

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*.

The following table provides information on the selling exchange rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated. 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 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
2000	R\$ 1.955	R\$ 1.835	R\$ 1.723	R\$ 1.985
2001	2.320	2.353	1.936	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
Month				
December 2004	R\$ 2.654		R\$ 2.654	R\$ 2.787
January 2005	2.625		2.625	2.722
February 2005	2.595		2.562	2.632
March 2005	2.666		2.601	2.762
April 2005	2.531		2.520	2.600
May 2005	2.394		2.378	2.515

(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 31, 2005, the selling rate was R \$2.4038 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 mining industry 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 2004. We cannot guarantee the length of time 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.

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 international mining companies. Some of these competitors possess substantial iron ore mineral deposits at locations closer to our principal Asian and European customers. Competition from foreign or Brazilian 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.

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 Metals Exchange and the Commodity Exchange, Inc. Prices for these metals are subject to wide fluctuations and are affected by many factors, including actual and expected international economic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels maintained by producers 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.

Commencement of our copper operations will expose us to new risks.

In 2004, we began producing and marketing copper concentrate from our Sossego mine in Carajás. Copper is a new business for CVRD. Risks involved with our entrance into the copper business include, but are not limited to:

- copper concentrate is sold at prices determined by reference to copper prices on the London Metals Exchange, which are more volatile than prices in our iron ore and pellet businesses;
- we may experience higher than expected treating and refining costs that decrease our margins;
- due to our lack of experience in the copper industry, we may face operational difficulties leading to high operating costs;
- capacity increases by other copper producers may place downward pressure on copper prices; and
- we may encounter unexpected setbacks in expanding our copper operations due to construction delays or difficulties obtaining required environmental licenses.

Brazilian export products (e.g., grain and steel) could lose their international competitiveness, reducing the internal demand for logistics services.

The Brazilian agriculture and steel industries are currently the primary drivers of demand for our logistics services. In 2004, approximately 78.8% of our logistics revenues were attributable to these markets. A reduction in world demand for Brazilian steel or agriculture exports could reduce demand for our logistics services and harm the profitability of our logistics business.

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 2004, 16.0% of our iron ore and pellet gross revenues were attributable to customers in China, and customers in China accounted for 11.7% of our total consolidated gross operating revenues. During the same period, 14.1% of our consolidated gross revenues were attributable to customers from Asian countries other than China and 30.1% 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.

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. 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 price of 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 we discover mineral deposits, it can take us a number of years from the initial phases of drilling until production is possible, during which the economic feasibility of production may change. It takes substantial time and expenditures 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 and processing facilities 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 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 heavily on fuel sources. Fuel and gas represented 11% of our cost of goods sold in 2004. 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 may lead to lower margins in our logistics, mining 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 14 proceedings before the Conselho Administrativo de Defesa Econômica, or CADE, which is the primary Brazilian antitrust regulator. 11 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 3 proceedings are administrative proceedings alleging that we have engaged in illegal anticompetitive conduct in connection with our iron ore, logistics and aluminum businesses. 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, which could be substantial.

Our principal pending post-transaction review proceedings involve CVRD's acquisitions of Socoimex, Samitri, Ferteco, Belém and CAEMI, and the agreement to unwind the cross-shareholdings between CVRD and Companhia Siderúrgica Nacional, or CSN. CADE may decline to approve these transactions or may place conditions on its approval that would have a material adverse effect on our business. In connection with CADE's review, the Brazilian Economic Law Secretariat of the Ministry of Justice, or SDE, and the Brazilian Secretariat for Economic Monitoring, or SEAE, have each issued reports to CADE recommending that CADE condition its approval of these transactions on actions that could have an adverse effect on our business, including maintenance of certain pricing policies, divestiture of certain of our mines, the termination of our rights regarding the Casa de Pedra iron ore mine and the sale and restructuring of certain of our logistics interests. Prior to rendering its decision, CADE must also receive and consider the recommendations of the Ministério Público Federal. CADE may adopt some, all or none of the recommendations made by such bodies, or choose to impose other conditions pursuant to its approval that would be harmful to our business.

For more information, see *Item 8. Financial Information—Legal Proceedings*.

Our principal shareholder could have significant influence over our company.

Valepar, our principal shareholder, currently owns 53.3% of our outstanding common stock and 34.1% of our total outstanding capital. For a description of the ownership of our shares, see *Item 7. Major Shareholders and Related Party Transactions—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 *conselho fiscal*, or fiscal council. Further, the Brazilian government owns 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 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 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 partially protect ourselves against market volatility, we enter into hedging transactions to manage some of these risks. See *Item 11. Quantitative and Qualitative Disclosures About Market Risk*. Our hedging strategy may not be successful in minimizing our cash flow 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. We do not currently hedge risks relating to fluctuations in iron ore, manganese, ferroalloys, copper and oil prices.

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. Similar adverse effects could result if our auditors express an adverse opinion or disclaim or qualify an opinion on management's assessment or on the effectiveness of our internal control over financial reporting.

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;
- 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 is 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.

Difficulties in implementing enterprise resource planning software may interfere with the normal functioning of our business.

We are in the process of implementing enterprise resource planning software. If we are unable to replace, upgrade or modify our information technology systems to adapt to this new software in a timely and cost effective manner, our ability to capture and process financial transactions may be impacted. Implementing the software may prove more costly or take longer than expected, result in the loss of data or lead to system malfunctions that interfere with the normal functioning of our business. If we are unable to successfully manage the process of implementing the new software our results of operations may be adversely affected.

We may face a shortage in our supply of off-the-road tires and mining equipment due to increased consumption by mining companies that exceeds suppliers' capacity.

Global demand for off-the-road ("OTR") tires increased significantly in 2004. Although manufacturers of mining and drilling equipment increased their capacity during 2004, capacity increases were not sufficient to compensate for the significant increase in demand for mining equipment. There are only five major tire factories worldwide and each is working at maximum capacity. The three major suppliers have already sold their entire OTR tire production through mid-year 2006. We expect that there will be very limited increases in large radial tire production over the next two years and that delivery lead times will increase significantly. Further capacity increases have been limited by bottlenecks in the distribution of parts and equipment from suppliers to equipment manufacturers. If we are unable to secure sufficient OTR tires to maintain our equipment, we may suffer temporary reductions in our production capacity.

An increase in the prices of mining equipment may adversely affect our business.

Due to the significant expansion of mining investments worldwide and the surge in steel prices, mining equipment prices have increased significantly. Increases in the cost of mining equipment may have a negative effect on the profitability margins of our mining business.

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 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 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004 and 2.4% in the four months ended April 30, 2005 (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 foreign 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 8.1% against the U.S. dollar in 2004, and appreciated by 4.6% during the first four months of 2005. 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 *real* against the U.S. dollar reduces the U.S. dollar value of distributions and the dividends on our American Depositary Shares and may also reduce the market value of our securities. In addition, exchange rate variations often have a significant effect on our net income. Depreciation of the *real* relative to the U.S. dollar may require us to 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 approximately 4.5% of total consumption in Brazil in 2004. Electricity costs are a significant component of the cost of producing aluminum and ferroalloys and represented 7.7% of our cost of goods sold in 2004.

Brazil faced a shortage of energy during the second half of 2001, which led to an energy-rationing program that required a decrease in 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 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 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 two public auctions in order to trade excess energy available in the market. The first auction occurred in December 2004 and the second in April 2005. The prices established in these auctions were low and may contribute to a decline in investments in future generation projects that could lead to 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 unbudgeted capital expenditures. For a more detailed discussion about the authorizations and concessions by regulatory 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. 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 copper or other 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 Itabira iron ore mining operations have caused environmental and social damages. 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.

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, 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 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 12.0 million hectares (29.6 million acres) in Brazil, and 3.8 million hectares (9.4 million acres) in Gabon, Chile, Mozambique, Mongolia, Argentina and Peru. 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 heavily in copper and coal exploration, and our first copper mine began operations in June 2004.

Our main lines of business are:

- *Ferrous minerals (68.9% of 2004 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 CAEMI’s mines and port facilities. At December 31, 2004, we had a total of 6,869 million tons of proven and probable iron ore reserves in our three systems in Brazil, with an average grade of 51.7% iron in our Southern System, 66.7% in our Northern System and 65.8% in CAEMI’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 (5.8% of 2004 consolidated gross operating revenues).* We are the world’s third largest producer of kaolin and Brazil’s largest 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. Our non-ferrous minerals business also includes our exploration efforts related to copper, gold and nickel.
- *Logistics (10.3% of 2004 consolidated gross operating revenues).* We are a leading provider of logistics services in Brazil, with operations in the railroad, coastal shipping and port handling industries. 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 2004, our railroads transported approximately 65.6% of the total freight tonnage transported by Brazilian railroads, or approximately 139.0 billion ntk of cargo, of which 110.1 billion ntk were our iron ore and pellets.
- *Aluminum-related operations (14.7% of 2004 consolidated gross operating revenues).* Through subsidiaries and joint ventures, we conduct major operations in the production of aluminum-related products. They include:
 - o *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 16.7 million tons of bauxite in 2004. We are developing a wholly owned bauxite mine in the Paragominas region, in the state of Pará.
 - o *Alumina refining,* which we conduct via our alumina refining subsidiary, Alunorte-Alumina do Norte do Brasil S.A., or Alunorte, which currently has a nominal production capacity of 2.4 million tons of alumina per year. In July 2003, Alunorte began work on a capacity expansion designed to increase its annual capacity to 4.2 million tons per year. We are also negotiating the terms of a potential joint venture with the Aluminum Corporation of China Limited (Chalco) to construct a new alumina refinery in the state of Pará.