

VALLEY OF THE RIO DOCE CO

Form 6-K

August 12, 2005

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**United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of
August 2005
Valley of the Rio Doce Company
(Translation of Registrant's name into English)
Avenida Graça Aranha, No. 26
20005-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)**

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

(Check One) Form 20-F ☐ Form 40-F ☐

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes ☐ No ☐

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes ☐ No ☐

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes ☐ No ☐

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-_____.)

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BR GAAP

REAPING THE FRUITS OF THE LONG CYCLE

CVRD's performance in the second quarter 2005

BOVESPA: VALE3, VALE5

NYSE: RIO, RIOPR

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Rio de Janeiro, August 10, 2005 Excellent strategy execution, linked mainly to discipline in capital allocation, has allowed Companhia Vale do Rio Doce (CVRD) to benefit from the opportunities offered by the long cycle in the metals and mining sector.

The results in the second quarter of 2005 (2Q05) reflected this process, with various new records being set in the following areas: shipments of iron ore and pellets, gross revenues, operational performance, cash generation and net earnings. Of particular note were the records for production - 115.841 million tons of iron ore in 1H05, investments¹ of US\$ 2.5 billion and exports of US\$ 6.1 billion in the last twelve months, and the Company's achievement of the investment grade rating.

Sales of iron ore and pellets in 2Q05 of 61.717 million tons, 10.9% higher than in 2Q04.

Gross revenues in 2Q05 of R\$10.052 billion, up 36.3% year-over-year (yoy).

Consolidated exports in 1H05 of US\$3.287 billion, exceeding the exports obtained in 1H04, by 22.4%. Once again, CVRD's sales performance in international markets reinforced the Company's position as Brazil's largest exporter.

Net exports in 1H05 (exports less imports) of US\$2.912 billion were 29.6% higher than that reported in 1H04. CVRD's contribution to Brazil's trade balance continues to be extremely significant, being responsible for 14.8% of the trade surplus of US\$19.666 billion in the first half of this year.

Operational performance, as measured by EBIT (earnings before interest and taxation) of R\$4.756 billion in 2Q05, 60.2% higher than in 2Q04, when this figure amounted to R\$2.968 billion.

¹ according to the generally accepted accounting principles in the United States (US GAAP)

The financial and operational information contained in this press release, except where otherwise indicated, was consolidated in accordance with Brazilian generally accepted accounting principles (Brazilian GAAP). According to

the criteria of Brazilian GAAP, those companies in which CVRD has effective control, or shared control as defined by shareholders agreement, are included in the consolidated figures. In the instances where CVRD has effective control, the consolidation is carried out on a 100% basis and the difference between this amount and the percentage of CVRD's equity stake in the subsidiary is discounted at the minority shareholding line. CVRD's main subsidiaries are Caemi, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Docenave, Ferrovia Centro-Atlântica (FCA), Rio Doce Europa, Itaco, CVRD Overseas and Rio Doce International Finance. For companies in which control is shared, the consolidated figures are proportional to the equity stake held by CVRD in each company. The main companies in which CVRD has shared control are MRN, Valesul, Kobrasco, Nibrasco, Hispanobras, Itabasco, GIIC, Samarco and CSI.

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Cash generation, as measured by EBITDA (earnings before interest, taxation, depreciation and amortization), in 2Q05 of R\$5.334 billion, which represents an increase of 57.6% yoy.

Net earnings of R\$3.479 billion in 2Q05, which corresponds to earnings per share of R\$3.02, which is more than double than the figure reported in 2Q04, of R\$1.683 billion.

Return on equity (ROE) of 38.3% in 2Q05, compared to 36.0% in 1Q05.

Investments of US\$821.3 million in 2Q05, as measured according to the US GAAP principles.

SELECTED FINANCIAL INDICATORS

					R\$ million
	2Q04	1Q05	2Q05	1S04	1S05
Gross operating revenues	7,374	7,052	10,052	13,304	17,104
Exports (US\$ million)	1,598	1,336	1,951	2,686	3,287
EBIT	2,968	2,375	4,755	4,747	7,132
EBIT margin (%)	42.6%	35.3%	49.8%	37.6%	43.8%
EBITDA	3,384	2,849	5,334	5,819	8,183
Net earnings	1,683	1,614	3,479	2,637	5,094
Net earnings per share (R\$)	1.46	1.40	3.02	2.29	4.42
Capex (US\$ million)	488.3	570.3	821.3	846.3	1,391.6

BUSINESS OUTLOOK

The global economy appears to be close to completion of a transition toward a more sustainable long-term rate of expansion. In spite of the adverse effect of the shock in oil prices whose persistence at high levels, indeed, reflects the strength of demand there are good indications that the world economic growth is robust and should continue over the coming quarters.

In 2Q05 the US economy completed its ninth consecutive quarter with an annual expansion rate above 3%. At the same time, China's annualized GDP growth rate has been above 9% since 3Q03 and was 9.5% in 2Q05.

Leading indicators of manufacturing industry activity are showing signals that suggest a strong recovery, as new wholesale orders, production, purchasing orders/inventories have been growing significantly since June.

There was substantial accumulation of inventories in the US in 4Q04 and 1Q05, leading companies to reduce them in 2Q05. Therefore, the ISM (Institute of Supply Management) indicator for the industry reached in May 2005 its lowest point of a downtrend which begun in 2Q04. Since then, its behavior reversed markedly, indicating acceleration of industrial growth in the next two quarters.

The adjustment in the US economy coincided with a similar industrial movement in other important economies, in terms of consumption of inventories of commodities and processed raw materials, which had reached excessive levels in response to the increase in prices and supply-side uncertainties in 2004.

With this phase completed, there is a recovery in the Purchasing Manager Indices (PMIs) in practically all the world's regions, suggesting the start of a globally synchronized recovery in economic activity. This synchronization had been broken down since the middle of 2004, with the slow growth of Japan and the Eurozone.

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The dynamics of the cycle now translate into new purchase orders, increased international trade flows, industrial growth, and recovery in commodity prices. Symptomatically, copper prices reached 20-year record highs in June and July, and primary aluminum prices interrupted their downtrend initiated since last March, accumulating a fall of 15.5% until the first week of July.

In the steel industry, the International Iron and Steel Institute (IISI) figure of 7.6% for global expansion of production in the first half of the year hides the disparity between the very strong Chinese growth of 28.3% and a soft patch in the rest of the world, where production increased by only 0.6%, as a result of the marginal cuts since February. Indeed, building of inventories in the hands of consumers of steel products forced the industry to slow down production, primarily in the EU and North America where crude steel output decreased, respectively, by 1.7% and 2.6%. In the developing economies, which are less subject to cyclical variations, being China and India typical examples, steel production continued to grow vigorously, with increases of 28.3% and 12%, respectively, in the first half of 2005.

In the coming months we expect to see the differences between steel production growth in the various regions of the world diminishing with more moderate expansion in China, where there appears to be a short term excess supply in long steels, and a recovery in the European Union and the US, reflecting the reduction of inventories over recent months. It is important to point out that the urbanization process in large scale in China is expected to continue for at least the next 10 years. Thus, strong demand for long steel, used in civil construction, should prevail.

In China, fixed assets investments, a good leading indicator for steel consumption, has been growing at annual rates above 25% since March, and was 27.1% in June. Thus, the strong outlook for consumption combined with the probably more moderate increase in production indicates lower availability for exports, setting the stage for a recovery in steel production in other regions of the world.

A scenario in which there is persistent economic growth in China, strengthening of the US, European and Japanese economies, and a slow response from supply given the restraints on supply of equipment, makes it possible to foresee lengthening of the present mining and metals cycle.

The continuity of the global economic growth with strong liquidity in the financial markets and solid demand for commodities tends to benefit Brazil and sustain the appreciation of the Real against the US dollar.

As a result of the performance of steel production, Chinese imports of iron ore reached 131.2 million tons in the first half of 2005 (1H05), 34.1% higher yoy. China's volume of imports in 1H05 was equal to the annual imports of the whole of the European Union, for example.

In spite of record imports, inventories of iron ore in the Chinese ports in July continued to be low. Spot market prices started rising again, remaining above benchmark prices. Thus, all the signs indicate that excess global demand for iron ore will continue.

In July, the China National Development & Reform Commission issued its *Steel Industry Development Policy*, aiming to restructure the steel industry turning it more efficient and competitive in the global market. The steel industry in China is still very fragmented: according to the China Iron & Steel Association (CISA) in 2004 there were 871 steel mills in operation, but only 15 with capacity of 5 million tons per year or more, and the top 10 companies were producing 35% of the total

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output. The Chinese government's target is to increase this percentage to 50% in 2005 and 70% in 2010, through mergers and expansion of the more competitive operations.

Since the directives of the new policy do not apply to projects that have already been approved, we believe their effects will not be felt in the short term. It is possible, however, to predict that the focus on consolidation, productivity gains and product quality improvements will tend to benefit an iron ore supplier such as CVRD, which has large scale, high quality products, capacity to develop specific solutions, and whose clients are among the players with the largest scale, financial capacity and advanced technological development.

The market for alumina continues to show signs of disequilibrium between supply and demand. Chinese imports in 1H05 were 3.7 million tons, 30% more than in 1H04, and prices have passed the US\$ 400/ton mark. Our expectation is that this scenario will not change significantly over the next 18 months.

The situation in the ferro alloys market is different from that of the other mineral products. After a strong rise which began in 4Q03, prices entered a downtrend starting around the middle of 2004, with the exception of medium carbon ferro-manganese alloy, whose price fall is more recent, becoming pronounced in 1Q05.

The imbalance in the alloys market was caused by the strong expansion of capacity which, according to data from the International Manganese Institute, was 12.3% in 2003 and 15.4% in 2004 - and in global production, which grew 20% in 2004, put in place mainly by the higher-cost, non-integrated producers. The expansion of Chinese production from 20% of global alloys production in 2000 to 35% in 2004, supported by a considerable increase in imports of manganese ore since 2001 was a key factor in this context of excess supply.

Due to the context of accumulation of inventories and falling prices, CVRD is shutting down temporarily the two furnaces of its Mo I Rana plants, in Norway, and running the Dunkerque unit, in France, at half-capacity - these two actions should reduce the company's output of alloys by an estimated 200,000 tons in an annualized basis. At the same time, other players are also reducing production, some recently re-activated plants are being closed, and the Chinese government is eliminating export incentives.

As a consequence, we expect alloy prices to stabilize in the near future. Manganese ore and ferro alloys provided 4.4% of CVRD's total sales revenue in 2Q05.

IMPORTANT RECENT EVENTS

CVRD rated investment grade

On July 8, Moody's Investors Service upgraded CVRD foreign currency rating from Ba1 to Baa3. According to Moody's rating scale, Baa3 qualifies the Company as a moderate credit risk issuer, without speculative elements, corresponding to investment grade.

The upgrade of CVRD's rating is a landmark in its growth path, characterized by the Company's strong commitment to shareholder value creation. CVRD is the first Brazilian company to obtain the investment grade rating.

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Dividend payment

On April 29, CVRD distributed to its shareholders a total of R\$ 1,280 billion, equivalent to US\$ 0.435 per share, as the first installment of the minimum dividend for the year of 2005, set at US\$ 1.0 billion.

Payment of the second tranche of the minimum dividend is scheduled for October 31.

Development of the Vermelho nickel project approved

In July, CVRD's Board of Directors gave the go-ahead for development of the Vermelho nickel project, located in the Carajás mineral province, in the Brazilian state of Pará. This project will mark the Company's entry into the global nickel market. The Vermelho project will have production capacity for approximately 46,000 tons per year (tpy) of metallic nickel and 2,800 tpy of cobalt. The useful life of the project is estimated to be 40 years.

The estimated investment is up to US\$ 1.2 billion, with startup scheduled for the fourth quarter of 2008.

CVRD begins mineral exploration in Australia

In July CVRD signed agreement with the Australian mining companies Aquila Resources Limited and AMCI Holdings for an exploration study of the Belvedere Coal Underground Project (Belvedere). Belvedere is an estimated 2.7 billion ton hard coking coal resource located in the state of Queensland, Australia.

At the conclusion of the pre-feasibility study, CVRD has the option to acquire a 51% interest in Belvedere at a price of US\$ 90 million. CVRD has further options to increase its stake in the project up to 100% by acquiring its partners' interests at a fair market value determined at the time of the exercising of each option.

With this project, CVRD now has mineral exploration investments in four continents: South America, Africa, Asia and Australasia.

First iron ore shipment to Ukraine

In August, CVRD concluded its first iron ore shipment to Ukraine. Ukraine is the world seventh largest steel producer. This shipment represents the conquest of a new frontier of the iron ore seaborne market.

Divestment of QCM

CVRD's subsidiary Caemi sold its shareholding in Quebec Cartier Mining Company (QCM), an iron ore and pellets producer with operations in Quebec, Canada, for US\$ 125 million, to Dofasco Inc, on July 22.

This transaction completed CVRD's compliance with its undertakings to the antitrust authorities of the European Union.

SALES AND REVENUES

CVRD's gross revenues in 2Q05 amounted to R\$ 10.052 billion, 36.3% higher yoy. The growth of R\$ 2.678 billion is essentially a function of the higher pricing level, responsible for an increase of R\$ 4.131 billion in gross revenues, principally due to the positive impact of the annual price increase of iron ore and pellets.

Increased sales volume, including shipments of copper concentrates, improved the Company's gross revenues by R\$ 285 million.

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On the other hand, the appreciation of the Brazilian real against the US dollar seen between 2Q05 and 2Q04, of 18.6%, again had a negative impact on CVRD's revenues, reducing them by around R\$ 1.347 billion. The ferrous minerals area was responsible for 74.3% of the Company's total gross revenue in 2Q05, the aluminum chain accounted for 9.2%, logistics services 8.5%, non-ferrous minerals 4.1% and steel products 3.8%. Brazil was once again the main destination of the Company's sales, accounting for 23.0% of gross revenues in 2Q05. Sales to Europe, accounted for 30.2% of total sales, Germany being the main destination (8.7% of the total). Sales to Asia accounted for 25.1% of gross revenues, where China alone accounted for 11.3% of the total.

Ferrous minerals

Sales of iron ore totaled 52.969 million tons in 2Q05, up 17.1% yoy. Between 2Q04 and 2Q05, two new mines began operations: Capão Xavier, in June 2004, and Fábrica Nova, in April of this year. In 2Q05, CVRD purchased 4.140 million tons of iron ore from small mining companies located in the Iron Quadrangle, in the state of Minas Gerais, Brazil to complement its own production in the quarter – a new record, of 62,583 million tons – and enable the Company to meet commitments to clients. Total purchases from third party suppliers in 1H05 were 8.496 million tons, 10.5% more than the 7.687 million tons acquired in 1H04. Pellet sales, of 8.748 million tons, were down 1.678 million tons compared to 2Q04 due to the programmed maintenance stoppage of the São Luís pelletizing plant, which production decreased 472,000 tons in the 2Q05 quarter-over-quarter (qoq), and because of shipment reprogramming between quarters. Of the volume sold in 2Q05, 12.3 million tons of iron ore and pellets were shipped to China, representing 19.9% of the total, 6.6 million tons to Japan (10.7%) and 20.6 million tons to Europe (33.4%). Sales within Brazil accounted for 18.5% of the total – 11.4 million tons – of which 2.6 million tons were sent to the pelletizing joint ventures and 8.8 million tons to Brazilian steel and pig iron producers. Gross revenues from the sale of iron ore and pellets in 2Q05 amounted to R\$ 7.015 billion. About 90% of the difference of the iron ore and pellet price increase, retroactive to 1Q05, was accounted for in this quarter. Revenues from the operation services of the pelletizing plants located in Tubarão, amounted to R\$ 13 million. Sales of manganese ore amounted to 194,000 tons, 5.4% lower than the figure in 2Q04, mainly because of the drop in Chinese demand for this product, generating total gross revenues of R\$ 62 million. Sales of ferro alloys were 151,000 tons and revenues generated from these sales, R\$ 381 million, were substantially impacted by the drop in the ferro alloys price seen in 2Q05. The global market for alloys is in a typical oversupply phase, after production growth of 20% in 2004. With the accumulation of inventories and falling prices, CVRD has decided to suspend production at the two Mo I Rana furnaces in Norway, and reduce capacity utilization at Dunkerque plant, in France, to 50% -

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together these actions reduce output of alloys by an estimated 200,000 tons per year.

Various swing producers' plants with high costs, which produce at the top of the cycle and shut down in the low part of the cycle, have suspended operations due to the price fall, and as a result the rate of growth of production fell in 1Q05, from 20% to 15% per year. Supply, and as a result, prices, are expected to stabilize in the coming quarters.

Aluminum chain

Sales of bauxite, alumina and primary aluminum in the quarter, due to the fact that short-term production capacity remained unaltered, did not see any significant changes. Some variations seen between quarters, in terms of volume shipped, were because of shipment reprogramming.

In 2Q05, sales of bauxite amounted to 1.401 million tons, 13.4% more than in 2Q04, and 13.6% higher than sales in 1Q05.

Sales of alumina, of 367,000 tons, saw an increase of 8.9%, compared to the sales recorded in the same quarter in 2004, of 337,000 tons.

Primary aluminum sales, of 123,000 tons, were down 7.5% on 2Q04.

Sales of products in the aluminum chain generated gross revenues of R\$ 928 million, 9.2% of CVRD's total sales in this quarter.

Copper

In 2Q05, CVRD sold 105,000 tons of copper concentrate, 20,000 tons more than 1Q05, 85,000 tons, and 71,000 tons more than in 2Q04, when shipments began. Gross revenues generated from the shipments of copper concentrate amounted to R\$ 229 million.

Production at the Sossego copper mine continues to be lower than programmed, since drilling equipment acquired by the Company this year has not yet been delivered. Delivery of these equipments is now expected during the second half of the year. Therefore, production of copper concentrate for 2005 is likely to be approximately 130,000 tons.

Industrial minerals

Potash sales amounted to 129,000 tons, down 22.3% yoy. In the first half of the year, as well as the unfavorable seasonal effect, the severe drought seen in the South of Brazil resulted in losses in the harvest and contributed to reducing potash consumption in Brazil for the first time since 1998.

In the second half of 2005, with the effects of the drought overcome, and the start of planting for the new crop, especially coffee, which uses potash intensively as a soil nutrient, we expect a strong expansion in sales. Such increase will be enabled by the capacity increase of the Taquari-Vasouras mine. With the ramp-up of the new installations, CVRD should produce 710,000 tons in 2005 against 638,000 tons in 2004. In 2006, operating at full capacity, estimated production is 850,000 tons of potash.

Gross revenues generated by potash sales amounted to R\$ 76 million.

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Sales of kaolin totaled 303,000 tons, 3.8% higher than that reported in 2Q04, and generated revenues of R\$ 111 million. The increased sales volume was due to new contracts signed, as already anticipated.

Logistics services

Logistics services contributed with gross revenues of R\$ 848 million, 8.5% of the Company's total revenues in 2Q05. Of this amount, railroad transportation generated R\$ 631 million and port services, R\$ 123 million. Coastal shipping and port support services together were responsible for revenues of R\$ 94 million.

CVRD's railroads transported 7.755 billion net ton kilometers (ntk) of general cargo, 4.9% above 2Q04. Agricultural products accounted for 39.9% of the total, inputs and steel industry products 36.3% and construction materials and forestry-based products, 6.7%.

CVRD's ports and maritime terminals handled 8.280 million tons in this quarter, compared to 8.120 million tons in 2Q04.

SALES VOLUME IRON ORE AND PELLETS

					thousand tons
	2Q04	%	1Q05	%	2Q05
Iron ore	45,231	81%	49,159	83%	52,969
Pellets	10,426	19%	9,725	17%	8,748
Total	55,657	100%	58,884	100%	61,717

SALES VOLUME - ORES AND METALS

			thousand tons
	2Q04	1Q05	2Q05
Manganese	205	198	194
Ferro alloys	94	136	151
Copper concentrate	34	85	105
Potash	166	138	129
Kaolin	292	280	303
Bauxite	1,235	1,233	1,401
Alumina	337	464	367
Aluminum	133	122	123

LOGISTICS SERVICES

	2Q04	1Q05	2Q05
Railroads - general cargo (million ntk)	7,395	6,009	7,755
Ports (thousand tons)	8,120	6,313	8,280
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	2Q04	%	1Q05	%	2Q05	million tons %
Asia	19.7	35.4%	22.7	38.5%	22.5	36.5%
China	8.9	16.0%	11.5	19.5%	12.3	19.9%
Japan	6.3	11.3%	5.8	9.8%	6.6	10.7%
South Korea	2.1	3.8%	2.5	4.2%	1.3	2.1%
Emerging Asia (ex-China)	2.4	4.3%	2.9	4.9%	2.3	3.7%
Europe	18.5	33.2%	18.0	30.6%	20.6	33.4%
Germany	6.4	11.5%	5.9	10.0%	6.5	10.5%
France	3.1	5.6%	2.6	4.4%	3.0	4.9%
Italy	2.3	4.1%	2.2	3.7%	3.4	5.5%
Others	6.7	12.0%	7.3	12.4%	7.7	12.5%
Brazil	10.9	19.6%	11.2	19.0%	11.4	18.5%
USA	1.5	2.7%	1.3	2.2%	1.1	1.8%
Rest of the World	5.1	9.2%	5.7	9.7%	6.1	9.9%
Total	55.7	100.0%	58.9	100.0%	61.7	100.0%

GROSS REVENUES BY PRODUCT

	2Q04	%	1Q05	%	2Q05	R\$ million %
Iron ore and pellets	3,912	53.1%	3,920	55.6%	7,014	69.8%
Iron ore	2,680	36.3%	2,753	39.0%	5,072	50.5%
Pellets	1,232	16.7%	1,167	16.5%	1,942	19.3%
Pelletizing plants operation services	27	0.4%	21	0.3%	13	0.1%
Manganese and ferro alloys	527	7.1%	498	7.1%	443	4.4%
Copper concentrate	72	1.0%	200	2.8%	229	2.3%
Potash	96	1.3%	80	1.1%	76	0.8%
Kaolin	116	1.6%	105	1.5%	111	1.1%
Aluminum	982	13.3%	1,040	14.7%	928	9.2%
Logistics	792	10.7%	725	10.3%	848	8.4%
Railroads	553	7.5%	506	7.2%	631	6.3%
Ports	119	1.6%	114	1.6%	123	1.2%
Shipping	120	1.6%	105	1.5%	94	0.9%
Steel products	828	11.2%	452	6.4%	379	3.8%
Others	22	0.3%	11	0.2%	11	0.1%
Total	7,374	100.0%	7,052	100.0%	10,052	100.0%

GROSS REVENUES BY DESTINATION

	2Q04	%	1Q05	%	2Q05	R\$ million %
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Brazil	1,840	24.9%	1,765	25.0%	2,323	23.1%
USA	793	10.8%	743	10.5%	715	7.1%
Europe	2,234	30.3%	1,828	25.9%	3,027	30.1%
Japan	690	9.4%	597	8.5%	841	8.3%
China	699	9.5%	836	11.9%	1,128	11.3%
Emerging Asia (ex-China)	361	4.9%	428	6.1%	547	5.5%
Rest of the World	757	10.3%	854	12.1%	1,470	14.6%
Total	7,374	100.0%	7,052	100.0%	10,052	100.0%
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In 2Q05, the Company's operating profit (EBIT) amounted to R\$ 4.756 billion, 60.2% higher yoy. EBIT margin amounted to 49.8%, compared to 42.6% in 2Q04.

Among the determining factors behind the increase of R\$ 1.788 billion in EBIT between 2Q04 and 2Q05, the increase in net revenues, of R\$ 2.581 billion, was the main one. This was partly offset by a raise of R\$ 613 million in the cost of goods sold (COGS).

This increase in COGS is explained by the rise in the price of energy, raw materials, parts and equipments, technical services, as well as expanded production. The specific figures that make up the increased COGS in 2Q05, compared to the same quarter in 2004, are: (a) materials, which were up by R\$ 251 million, (b) outsourced services, R\$ 225 million, (c) energy, R\$ 80 million, and (d) depreciation and exhaustion, R\$ 74 million.

In this quarter, demurrage expenses amounted to R\$ 40 million, below the R\$ 56 million spent in 1Q05, and the R\$ 48 million disbursed in 2Q04, which reflects CVRD's efforts in reducing ship waiting and loading time in the Company's ports.

EBIT was also negatively affected by an increase of R\$ 181 million in operational expenses. Administrative expenses were up by R\$ 33 million, principally due to increased expenditure on advertising and publicity (R\$ 14 million), travel expenses (R\$ 8 million), technical consultancy (external auditing, legal and IT services, R\$ 7 million) and rents and taxes (R\$ 8 million). In 2Q05, CVRD practically doubled its expenditure on research and development, which enlarged from R\$ 81 million to R\$ 161 million.

Other operational expenses saw an increase of R\$ 82 million, mainly because of investments in social projects.

COGS BREAKDOWN

					R\$ million	
	2Q04	%	1Q05	%	2Q05	%
Personnel	352	10.4%	314	8.3%	340	8.5%
Material	541	15.9%	715	18.9%	792	19.7%
Fuel oil and gases	399	11.7%	407	10.7%	447	11.1%
Outsourced services	570	16.8%	758	20.0%	795	19.8%
Electric energy	291	8.6%	318	8.4%	371	9.2%
Acquisition of products	608	17.9%	593	15.7%	570	14.2%
Depreciation and exhaustion	288	8.5%	347	9.2%	362	9.0%
Goodwill amortization	96	2.8%	96	2.5%	96	2.4%
Others	252	7.4%	238	6.3%	238	5.9%
Total	3,397	100.0%	3,785	100.0%	4,011	100.0%

EBITDA: CASH GENERATION IN THE QUARTER EXCEEDS R\$ 5 BILLION

Cash generation, as measured by EBITDA, amounted to R\$ 5.334 billion in 2Q05, 57.6% higher than the EBITDA reported in 2Q04, of R\$ 3.384 billion. In the twelve months ended in June 2005, EBITDA amounted to R\$ 14.613 billion.

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The increase of R\$ 1.949 billion in EBITDA between 2Q04 and 2Q05 is explained by the increase of R\$ 1.788 billion seen in EBIT and the rise of R\$ 72 million in depreciation expenses. In addition, in 2Q05, CVRD received R\$ 88 million in dividends from affiliated companies.

Earnings from ferrous mineral operations (iron ore, pellets, manganese ore and ferro alloys) increased as a proportion of total EBITDA, from 68.0% in 1Q05, to 79.8% in 2Q05. Logistics services accounted for 10.4% of EBITDA in the quarter, aluminum chain products, 6.5%, non-ferrous minerals (copper, kaolin and potash), 1.5%, while steel products and others contributed 1.7%.

QUARTERLY EBITDA

			R\$ million
	2Q04	1Q05	2Q05
Net operating revenues	6,970	6,720	9,551
COGS	(3,398)	(3,785)	(4,011)
SG&A	(387)	(358)	(403)
Research and development	(81)	(81)	(162)
Other operational expenses	(137)	(121)	(220)
EBIT	2,968	2,375	4,756
Depreciation, amortization & exhaustion	416	473	488
Dividends received			89
EBITDA	3,384	2,849	5,334

EBITDA BY BUSINESS AREA

			R\$ million
	2Q04	1Q05	2Q05
Ferrous minerals	2,184	1,936	4,258
Non- ferrous minerals	151	104	82
Logistics	358	292	552
Aluminum	434	454	348
Steel	256	64	120
Others			(27)
Total	3,384	2,849	5,334

RECORD NET EARNINGS

CVRD's net earnings in 2Q05 amounted to R\$ 3.479 billion, a new quarterly record, and more than double that reported in 2Q04, of R\$ 1.683 billion. Of the increase of R\$ 1.796 billion observed between these two quarterly periods, R\$ 1.788 billion was as a result of the Company's increased operating profit.

The net financial result also had a positive impact on net earnings in 2Q05, being R\$ 978 million higher yoy. The increase of R\$ 859 million in monetary variation is the result of the 11.8% appreciation in the Brazilian real / US dollar exchange rate as at June 30, 2005, compared to the end of 1Q05, against a depreciation of 6.8% in the BRL/USD exchange rate in 2Q04, in relation to 1Q04.

Financial expenses saw an improvement of R\$ 106 million, in large part explained by the reduction in lending and financing. Financial revenues increased by R\$ 12 million.

The result from shareholdings, of R\$ 77 million, was R\$ 100 million higher than that seen in 2Q04, at which time the Company saw a loss of R\$ 23 million from its

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shareholdings. The positive equity income result of R\$ 134 million in 2Q05 was partly offset by the goodwill on consolidated companies, of R\$ 57 million.

Provisions for the payment of income tax and social contribution amounted to R\$ 1.061 billion in the quarter, R\$ 834 million more than in 2Q04, reflecting the expansion in the Company's taxable earnings base.

PARADIGM SHIFT: THE INVESTMENT GRADE CONQUEST

On July 8, 2005 Moody's Investors Service upgraded CVRD's foreign currency credit rating from Ba1 to Baa3 which on Moody's scale means credit of moderate risk, without speculative elements, identified as investment grade.

This upgrade is the result of continuous effort to implement a long-term strategy focused on the value creation, which has been responsible for CVRD's strong cash flow, supported by excellence in financial management, oriented toward minimization of risks and the strengthening of the Company's capacity to assume financial commitments.

The improvement of CVRD's credit risk classification is a historic benchmark in the Company's growth trajectory, characterized as it has been by firm commitment to value creation for its shareholders.

CVRD is now one of the rare cases in which a company that has the vast majority of its assets in a non-investment grade country is itself promoted to investment grade thus breaking a previous paradigm, and becoming the only company in Brazil with this position.

CVRD's total debt on June 30, 2005 was US\$ 4.168 billion, compared to US\$ 4.182 billion on March 2005 and to US\$ 4.088 billion in the end of 2004. Net debt at the end of June 2005 was US\$ 3.212 billion, slightly higher than the US\$ 3.060 billion verified at the end of March 2005.

The average maturity of CVRD's debt on June 30, 2005 was 6.57 years, with 50% of the total debt at fixed rates and 50% at floating rates.

The rapid growth in adjusted EBITDA has been reflected in the improving trend of the Company's leverage and interest coverage indicators. Cash generation growth enables the financing of investments and distribution of dividends with only marginal increases in debt levels, leading to a decline in leverage and an increase in interest coverage. This trend is expected to be even higher in 2H05 given the expectation of decrease in total debt due to its amortization.

Total debt/LTM EBITDA fell from 2.05x on December 31, 2001 to 0.83x on June 30, 2005. Interest coverage, expressed as LTM EBITDA/interest paid increased significantly to 17.73x on June 30, 2005 from 7.58x.

In June, CVRD used part of its free cash flow and the prepayment of some bank loans contracted at floating rates, in a transaction with total value of US\$ 240.6 million. This aimed to reduce risks - refinancing risk and interest rate risk and also the Company's average cost of debt.

In isolation, these transactions reduced the proportion of floating-rate debt from 53% to 50% of CVRD's total, and also produced a marginal positive impact on the debt's cost and average maturity.

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The effect of the debt amortization was not fully reflected in the Company's total debt because CVRD contracted in April export finance credit lines to deal with short-term cash management. Such credit lines will be liquidated during 2H05, US\$ 129 million in 3Q05 and US\$ 186 million in 4Q05, reducing debt levels.

FINANCIAL EXPENSES

	2Q04	1Q05	US\$ million 2Q05
Financial expenses on:			
Debt with third parties	(79)	(48)	(57)
Debt with related parties	(5)	(2)	(4)
Total debt-related financial expenses	(84)	(50)	(61)
	2Q04	1Q05	2Q05
Gross interest on:			
Tax and labour contingencies	(9)	(11)	(13)
Tax on financial transactions CPMF	(14)	(9)	(16)
Derivatives	23	5	56
Others	(22)	(27)	(17)
Total gross interest	(22)	(42)	10
Total	(106)	(92)	(51)

DEBT INDICATORS

	2Q04	1Q05	US\$ million 2Q05
Gross debt	4,514	4,182	4,168
Net debt	3,455	3,060	3,212
Gross debt / LTM EBITDA (x)	1.55	1.05	0.83
LTM EBITDA / LTM interest expenses (x)	12.94	13.24	17.73
Gross debt / EV (x)	0.22	0.11	0.11

*Enterprise
Value = market
capitalization +
net debt*

GREEN LIGHT FOR VERMELHO

CVRD's priority for the use of its strong cash flow is to finance investments that constitute platforms for shareholder value creation. At this point of the economic cycle, which is characterized, among other factors, by a significant increase in the price of equipments, raw materials and services, the choice of the right investment opportunities, that are truly capable of adding value, became an even greater challenge for the managers of a mining company. Based on rigorous criteria, CVRD continues to invest a considerable volume of funds in the quest for profitable growth.

Total capital expenditure in 2Q05 was US\$ 821.3 million, 44.0% more than in 1Q05. US\$ 658.4 million of this total was spent on organic growth projects and R&D, and US\$ 162.9 million on stay-in-business capex maintaining existing operations².

CVRD's total capex in the first half of 2005 was US\$ 1.392 billion, 41.8% of the total of US\$ 3.332 billion budgeted for the year.

The amount spent on research and development in 2Q05 was US\$ 42.7 million, more than 50% higher than the US\$ 28.2 million spent in the previous quarter.

² Capex figures
are based on
actual
disbursements.

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Mineral exploration efforts were focused on identifying new deposits of copper, coal, nickel, gold and manganese. CVRD has various studies in progress. Highlights are: the Cristalino copper project in Carajás, in the Brazilian state of Pará; the São João do Piauí nickel project in the Brazilian state of Piauí; the coal project at Moatize in Mozambique; the manganese project at Franceville in Gabon; the phosphates project in Bayóvar, Peru; and the potash project at Rio Colorado in Argentina. The Company will start studies for the Belvedere coal project in Queensland, Australia. The acquisition of 25% of the Chinese anthracite producer Henan Long Energy Resources Ltd. was concluded in this quarter, on payment of US\$ 86.3 million. Henan is expected to produce 1.7 million tons in 2005.

At the beginning of July, CVRD's Board of Directors approved investment in development of the Vermelho nickel project with estimated production capacity of 46,000 tpy of metallic nickel and 2,800 tpy of cobalt. The estimated total investment is up to US\$ 1.2 billion, for startup scheduled for the last quarter of 2008.

Main CVRD projects currently in progress

Area	Project	Budgeted 2005 US\$ million	Status
Ferrous minerals	Expansion of the Carajás iron ore mines by 85 Mtpa Northern System	140	For completion in 2006, this will add 15 million tons to CVRD's annual production capacity. The second ship loading system of Pier III is in test phase.
	Brucutu iron ore mine Southern System	205	Phase I should be completed in 2006, increasing nominal production capacity to 15 million tpy. Phase II is scheduled for completion in 2007, to bring production capacity to 24 million tpy. A further expansion, to 30 million tpy is currently under study.
	Itabira iron ore mines Southern System	16	Modernization of operations and expansion of production capacity to 46 million tpy, for conclusion and startup in 2006.
	Fazendão iron ore mine Southern System	52	Project to produce 14 million tons run-of-mine (ROM) iron ore/year. Works to begin in second half 2005, for completion and operational startup in 2007.
	Fábrica iron ore mine Southern System	38	Project for expansion of production capacity by 5 million tons, from 12 to 17 million tpy. Startup scheduled for 2007.
	Timbopeba iron ore mine Southern System	25	Extension of the mine's working life to 2008, with estimated annual production capacity of 2.7 million tons. US\$7.8 million will be invested in development, purchase of small scale equipment and new access for the crushing facilities; a further US\$17.6 million will be spent on rolling stock for the EFVM railroad.
	Tubarão Port expansion Southern System	22	Expansion of the conveyor belt and dockside machinery, and construction of new dockside storage patios.
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Expansion of the São
Luis pelletizingplant

Expansion of capacity from 6 to 7 million tpy. The expansion
will be completed by January 2006. Production this year is
estimated at 6.25 million tons.

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Area	Project	Budgeted 2005 US\$ million	Status
Coal	Anthracite	86	Acquisition of 25% of the Chinese anthracite producer Henan Longyu Energy Resources Ltd., in partnership with Yoncheng and Baosteel, has been completed. The mine will produce 1.7 million tons of high quality anthracite in 2005.
	Metallurgical coke	16	Acquisition of 25% stake in the Chinese coal producer Shandong Yankuang International Coking Ltd. for production of metallurgical coke in association with Yankuang. The project has estimated production capacity of 2 million tpy of coke, and 200,000 tpy of methanol. Startup is planned for 2006.
Non-ferrous minerals	Expansion of the Taquari-Vassouras potash mine	9	Project to expand nominal potash production capacity from 600,000 to 850,000 tpy. The ramp-up period has begun and production of 710,000 tons is expected this year.
	118 copper mine	32	Project for production of 36,000 tons of copper cathode/year.
	Vermelho nickel mine	34	Project for production of 46,000 tons of metallic nickel and 2,800 tons of cobalt, per year. Approved in July 2005; conclusion planned for 4Q08.
Aluminum	Alumina: Alunorte Modules 4 and 5	306	Modules 4 and 5 will increase the refinery's production capacity to 4.2 million tons of alumina/year. Completion is planned for 1Q06.
	Paragominas I bauxite mine	154	Will produce 4.5 million tpy of bauxite starting early in 2007. Tubes are currently being delivered for construction of the 244-km ore delivery pipeline to transport bauxite from Paragominas to the alumina refinery in Barcarena, in the Brazilian state of Pará. Earthmoving work has been completed for start of construction.
Logistics	Acquisition of locomotives and railcars for EFVM, EFC and FCA railroads	559	2,288 railcars and 63 locomotives were bought in the first half of 2005.
Electric energy	Aimorés hydroelectric power plant	12	This power plant on the Doce river in the Brazilian state of Minas Gerais will have generation capacity of 330MW. The first turbine started up in July 2005; the other two are programmed to startup by October. CVRD owns 51.0% stake in the project.

Capim Branco I and II hydroelectric power plants	73	Both plants are on the Araguari river in the Brazilian state of Minas Gerais. Scheduled to start operating in 2006, they have generating capacity of 240MW and 210MW, respectively. Works are 68% completed on Capim Branco I, and 41% on Capim Branco II. CVRD has a 48.4% stake in both projects.
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CAPEX BY BUSINESS AREA

Business area			US\$ million	
	2Q05		Realized 2005	
Ferrous minerals	340.2	41.4%	540.1	38.8%
Non ferrous minerals	53.1	6.5%	88.8	6.4%
Logistics	128.6	15.6%	282.5	20.3%
Aluminum	151.0	18.4%	277.7	19.9%
Coal	91.5	11.1%	94.0	6.8%
Electric energy	35.7	4.4%	59.5	4.3%
Others	21.1	2.6%	49.1	3.5%
Total	821.3	100.0%	1,391.6	100.0%

THE SARBANES-OXLEY LAW: ADAPTING THE BYLAWS

CVRD's Extraordinary General Shareholders Meeting held on June 19, 2005 made changes to the Bylaws to introduce and provide for compliance with the principles and concepts of the Sarbanes-Oxley Act of 2002, Rule 10A-3 of the Securities and Exchange Act of 1934, and Rule 303A.06 of the New York Stock Exchange Listed Company Manual, with necessary adaptations to Brazilian legislation. Also in accordance with the rules of the Sarbanes-Oxley Act, CVRD created an internal complaints channel.

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TELECONFERENCE AND WEBCAST

CVRD will hold a conference call and webcast on Friday, August 12, 2005, at 12:00 p.m. Rio de Janeiro time, 11:00 a.m. US Eastern Standard time, and 4:00 p.m. UK time. To participate, see the instructions on CVRD's website www.cvrld.com.br, in the *Investor Relations* subsection. A playback of the call and webcast will be available on the site for 90 days following August 12.

SELECTED FINANCIAL INDICATORS OF THE MAIN NON-CONSOLIDATED COMPANIES

Selected financial indicators of the principal non-consolidated companies can be found in CVRD's quarterly accounts, which are available on its website, www.cvrld.com.br, in the *Investor Relations* subsection.

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Table of Contents**BR GAAP****FINANCIAL STATEMENTS**

	R\$ million		
	2Q04	1Q05	2Q05
Gross operating revenues	7,374	7,052	10,052
Taxes	(404)	(332)	(500)
Net operating revenues	6,970	6,720	9,551
Cost of goods sold	(3,398)	(3,785)	(4,011)
Gross profit	3,572	2,935	5,540
Gross margin (%)	51.3%	43.7%	58.0%
Operational expenses	(605)	(560)	(785)
Sales	(111)	(100)	(96)
Administrative	(276)	(258)	(308)
Research and development	(81)	(81)	(161)
Other operational expenses	(137)	(121)	(220)
Result from shareholdings	(23)	73	77
Equity income	53	130	147
Goodwill amortization	(80)	(57)	(57)
Others	5		(13)
Financial result	(895)	(274)	82
Financial expenses	(353)	(295)	(247)
Financial revenues	46	113	58
Monetary variation	(588)	(92)	271
Operating profit	2,050	2,174	4,914
Income tax and social contribution	(227)	(391)	(1,061)
Minority interest	(140)	(169)	(375)
Net earnings	1,683	1,614	3,479

BALANCE SHEET

	R\$ million	
	03/31/05	06/30/05
Asset		
Current	11,937	12,386
Long term	3,787	4,106
Fixed	29,159	30,462
Total	44,884	46,954
Liabilities		
Current	8,712	8,195
Long term	14,225	12,918
Others	2,162	2,579
Shareholders' equity	19,785	23,262
Paid-up capital	7,300	14,000
Reserves	12,485	9,262
Total	44,884	46,954
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			R\$ million
	2Q04	1Q05	2Q05
Cash flows from operating activities:			
Net income	1,683	1,614	3,479
Adjustments to reconcile net income with cash provided by operating activities:			
Result from shareholdings	23	(74)	(77)
Depreciation, depletion and amortization	560	385	384
Deferred income tax and social contribution	65	(113)	53
Financial expenses and foreign exchange and monetary net variation	886	46	(982)
Minority interest	140	169	375
Impairment of property, plant and equipment	116	15	60
Goodwill amortization in the COGS	96	96	96
Net unrealized derivative losses	(77)	5	(10)
Dividends/interest attributed to stockholders received			89
Others	130	(81)	58
Decrease (increase) in assets:			
Accounts receivable	(426)	(338)	(1,026)
Inventories	(296)	(70)	(67)
Others	(253)	(122)	(593)
Increase (decrease) in liabilities:			
Suppliers and contractors	(160)	49	278
Payroll and related charges	(1)	(94)	30
Taxes and Contributions	249	(579)	885
Others	52	(257)	288
Net cash provided by operating activities	2,785	651	3,322
Cash Flow from investing activities:			
Loans and advances receivable	0	12	(43)
Guarantees and deposits	(77)	(52)	(37)
Additions to investments		(10)	(208)
Additions to property, plant and equipment	(1,527)	(1,755)	(1,926)
Proceeds from disposals of investments/property, plant and equipment	3	6	4
Net cash used I investing activities	(1,601)	(1,798)	(2,212)
Cash flows from financing activities:			
Short-term debt, net issuances (repayments)	(184)	221	470
Long-term debt	780	726	342
Repayments:			
Financial institutions	(700)	(477)	(1,138)
Shares in treasury	(791)	0	(1,280)
Net cash used in financing activities	(895)	470	(1,606)
Increase (decrease) in cash and cash equivalents	289	(677)	(496)
Cash and equivalents, beginning of period	3,503	3,917	3,240
Cash and equivalents, end of period	3,792	3,240	2,744
Cash paid during the period for:			
Interest on short-term debt	(7)	(2)	(20)
Interest on long-term debt	(148)	(226)	(128)

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Paid income tax and social contribution	(126)	(211)	(379)
Non-cash transactions:			
Additions to property, plant and equipment interest capitalization	(204)	(27)	402
Income tax and social contribution paid with credits	(196)	(49)	(56)

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This communication may include declarations which represent the expectations of the Company's Management about future results or events. All such declarations, when based on future expectations and not on historical facts, involve various risks and uncertainties. The Company cannot guarantee that such declarations turn out to be correct. Such risks and uncertainties include factors relative to the Brazilian economy and capital markets, which are volatile and may be affected by developments in other countries; factors relative to the iron ore business and its dependence on the steel industry, which is cyclical in nature; and factors relative to the high degree of competitiveness in industries in which CVRD operates. To obtain additional information on factors which could cause results to be different from those estimated by the Company, please consult the reports filed with the Comissão de Valores Mobiliários (CVM Brazilian stock exchange regulatory authority) and the U.S. Securities and Exchange Commission SEC, including the most recent Annual Report CVRD Form 20F.

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Part I

Expressed In thousands of reais

**1- Management's
Discussion and
Analysis of the
Operating
Results for the
semesters
ended June 30,
2005
Compared
With June 30,
2004**

1.1- General Aspects

(a) Companhia Vale do Rio Doce group's segments of business are as follows:

Ferrous minerals: iron ore and pellets as well as manganese and ferroalloys;

Non-ferrous minerals: potash, kaolin and copper;

Logistics: railroads, ports and maritime terminals and shipping; and

Holdings: equity holdings in producers of aluminum, steel and electric power generation.

Ferrous Minerals

Iron Ore and Pellets

Operating through two world-class integrated systems for ore production and distribution. The Northern System, based in the states of Pará and Maranhão and the Southern System, based in the states of Minas Gerais and Espírito Santo, each consisting of mines, railroads and maritime terminals. Besides those, there is a third system that consists of mines and port facilities from Caemi.

Currently CVRD operates nine pelletizing plants in Brazil, five of them in joint ventures with international partners. The Company also has an interest in Samarco, which owns and operates two pelletizing plants in Espírito Santo, and an interest in GIIC, a pelletizing plant in Bahrein.

Iron ore and pellets sales are generally made pursuant to long-term supply contracts which provide for annual price negotiations. Cyclical changes in the world demand for steel products affect sales prices and volumes in the world iron ore market. Different factors, such as the iron content of specific ore deposits, the various beneficiation processes required to produce the final product, granulometric, moisture content, and the type and concentration of contaminants (such as phosphorus, alumina and manganese) in the ore, influence contract prices for iron ore. Contract prices also depend on transportation costs.

Annual price negotiations generally occur from November to February, with separate prices established for the Asian and European iron ore markets. In the Asian market, the renegotiated prices are effective as of April of each period up to March of the next period. In the European market, the renegotiated prices are effective from January to December.

Manganese and Ferroalloys

This activity is carried out through the subsidiaries RDM located in the state of Bahia, Pará and Minas Gerais, Urucum located in the state of Mato Grosso do Sul, Rio Doce Manganèse Europe in France and Rio Doce Manganese Norway in Norway.

Non-Ferrous Minerals

Potash

The Company through a leasing contract with Petróleo Brasileiro S.A. - PETROBRAS, has a potash leased mine since 1995 from Operational Unit Taquari-Vassouras (UOTV), located in state of Sergipe. It is the only producer of potash chloride in activity in Brazil. The potash explored by the Company is raw material to fertilizers producers.

Copper

CVRD's copper activities have been operating since June, 2004 the operation of the Sossego mine in Pará. Sossego is the first copper mine of CVRD.

Kaolin

Kaolin is a fine white aluminum silicate clay, used in the paper, ceramic and pharmaceutical industries as a coating and filler. Kaolin commercial activities are conducted through Caemi, controller of Pará Pigmentos S.A. and Cadam.

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The logistics system includes the Vitória to Minas Railroad and the Tubarão port complex in the Southern System, and the Carajás Railroad and Ponta da Madeira Marine Terminal in the Northern System. In addition, CVRD controls the railroad Ferrovia Centro-Atlântica S.A. FCA, Terminal de Vila Velha S.A. (TVV) and Cia Portuária Baía de Sepetiba (CPBS), the Maritime terminal Guaíba Island and has a holding in MRS Logística.

The principal cargo of CVRD's railroad is the Company's own iron ore, along with steel, coal, pig iron, limestone, agricultural products and fuel. The Company charges market rates for third-party cargo, which vary based upon the distance traveled and the density of the freight in question.

Energy

The Company participates in nine hydroelectric plants, four of which are in operation. CVRD's investments in the sector seek to optimize the Group's supply of electric power.

Holdings*Aluminum Operations*

The Company sells aluminum, alumina and bauxite to an active world market in which prices are determined based on prices for the primary aluminum quoted on the London Metals Exchange.

Bauxite extraction operation works through our jointly-controlled company Mineração Rio do Norte S.A. MRN. Alumina refine works through ALUNORTE Alumina do Norte do Brasil S.A. and the smelts of aluminum through ALBRAS Alumínio Brasileiro S.A. and the jointly-controlled company Valesul Alumínio S.A..

Steel

Commercial activities in the steel industry are conducted through the jointly-controlled company California Steel Industries Inc., located in United States and through the affiliated company Usinas Siderúrgicas de Minas Gerais S.A.

(b) The variations of the main currencies and indices in relation to the real, which impacted the results of the Company and its subsidiaries, jointly-controlled companies and affiliates, were as follows:

Currencies / Indices	U.S.	$\Delta\%$			Parity - end of period	
					US\$ x R\$	US\$ x Yen
Period	DOLLAR	YEN	IGP-M	TJLP		
From 01/01/05 to 06/30/05	(11.5)	(18.3)	1.8	4.8	2.3504	110.91
From 04/01/05 to 06/30/05	(11.8)	(14.8)	0.2	2.4	2.3504	110.91
From 01/01/05 to 03/31/05	0.4	(4.1)	1.6	2.4	2.6662	107.39
From 01/01/04 to 06/30/04	7.6	5.9	6.8	4.8	3.1075	108.89
From 04/01/04 to 06/30/04	6.8	2.5	4.0	2.4	3.1075	108.89

About 87% of the consolidated gross revenue on 06/30/05 is linked to the U.S. dollar. About 32% of total consolidated costs are linked to the U.S. dollar. Consequently, fluctuations in the exchange rate between the two currencies have a significant impact on the operating cash flows.

Approximately 92% of the short-term and long-term loans of the consolidated on 06/30/05 are denominated in U.S. dollars. As a result, exchange rate fluctuations have a significant impact on the financial expenses (Notes 6.13 and 6.19).

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(c) On 06/30/05, the consolidated trade balance of US\$ 2,912 million was generated as follows:

	Consolidated (in US\$ million)				
	2Q/05	1Q/05	Quarter 2Q/04	06/30/05	Accumulated 06/30/04
Exports	1,951	1,336	1,598	3,287	2,686
Imports	(134)	(241)	(283)	(375)	(439)
	1,817	1,095	1,315	2,912	2,247

(d) CVRD receives the investment grade rating:

Moody's Investors Service (Moody's), upgraded CVRD foreign currency rating from Ba1 to Baa3. According to Moody's rating scale, Baa3 qualifies the Company as a moderate credit risk issuer, without speculative elements, corresponding to investment grade.

The upgrade of CVRD's rating is a landmark in its growth path.

(e) Changes in the Fiscal Council

On 07/19/05 the Extraordinary General Shareholders Meeting decided to attribute CVRD's Fiscal Council the function of the Audit Committee's role under the Sarbanes-Oxley Act. In this connection, Mr. Aníbal Moreira dos Santos (financial expert) was appointed as a member of the Fiscal Council.

1.2- Comments on the Consolidated Results

The net income of the Company on 06/30/05 was R\$ 5,094,475 compared with net income of R\$ 2,636,855 on 06/30/04 (the earnings per share corresponds to R\$ 4.42 on 06/30/05 versus R\$ 2.29 on 06/30/04).

1.2.1- Gross Revenue

Sales volume and revenues by products and services:

	In thousands of metric tons (except railroad transportation)						In thousands of R\$				
	2Q/05	1Q/05	Quarter 2Q/04	06/30/05	03/31/04	D%	2Q/05	1Q/05	Quarter 2Q/04	06/30/05	Accumulated 06/30/04
ore	52,969	49,159	45,231	102,128	88,614	15	5,072,201	2,753,407	2,680,170	7,825,608	4,943,805
s (*)	8,748	9,725	10,426	18,473	19,853	(7)	1,955,682	1,188,131	1,259,132	3,143,813	2,203,174
	61,717	58,884	55,657	120,601	108,467	11	7,027,883	3,941,538	3,939,302	10,969,421	7,146,979
anese	194	198	205	392	366	7	62,013	63,355	41,251	125,368	63,918
alloys	151	136	94	287	297	(3)	380,969	434,884	485,982	815,853	831,451
							442,982	498,239	527,233	941,221	895,369
er	105	85	34	190	34	459	228,570	199,980	72,350	428,550	72,350
h	129	138	166	267	304	(12)	75,506	80,373	96,176	155,879	161,448
n	303	280	292	583	578	1	110,955	104,576	115,960	215,531	228,554
							415,031	384,929	284,486	799,960	462,352
oad	10,019	8,333	9,933	18,352	18,340		630,946	505,512	552,456	1,136,458	1,009,414
ortation											

ons of (**)											
services	8,280	6,313	8,120	14,593	14,333	2	122,875	114,375	119,175	237,250	215,261
ime											
ortation							94,146	104,576	119,919	198,722	212,409
							847,967	724,463	791,550	1,572,430	1,437,084
inum	123	122	133	245	243	1	582,268	611,222	700,641	1,193,490	1,225,732
ina	367	464	337	831	804	3	237,726	358,703	214,777	596,429	521,529
te	1,401	1,233	1,235	2,634	2,370	11	108,176	70,043	65,940	178,219	136,775
							928,170	1,039,968	981,358	1,968,138	1,884,036
							378,697	452,153	828,725	830,850	1,438,376
cts and							10,718	11,073	21,245	21,791	39,258
es							10,051,448	7,052,363	7,373,899	17,103,811	13,303,454

(*) Includes revenues derived from services provided to pelletizing joint ventures in the amount of R\$ 12,689, R\$ 21,213, R\$ 26,990, R\$ 33,902 and R\$ 40,766 referring to the 2Q/05, 1Q/05, 2Q/04, 06/30/05 and 06/30/04, respectively.

(**) The company carried through its railroad system 7,755, 6,009, 7,395, 13,764 and 13,456 million of TKUs of

general cargo
and 2,264,
2,324, 2,538,
4,588 and 4,884
million of TKUs
of iron ore for
third parties in
2Q/05, 1Q/05,
2Q/04, 06/30/05
and 06/30/04,
respectively.

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Revenues of all traded products on the first semester of 2005 are negatively impacted by the 13% average appreciation of the Real against the U.S. Dollar, this the selling currency of majority of the revenues, compared with the same period of 2004.

Besides this impact it is worth pointing out:

Revenues from iron ore and pellets increased by 53% (R\$ 10,969,421 on 06/30/05 against R\$ 7,146,979 on 06/30/04) due to higher prices on this quarter and the 11% increase of quantities sold.

Revenues from manganese and ferroalloys increased by 5% (R\$ 941,221 on 06/30/05 against R\$ 895,369 on 06/30/04) due to the change of mix of products related to the companies of the segment, as well as higher average selling prices.

Revenues from copper increased by 492% (R\$ 428,550 on 06/30/05 against R\$ 72,350 on 06/30/04) due to the 459% increase of volume sold once the trading of copper began on June, 2004, as well as higher international market prices.

Revenues from potash decreased by 3% (R\$ 155,879 on 06/30/05 against R\$ 161,448 on 06/30/04). This effect was due to the trend of having inventories in the first semester to supply the demand in the second semester.

Revenues from kaolin decreased by 6% (R\$ 215,531 on 06/30/05 against R\$ 228,554 on 06/30/04). The volumes sold remained stable, but the exchange rate variation more than offset the increase of sales price.

Revenues from transportation rose 9% (R\$ 1,572,430 on 06/30/05 against R\$ 1,437,084 on 06/30/04), due mainly to higher railway freight rates partially offset by the decrease of maritime transportation freight rates.

Revenues in the aluminum area rose 4% (R\$ 1,968,138 on 06/30/05 versus R\$ 1,884,036 on 06/30/04), due to increase of volumes sold and average selling prices.

Revenues from steel products decreased by 42% (R\$ 830,850 on 06/30/05 compared with R\$ 1,438,376 on 06/30/04). This reflects the sale of CST in December 2004.

Table of Contents**Gross Revenue by Geographic Area**

Non-ferrous Minerals	Ferrous Minerals	Logistics	Aluminum	Holdings				Quarter				
				Steel	Eliminations	2Q/05	%	1Q/05	%	2Q/04	%	06/30/04
1,935	150	26,629	211,474		(348,087)	748,101	7	518,258	7	452,672	6	1,266,350
1,236	36		145,305	378,697	(226,027)	715,247	7	743,389	11	792,918	11	1,458,630
1,268	121,756				(542,786)	876,238	9	480,107	7	542,086	7	1,356,340
1,050	14,139				(220,575)	373,614	4	205,788	3	252,606	3	579,400
1,526	534		4,763		(84,010)	162,813	2	148,006	2	45,089	1	310,810
1,813	185,693	14,176	470,523		(910,351)	1,613,854	16	994,225	14	1,394,018	19	2,608,070
1,784	922				(160,190)	721,516	7	335,674	5	305,191	4	1,057,190
1,806	14,460		499		(539,937)	1,128,828	11	836,224	12	699,037	9	1,965,050
1,882	73,453				(177,811)	189,524	2	187,706	3	164,815	2	377,230
1,207	13,684		244,442		(369,204)	841,129	8	597,197	8	689,295	9	1,438,320
1,185	82,229		40,284		(227,654)	358,044	4	240,728	3	196,295	3	598,770
1,692	507,056	40,805	1,117,290	378,697	(3,806,632)	7,728,908	77	5,287,302	75	5,534,022	74	13,016,210
1,756	101,841	926,421	311,075		(965,553)	2,322,540	23	1,765,061	25	1,839,877	26	4,087,600
1,448	608,897	967,226	1,428,365	378,697	(4,772,185)	10,051,448	100	7,052,363	100	7,373,899	100	17,103,810

**1.2.2- Cost of Products and Services
By Nature**

	Denominated in		Quarter				Accumulated					
	R\$	US\$	2Q/05	%	1Q/05	%	2Q/04	%	06/30/05	%	06/30/04	%
Personnel	313,570	26,550	340,120	8	314,171	8	352,279	10	654,291	8	673,172	10
Material	613,754	178,074	791,828	20	715,021	19	540,856	16	1,506,849	19	1,064,973	16
Oil and gas	359,078	87,320	446,398	11	406,509	11	399,416	12	852,907	11	746,735	12
Depreciated												
Services	613,045	181,820	794,865	20	758,162	20	570,374	17	1,553,027	20	1,106,568	17
Logistics	311,612	59,860	371,472	9	317,545	8	290,735	9	689,017	9	526,319	8
Material	7,579	562,272	569,851	14	593,004	16	607,837	18	1,162,855	15	1,208,160	18
Depreciation												
Amortization	345,956	15,837	361,793	9	346,733	9	288,134	8	708,526	9	603,209	9
Goodwill	96,095		96,095	2	96,095	3	96,096	3	192,190	2	192,192	3
Others	91,572	146,666	238,238	7	237,739	6	252,231	7	475,977	7	441,649	7

2,752,261	1,258,399	4,010,660	100	3,784,979	100	3,397,958	100	7,795,639	100	6,562,977	100
69%	31%										

The 19% increase (R\$ 1,232,662) in the cost of products and services (R\$ 7,795,639 on 06/30/05 against R\$ 6,562,977 on 06/30/04) is due to increase in sales volumes and changes in the prices of the various elements which comprise production cost during the period.

1.2.3- Operating Expenses

The operating expenses, except for non recurring item, increased R\$ 207,919 (R\$ 1,344,017 on 06/30/05 compared to R\$ 1,136,098 on 06/30/04), basically due to the increase with Research and Development costs.

1.2.4- Net Financial Results

The net financial result on 06/30/05 had an impact of R\$ 1,208,373 (expense of R\$ 192,576 on 06/30/05 compared to expense of R\$ 1,400,949 on 06/30/04) due to exchange rate variation effect of the Real against the dollar over debt.

1.2.5- Income Tax and Social Contribution

Income tax and social contribution reflect an expense of R\$ 1,451,423 on 06/30/05 compared with an expense of R\$ 462,199 on 06/30/04, mainly caused by increase of taxable income. (Note 6.10)

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1.2.6- Cash Generation Consolidated

The operating cash generation consolidated measured by EBITDA (earnings before financial results, results of equity investments, interest, income tax and depreciation, amortization and depletion plus dividends received) was R\$ 8,182,997 on 06/30/05, against R\$ 5,819,212 on 06/30/04, an increase of 40.6%.

EBITDA

	2Q/05	1Q/05	Quarter 2Q/04	06/30/2005	Accumulated 30/06/04
Net operating revenue	9,551,455	6,720,573	6,970,366	16,272,028	12,628,991
Cost of products and services	(4,010,660)	(3,784,979)	(3,397,958)	(7,795,639)	(6,562,977)
Operating expenses	(784,322)	(559,695)	(604,7		