | %            | 2Q06          | %            |
| <b>Americas</b>                    | <b>15,480</b>     | <b>24.8</b>  | <b>14,611</b> | <b>22.9</b>  | <b>16,199</b> | <b>24.0</b>  |
| Brazil                             | 14,397            | 23.1         | 13,966        | 21.9         | 14,607        | 21.6         |
| Steel mills and pig iron producers | 9,038             | 14.5         | 8,671         | 13.6         | 9,010         | 13.3         |
| Pelletizing JVs                    | 5,359             | 8.6          | 5,295         | 8.3          | 5,597         | 8.3          |
| USA                                | 1,083             | 1.7          | 645           | 1.0          | 1,592         | 2.4          |
| <b>Asia</b>                        | <b>19,233</b>     | <b>30.8</b>  | <b>26,741</b> | <b>41.9</b>  | <b>27,991</b> | <b>41.4</b>  |
| China                              | 11,747            | 18.8         | 17,170        | 26.9         | 19,967        | 29.5         |
| Japan                              | 6,249             | 10.0         | 6,561         | 10.3         | 6,057         | 9.0          |
| South Korea                        | 1,237             | 2.0          | 3,010         | 4.7          | 1,967         | 2.9          |
| <b>Europe</b>                      | <b>20,016</b>     | <b>32.1</b>  | <b>15,968</b> | <b>25.0</b>  | <b>16,579</b> | <b>24.5</b>  |
| Germany                            | 6,466             | 10.4         | 5,444         | 8.5          | 5,093         | 7.5          |
| France                             | 2,850             | 4.6          | 2,546         | 4.0          | 2,290         | 3.4          |
| Others                             | 10,700            | 17.2         | 7,978         | 12.5         | 9,196         | 13.6         |
| <b>Rest of the World</b>           | <b>7,658</b>      | <b>12.3</b>  | <b>6,566</b>  | <b>10.3</b>  | <b>6,814</b>  | <b>10.1</b>  |
| <b>Total</b>                       | <b>62,387</b>     | <b>100.0</b> | <b>63,886</b> | <b>100.0</b> | <b>67,583</b> | <b>100.0</b> |

## LOGISTICS SERVICES – GENERAL CARGO

|                         | 2Q05  | 1Q06  | 2Q06  |
|-------------------------|-------|-------|-------|
| Railroads (million ntk) | 7.418 | 5.779 | 7.365 |
| Ports (thousand tons)   | 8.336 | 6.252 | 7.818 |

## AVERAGE PRICES REALIZED

|                    | US\$/ton |          |          |
|--------------------|----------|----------|----------|
|                    | 2Q05     | 1Q06     | 2Q06     |
| Iron ore           | 38.58    | 34.49    | 39.52    |
| Pellets            | 90.69    | 75.33    | 76.21    |
| Manganese          | 97.94    | 80.54    | 55.56    |
| Ferro alloys       | 938.78   | 753.97   | 805.56   |
| Alumina            | 273.63   | 317.46   | 391.00   |
| Aluminum           | 1,854.55 | 2,321.43 | 2,607.14 |
| Bauxite            | 27.37    | 28.21    | 30.19    |
| Potash             | 240.31   | 213.59   | 190.08   |
| Kaolin             | 148.51   | 149.53   | 154.10   |
| Copper concentrate | 885.71   | 1,585.71 | 1,952.38 |

| GROSS REVENUE BY PRODUCT        |              |              |              |              |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 |              |              |              |              |              | US\$ million |
|                                 | 2Q05         | %            | 1Q06         | %            | 2Q06         | %            |
| <b>Ferrous minerals</b>         | <b>2,908</b> | <b>78.2</b>  | <b>2,579</b> | <b>73.9</b>  | <b>3,011</b> | <b>69.8</b>  |
| Iron ore                        | 2,167        | 58.2         | 2,000        | 57.3         | 2,471        | 57.3         |
| Pellet plant operation services | 6            | 0.2          | 18           | 0.5          | 17           | 0.4          |
| Pellets                         | 564          | 15.2         | 444          | 12.7         | 386          | 8.9          |
| Manganese ore                   | 19           | 0.5          | 12           | 0.3          | 11           | 0.3          |
| Ferro-alloys                    | 138          | 3.7          | 95           | 2.7          | 116          | 2.7          |
| Others                          | 14           | 0.4          | 10           | 0.3          | 10           | 0.2          |
| <b>Non ferrous minerals</b>     | <b>169</b>   | <b>4.5</b>   | <b>181</b>   | <b>5.2</b>   | <b>275</b>   | <b>6.4</b>   |
| Potash                          | 31           | 0.8          | 22           | 0.6          | 23           | 0.5          |
| Kaolin                          | 45           | 1.2          | 48           | 1.4          | 47           | 1.1          |
| Copper concentrate              | 93           | 2.5          | 111          | 3.2          | 205          | 4.8          |
| <b>Aluminum products</b>        | <b>327</b>   | <b>8.8</b>   | <b>429</b>   | <b>12.3</b>  | <b>640</b>   | <b>14.8</b>  |
| Primary aluminum                | 204          | 5.5          | 260          | 7.4          | 293          | 6.8          |
| Alumina                         | 110          | 3.0          | 160          | 4.6          | 339          | 7.9          |
| Bauxite                         | 13           | 0.3          | 9            | 0.3          | 8            | 0.2          |
| <b>Logistics services</b>       | <b>316</b>   | <b>8.5</b>   | <b>289</b>   | <b>8.3</b>   | <b>362</b>   | <b>8.4</b>   |
| Railroads                       | 233          | 6.3          | 213          | 6.1          | 273          | 6.3          |
| Ports                           | 53           | 1.4          | 49           | 1.4          | 58           | 1.3          |
| Shipping                        | 30           | 0.8          | 27           | 0.8          | 31           | 0.7          |
| <b>Others</b>                   | <b>1</b>     | <b>0.0</b>   | <b>12</b>    | <b>0.3</b>   | <b>25</b>    | <b>0.6</b>   |
| <b>Total</b>                    | <b>3,721</b> | <b>100.0</b> | <b>3,490</b> | <b>100.0</b> | <b>4,313</b> | <b>100.0</b> |

## PROFITABILITY AND CASH FLOW

| ADJUSTED EBIT MARGIN BY BUSINESS AREA |              |              |              |
|---------------------------------------|--------------|--------------|--------------|
|                                       | 2Q05         | 1Q06         | 2Q06         |
| Ferrous minerals                      | 56.7%        | 44.8%        | 48.4%        |
| Non ferrous minerals                  | 39.4%        | 27.9%        | 53.8%        |
| Aluminum                              | 32.7%        | 35.8%        | 47.4%        |
| Logistics                             | 30.0%        | 20.8%        | 28.7%        |
| <b>Total</b>                          | <b>50.1%</b> | <b>40.0%</b> | <b>45.2%</b> |

| ADJUSTED EBITDA BY BUSINESS AREA |              |              |              |              |              |              |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                  |              |              |              |              |              | US\$ million |
|                                  | 2Q05         | %            | 1Q06         | %            | 2Q06         | %            |
| Ferrous minerals                 | 1,690        | 83.1         | 1,334        | 81.9         | 1,588        | 73.0         |
| Non-ferrous minerals             | 79           | 3.9          | 74           | 4.5          | 175          | 8.0          |
| Logistics                        | 130          | 6.4          | 80           | 4.9          | 135          | 6.2          |
| Aluminum                         | 154          | 7.6          | 206          | 12.6         | 339          | 15.6         |
| Others                           | (20)         | (1.0)        | (65)         | (4.0)        | (61)         | (2.8)        |
| <b>Total</b>                     | <b>2,033</b> | <b>100.0</b> | <b>1,629</b> | <b>100.0</b> | <b>2,176</b> | <b>100.0</b> |

## CAPITAL EXPENDITURE

CVRD's capex in 2Q06 reached US\$ 818 million, 27.4% less than the US\$ 1.126 billion expended in 1Q06 – which included the acquisition of the assets of Rio Verde Mineração for US\$ 47 million – and was at the same level as the 2Q05 capex of US\$ 821 million.

Total capital expenditure in the first half of the year was US\$ 1.944 billion, 39.8% higher than the capex of US\$ 1.391 billion in the first half of 2005.

Investment in organic growth – projects and R&D – totaled US\$ 518 million in the quarter, while “stay-in-business capex” reached US\$ 300 million. CVRD’s investment in R&D in 2Q06 was US\$ 101 million, which compares with US\$ 81 million in the prior quarter and US\$ 43 million in 2Q05. This spending was concentrated on identifying new deposits of copper, coal, nickel and manganese, and in studies for projects (conceptual, pre-feasibility, and feasibility).

The new mine at Brucutu, in the Southern System, one of CVRD’s most important iron ore projects, is starting pre-operational tests, and we expect it to start producing in August.

Start-up of operations at the 118 project, CVRD’s second copper mine, is being delayed by a year due to extra time taken to acquire the license for implementation – so that it is now scheduled to start operating only in 2009.

Shandong Yankuang International Coking Ltd, a Chinese producer of metallurgical coke, where the Company owns a 25% stake, started its operation in the end of June 2006. The estimated production capacity is 2 million tons per year of coke and 200,000 tons per year of methanol.

- **Current projects at implementation phase**

| Area             | Project   | 2006 budget, US\$ MM | Status   |
|------------------|---|----------------------|--|
| Ferrous minerals | Expansion of Carajás iron ore capacity to 85 Mtpy – Northern System           | 41                   | This project will increase capacity by 15 million tons per year – completion in 3Q06.  |
|                  | Expansion of capacity of Carajás iron ore mines to 100 Mtpy – Northern System | 289                  | This project will increase CVRD’s annual output capacity by 15 million tons, with conclusion planned for the second half of 2007. The Ponta da Madeira Port Terminal will be expanded, and Pier III will be extended, with a third ship loading unit and fourth shipment line. |
|                  | Brucutu iron ore mine – Southern System                                       | 310                  | Completion of Phase I is expected in 2Q06, increasing nominal production capacity to 12 million tons per year. Phase II is scheduled for completion in 1Q07, bringing the mine’s capacity to 24 million tons per year.   |
|                  | Fazendão iron ore mine – Southern System                                      | 39                   | Project to produce 14 million tons of run-of-mine (ROM – unprocessed) iron ore per year. The project makes Samarco’s third pelletization plant viable. Work will start in 2H06, for completion and operational start-up in second half 2007.                                   |
|                  | Expansion of the Fábrica iron ore mine – Southern System                      | 88                   | Expansion by 5 million tons, from 12 to 17 million tons per year, with start-up planned for 4Q07.  |
|                  | Expansion of the Tubarão port – Southern System                               | 20                   | Project to expand the conveyor belt systems, patio machinery and new storage platforms, adding 10 million tons per year to the port’s handling capacity – conclusion planned for 1Q07.   |
|                  | Itabiritos  | 338                  | Construction of a pelletization plant in Minas Gerais state, with nominal annual production capacity of seven million tons, and an iron ore concentration plant. Start-up planned for second half 2008.  |

# US GAAP

|                             |   |     |   |
|-----------------------------|---|-----|---|
|                             | Tubarão VIII  | 31  | Construction of pelletization plant, with nominal production capacity of 7 Mtpy in the Tubarão complex. Start-up planned for 2008. Subject to CVRD Board of Directors approval.   |
| <b>Non-ferrous minerals</b> | 118 copper mine   | 21  | This project will have capacity to produce 36,000 tons per year of copper cathode. Key equipment has been ordered and start-up is scheduled for first half 2009. Proceedings to obtain the license for the project are in progress.   |
|                             | Vermelho nickel mine  | 97  | Estimated production capacity is 46,000 tons of metallic nickel and 2,800 tons of cobalt, per year. The main equipment has been ordered. EPCM (Engineering, Procurement, Construction Management) contracts were signed in December 2005. Proceedings to obtain environmental license are in progress. Start-up of the mine timetabled for fourth quarter 2008. |
|                             | Paragominas I bauxite mine  | 210 | The first phase of this mine will produce 5.4 million tons of bauxite per year starting in 1Q07. A 244-km ore pipeline will transport the bauxite to the Barcarena alumina refinery, in the Brazilian state of Pará – its construction is planned for completion in December 2006.  |
|                             | Stages 6 and 7 of Alunorte – alumina                              | 239 | This will increase Alunorte's capacity to 6.26Mtpy of alumina – conclusion is planned for 2Q08.   |
|                             | Paragominas II bauxite mine                                       | 14  | The second phase of Paragominas will add 4.5Mtpy to the capacity of 5.4Mtpy resulting from the first phase. Conclusion timetabled for 2Q08.   |
| <b>Logistics</b>            | Railroads (EFVM, EFC, FCA): acquisition of locomotives and wagons | 379 | In 2006, CVRD will acquire 22 locomotives, and 1,426 rail wagons – 150 for general cargo and 1,276 to carry iron ore. All the locomotives will be used to haul iron ore.  |
| <b>Power generation</b>     | Capim Branco I and II hydroelectric power plants                  | 61  | Both are on the Araguari river in the state of Minas Gerais, and will have generation capacity, respectively, of 240MW and 210MW. Capim Branco I started operating in 1Q06. Capim Branco II is timetabled for start-up in 1Q07.   |
|                             | Estreito hydroelectric power plant                                | 68  | On the Tocantins river, on the border between the Brazilian states of Maranhão and Tocantins. Planned installed capacity of 1,087MW. Start of construction is planned for 2006, subject to obtaining installation license. First rotor is expected to start producing in second half 2009.  |
| <b>Steel holdings</b>       | Ceará Steel   | 11  | Project for a steel slab plant in the state of Ceará in Brazil's Northeast region, with nominal capacity for 1.5 million tons per year. Start-up planned for 2009.  |
|                             | CSA   | 72  | Project for a steel slab plant in the state of Rio de Janeiro, with nominal capacity for 5 million tons per year, and start-up in the first half of 2009. CVRD's Board of Directors approved the investment in 1Q06.  |

## TOTAL CAPEX BY BUSINESS AREA

|                      |            |               |              | US\$ million  |  |
|----------------------|------------|---------------|--------------|---------------|--|
| By business area     | 2Q06       |               | 1H06         |               |  |
| Ferrous minerals     | 407        | 49.8%         | 926          | 47.6%         |  |
| Non-ferrous minerals | 94         | 11.6%         | 177          | 9.1%          |  |
| Logistics            | 107        | 13.0%         | 335          | 17.2%         |  |
| Aluminum             | 131        | 16.0%         | 349          | 18.0%         |  |
| Coal                 | 21         | 2.6%          | 29           | 1.5%          |  |
| Energy               | 20         | 2.5%          | 45           | 2.3%          |  |
| Steel holdings       | 6          | 0.7%          | 14           | 0.7%          |  |
| Other                | 32         | 3.9%          | 69           | 3.6%          |  |
| <b>Total</b>         | <b>818</b> | <b>100.0%</b> | <b>1,944</b> | <b>100.0%</b> |  |

# 2Q06

## ◆|| CONFERENCE CALL AND WEBCAST

CVRD will hold a conference call and webcast on August 4, at 12:00 midday Rio de Janeiro time, 11:00 am US Eastern Standard Time, 4:00 pm UK time. Instructions for participation are on the website [www.cvr.com.br](http://www.cvr.com.br), under *Investor Relations*. A recording will be available on CVRD's site for 90 days from August 4.

## ◆|| FINANCIAL INDICATORS OF NON-CONSOLIDATED COMPANIES

For selected financial indicators of the main companies not consolidated, see CVRD quarterly financial statements on [www.cvr.com.br](http://www.cvr.com.br), under *Investor Relations*.



## INCOME STATEMENTS

|  | US\$ million |              |              |
|--|--------------|--------------|--------------|
|  | 2Q05         | 1Q06         | 2Q06         |
| Gross operating revenues                     | 3,721        | 3,490        | 4,313        |
| Taxes  | (185)        | (150)        | (167)        |
| <b>Net operating revenue</b>                 | <b>3,536</b> | <b>3,340</b> | <b>4,146</b> |
| Cost of goods sold                           | (1,508)      | (1,695)      | (1,884)      |
| <b>Gross profit</b>                          | <b>2,028</b> | <b>1,645</b> | <b>2,262</b> |
| Gross margin (%)                             | 57.4         | 49.3         | 54.6         |
| Selling, general and administrative expenses | (135)        | (168)        | (212)        |
| Research and development expenses            | (54)         | (71)         | (101)        |
| Employee profit-sharing                      | (24)         | (28)         | (35)         |
| Others                                       | (44)         | (42)         | (41)         |
| <b>Operating profit</b>                      | <b>1,771</b> | <b>1,336</b> | <b>1,873</b> |
| Financial revenues                           | 27           | 42           | 45           |
| Financial expenses                           | (51)         | (213)        | (245)        |
| Monetary variation                           | 304          | 259          | 28           |
| Gains on sale of affiliates                  | -            | 9            | 338          |
| Tax and social contribution (Current)        | (330)        | (242)        | (158)        |
| Tax and social contribution (Deferred)       | (107)        | (53)         | (80)         |
| Equity income and provision for losses       | 220          | 156          | 184          |
| Minority shareholding participation          | (204)        | (123)        | (105)        |
| <b>Net earnings</b>                          | <b>1,630</b> | <b>1,171</b> | <b>1,880</b> |
| <b>Earnings per share (US\$)</b>             | <b>0.71</b>  | <b>0.51</b>  | <b>0.77</b>  |

## BALANCE SHEET

|                      | US\$ million  |               |               |
|----------------------|---------------|---------------|---------------|
|                      | 06/30/05      | 03/31/06      | 06/30/06      |
| <b>Assets</b>        |               |               |               |
| Current              | 4,634         | 5,647         | 6,313         |
| Long-term            | 1,911         | 2,345         | 2,619         |
| Fixed                | 13,022        | 19,769        | 20,550        |
| <b>Total</b>         | <b>19,567</b> | <b>27,761</b> | <b>29,482</b> |
| <b>Liabilities</b>   |               |               |               |
| Current              | 3,002         | 2,831         | 3,652         |
| Long term            | 6,316         | 8,375         | 8,622         |
| Shareholders' equity | 10,249        | 16,555        | 17,208        |
| Paid-up capital      | 6,366         | 8,918         | 8,893         |
| Reserves             | 3,883         | 7,637         | 8,315         |
| <b>Total</b>         | <b>19,567</b> | <b>27,761</b> | <b>29,482</b> |

# US GAAP

| CASH FLOW   |              |              |              |
|---|--------------|--------------|--------------|
|   | US\$ million |              |              |
|   | 2Q05         | 1Q06         | 2Q06         |
| <b>Cash flows from operating activities:</b>  |              |              |              |
| Net income  | 1,630        | 1,171        | 1,880        |
| Adjustments to reconcile net income with cash provided by operating activities:                             |              |              |              |
| Depreciation, depletion and amortization  | 136          | 181          | 205          |
| Dividends received  | 126          | 112          | 98           |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (220)        | (156)        | (184)        |
| Deferred income taxes   | 107          | 53           | 80           |
| Provisions for contingencies  | (3)          | 13           | 19           |
| Gain on sale of investment  | -            | (9)          | (338)        |
| Foreign exchange and monetary losses  | (298)        | (291)        | (75)         |
| Net unrealized derivative losses  | (85)         | 44           | 51           |
| Minority interest   | 204          | 123          | 105          |
| Net interest payable  | 38           | (28)         | 40           |
| Others  | (59)         | 46           | (21)         |
| Decrease (increase) in assets:  |              |              |              |
| Accounts receivable   | (472)        | 162          | (346)        |
| Inventories   | (50)         | (17)         | (23)         |
| Others  | (187)        | (108)        | (38)         |
| Increase (decrease) in liabilities:   |              |              |              |
| Suppliers   | 142          | (367)        | 103          |
| Payroll and related charges   | 13           | (108)        | 47           |
| Income Tax  | 325          | (178)        | 175          |
| Others  | 76           | (172)        | (34)         |
| <b>Net cash provided by operating activities</b>  | <b>1,423</b> | <b>471</b>   | <b>1,744</b> |
| Cash flows from investing activities:   |              |              |              |
| Loans and advances receivable   | (5)          | 44           | (34)         |
| Guarantees and deposits   | (3)          | (23)         | (12)         |
| Additions to investments  | (90)         | (2)          | (2)          |
| Additions to property, plant and equipment  | (777)        | (855)        | (961)        |
| Proceeds from disposals of investment   | -            | 14           | 418          |
| Proceeds from disposals of property, plant and equipment  | 1            | 9            | 29           |
| <b>Net cash used in investing activities</b>  | <b>(874)</b> | <b>(813)</b> | <b>(562)</b> |
| Cash flows from financing activities:   |              |              |              |
| Short-term debt, net issuances (repayments)   | 216          | 50           | (65)         |
| Loans   | (6)          | (30)         | 30           |
| Long-term debt  | 125          | 1,347        | 4            |
| Stock Treasury  | -            | -            | (25)         |
| Repayments of long-term debt  | (432)        | (321)        | (200)        |
| Interest attributed to shareholders   | (500)        | -            | (669)        |
| <b>Net cash used in financing activities</b>  | <b>(597)</b> | <b>1,046</b> | <b>(925)</b> |
| Increase (decrease) in cash and cash equivalents  | (45)         | 704          | 257          |
| Effect of exchange rate changes on cash and cash equivalents  | (121)        | (101)        | (7)          |
| Cash and cash equivalents, beginning of period  | 1,122        | 1,041        | 1,644        |
| <b>Cash and cash equivalents, end of period</b>   | <b>956</b>   | <b>1,644</b> | <b>1,894</b> |
| Cash paid during the period for:  |              |              |              |
| Interest on short-term debt   | -            | (1)          | (5)          |
| Interest on long-term debt  | (35)         | (94)         | (73)         |
| Income tax  | (171)        | (187)        | (31)         |
| Non-cash transactions   |              |              |              |
| Income tax paid with credits  | (53)         | (30)         | (40)         |
| Interest capitalized  | (9)          | (31)         | (31)         |

## 2Q06

## APPENDIX

Reconciliation between US GAAP and “non-GAAP” information

### (a) Adjusted EBIT

|  | US\$ million |              |              |
|--|--------------|--------------|--------------|
|  | 2Q05         | 1Q06         | 2Q06         |
| Net operational revenue                    | 3,536        | 3,340        | 4,146        |
| Cost of goods sold                         | (1,508)      | (1,695)      | (1,884)      |
| Sales, general and administrative expenses | (135)        | (168)        | (212)        |
| Research and development                   | (54)         | (71)         | (101)        |
| Other operational expenses                 | (68)         | (70)         | (76)         |
| <b>Adjusted EBIT</b>                       | <b>1,771</b> | <b>1,336</b> | <b>1,873</b> |

### (b) Adjusted EBITDA

EBITDA defines profit or loss before interest, tax, depreciation and amortization. CVRD uses the term *adjusted EBITDA* to reflect exclusion, also, of: monetary variations; equity income from the profit or loss of affiliated companies and joint ventures, less the dividends received from them; provisions for losses on investments; adjustments for changes in accounting practices; minority interests; and non-recurrent expenses. However our adjusted EBITDA is not the measure defined as EBITDA under US GAAP, and may possibly not be comparable with indicators with the same name reported by other companies. Adjusted EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, which are calculated in accordance with GAAP. CVRD provides its adjusted EBITDA to give additional information about its capacity to pay debt, carry out investments and cover working capital needs. The following table shows the reconciliation between adjusted EBITDA and operational cash flow, in accordance with its statement of changes in financial position:

| RECONCILIATION BETWEEN ADJUSTED EBITDA AND OPERATIONAL CASH FLOW |              |              |              |
|--|--------------|--------------|--------------|
|  | US\$ million |              |              |
|  | 2Q05         | 1Q06         | 2Q06         |
| <b>Operational cash flow</b>                                     | <b>1,426</b> | <b>471</b>   | <b>1,744</b> |
| Income tax   | 330          | 242          | 158          |
| FX and monetary losses   | (6)          | 32           | 47           |
| Financial expenses   | (14)         | 199          | 160          |
| Net working capital  | 153          | 787          | 116          |
| Other  | 144          | (102)        | (49)         |
| <b>Adjusted EBITDA</b>   | <b>2,033</b> | <b>1,629</b> | <b>2,176</b> |

### (c) Net debt

| RECONCILIATION BETWEEN GROSS DEBT AND NET DEBT |              |              |              |
|--|--------------|--------------|--------------|
|  | US\$ million |              |              |
|  | 2Q05         | 1Q06         | 2Q06         |
| Gross debt                                     | 4,168        | 6,063        | 5,883        |
| Cash and cash equivalents                      | 956          | 1,644        | 1,894        |
| <b>Net debt</b>                                | <b>3,212</b> | <b>4,419</b> | <b>3,989</b> |

## (d) Total debt / Adjusted LTM EBITDA

|  | 2Q05 | 1Q06 | 2Q06 |
|--|------|------|------|
| Total debt / Adjusted LTM EBITDA (x)       | 0.83 | 0.84 | 0.80 |
| Total debt / LTM operational cash flow (x) | 1.03 | 1.17 | 1.06 |

## (e) Total debt/Enterprise value

|                               | 2Q05  | 1Q06  | 2Q06  |
|-------------------------------|-------|-------|-------|
| Total debt / EV (%)           | 10.98 | 10.31 | 9.85  |
| Total debt / total assets (%) | 21.30 | 21.84 | 19.97 |

*Enterprise value* = Market capitalization + Net debt

## (f) Adjusted LTM EBITDA / LTM interest payments

|  | 2Q05  | 1Q06  | 2Q06  |
|--|-------|-------|-------|
| Adjusted LTM EBITDA / LTM interest payments (x)    | 17.73 | 27.08 | 23.76 |
| LTM operational profit / LTM interest payments (x) | 15.05 | 22.63 | 19.72 |

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This release may include statements that present the Company's management's expectations on future events or future results. All statements based on future expectations and not on historical facts involve various risks and uncertainties. The Company cannot guarantee that such statements will be realized in fact. Such risks and uncertainties include factors in relation to: the Brazilian economy and the capital markets, which are volatile and may be affected by developments in other countries; the iron ore business and its dependence on the steel industry, which is cyclical by nature; and the highly competitive nature of the industries in which CVRD operates. To obtain additional information on factors which could give rise to results different from those indicated by the Company, please consult the reports filed with the Brazilian Securities Commission (CVM – *Comissão de Valores Mobiliários*) and the US Securities and Exchange Commission (SEC), including CVRD's most recent Form 20F Annual Report.