RISK FACTORS

Risks relating to our business

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

Sales prices and volumes in the global iron ore market depend on the prevailing and expected levels of demand and supply for iron ore, and global iron ore demand depends on the global steel industry. In addition, the stainless steel sector is the largest global consumer of primary nickel. Primary nickel use in stainless steel production accounts for over 60% of total primary nickel demand. Global demand for steel is cyclical. A number of factors, the most significant of which is the prevailing level of global demand for steel products, influence the performance of the global 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 and nickel.

Driven primarily by strong demand from Chinese steelmakers, together with a modest expansion in other markets, the global iron ore market experienced high demand and rising iron ore and pellet prices from 2003 to 2005. In 2006, the price of iron ore increased further, due to a continued imbalance between global demand and supply that was driven by a significant expansion in demand. However, in 2006 there was a reduction in the price of blast furnace and direct reduction pellets. For 2007, iron ore prices increased by 9.5%, while blast furnace and direct reduction pellet prices increased by 5.28%. Since 2001, global demand for iron ore has grown at an average annual rate of 9.8%. We cannot guarantee that iron ore demand will remain at its current high level 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. Consolidation in the steelmaking industry may also lead to backward integration, which might reduce global demand for iron ore.

Driven by strong global economic activity and customers’ need to replenish inventories, global stainless steel production grew 15.8% in 2006, with a significant portion of the increased production coming from China, which led the way in stainless steel capacity expansion in 2006. This expansion has driven an increase in global demand for nickel, which exceeds supply and has led to higher prices for nickel. We cannot guarantee that demand for nickel will remain at its current high level or the direction of future prices for nickel. Sustained declines in stainless steel production could have a material adverse effect on our revenues from nickel.

Increased substitution for nickel applications could adversely affect our nickel business.

Nickel prices and demand may be negatively impacted by an increase in scrap nickel usage and by the substitution of materials other than nickel in current applications. Scrap nickel competes directly with primary nickel as a source of nickel for use in the production of stainless steel, and the choice between them is largely driven by their relative prices and availability. In 2006, the stainless steel scrap ratio was 48%, compared to 49% in 2005. Recently, Chinese steelmakers have developed a pig-iron product containing low grades of nickel that competes with both primary and scrap nickel in the production of stainless steel.

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

The Brazilian agriculture and steel industries are currently the primary drivers of demand for our logistics services to customers. The percentage of our logistics revenues attributable to these industries was approximately 78.6% in 2005, and 71.9% in 2006. A reduction in world demand for Brazilian steel and/or agriculture products could reduce demand for our logistics services and harm the profitability of our logistics business.

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

The global economy is the primary driver of demand in the global market for iron ore and pellets. In recent years, China has been the main driver of our sales increases. The percentage of our total gross revenues attributable to sales to customers in China was 15.0% in 2005 and 16.7% in 2006 (including CVRD Inco sales as though we had acquired Inco on January 1, 2006). The percentage of our gross revenues attributable to sales to customers from Asian countries other than China was 14.9% in 2005 and 22.7% in 2006 (on the same basis). The percentage of our gross revenues attributable to sales to European customers was 28.5% in 2005 and 23.0% in 2006 (on the same basis). A weakened global economy or a weakened economy in specific markets where we sell our products, such as China, could reduce demand for our products, leading to lower revenues and profitability.

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

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

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 global iron ore and nickel industries. We compete with a number of large mining companies. Some of these competitors possess substantial iron ore and nickel deposits at locations closer to our principal Asian and European customers. Competition from iron ore and nickel producers may result in our loss of market share and revenues. Our aluminum, ferroalloys, copper and other businesses are also subject to intense competition and to similar risks.

Demand for our products 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 our products is limited. In periods when customer demand exceeds our production capacity, we generally meet excess customer demand by reselling iron ore, iron ore pellets or nickel 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 expansion projects and greenfield projects in time to take advantage of the current high levels of worldwide demand for iron ore and nickel. 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.

Political, economic, regulatory and social conditions in the countries in which we operate or have projects could adversely impact our business and the market price of our securities.

Our financial performance may be negatively affected by general economic, political, regulatory and social conditions in countries in which we have significant operations or projects, particularly Brazil, Canada, New Caledonia and Indonesia. Actual or potential political changes and changes in economic policy may undermine investor confidence, result in economic slowdowns and otherwise adversely affect the economic and other conditions under which we operate in ways that could have a material adverse effect on our business. Governments in emerging economies such as Brazil, New Caledonia and Indonesia frequently intervene in the economy and occasionally make substantial changes in policy that could adversely affect exchange rates, inflation, interest rates, rates of taxes or royalties and the economic and regulatory environment in which we operate. In New Caledonia, a planned referendum in 2014 may result in New Caledonia becoming fully independent from France, which could result in significant political and economic changes in New Caledonia and may adversely affect our Goro project. In addition, actions by non-governmental organizations or community activist groups may disrupt our operations or projects.

Acts by protestors may hamper our mining and logistics operations and projects.

Protestors, including protestors from indigenous communities living near areas where we operate, have taken actions to disrupt our operations and projects, and they may continue to do so in the future. Although we vigorously defend ourselves against illegal acts, while continuing to support the communities living near our operations, future attempts by protestors to harm our operations could adversely affect our business. For more information, see *Item 4. Information on the company — Regulatory matters — Environmental matters — Brazil.*

Our PT Inco operations are subject to significant risks.

In addition to political, economic and other risks described separately, our PT Inco nickel operations in Indonesia are subject to significant risks. In particular:

- Groundwork on PT Inco’s new hydroelectric power project on the Larona River near the village of Karebbe has been suspended since January 2006 pending the amendment of a required permit issued by the Minister of Forestry on terms acceptable to PT Inco. Delays in obtaining the required permits may adversely affect the timing and cost of the Karebbe project, impair PT Inco’s ability to achieve planned increases in nickel-in-matte production and raise PT Inco’s production costs.
- Under PT Inco’s Contract of Work with the Indonesian government, PT Inco is required, subject to economic and technical feasibility, to construct production plants at Pomalaa in Southeast Sulawesi and Bahodopi in Central Sulawesi. The obligation to build a commercial plant at Pomalaa is deemed satisfied through the later of 2008 or the termination of PT Inco’s Cooperative Resources Agreement with PT Antam Tbk (an agreement providing for the supply by PT Inco of saprolite ore to PT Antam), after which PT Inco must deliver a report evaluating the technical and economic feasibility of constructing a commercial plant at Pomalaa. Subject to technical and economic feasibility, the Contract of Work requires PT Inco to build the Bahodopi facility by about 2010. Failure to meet these commitments under the Contract of Work would entitle the Indonesian government, after a cure period of 180 days following the date of a notice of default, to close and require PT Inco to relinquish the mining areas related to the expansion project.
- Regulations issued by the Indonesian Minister of Forestry relating to mining activities have imposed new restrictions on mining in protected forests. If these regulations restrict PT Inco’s ability to mine in certain areas included in its Contract of Work, they could result in a reduction of PT Inco’s estimated ore reserves and adversely affect PT Inco’s long-term mining plans.
- PT Inco’s Contract of Work may not be extended beyond its scheduled expiration in 2025. For more information about the Contract of Work, see *Item 4. Information on the company — Regulatory matters — Mining — Indonesia.*

The requirement to build a nickel processing facility in the Canadian Province of Newfoundland and Labrador by the end of 2011 involves risks.

Under definitive agreements with the Canadian Province of Newfoundland and Labrador, we have agreed to build a commercial nickel processing facility in this Province by the end of 2011 to treat all nickel ores or intermediate products from our Voisey's Bay operations for the production of finished nickel and cobalt products. This project involves several risks and challenges, including the following:

- Failure to complete the facility on the timetable agreed with the Province of Newfoundland and Labrador could subject us to sanctions under our agreements with the Province, including the potential forfeiture of the lease to conduct our Voisey's Bay operations.
- As currently proposed, the new processing facility will rely on new hydrometallurgical processing and other technologies, and there can be no assurance that these technologies will be successful on a commercial basis. Unforeseen challenges in implementing these new technologies could lead to delays in the start-up of commercial production or lead to higher than expected capital or operating costs that could adversely affect the project's profitability.
- We currently rely on the availability of Voisey's Bay nickel concentrates to maintain production levels at our facility in the Canadian Province of Manitoba, but such shipments must eventually cease under the agreement with the Province of Newfoundland and Labrador. If we are unable to develop sufficient low-cost sources of nickel concentrate to supply our Manitoba operations in the future, we may be unable to maintain nickel production levels at our Manitoba facility without purchasing third-party nickel intermediates, which could increase our overall unit production costs for nickel.

Our development projects are subject to risks that may result in increased costs, or delay or prevent their successful implementation.

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

- We may encounter delays or higher than expected costs in obtaining the necessary equipment or services to build and operate our projects.
- We may fail to obtain, or experience delays or higher than expected costs in obtaining, the required permits to build our projects. We have not yet obtained certain construction, environmental and operating permits for the Goro project, the most significant of which is an amended operating permit. Our ability to obtain the amended operating permit, given the expiration and cancellation of the prior permit, is crucial for the completion of the Goro project. While we currently anticipate that we will be able to obtain all necessary permits on a timely basis, including the amended operating permit, any failure to obtain, or any delay in the issuance of, such permits could adversely affect our ability to develop the Goro project.
- Changes in market conditions may make our projects less profitable than expected at the time we initiated work on the project.
- Adverse mining conditions may delay and hamper our ability to produce the expected quantities of minerals.
- Some of our development projects are located in regions where tropical diseases, AIDS, malaria and other contagious diseases are a major public health issue and pose health and safety risks to our employees. If we are unable to ensure the health and safety of our employees, our business may be adversely affected.

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

Our principal shareholder could have significant influence over our company.

At December 31, 2006, Valepar S.A., or Valepar, owned 53.3% of our outstanding common stock and 32.5% of our total outstanding capital. For a description of our ownership structure, see *Item 7. Major shareholders and related party transactions — Major shareholders — Principal shareholder.* As a result of its share ownership, Valepar can control the outcome of any action requiring shareholder approval, except for the appointment of certain directors and certain members of our fiscal council. Moreover, the Brazilian government owns six CVRD golden shares that give it limited veto power over certain actions that we could otherwise take. For a detailed description of the Brazilian government's veto power 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 or consortia, and our business could be adversely affected if our partners fail to observe their commitments.

We currently operate important parts of our pelletizing, nickel, bauxite, coal and steel businesses through joint ventures with other companies. Important parts of our electricity business are operated through consortia. Our forecasts and plans for these joint ventures and consortia assume that our partners will observe their obligations to make capital contributions, purchase products and, in some cases, provide managerial personnel. If any of our partners fails to observe its commitments, the affected joint venture or consortium may not be able to operate in accordance with its business plans, or we may have to increase the level of our investment to effectuate these plans. For more information on our joint ventures, see *Item 4. Information on the company — Lines of business.*

Our mining and logistics activities depend on authorizations from regulatory agencies, and changes in regulations could adversely affect our business.

Our mining and logistics activities depend on authorizations from and concessions by governmental regulatory agencies of the countries in which we operate. Our exploration, mining, mineral processing and logistics activities are also subject to laws and regulations that can change at any time. If these laws and regulations change in the future, modifications to our technologies and operations could be required, and we could be required to make unexpected capital expenditures. For example, in Indonesia, the pending new mining legislation could have a material adverse effect on our PT Inco operations. For a more detailed description of the authorizations and concessions upon which our mining and logistics activities depend, see *Item 4. Information on the company — Regulatory matters*.

Our mining and energy businesses may be adversely affected by environmental regulation.

Our operations often involve using, handling, disposing and discharging hazardous materials into the environment or the use of natural resources, and nearly all aspects of our operations and development projects around the world are subject to environmental regulation. Such regulation requires us to obtain operating licenses, permits and other approvals and to conduct environmental assessments prior to initiating projects or undertaking significant changes to existing operations. Difficulties in obtaining licenses may lead to construction delays or cost increases, and in some cases may lead us to abandon a project. Environmental regulation also imposes standards and controls on activities relating to mining, exploration, development, production, reclamation, closure, and the refining, distribution and marketing of our products. Such regulation may give rise to significant costs and liabilities.

Environmental regulation in many countries in which we operate 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. Some of the significant environmental risks that could affect our business are summarized below. For more information on environmental regulation applicable to our operations, see *Item 4. Information on the company — Regulatory matters — Environmental matters* and *Item 8. Financial information — Legal proceedings.*

- Brazilian laws restricting development in the Amazon region may limit our ability to expand certain of our operations and to fully exploit our mineral rights in those regions.
- We are subject to Brazilian environmental legislation requiring companies that undertake projects with a 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 regarding the

application of this law. An increase in the level of the fees charged above 0.5% would significantly increase our costs and, depending on the magnitude of the fees involved, could have a material adverse effect on our liquidity and return on investments. Uncertainties regarding calculation and payment of these fees may strain our relations with the Brazilian environmental authorities or lead to delays in obtaining necessary environmental permits.

- 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.
- We are subject to limits on sulfur dioxide and nickel emissions, as a result of which we will be required to make significant investments. We may be subject to additional emission limits in the future, including potential limits on the emission of greenhouse gases under the Clean Air Act in both Canada and the United States. Complying with these or other future emission limits could require significant capital expenditures or the development of new technologies. Complying with such limits could also have an adverse impact on production levels, to the extent we are required to operate our facilities at reduced levels to comply with emission limits or are unable to bank or trade sufficient emission allowances in emissions trading markets (where available).
- We have been working with regulatory authorities and other interested parties to evaluate elevated levels of nickel and other metals in soils in the vicinity of our processing facilities in Ontario, Canada that may have been affected by the historical emission of windblown metal-containing particulates. Any efforts we are required to undertake to remediate or investigate these matters may involve significant expenditures. We are also subject to related litigation in connection with soils near our Port Colborne, Ontario facilities, and environmental health studies and risk assessments are underway to evaluate risks from chemicals of concern found in soils near our smelters in Port Colborne and Sudbury. Given the existence of various legal appeals and scientific and medical studies currently underway, it is not possible to predict the effect these actions and studies could have on our business, results of operation or financial condition.
- PT Inco’s facilities are subject to environmental regulations and permits issued by the Government of Indonesia. PT Inco has in the past exceeded regulatory limits on dust emission levels from its facilities and could be subject to regulatory actions by governmental authorities for any non-compliance.
- Asset retirement obligations for our Canadian facilities and projects could differ materially from amounts currently estimated by us.
- The European Commission has adopted draft legislation for a new policy (known as REACH) establishing an all-encompassing system for the management of both new and existing chemicals that are manufactured in or imported into the EU. The draft legislation contains a broad definition of “chemicals” that includes metals, alloys and all metal-containing compounds and establishes a complex authorization process that may apply to nickel and cobalt substances.

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

Nearly all of our acquisitions and joint ventures are subject to post-transaction review by the Brazilian antitrust regulator (the *Conselho Administrativo de Defesa Econômica*), or CADE. We are currently involved in five proceedings before CADE, three of which involve post-transaction review of acquisitions (including the acquisition of Inco) or joint venture transactions. The other two are administrative proceedings involving claims that we have violated antitrust laws in connection with our logistics business. If CADE were to rule against us, it could order us to cease the conduct in question and/or to pay fines. We intend to defend these claims vigorously, but we cannot predict their outcome.

We are appealing a CADE decision from August 2005 regarding various transactions completed by us. The CADE decision conditions approval of these transactions on our acceptance of one of the following alternatives: we must either (i) waive certain rights obtained from CSN *(Companhia Siderúrgica Nacional)* with respect to a particular iron ore mine *(Casa de Pedra)* and restructure our equity stake in the railway company MRS Logística S.A., or (ii) sell all the assets we obtained through our 2001 acquisition of Ferteco Mineração S.A. We are in the process of requesting an injunction to suspend the implementation of the CADE decision, but if we were ultimately required to comply with this decision our iron ore and logistics operations could be adversely affected. For more information, see *Item 8. Financial information — Legal proceedings*.

Our reserve estimates may materially differ from mineral quantities that we may be able to 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. As a result, no assurance can be given that the indicated amount of ore will be recovered or that it will be recovered at the rates we anticipate. Estimates of different engineers may vary, and results of our mining and production subsequent to the date of an estimate may lead to revision of estimates. Reserve estimates and estimates of mine life may require revision based on actual production experience and other factors. For example, fluctuations in the market prices of ores and metals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates or other factors may render proven and probable reserves 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 lives of our existing mines.

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

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

- establish mineral resources through drilling;
- determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;
- obtain environmental and other licenses;
- construct mining, processing facilities and infrastructure required for greenfield properties; and
- obtain the ore or extract the metals from the ore.

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

We 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, pits become steeper and underground operations become deeper. As a result, over time, we usually experience rising unit extraction costs with respect to each mine. Several of our mines have been operating for long periods, and we will likely experience rising extraction costs per unit in the future at these operations.

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

Since early 2004, the global mining industry has experienced shortages of off-the-road ("OTR") tires, and we do not expect an improvement in this situation in the short term. There are only five radial tire factories worldwide, and each is working at maximum capacity. Although the three major suppliers have announced investments to increase capacity over the next three years, these capacity increases are not expected to meaningfully reduce the risk of shortages before 2009. In response to the risk of shortages, mining industry participants are exploring alternatives, such as bias ply tires, which have lower performance ratings than radial tires. If we are unable to secure sufficient OTR tires or alternative tires to maintain our operations, we may suffer temporary reductions in our production capacity.

We have experienced labor disputes that have disrupted operations, and such disputes could recur.

A substantial number of our employees and some of the employees of our subcontractors are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic renegotiation. Strikes or work stoppages have occurred recently in Canada and could reoccur in connection with negotiations of new labor agreements or during other periods for other reasons. Moreover, we could be adversely affected by labor disruptions involving third parties who may provide us with goods or services. Strikes and other labor disruptions at any of our operations could adversely affect the operation of facilities, or the timing of completion and the cost of our capital projects.

An increase in fuel costs may adversely affect our business.

Our operations rely in part on oil by-products and gas, which represented 9.0% of our cost of goods sold in 2006. Fuel costs are a major component of our total costs in our logistics, pellets and nickel businesses and indirectly affect numerous other areas of our business, including our mining and aluminum businesses. An increase in oil and gas prices adversely affects margins in our logistics, mining, pellets, nickel and aluminum businesses.

If we are unable to maintain reliable access to electricity at acceptable prices, our operations may be adversely affected.

Electricity costs are a significant component of the cost of our production, representing 6.1% of our total cost of goods sold in 2006. If we are unable to secure reliable access to electric energy at acceptable prices, we may be forced to curtail production or may experience higher production costs, either of which would adversely affect our results of operations.

Electricity shortages have occurred in Brazil in the past and could reoccur in the future, and there can be no assurance that Brazilian government policies will succeed in encouraging growth in generation capacity. Future shortages and government policies to respond to or prevent shortages may adversely impact the cost or supply of electricity for our Brazilian aluminum and ferroalloy operations. Changes in the laws, regulations or governmental policies regarding the power sector or concession requirements could reduce our expected returns from our investments in power generation.

Through our subsidiary PT Inco in Indonesia, we process lateritic nickel ores, which is energy-intensive. Although PT Inco currently generates a majority of the electricity for its operations from its own hydroelectric facilities, certain hydrological factors, such as low rainfalls or ineffective water management practices, could adversely affect electricity production at PT Inco's plants in the future, which could significantly increase PT Inco's costs or result in lower production. For more information on the regulations governing energy production, see *Item 4. Information on the company — Regulatory matters.*

Price volatility of the currencies in which we conduct operations relative to the U.S. dollar could adversely affect our financial condition and results of operations

We are affected by fluctuations in the prices of the currencies in which we conduct operations relative to the U.S. dollar. A substantial portion of our revenues and debt is denominated in U.S. dollars, and changes in exchange rates may result in losses or gains on our net U.S. dollar-denominated indebtedness and accounts payable. In 2006, 2005 and 2004, changes in exchange rates led us to report foreign exchange gains of US$452 million, US$227 million and US$79 million, respectively. In addition, currency fluctuations between the Brazilian *real*, U.S. dollar, Canadian dollar, Indonesian rupiah and other currencies of our subsidiaries affect our results. Currency fluctuations are expected to continue to affect our financial income, expense and cash flow generation.

Major volatility of any such currencies may also result in disruption of the foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our indebtedness. The governments of countries in which we operate could institute restrictive exchange rate policies in the future.

Investor perceptions of risk in Brazil and other emerging economies may undermine our ability to finance our operations at an acceptable cost or reduce the trading price of our securities.

Although our acquisition of Inco has significantly expanded the proportion of our non-Brazilian operations, our largest operations, corporate headquarters and senior management continue to be located in Brazil. 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 access to international capital markets for extended periods. We cannot assure you that global 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.

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. We earn most of our revenues in U.S. dollars, but incur a substantial portion of our costs and expenses in currencies other than the U.S. dollar. The exchange rates for converting such currencies into U.S. dollars have varied substantially during the last three years. In order to protect ourselves against market volatility, our Board of Directors has approved a risk management policy. See *Item 11. Quantitative and qualitative disclosures about market risk.* Our strategy may not be successful in minimizing our exposure to these fluctuations, and we may fail to identify correlations between the various market risks to which we are subject. In addition, to the extent we partially hedge our commodity price exposure, we may limit the upside benefits that we would otherwise experience if commodities prices were to increase.

We may not have adequate, if any, insurance coverage for some business risks.

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

• industrial accidents;

- railroad accidents;
- port accidents;
- labor disputes;
- slope or pit-wall failures, cave-ins or rock falls;
- environmental hazards;
- electricity stoppages;
- equipment or vessel failures;
- severe weather and other natural phenomena such as seismic events;
- unavailability or late delivery of materials, supplies or equipment;
- unexpected ground, grade or water conditions; and
- unusual or unexpected geological formations or pressures.

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.

Risks relating to our acquisition of Inco

We may experience difficulties integrating CVRD Inco and may fail to achieve the expected benefits from the acquisition.

Integrating CVRD Inco with our operations will be a complex, costly and time-consuming process, and may be made more difficult due to the unsolicited, cross-border nature of the acquisition. Risks and challenges that may impair our ability to achieve the benefits of the acquisition include the following:

- Although we have experience integrating acquired companies into our operations, we lack experience integrating operations as substantial and geographically diverse as those of CVRD Inco. The acquisition of CVRD Inco is significantly larger than any other acquisition we have completed.
- Integrating CVRD Inco and gaining familiarity with its operations and challenges will require significant management time and resources and may divert management's attention from our day-to-day business.
- Although we have two nickel projects under development, we have no significant prior experience producing or marketing nickel, cobalt or PGMs or operating businesses in Canada, Indonesia, New Caledonia, the United Kingdom, Japan, and China.
- The successful integration of CVRD Inco will require us to assimilate personnel with diverse backgrounds, languages and cultures. We may have difficulty retaining and integrating key employees and may be required to make substantial payments to departing executives. The performance of CVRD Inco's operations could be adversely affected if we cannot retain key employees to assist in the integration of CVRD and CVRD Inco and operation of CVRD Inco.
- We may encounter difficulties or delays in implementing common information systems, operating procedures and financial controls.

If we are unable to successfully respond to these risks and challenges, we may experience higher than expected operating costs or fail to achieve the anticipated benefits of the acquisition.

If CVRD Inco's business does not perform well or we do not integrate it successfully, we may incur significant charges to net income to write down the goodwill recognized as a result of the acquisition.

As a result of the acquisition, we recognized, on a preliminary basis, goodwill of US$3,876 million. Under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," we must test our goodwill annually for impairment and, if we determine that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. If CVRD Inco's business does not perform well or if we are unable to successfully integrate it with our operations, we may incur significant charges to net income to write down the goodwill, which could have a material adverse effect on our results of operations and financial condition.

We have incurred a substantial amount of indebtedness in connection with the acquisition of CVRD Inco, which could limit our operating flexibility and make it more difficult for us to maintain our investment grade rating.

As of December 31, 2006, as a result of the consolidation of CVRD Inco's indebtedness and the incurrence by CVRD of indebtedness of US$14,600 million to fund the purchase price for 100% of CVRD Inco's shares, we had US$22,556 million of debt outstanding, compared to US$4,947 million outstanding at December 31, 2005. The substantial increase in our outstanding debt and related covenants could limit our operating flexibility. In particular:

- A substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, reducing the funds available to us for other purposes.
- Our higher levels of indebtedness and the need to comply with financial covenants may impair our ability to adjust to changing market conditions or withstand competitive pressures.
- Our higher level of outstanding debt may make it more difficult to maintain the financial ratios the rating agencies require in order to maintain our investment grade credit rating.

Commitments made to Canadian government authorities in connection with the acquisition of CVRD Inco may limit our flexibility in managing CVRD Inco's operations.

In connection with the approval under the Investment Canada Act of our acquisition of Inco, we made a series of commitments to the Canadian Minister of Industry, in the form of undertakings, including commitments to manage our global nickel business from Canada, to refrain from making layoffs at our Canadian operating facilities for three years and to maintain aggregate employment at these facilities at a specified level for an agreed period. We also committed to increase certain expenditures by specified amounts over previously existing levels and expressed our wish to accelerate the development of our Voisey's Bay project. See *Item 4. Information on the company — Regulatory matters — Investment Canada Act undertakings.* These commitments could limit our flexibility in managing our business and responding to changing market conditions, which could adversely affect our results of operations.

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 for our American Depositary Shares, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the underlying shares, see *Item 10. Additional information — Common shares and preferred shares — Preemptive rights.*

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

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

Our corporate affairs are governed by our bylaws and Brazilian corporation 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 Brazilian corporation 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.*

Depreciation of the Brazilian real against the U.S. dollar reduces the U.S. dollar value of dividends paid to holders of our American Depositary Shares.

Depreciation of the Brazilian *real* against the U.S. dollar reduces the U.S. dollar value of dividends paid to holders of our American Depositary Shares. We attempt to mitigate this risk by setting our dividends in U.S. dollars. However, shareholders are still exposed to currency volatility risk for a period of at least two weeks, as the U.S. dollar value of dividends is converted into *reais* at least two weeks prior to its distribution, due to operational requirements to process dividend payments.