

Alberto-Culver CO
Form 10-Q
August 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED:

June 30, 2010

-OR-

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-32970

ALBERTO-CULVER COMPANY

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

20-5196741
(I.R.S. Employer
Identification No.)

2525 Armitage Avenue Melrose Park, Illinois
(Address of principal executive offices)

60160
(Zip code)

Registrant's telephone number, including area code: (708) 450-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

At June 30, 2010, the company had 98,652,789 shares of common stock outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

Three Months Ended June 30, 2010 and 2009

(in thousands, except per share data)

| | (Unaudited) | |
|--|-------------|---------|
| | 2010 | 2009 |
| Net sales | \$ 417,582 | 351,623 |
| Cost of products sold | 202,459 | 173,143 |
| Gross profit | 215,123 | 178,480 |
| Advertising, marketing, selling and administrative expenses | 148,687 | 135,887 |
| Restructuring and other (note 3) | 108 | 5,041 |
| Operating earnings | 66,328 | 37,552 |
| Interest expense (income), net of interest income of \$210 in 2010 and interest expense of \$148 in 2009 | 823 | (377) |
| Earnings from continuing operations before provision for income taxes | 65,505 | 37,929 |
| Provision for income taxes | 18,210 | 10,608 |
| Earnings from continuing operations | 47,295 | 27,321 |
| Earnings (loss) from discontinued operations, net of income taxes (note 2) | (68) | 658 |
| Net earnings | \$ 47,227 | 27,979 |
| Basic earnings per share: | | |
| Continuing operations | \$.48 | .28 |
| Discontinued operations | | .01 |
| Total | \$.48 | .29 |
| Diluted earnings per share: | | |
| Continuing operations | \$.47 | .28 |
| Discontinued operations | | |
| Total | \$.47 | .28 |
| Weighted average shares outstanding: | | |
| Basic | 98,009 | 97,668 |

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| | | |
|-------------------------------|---------|--------|
| Diluted | 99,707 | 99,047 |
| Cash dividends paid per share | \$.085 | .075 |

See Notes to Consolidated Financial Statements.

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ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

Nine Months Ended June 30, 2010 and 2009

(in thousands, except per share data)

| | (Unaudited) | |
|--|--------------|-----------|
| | 2010 | 2009 |
| Net sales | \$ 1,165,351 | 1,048,789 |
| Cost of products sold | 555,598 | 514,933 |
| Gross profit | 609,753 | 533,856 |
| Advertising, marketing, selling and administrative expenses | 433,873 | 389,728 |
| Transaction expenses (note 11) | 6,004 | |
| Restructuring and other (note 3) | 4,720 | 5,312 |
| Operating earnings | 165,156 | 138,816 |
| Interest expense (income), net of interest income of \$853 in 2010 and interest expense of \$504 in 2009 | 531 | (2,328) |
| Earnings from continuing operations before provision for income taxes | 164,625 | 141,144 |
| Provision for income taxes | 50,802 | 54,696 |
| Earnings from continuing operations | 113,823 | 86,448 |
| Earnings from discontinued operations, net of income taxes (note 2) | 138 | 1,263 |
| Net earnings | \$ 113,961 | 87,711 |
| Basic earnings per share: | | |
| Continuing operations | \$ 1.16 | .89 |
| Discontinued operations | | .01 |
| Total | \$ 1.16 | .90 |
| Diluted earnings per share: | | |
| Continuing operations | \$ 1.14 | .87 |
| Discontinued operations | | .02 |
| Total | \$ 1.14 | .89 |
| Weighted average shares outstanding: | | |
| Basic | 97,915 | 97,611 |
| Diluted | 99,697 | 99,004 |

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| | | | |
|-------------------------------|----|------|------|
| Cash dividends paid per share | \$ | .245 | .215 |
|-------------------------------|----|------|------|

See Notes to Consolidated Financial Statements.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2010 and September 30, 2009

(in thousands, except share data)

| | (Unaudited) | |
|---|------------------|-----------------------|
| | June 30, 2010 | September 30, 2009 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 260,515 | 469,775 |
| Receivables, less allowance for doubtful accounts (\$1,721 at June 30, 2010 and \$2,000 at September 30, 2009) | 252,451 | 228,979 |
| Inventories: | | |
| Raw materials | 50,288 | 33,593 |
| Work-in-process | 5,932 | 4,422 |
| Finished goods | 127,795 | 88,762 |
| Total inventories | 184,015 | 126,777 |
| Other current assets | 21,915 | 12,688 |
| Income taxes | 21,868 | 27,409 |
| Total current assets | 740,764 | 865,628 |
| Property, plant and equipment at cost, less accumulated depreciation (\$214,468 at June 30, 2010 and \$197,922 at September 30, 2009) | 247,244 | 249,911 |
| Goodwill | 505,789 | 224,263 |
| Trade names | 163,688 | 89,692 |
| Long-term investments | 57,482 | 58,412 |
| Other assets | 84,286 | 70,108 |
| Total assets | \$ 1,799,253 | 1,558,014 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 172 | 175 |
| Accounts payable | 138,302 | 150,097 |
| Accrued expenses | 132,387 | 120,791 |
| Income taxes | 8,875 | 4,761 |
| Total current liabilities | 279,736 | 275,824 |
| Long-term debt | 150,271 | 429 |
| Income taxes | 60,892 | 30,874 |
| Other liabilities | 45,963 | 49,465 |
| Total liabilities | 536,862 | 356,592 |
| Stock options subject to redemption | 3,314 | 4,776 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.01 per share, authorized 50,000,000 shares, none issued | | |

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| | | |
|---|---------------------|------------------|
| Common stock, par value \$.01 per share, authorized 300,000,000 shares, issued 98,652,789 shares at June 30, 2010 and 98,261,825 shares at September 30, 2009 | 987 | 983 |
| Additional paid-in capital | 484,157 | 461,906 |
| Retained earnings | 869,945 | 792,196 |
| Accumulated other comprehensive loss | (96,012) | (58,439) |
| Total stockholders' equity | 1,259,077 | 1,196,646 |
| Total liabilities and stockholders' equity | \$ 1,799,253 | 1,558,014 |

See Notes to Consolidated Financial Statements.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine Months Ended June 30, 2010 and 2009

(in thousands)

| | (Unaudited) 2010 | 2009 |
|--|---------------------|----------|
| <u>Cash Flows from</u> | | |
| <u>Operating Activities:</u> | | |
| Net earnings | \$ 113,961 | 87,711 |
| Earnings from discontinued operations | 138 | 1,263 |
| Earnings from continuing operations | 113,823 | 86,448 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 20,013 | 16,953 |
| Amortization of other assets | 1,795 | 1,315 |
| Restructuring and other non-cash charges | 1,217 | 2,739 |
| Restructuring and other gain on sale of assets | | (73) |
| Stock-based compensation expense | 9,473 | 8,223 |
| Deferred income taxes | 11,609 | 12,601 |
| Cash effects of changes in (excluding acquisitions): | | |
| Receivables, net | (6,024) | 16,368 |
| Inventories | (52,440) | 26,740 |
| Other current assets | (4,580) | (3,208) |
| Accounts payable and accrued expenses | (13,346) | (37,895) |
| Income taxes | 5,182 | (9,261) |
| Other assets | (166) | 1,545 |
| Other liabilities | 450 | 2,184 |
| Net cash provided by operating activities | 87,006 | 124,679 |

Cash Flows from
Investing Activities:

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| | | |
|---|-----------|-----------|
| Proceeds from sale of investment | 1,000 | |
| Capital expenditures | (20,857) | (52,641) |
| Payments for purchased businesses, net of cash acquired (note 11) | (385,035) | (90,558) |
| Payments related to the sale of Cederroth | | (3,195) |
| Proceeds from the sale of BDM Grange | 1,410 | |
| Proceeds from disposals of assets | 2,591 | 833 |
| Net cash used by investing activities | (400,891) | (145,561) |

Cash Flows from Financing Activities:

| | | |
|--|--------------|--------------|
| Net proceeds from issuance of long-term debt | 142,624 | |
| Repayments of long-term debt | (127) | (133) |
| Change in book cash overdraft | (4,901) | (5,302) |
| Proceeds from exercises of stock options | 11,282 | 1,481 |
| 2,150 | 4,702 | 2,150 |

| | | | | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Common stock | | | | | |
| Beginning of the period | 3,806 | 3,806 | 2,121 | 3,806 | 2,121 |
| Merger of shares | | | 1,685 | | 1,685 |
| End of the period | 3,806 | 3,806 | 3,806 | 3,806 | 3,806 |

| | | | | | |
|-------------------------|--------------|-------------|-------------|--------------|-------------|
| Treasury stock | | | | | |
| Beginning of the period | (88) | (88) | (88) | (88) | (88) |
| Acquisitions | (25) | | | (25) | |
| End of the period | (113) | (88) | (88) | (113) | (88) |

| | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|
| Additional paid-in capital | | | | | |
| Beginning and end of the period | 498 | 498 | 498 | 498 | 498 |

Other cumulative comprehensive deficit
Cumulative translation

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| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| adjustments | | | | | |
| Beginning of the period | (2,006) | (2,856) | (3,891) | (2,856) | (3,869) |
| Change in the period | (532) | 850 | 1,032 | 318 | 1,010 |
| End of the period | (2,538) | (2,006) | (2,859) | (2,538) | (2,859) |
| Unrealized gain on available-for-sale securities | | | | | |
| Beginning of the period | 132 | 127 | 116 | 127 | 95 |
| Change in the period | (20) | 5 | (1) | (15) | 20 |
| End of the period | 112 | 132 | 115 | 112 | 115 |
| Total other cumulative comprehensive deficit | (2,426) | (1,874) | (2,744) | (2,426) | (2,744) |
| Appropriated retained earnings | | | | | |
| Beginning of the period | 4,687 | 4,357 | 4,126 | 4,357 | 4,143 |
| Transfer from unappropriated retained earnings | 18 | 330 | 362 | 348 | 345 |
| Transfer to capital stock | | | (2,659) | | (2,659) |
| End of the period | 4,705 | 4,687 | 1,829 | 4,705 | 1,829 |
| Unappropriated retained earnings | | | | | |
| Beginning of the period | 4,824 | 3,983 | 4,030 | 3,983 | 3,315 |
| Net income | 1,880 | 1,171 | 1,630 | 3,051 | 2,328 |
| Dividends and interest attributed to stockholders | | | | | |
| Preferred class A stock | (257) | | (180) | (257) | (180) |
| Common stock | (393) | | (320) | (393) | (320) |
| Appropriation to reserves | (18) | (330) | (362) | (348) | (345) |
| End of the period | 6,036 | 4,824 | 4,798 | 6,036 | 4,798 |

| | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| Total stockholders equity | 17,208 | 16,555 | 10,249 | 17,208 | 10,249 |
| Comprehensive income is comprised as follows: | | | | | |
| Net income | 1,880 | 1,171 | 1,630 | 3,051 | 2,328 |
| Cumulative translation adjustments | (532) | 850 | 1,032 | 318 | 1,010 |
| Unrealized gain (loss) on available-for-sale securities | (20) | 5 | (1) | (15) | 20 |
| Total comprehensive income | 1,328 | 2,026 | 2,661 | 3,354 | 3,358 |

Shares

| | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Preferred class A stock (including six special shares) (1) | 959,758,200 | 959,758,200 | 831,455,478 | 959,758,200 | 831,455,478 |
| Common stock | 1,499,898,858 | 1,499,898,858 | 1,499,898,858 | 1,499,898,858 | 1,499,898,858 |
| Treasury stock (2) | | | | | |
| Beginning of the period | (28,313,936) | (28,313,936) | (28,314,650) | (28,313,936) | (28,314,922) |
| Acquisitions | (1,281,100) | | | (1,281,100) | |
| Sales | | | 24 | | 296 |
| End of the period | (29,595,036) | (28,313,936) | (28,314,626) | (29,595,036) | (28,314,626) |
| | 2,430,062,022 | 2,431,343,122 | 2,303,039,710 | 2,430,062,022 | 2,303,039,710 |

Dividends and interest attributed to stockholders (per share)

| | | | | | |
|--|------|--|------|------|------|
| Preferred class A stock (including six special shares) | 0.27 | | 0.22 | 0.27 | 0.22 |
| Common stock | 0.27 | | 0.22 | 0.27 | 0.22 |

(1) Increase of 128,302,722 (after split of shares) preferred shares due to merger of shares from Caemi.

(2) As of June, 2006, 28,291,020 common shares and 1,304,016 preferred shares were held in treasury in the amount of US\$113. The 28,291,020 common shares are provided as collateral to secure a loan of our subsidiary Alunorte.

On June 30, 2006 the market value of 4,988,922 of these shares would be sufficient to offset the balance of the debt.

See notes to condensed consolidated financial statements.

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Table of Contents**Notes to the Condensed Consolidated Financial Statements**
Expressed in millions of United States dollars, unless otherwise stated**1 The Company and its operation**

Companhia Vale do Rio Doce (CVRD) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. Our operations are carried out through CVRD and its subsidiary companies, joint ventures and affiliates, and mainly consist of mining, non-ferrous metal production and logistics, as well as energy, aluminum and steel activities. Further details of our joint ventures and affiliates are described in Note 8.

The main operating subsidiaries we consolidate are as follows:

| Subsidiary | % ownership | % voting capital | Head office location | Principal activity |
|--|--------------------|-------------------------|-----------------------------|--|
| Alumina do Norte do Brasil S.A. Alunorte (Alunorte) | 57 | 61 | Brazil | Alumina |
| Alumínio Brasileiro S.A. Albras (Albras) | 51 | 51 | Brazil | Aluminum |
| CADAM S.A (CADAM) (1) (3) | 61 (37) | 100 | Brazil Cayman | Kaolin |
| CVRD Overseas Ltd. | 100 | 100 | Islands | Trading |
| Ferrovias Centro-Atlântica S. A. | 100 | 100 | Brazil | Logistics |
| CVRD International S.A. (4) | 100 | 100 | Swiss | Trading |
| Minerações Brasileiras Reunidas S.A. MBR (2) (3) | 90 (56) | 90 | Brazil | Iron ore |
| Mineração Onça Puma Ltda | 99 | 99 | Brazil | Nickel |
| Navegação Vale do Rio Doce S.A. DOCENAVE | 100 | 100 | Brazil | Shipping |
| Pará Pigmentos S.A. (1) (3) | 82 (76) | 86 | Brazil | Kaolin |
| Rio Doce International Finance Ltd. RDIF | 100 | 100 | Bahamas | International finance Manganese and |
| Rio Doce Manganês S.A. | 100 | 100 | Brazil | Ferroalloys |
| Rio Doce Manganês Europe RDME | 100 | 100 | France | Ferroalloys |
| Rio Doce Manganese Norway RDMN | 100 | 100 | Norway | Ferroalloys |
| Salobo Metais S.A. | 100 | 100 | Brazil | Copper |
| Urucum Mineração S.A. | 100 | 100 | Brazil | Iron ore, Ferroalloys and Manganese |

- (1) Through Caemi Mineração e Metalurgia S.A CVRD holds 100% of the voting and total capital.
- (2) Through Caemi Mineração e Metalurgia S.A. and Belém Administrações e Participações Ltda.
- (3) The participation in parenthesis refers to the interest before the merger of shares from Caemi on March, 2006.
- (4) Previously known as Itabira Rio Doce Company Ltd. ITACO

2 Basis of consolidation

All majority-owned subsidiaries in which we have both share and management control are consolidated. All significant intercompany accounts and transactions are eliminated. As from January 1, 2004, our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are reported at cost plus our equity in undistributed earnings or losses. Included in this category are

certain joint ventures in which we have majority ownership but, by force of shareholders' agreements, do not have effective management control. We provide for losses on equity investments with negative stockholders' equity where applicable.

We evaluate the carrying value of our listed investments relative to publicly available quoted market prices. If the quoted market price is below book value, and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall entity management, based on a shareholders' agreement. We define affiliates as businesses in which we participate as a minority stockholder but with significant influence over the operating and financial policies of the investee.

Investments in unincorporated joint ventures, formed for the purpose of investing in hydroelectric power projects, are proportionately consolidated.

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3 Summary of significant accounting policies

Our condensed consolidated interim financial information for the three-month periods ended June 30, 2006, March 31, 2006 and June 30, 2005 and for the six-month periods ended June 30, 2006 and 2005 is unaudited. However, in our opinion, such condensed consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for interim periods. The results of operations for the three-month and six-month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2006.

In preparing the condensed consolidated financial statements, we are required to use estimates to account for certain assets, liabilities, revenues and expenses. Our condensed consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee post-retirement benefits and other similar evaluations. Actual results may vary from our estimates.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R\$2.1643 and R\$2.3370 at June 30, 2006 and December 31, 2005, respectively to US\$1.00 or the first available exchange rate if exchange on the last day of the period, was not available), and all accounts in the statements of income (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the period. The translation gain or loss resulting from this remeasurement process is included in the cumulative translation adjustments account in stockholders' equity.

4 Recently-issued accounting pronouncements

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under the Interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values.

5 Major acquisitions and disposals during the years presented

On July 3, 2006 we acquired the remaining 45.5% of Valesul for US\$28, becoming our subsidiary.

During the second quarter of 2006, we sold our total interest in Gulf Industrial Investment Company for US\$418, resulting in a net gain of US\$338.

At an Extraordinary Shareholders' Meeting on March 31, 2006, the Capital Stock increased by US\$2,552, corresponding to 128,302,722 preferred shares (64,151,361 before split), due to the issuance of shares in relation to the acquisition of the outstanding minority interest in Caemi.

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Pro forma information considers that our acquisition of the 39.77% preferred shares of Caemi, totaling 100% of total interest as if it was completed at January 1, 2005.

| | March 31, 2006 | | | Three-month periods ended June 30, 2005 | | |
|--------------------------------------|----------------|--------------------|--------------------------|--|--------------------|--------------------------|
| | Consolidated | Caemi | Pro Forma (unaudited) | Consolidated | Caemi | Pro Forma (unaudited) |
| | | Merger (39.77%) | | | Merger (39.77%) | |
| Income before minority interests | 1,294 | - | 1,294 | 1,834 | - | 1,834 |
| Minority interests | (123) | 54 | (69) | (204) | 70 | (134) |
| Net income | 1.171 | 54 | 1.225 | 1.630 | 70 | 1.700 |
| Outstanding shares (thousands) | 2,303.040 | | 2,431.343 | 2,303.040 | | 2,431.343 |
| Basic and diluted earnings per share | 0,51 | | 0,50 | 0,71 | | 0,70 |
| | June 30, 2006 | | | Six-month periods ended June 30, 2005 | | |
| | Consolidated | Caemi | Pro Forma (unaudited) | Consolidated | Caemi | Pro Forma (unaudited) |
| | | Merger (39.77%) | | | Merger (39.77%) | |
| Income before minority interests | 3,279 | - | 3,279 | 2,584 | - | 2,584 |
| Minority interests | (228) | 54 | (174) | (256) | 92 | (164) |
| | 3.051 | 54 | 3.105 | 2.328 | 92 | 2.420 |
| Outstanding shares (thousands) | 2,303.040 | | 2,430.062 | 2,303.040 | | 2,431.343 |
| Basic and diluted earnings per share | 1,32 | | 1,28 | 1,01 | | 1,00 |

In November 2005, we acquired 93.0% of the voting capital of Canico Resource Corp. (Canico) a Canadian-based junior resource company focused on the development of the Onça-Puma nickel laterite, for US\$750. In December 2005, we acquired an additional 6.20% of the voting capital of Canico for US\$50. Canico's only significant asset other than US\$63 of cash and cash equivalents was US\$794 of mining rights. On February 10, 2006, we concluded the acquisition of the outstanding common shares of Canico, acquiring the remaining voting capital of Canico, 0.8% of its total capital for US\$6, which is now a wholly-owned subsidiary.

During the first quarter of 2006, we sold our total interest in Nova Era Silicon (49%) to JFE Steel Corporation for US\$14, resulting in a net gain of US\$9.

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Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory composite enacted tax rate applicable in the periods presented is 34% represented by a 25% federal income tax rate plus a 9% social contribution rate.

The amount reported as income tax expense in our consolidated financial statements is reconciled to the statutory rates as follows:

| | Three-month periods ended | | | Six-month periods | |
|---|----------------------------------|-------------------------------|--------------------------|-------------------------------|--------------|
| | June 30, 2006 | March 31, 2006 | June 30, 2005 | ended June 30 2006 | 2005 |
| Income before income taxes, equity results and minority interests | 2,039 | 1,433 | 2,051 | 3,472 | 2,781 |
| Federal income tax and social contribution expense at statutory enacted rates | (693) | (487) | (697) | (1,180) | (945) |
| Adjustments to derive effective tax rate: | | | | | |
| Tax benefit on interest attributed to stockholders | 85 | 91 | 131 | 176 | 185 |
| Exempt foreign income (loss) | 348 | 114 | 82 | 462 | 128 |
| Difference on tax basis of equity investees | (18) | (66) | (17) | (84) | (21) |
| Tax incentives | 44 | 32 | 59 | 76 | 81 |
| Other non-taxable gains (losses) | (4) | 21 | 5 | 17 | 22 |
| Federal income tax and social contribution expense in consolidated statements of income | (238) | (295) | (437) | (533) | (550) |

We have certain tax incentives relative to our manganese operations in Carajás, our potash operations in Rosario do Catete, our alumina and aluminum operations in Barcarena and our kaolin operations in Ipixuna and Mazagão. The incentives relative to manganese comprise partial exemption up to 2013. The incentive relating to alumina and potash comprise full income tax exemption on defined production levels which expires in 2009 and 2013, respectively, while the partial exemption incentives relative to aluminum and kaolin expire in 2013. An amount equal to the tax saving must be appropriated to a reserve account within stockholders' equity and may not be distributed in the form of cash dividends. Tax loss carry forward have no expiration date.

7 Inventories

| | June 30, 2006 | December 31, 2005 |
|---------------------------|--------------------------|----------------------------------|
| Finished products | | |
| Iron ore and pellets | 375 | 271 |
| Manganese and ferroalloys | 128 | 151 |
| Alumina | 39 | 22 |
| Aluminum | 64 | 52 |

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| | | |
|--------------------------------------|--------------|--------------|
| Kaolin | 24 | 18 |
| Others | 49 | 28 |
| Spare parts and maintenance supplies | 643 | 600 |
| | 1,322 | 1,142 |

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| | June 30, 2006 | | Net income (loss) for the period | | Investments | | Equity Adjustments | | | | Dividends received | | | | |
|---|-------------------------------------|------------------|----------------------------------|-------------------|---------------|----------------|---------------------------|-----------|-------------------------|---------------|---------------------------|---------------|-------------------------|-----------|--------------|
| | | | | | | | Three-month periods ended | | Six-month periods ended | | Three-month periods ended | | Six-month periods ended | | |
| | Participation in capital (%) voting | Net equity total | June 30, 2006 | December 31, 2005 | June 30, 2006 | March 31, 2006 | June 30, 2005 | 2006 | 2005 | June 30, 2006 | March 31, 2006 | June 30, 2005 | 2006 | 2005 | |
| Ferrous | | | | | | | | | | | | | | | |
| Companhia Nipo-Brasileira de Pelotização NIBRASCO (1) | 51.11 | 51.00 | 72 | 32 | 37 | 60 | 7 | 9 | 11 | 16 | 13 | | 22 | | 22 |
| Companhia Hispano-Brasileira de Pelotização HISPANOBRÁS (1) | 51.00 | 50.89 | 65 | 13 | 33 | 37 | 2 | 5 | 14 | 7 | 16 | | 13 | 3 | 13 4 |
| Companhia Coreano-Brasileira de Pelotização KOBRASCO | 50.00 | 50.00 | 73 | 28 | 36 | 41 | 5 | 9 | 14 | 14 | 17 | 11 | | | 11 |
| Companhia Ítalo-Brasileira de Pelotização ITABRASCO (1) | 51.00 | 50.90 | 59 | 12 | 30 | 33 | 2 | 4 | 13 | 6 | 14 | | 12 | | 12 |
| SAMARCO Mineração S.A. SAMARCO (2) | 50.00 | 50.00 | 788 | 211 | 444 | 335 | 67 | 39 | 56 | 106 | 90 | | 25 | 35 | 25 55 |
| Minas da Serra Geral S.A. MSG | 50.00 | 50.00 | 44 | 1 | 22 | 21 | 1 | | (4) | 1 | (4) | 1 | | | 1 |
| Gulf Industrial Investment Company GIIC (5) | | | | | | 62 | 4 | 14 | 23 | 18 | 35 | | 11 | | 11 |
| Others | | | | | 20 | 25 | | (2) | 1 | (2) | (1) | 1 | | | 1 |
| | | | | | 622 | 614 | 88 | 78 | 128 | 166 | 180 | 13 | 72 | 49 | 85 70 |
| Logistics | | | | | | | | | | | | | | | |
| MRS Logística S.A. | 37.23 | 40.45 | 389 | 98 | 167 | 109 | 24 | 14 | 12 | 38 | 22 | 20 | | 5 | 20 5 |
| | | | | | 167 | 109 | 24 | 14 | 12 | 38 | 22 | 20 | | 5 | 20 5 |
| Holdings | | | | | | | | | | | | | | | |
| Steel | | | | | | | | | | | | | | | |

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| | | | | | | | | | | | | | | | | |
|---|-------|-------|-------|-----|--------------|--------------|------------|------------|------------|------------|------------|-----------|------------|------------|------------|------------|
| Usinas Siderúrgicas de Minas Gerais S.A. | | | | | | | | | | | | | | | | |
| USIMINAS (4) | 22.99 | 11.46 | 2,869 | 468 | 329 | 281 | 28 | 26 | 57 | 54 | 99 | 28 | | 34 | 28 | 34 |
| California Steel Industries Inc. CSI | | | | | | | | | | | | | | | | |
| SIDERAR (cost \$15) available for sale investments (4) | 50.00 | 50.00 | 380 | 66 | 190 | 161 | 18 | 15 | 5 | 33 | 16 | | 3 | | 3 | |
| | 4.85 | 4.85 | | | 127 | 142 | | | | | | | | | | 20 |
| | | | | | 646 | 584 | 46 | 41 | 62 | 87 | 115 | 28 | 3 | 34 | 31 | 54 |
| Aluminum and bauxite | | | | | | | | | | | | | | | | |
| Mineração Rio do Norte S.A. MRN | | | | | | | | | | | | | | | | |
| Valesul Alumínio S.A. VALESUL | 40.00 | 40.00 | 315 | 66 | 126 | 178 | 14 | 12 | 15 | 26 | 32 | 22 | 37 | 30 | 59 | 58 |
| | 54.51 | 54.51 | 133 | 22 | 72 | 58 | 8 | 4 | 3 | 12 | 4 | | | 8 | | 8 |
| | | | | | 198 | 236 | 22 | 16 | 18 | 38 | 36 | 22 | 37 | 38 | 59 | 66 |
| Coal | | | | | | | | | | | | | | | | |
| Henan Longyu Resources Co. Ltd Shandong Yankuang International Company Ltd(3) | | | | | | | | | | | | | | | | |
| | 25.00 | 25.00 | 370 | 45 | 92 | 96 | 4 | 7 | | 11 | | 15 | | | | 15 |
| | 25.00 | 25.00 | 86 | | 22 | 22 | | | | | | | | | | |
| | | | | | 114 | 118 | 4 | 7 | | 11 | | 15 | | | 15 | - |
| Other affiliates and joint ventures | | | | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | | | | |
| | | | | | 17 | 11 | | | | | | | | | | - |
| | | | | | 17 | 11 | | | | | | | | | | - |
| | | | | | 975 | 949 | 72 | 64 | 80 | 136 | 151 | 65 | 40 | 72 | 105 | 120 |
| Total | | | | | 1,764 | 1,672 | 184 | 156 | 220 | 340 | 353 | 98 | 112 | 126 | 210 | 195 |

(1) CVRD held a majority of the voting interest of several entities that were accounted for under the equity method, in accordance with EITF 96-16, due to

veto rights held
by minority
shareholders
under
shareholders
agreements;

- (2) Investment includes goodwill of US\$50 and US\$46 in 2006 and 2005, respectively;
- (3) Preoperating investment;
- (4) The quoted market value of Usiminas is equal to US\$1.014 and Siderar is equal to US\$126;
- (5) Sold for US\$418 in May, 2006.

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Table of Contents**9 Stockholders equity**

On May 22, 2006 occurred a stock split which had been approved by the Extraordinary General Shareholders Meeting occurred on April 27, 2006. Each existing share, common and preferred, was split into two shares.

After the split our capital comprises 2,459,657,058 shares, of which 959,758,200 common shares 1,499,898,858 class A preferred shares, including six special class shares without par value (Golden Share). The share/ADR proportion will be maintained at 1/1; therefore, each common and preferred share, will continue to be represented by one ADR supported by one common share (NYSE: RIO) or by one ADR supported by one class A preferred share (NYSE: RIOPR) respectively.

For comparative purposes we considered the effects of the split as it had occurred consistently in all periods presented.

On June 21, 2006 the Board of Directors approved a buy-back program of our preferred shares. The program involves the acquisition of up to 47,986,763 preferred shares, corresponding to 5% of our preferred shares, to be executed during 180 days. Through June 30, 2006 we had acquired 1,281,100 preferred shares.

10 Pension costs

| | Three-month periods ended | | | Six-month periods ended June 30 | |
|--|---------------------------|----------------|---------------|---------------------------------|-------------|
| | June 30, 2006 | March 31, 2006 | June 30, 2005 | 2006 | 2005 |
| Service cost benefits earned during the period | 1 | 1 | 1 | 2 | 1 |
| Interest cost on projected benefit obligation | 70 | 46 | 60 | 116 | 116 |
| Expected return on assets | (100) | (66) | (75) | (166) | (144) |
| Amortization of initial transitory obligation | 3 | 2 | 2 | 5 | 5 |
| Net deferral | (8) | (4) | (4) | (12) | (8) |
| Net periodic pension cost | (34) | (21) | (16) | (55) | (30) |

In addition to benefits provided under the Pension Plan, accruals have been made relative to supplementary health care benefits extended in previous periods as part of early-retirement programs. Such accruals included in long-term liabilities totaled US\$76, US\$74 and US\$66, at June 30, 2006, March 31, 2006 and June 30, 2005, respectively, plus US\$6, US\$5 and US\$5, respectively, in current liabilities.

The cost recognized for the three-month periods ended June 30, 2006, March 31, 2006, and June 30, 2005 and for the six-month periods ended June 30, 2006 and June 30, 2005, relative to the defined contribution element of the New Plan was US\$3, US\$2, US\$2, US\$5 and US\$4, respectively.

We previously disclosed in our consolidated financial statements for the year ended December 31, 2005, that we expected to contribute US\$59 to our defined benefit pension plan in 2006. As of June 30, 2006, US\$26 of our contributions have been made. We do not expect any significant change in our previous estimate.

Table of Contents**11 Commitments and contingencies**

- (a) At June 30, 2006, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of US\$4, as follows:

| Affiliate or Joint Venture | Amount of guarantee | Denominated currency | Purpose | Final maturity | Counter guarantees |
|-----------------------------------|----------------------------|-----------------------------|----------------|-----------------------|---------------------------|
| SAMARCO | 4 | US\$ | Debt guarantee | 2008 | None |
| VALESUL | less than 1 million | R\$ | Debt guarantee | 2007 | None |
| | 4 | | | | |

We expect no losses to arise as a result of the above guarantees. We charge commission for extending these guarantees in the case of Samarco.

We have not provided any significant guarantees since January 1, 2003 which would require fair value adjustments under FIN 45 Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others .

- (b) CVRD and its subsidiaries are defendants in numerous legal actions in the normal course of business. Based on the advice of our legal counsel, management believes that the provision for contingent losses is sufficient to cover probable losses in connection with such actions.

The provision for contingencies and the related judicial deposits are composed as follows:

| | June 30, 2006 | | December 31, 2005 | |
|----------------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Labor and social security claims | 314 | 176 | 229 | 138 |
| Civil claims | 235 | 107 | 210 | 98 |
| Tax related actions | 743 | 456 | 816 | 329 |
| Others | 29 | 1 | 31 | 3 |
| | 1,321 | 740 | 1,286 | 568 |

Labor and social security related actions principally comprise claims for (i) payment of time spent traveling from their residences to the work-place, (ii) additional health and safety related payments and (iii) various other matters, often in connection with disputes about the amount of indemnities paid upon dismissal and the one-third extra holiday pay.

Civil actions principally related to claims made against us by contractors in connection with losses alleged to have been incurred by them as a result of various past government economic plans during which full indexation of contracts for inflation was not permitted and accidents.

Tax related actions principally comprise our challenges of certain revenue taxes, value added tax and income tax.

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We continue to vigorously pursue our interests in all the above actions but recognize that we probably will incur some losses in the final instance, for which we have made provisions.

Our judicial deposits are made as required by the courts for us to be able to enter or continue a legal action. When judgment is favorable to us, we receive the deposits back; when unfavorable, the deposits are delivered to the prevailing party.

Contingencies settled in the three-month periods ended June 30, 2006 and 2005 and March 31, 2006 aggregated US\$781, US\$56 and US\$603, respectively, and additional provisions

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aggregated US\$601, US\$44 and US\$416, respectively, classified in other operating expenses.

In addition to the contingencies for which we have made provisions we are defending claims which in our opinion, and based on the advice of our legal counsel, the likelihood of loss is possible losses, which total US\$1,160 at June 30, 2006, for which no provision has been made.

- (c) At the time of our privatization in 1997, we issued shareholder revenue interests known in Brazil as debentures to our then-existing shareholders, including the Brazilian Government. The terms of the debentures, were set to ensure that our pre-privatization shareholders, including the Brazilian Government, would participate alongside us in potential future financial benefits that we are able to derive from exploiting our mineral resources.

On March 27, 2006 we declared a distribution on these debentures in the amount of \$2, payable as from April 2, 2006.

- (d) We use various judgments and assumptions when measuring our environmental liabilities and asset retirement obligations. Changes in circumstances, law or technology may affect our estimates and we periodically review the amounts accrued and adjust them as necessary. Our accruals do not reflect unasserted claims because we are currently not aware of any such issues. Also the amounts provided are not reduced by any potential recoveries under cost sharing, insurance or indemnification arrangements because such recoveries are considered uncertain. On June 30, 2006, US\$9 of environmental liabilities and asset retirement obligations were classified in current liabilities (Others).

The changes are demonstrated as follows:

| | Three-month periods ended | | | Six-month periods ended June 30 | |
|--|---------------------------|----------------|---------------|---------------------------------|------------|
| | June 30, 2006 | March 31, 2006 | June 30, 2005 | 2006 | 2005 |
| Provisions for asset retirement obligations beginning of period | 248 | 225 | 137 | 225 | 134 |
| Accretion expense | 6 | 6 | 10 | 12 | 14 |
| Liabilities settled in the current period | (3) | | (4) | (3) | (4) |
| Cumulative translation adjustment | 1 | 17 | 16 | 18 | 15 |
| Provisions for asset retirement obligations end of period | 252 | 248 | 159 | 252 | 159 |

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12 Segment and geographical information

We adopt SFAS 131 Disclosures about Segments of an Enterprise and Related Information with respect to the information we present about our operating segments. SFAS 131 introduced a management approach concept for reporting segment information, whereby such information is required to be reported on the basis that the chief decision-maker uses internally for evaluating segment performance and deciding how to allocate resources to segments. We analyze our segment information on aggregated and disaggregated basis as follows:

Ferrous products - comprises iron ore mining and pellet production, as well as the Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferroalloys are also included in this segment.

Non-ferrous products comprises the production of non-ferrous minerals, including potash, kaolin and copper.

Logistics comprises our transportation systems as they pertain to the operation of our ships, ports and railroads for third-party cargos.

Holdings divided into the following sub-groups:

Aluminum - comprises aluminum trading activities, alumina refining and aluminum metal smelting and investments in joint ventures and affiliates engaged in bauxite mining.

Others - comprises our investments in joint ventures and affiliates engaged in other businesses.

Information presented to top management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with accounting practices adopted in Brazil together with certain minor inter-segment allocations.

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Consolidated net income and principal assets are reconciled as follows:

Results by segment before eliminations

| | June 30, 2006 | | | | | | March 31, 2006 | | | | | | As of and for the | | | |
|-----|---------------|------------|------------|-------------|--------------|--------------|----------------|-----------|-----------|------------|-------------|--------------|-------------------|--------------|-----------|------------|
| | Holdings | | | | | Consolidated | Holdings | | | | | Consolidated | Non | | | |
| Non | ferrous | Logistics | Aluminum | Other | Eliminations | | Ferrous | ferrous | Logistics | Aluminum | Other | | Eliminations | Ferrous | ferrous | Logistics |
| 0 | 378 | 15 | 877 | 19 | (1,643) | 3,295 | 3,303 | 180 | 16 | 590 | (1,449) | 2,640 | 3,539 | 206 | 17 | 4 |
| 7 | 27 | 364 | 82 | | (152) | 1,018 | 536 | 55 | 294 | 89 | 7 | (131) | 850 | 679 | 42 | 318 |
| 0) | (230) | (264) | (643) | (22) | 1,795 | (2,134) | (2,577) | (161) | (230) | (510) | (4) | 1,580 | (1,902) | (2,577) | (169) | (210) |
|) | (18) | (2) | | (50) | | (101) | (22) | (25) | (1) | | (23) | | (71) | (3) | (34) | |
|) | (23) | (15) | (14) | (2) | | (205) | (134) | (19) | (14) | (14) | | | (181) | (97) | (17) | (10) |
| 4 | 134 | 98 | 302 | (55) | | 1,873 | 1,106 | 30 | 65 | 155 | (20) | | 1,336 | 1,541 | 28 | 115 |
| 3 | 2 | 4 | 6 | (7) | (133) | 45 | 161 | | 8 | 2 | 4 | (133) | 42 | 78 | | 11 |
| 2) | (2) | (1) | (72) | (1) | 133 | (245) | (276) | (2) | (2) | (62) | (4) | 133 | (213) | (159) | (4) | (4) |
| 4 | (53) | 4 | 12 | 1 | | 28 | 126 | 58 | (11) | 86 | | | 259 | 201 | 3 | (7) |
| 3 | | | | | | 338 | 9 | | | | | | 9 | | | |
| 3 | | 24 | 22 | 50 | | 184 | 78 | | 14 | 16 | 48 | | 156 | 128 | | 12 |
| 7) | | (4) | (36) | (1) | | (238) | (246) | | (3) | (46) | | | (295) | (390) | (1) | (5) |
| 0) | | | (75) | | | (105) | (67) | | | (56) | | | (123) | (105) | | (|
| 3 | 81 | 125 | 159 | (13) | | 1,880 | 891 | 86 | 71 | 95 | 28 | | 1,171 | 1,294 | 26 | 122 |
| 5 | | 7 | 157 | | (153) | 287 | 271 | 1 | 6 | 131 | (172) | 237 | 334 | | | 11 |
| 5 | 2 | | 3 | 19 | (81) | 99 | 104 | 3 | | 3 | (41) | 69 | 166 | | | |
| 7 | 169 | 2 | 380 | | (625) | 1,183 | 1,150 | 95 | 6 | 288 | (580) | 959 | 1,518 | 125 | 6 | 1 |

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| | | | | | | | | | | | | | | | | | |
|---|------------|------------|------------|-----------|----------------|--------------|--------------|------------|------------|------------|----------|----------------|--------------|--------------|------------|------------|----------|
| 3 | 112 | | 106 | | (69) | 342 | 183 | 4 | | 32 | | (68) | 151 | 277 | 34 | | |
| 5 | 8 | | 142 | | (128) | 388 | 362 | 29 | | 126 | | (144) | 373 | 353 | 6 | | |
| | 6 | 5 | 89 | | (417) | 814 | 956 | 10 | 3 | | | (316) | 653 | 641 | 10 | | |
| 0 | 81 | 1 | | | (170) | 182 | 277 | 38 | 1 | 10 | | (128) | 198 | 250 | 31 | | |
| 9 | 378 | 15 | 877 | 19 | (1,643) | 3,295 | 3,303 | 180 | 16 | 590 | | (1,449) | 2,640 | 3,539 | 206 | 17 | 4 |
| 7 | 27 | 364 | 82 | | (152) | 1,018 | 536 | 55 | 294 | 89 | 7 | (131) | 850 | 679 | 42 | 318 | |
| 5 | 405 | 379 | 959 | 19 | (1,795) | 4,313 | 3,839 | 235 | 310 | 679 | 7 | (1,580) | 3,490 | 4,218 | 248 | 335 | 5 |

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Table of Contents**Operating segment - after eliminations**

| | As of and for the three-month periods ended June 30, 2006 | | | | | | | | | | | |
|------------------------|--|--------------|--------------|--------------------|-----------------|-------------------------|---|---------------------|---|---|---|---|
| | Export | Domestic | Total | Value added tax | Net revenues | Cost and expenses | Depreciation, depletion and amortization | Operating income | Operating equipment, plant and intangible assets | Property, Plant and Equipment, and Investments | Property, Plant and Equipment, and Investments | Property, Plant and Equipment, and Investments |
| Ferrous | | | | | | | | | | | | |
| Iron ore | 1,986 | 485 | 2,471 | (73) | 2,398 | (959) | 1,439 | (122) | 1,317 | 11,991 | 675 | 42 |
| Pellets | 313 | 90 | 403 | (21) | 382 | (270) | 112 | (10) | 102 | 523 | 30 | 580 |
| Manganese | 8 | 4 | 12 | (1) | 11 | (17) | (6) | (1) | (7) | 60 | 3 | |
| Ferroalloys | 87 | 38 | 125 | (10) | 115 | (117) | (2) | (4) | (6) | 208 | 15 | |
| | 2,394 | 617 | 3,011 | (105) | 2,906 | (1,363) | 1,543 | (137) | 1,406 | 12,782 | 723 | 622 |
| Non ferrous | | | | | | | | | | | | |
| Potash | | 23 | 23 | (2) | 21 | (11) | 10 | (7) | 3 | 177 | 1 | |
| Kaolin | 40 | 7 | 47 | | 47 | (34) | 13 | (7) | 6 | 239 | | |
| Copper | 201 | 4 | 205 | | 205 | (55) | 150 | (12) | 138 | 1,297 | 18 | |
| | 241 | 34 | 275 | (2) | 273 | (100) | 173 | (26) | 147 | 1,713 | 19 | |
| Aluminum | | | | | | | | | | | | |
| Alumina | 339 | | 339 | | 339 | (204) | 135 | (8) | 127 | 1,519 | 88 | |
| Aluminum | 279 | 14 | 293 | (1) | 292 | (111) | 181 | (6) | 175 | 384 | 6 | 72 |
| Bauxite | 8 | | 8 | | 8 | (7) | 1 | | 1 | 420 | 56 | 126 |
| | 626 | 14 | 640 | (1) | 639 | (322) | 317 | (14) | 303 | 2,323 | 150 | 198 |
| Logistics | | | | | | | | | | | | |
| Railroads | | 272 | 272 | (46) | 226 | (133) | 93 | (19) | 74 | 693 | 26 | 167 |
| Ports | | 64 | 64 | (11) | 53 | (30) | 23 | (5) | 18 | 226 | 1 | |
| Ships | 15 | 11 | 26 | (2) | 24 | (28) | (4) | (1) | (5) | 3 | | |
| | 15 | 347 | 362 | (59) | 303 | (191) | 112 | (25) | 87 | 922 | 27 | 167 |
| Others | 19 | 6 | 25 | | 25 | (92) | (67) | (3) | (70) | 1,046 | 42 | 777 |
| | 3,295 | 1,018 | 4,313 | (167) | 4,146 | (2,068) | 2,078 | (205) | 1,873 | 18,786 | 961 | 1,764 |

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Operating segment after eliminations (continued)

| | As of and for the three-month periods ended March 31, 2006 | | | | | | | | | | | |
|--------------------|---|------------|--------------|--------------|--------------|-------------------|--|------------------|--------------------------------------|-------------------------------|----------------------------------|--------------|
| | Expenses | Domestic | Total | Value added | Net revenues | Cost and expenses | Depreciation, depletion and amortization | Operating income | Operating equipment, and investments | Property, Plant and Equipment | to Property, Plant and Equipment | Addition |
| Ferrous | | | | | | | | | | | | |
| Iron ore | 1,633 | 367 | 2,000 | (57) | 1,943 | (860) | 1,083 | (113) | 970 | 11,404 | 591 | 43 |
| Pellets | 375 | 87 | 462 | (19) | 443 | (295) | 148 | (12) | 136 | 480 | 7 | 592 |
| Manganese | 8 | 3 | 11 | (1) | 10 | (7) | 3 | (1) | 2 | 60 | 8 | |
| Ferroalloys | 71 | 35 | 106 | (9) | 97 | (84) | 13 | (4) | 9 | 198 | | |
| | 2,087 | 492 | 2,579 | (86) | 2,493 | (1,246) | 1,247 | (130) | 1,117 | 12,142 | 606 | 635 |
| Non ferrous | | | | | | | | | | | | |
| Potash | | 22 | 22 | (1) | 21 | (14) | 7 | (2) | 5 | 178 | 6 | |
| Kaolin | 41 | 7 | 48 | (3) | 45 | (41) | 4 | (6) | (2) | 242 | | |
| Copper | 90 | 21 | 111 | (5) | 106 | (53) | 53 | (8) | 45 | 1,286 | 35 | |
| | 131 | 50 | 181 | (9) | 172 | (108) | 64 | (16) | 48 | 1,706 | 41 | |
| Aluminum | | | | | | | | | | | | |
| Alumina | 150 | 10 | 160 | (2) | 158 | (138) | 20 | (8) | 12 | 1,428 | 61 | |
| Aluminum | 247 | 13 | 260 | (2) | 258 | (112) | 146 | (6) | 140 | 382 | 1 | 67 |
| Bauxite | 9 | | 9 | | 9 | (9) | | | | 356 | 48 | 151 |
| | 406 | 23 | 429 | (4) | 425 | (259) | 166 | (14) | 152 | 2,166 | 110 | 218 |
| Logistics | | | | | | | | | | | | |
| Railroads | | 214 | 214 | (39) | 175 | (114) | 61 | (16) | 45 | 674 | 26 | 183 |
| Ports | | 54 | 54 | (9) | 45 | (31) | 14 | (3) | 11 | 237 | 1 | |
| Ships | 14 | 7 | 21 | (1) | 20 | (25) | (5) | (1) | (6) | 3 | | |
| | 14 | 275 | 289 | (49) | 240 | (170) | 70 | (20) | 50 | 914 | 27 | 183 |
| Others | 2 | 10 | 12 | (2) | 10 | (40) | (30) | (1) | (31) | 1,021 | 71 | 784 |
| | 2,640 | 850 | 3,490 | (150) | 3,340 | (1,823) | 1,517 | (181) | 1,336 | 17,949 | 855 | 1,820 |

Table of Contents**Operating segment - after eliminations (continued)**

| | As of and for the three-month periods ended June 30, 2005 | | | | | | | | | | | |
|--------------------|--|--------------|--------------|----------------|-----------------|-------------------------|---|---------------------|--|---------------|------------|--------------|
| | Revenues | | | Value added | Net revenues | Cost and expenses | Depreciation, depletion and amortization | Operating income | Property, Plant and Equipment, Addition to Property, Plant and Equipment, Net Investments | | | |
| | Export | Domestic | Total | tax | | | | | | | | |
| Ferrous | | | | | | | | | | | | |
| Iron ore | 1,694 | 472 | 2,166 | (81) | 2,085 | (682) | 1,403 | (87) | 1,316 | 6,879 | 471 | 45 |
| Pellets | 462 | 107 | 569 | (27) | 542 | (333) | 209 | (4) | 205 | 429 | 21 | 552 |
| Manganese | 14 | 5 | 19 | (1) | 18 | (14) | 4 | | 4 | 25 | | |
| Ferroalloys | 98 | 56 | 154 | (14) | 140 | (96) | 44 | (5) | 39 | 178 | 34 | |
| | 2,268 | 640 | 2,908 | (123) | 2,785 | (1,125) | 1,660 | (96) | 1,564 | 7,511 | 526 | 597 |
| Non ferrous | | | | | | | | | | | | |
| Potash | | 31 | 31 | (2) | 29 | (15) | 14 | (2) | 12 | 141 | 4 | |
| Kaolin | 38 | 7 | 45 | (1) | 44 | (24) | 20 | (6) | 14 | 231 | | |
| Copper | 89 | 4 | 93 | (1) | 92 | (44) | 48 | (9) | 39 | 1,106 | 42 | |
| | 127 | 42 | 169 | (4) | 165 | (83) | 82 | (17) | 65 | 1,478 | 46 | |
| Aluminum | | | | | | | | | | | | |
| Alumina | 94 | 16 | 110 | (11) | 99 | (95) | 4 | (6) | (2) | 1,082 | 105 | |
| Aluminum | 194 | 10 | 204 | (1) | 203 | (93) | 110 | (6) | 104 | 358 | 7 | 62 |
| Bauxite | 13 | | 13 | | 13 | (12) | 1 | | 1 | 132 | 41 | 145 |
| | 301 | 26 | 327 | (12) | 315 | (200) | 115 | (12) | 103 | 1,572 | 153 | 207 |
| Logistics | | | | | | | | | | | | |
| Railroads | | 232 | 232 | (37) | 195 | (124) | 71 | (9) | 62 | 581 | 51 | 75 |
| Ports | | 60 | 60 | (10) | 50 | (33) | 17 | | 17 | 242 | | |
| Ships | 12 | 12 | 24 | (2) | 22 | (19) | 3 | (2) | 1 | 4 | 1 | |
| | 12 | 304 | 316 | (49) | 267 | (176) | 91 | (11) | 80 | 827 | 52 | 75 |
| Others | | 1 | 1 | 3 | 4 | (45) | (41) | | (41) | 126 | | 629 |
| | 2,708 | 1,013 | 3,721 | (185) | 3,536 | (1,629) | 1,907 | (136) | 1,771 | 11,514 | 777 | 1,508 |

Table of Contents**Results by segment before eliminations (Unaudited)**

| | 2006 | | | | | | | Six-month periods ended June 30, 2005 | | | | | | | | | | | | | | | |
|---|--------------|------------|------------|------------|-------------|---------|--------------|---------------------------------------|-----------|--------------|------------|-------------|--------------|-----------|---------|----------|---------|-------|--------------|---------|--------------|---------|---------|
| | Non-ferrous | | Logistics | | Aluminum | | Other | Eliminations | | Consolidated | | Non-ferrous | | Logistics | | Aluminum | | Other | Eliminations | | Consolidated | | |
| | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous | | Ferrous | Ferrous | Ferrous | Ferrous | Ferrous |
| RESULTS | | | | | | | | | | | | | | | | | | | | | | | |
| Gross revenues | | | | | | | | | | | | | | | | | | | | | | | |
| Export | 6,952 | 558 | 31 | 1,467 | 19 | (3,092) | 5,935 | 5,598 | 359 | 37 | 867 | (2,477) | 4,388 | | | | | | | | | | |
| Gross revenues domestic | 1,233 | 82 | 658 | 171 | 7 | (283) | 1,868 | 1,065 | 91 | 546 | 174 | (211) | 1,666 | | | | | | | | | | |
| Cost and expenses | (5,347) | (391) | (494) | (1,153) | (26) | 3,375 | (4,036) | (4,352) | (315) | (368) | (783) | 2,688 | (3,130) | | | | | | | | | | |
| Research and development | (53) | (43) | (3) | | (73) | | (172) | (20) | (50) | | (6) | (12) | (88) | | | | | | | | | | |
| Depreciation, depletion and amortization | (285) | (42) | (29) | (28) | (2) | | (386) | (194) | (30) | (19) | (22) | | (266) | | | | | | | | | | |
| Operating income | 2,500 | 164 | 163 | 457 | (75) | | 3,209 | 2,097 | 55 | 196 | 230 | (12) | 2,566 | | | | | | | | | | |
| Financial income | 334 | 2 | 12 | 8 | (3) | (266) | 87 | 147 | 1 | 19 | 5 | 1 | (117) | 50 | | | | | | | | | |
| Financial expenses | (578) | (4) | (3) | (134) | (5) | 266 | (458) | (288) | (5) | (7) | 40 | 117 | (144) | | | | | | | | | | |
| Foreign exchange and monetary gains (losses), net | 190 | 5 | (7) | 98 | 1 | | 287 | 196 | 6 | (7) | 107 | | 302 | | | | | | | | | | |
| Gain on sale of investments | 347 | | | | | | 347 | | | | | | | | | | | | | | | | |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 166 | | 38 | 38 | 98 | | 340 | 180 | | 22 | 36 | 115 | 355 | | | | | | | | | | |
| Income taxes | (443) | | (7) | (82) | (1) | | (533) | (457) | (3) | (10) | (79) | (1) | (555) | | | | | | | | | | |
| Minority interests | (97) | | | (131) | | | (228) | (129) | | | (127) | | (254) | | | | | | | | | | |
| Net income | 2,419 | 167 | 196 | 254 | 15 | | 3,051 | 1,746 | 54 | 213 | 212 | 103 | 2,322 | | | | | | | | | | |
| Results classified by geographic destination: | | | | | | | | | | | | | | | | | | | | | | | |
| Export market | | | | | | | | | | | | | | | | | | | | | | | |
| America, except United States | 547 | 1 | 13 | 288 | | (325) | 524 | 550 | | 22 | 187 | (289) | 475 | | | | | | | | | | |
| United States | 260 | 5 | | 6 | 19 | (122) | 168 | 292 | | 3 | 120 | (198) | 211 | | | | | | | | | | |
| Europe | 2,407 | 264 | 8 | 668 | | (1,205) | 2,142 | 2,342 | 175 | 12 | 317 | (1,044) | 1,802 | | | | | | | | | | |
| Middle East/Africa/Oceania | 376 | 116 | | 138 | | (137) | 493 | 401 | 72 | | 6 | (126) | 351 | | | | | | | | | | |
| Japan | 728 | 37 | | 268 | | (272) | 761 | 545 | 12 | | 195 | (212) | 546 | | | | | | | | | | |

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| | | | | | | | | | | | | | |
|-------------------------------------|--------------|------------|------------|--------------|-----------|----------------|--------------|--------------|------------|------------|--------------|----------------|-------------|
| China | 2,087 | 16 | 8 | 89 | (733) | 1,467 | 1,040 | 38 | 26 | (394) | 71 | | |
| Asia, other than Japan and China | 547 | 119 | 2 | 10 | (298) | 380 | 428 | 62 | 16 | (214) | 29 | | |
| | 6,952 | 558 | 31 | 1,467 | 19 | (3,092) | 5,935 | 5,598 | 359 | 37 | 867 | (2,477) | 4,38 |
| Domestic market | 1,233 | 82 | 658 | 171 | 7 | (283) | 1,868 | 1,065 | 91 | 546 | 174 | (211) | 1,66 |
| | 8,185 | 640 | 689 | 1,638 | 26 | (3,375) | 7,803 | 6,663 | 450 | 583 | 1,041 | (2,688) | 6,04 |

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Operating segment after eliminations (Unaudited)

| | Six-month periods ended June 30, 2006 | | | | | | | | | | | | |
|--------------------|---------------------------------------|--------------|--------------|--------------|--------------|-------------------|--|------------------|--------------|-------------------------------|---|--------------|--|
| | Export | Domestic | Total | Value added | Net revenues | Cost and expenses | Depreciation, depletion and amortization | Operating income | Equipment | Property, Plant and Equipment | Addition to Property, Plant and Equipment | Investments | |
| Ferrous | | | | | | | | | | | | | |
| Iron ore | 3,619 | 852 | 4,471 | (130) | 4,341 | (1,819) | 2,522 | (235) | 2,287 | 11,991 | 1,266 | 42 | |
| Pellets | 688 | 177 | 865 | (40) | 825 | (565) | 260 | (22) | 238 | 523 | 37 | 580 | |
| Manganese | 16 | 7 | 23 | (2) | 21 | (24) | (3) | (2) | (5) | 60 | 11 | | |
| Ferroalloys | 158 | 73 | 231 | (19) | 212 | (201) | 11 | (8) | 3 | 208 | 15 | | |
| | 4,481 | 1,109 | 5,590 | (191) | 5,399 | (2,609) | 2,790 | (267) | 2,523 | 12,782 | 1,329 | 622 | |
| Non ferrous | | | | | | | | | | | | | |
| Potash | | 45 | 45 | (3) | 42 | (25) | 17 | (9) | 8 | 177 | 7 | | |
| Kaolin | 81 | 14 | 95 | (3) | 92 | (75) | 17 | (13) | 4 | 239 | | | |
| Copper | 291 | 25 | 316 | (5) | 311 | (108) | 203 | (20) | 183 | 1,297 | 53 | | |
| | 372 | 84 | 456 | (11) | 445 | (208) | 237 | (42) | 195 | 1,713 | 60 | | |
| Aluminum | | | | | | | | | | | | | |
| Alumina | 489 | 10 | 499 | (2) | 497 | (342) | 155 | (16) | 139 | 1,519 | 149 | | |
| Aluminum | 526 | 27 | 553 | (3) | 550 | (223) | 327 | (12) | 315 | 384 | 7 | 72 | |
| Bauxite | 17 | | 17 | | 17 | (16) | 1 | | 1 | 420 | 104 | 126 | |
| | 1,032 | 37 | 1,069 | (5) | 1,064 | (581) | 483 | (28) | 455 | 2,323 | 260 | 198 | |
| Logistics | | | | | | | | | | | | | |
| Railroads | | 486 | 486 | (85) | 401 | (247) | 154 | (35) | 119 | 693 | 52 | 167 | |
| Ports | | 118 | 118 | (20) | 98 | (61) | 37 | (8) | 29 | 226 | 2 | | |
| Ships | 29 | 18 | 47 | (3) | 44 | (53) | (9) | (2) | (11) | 3 | | | |
| | 29 | 622 | 651 | (108) | 543 | (361) | 182 | (45) | 137 | 922 | 54 | 167 | |
| Others | 21 | 16 | 37 | (2) | 35 | (132) | (97) | (4) | (101) | 1,046 | 113 | 777 | |
| | 5,935 | 1,868 | 7,803 | (317) | 7,486 | (3,891) | 3,595 | (386) | 3,209 | 18,786 | 1,816 | 1,764 | |

Table of Contents**Operating segment after eliminations (Unaudited) (continued)**

| | Six-month periods ended June 30, 2005 | | | | | | | | | | | | |
|--------------------|---------------------------------------|--------------|--------------|--------------|--------------|-------------------|--|------------------|----------------------------------|---------------------|--------------|--------------|--|
| | Export | Domestic | Total | Value added | Net revenues | Cost and expenses | Depreciation, depletion and amortization | Operating income | Equipment, Plant and Investments | Property, Plant and | to | | |
| Ferrous | | | | | | | | | | | | | |
| Iron ore | 2,559 | 697 | 3,256 | (111) | 3,145 | (1,204) | 1,941 | (178) | 1,763 | 6,879 | 932 | 45 | |
| Pellets | 729 | 181 | 910 | (38) | 872 | (570) | 302 | (7) | 295 | 429 | 33 | 552 | |
| Manganese | 30 | 9 | 39 | (3) | 36 | (23) | 13 | | 13 | 25 | 1 | | |
| Ferroalloys | 200 | 107 | 307 | (28) | 279 | (178) | 101 | (8) | 93 | 178 | 41 | | |
| | 3,518 | 994 | 4,512 | (180) | 4,332 | (1,975) | 2,357 | (193) | 2,164 | 7,511 | 1,007 | 597 | |
| Non ferrous | | | | | | | | | | | | | |
| Potash | | 61 | 61 | (5) | 56 | (29) | 27 | (4) | 23 | 141 | 7 | | |
| Kaolin | 72 | 12 | 84 | (3) | 81 | (51) | 30 | (9) | 21 | 231 | | | |
| Copper | 150 | 18 | 168 | (4) | 164 | (84) | 80 | (17) | 63 | 1,106 | 68 | | |
| | 222 | 91 | 313 | (12) | 301 | (164) | 137 | (30) | 107 | 1,478 | 75 | | |
| Aluminum | | | | | | | | | | | | | |
| Alumina | 208 | 38 | 246 | (19) | 227 | (193) | 34 | (12) | 22 | 1,082 | 190 | | |
| Aluminum | 385 | 19 | 404 | (2) | 402 | (183) | 219 | (10) | 209 | 358 | 11 | 62 | |
| Bauxite | 23 | | 23 | | 23 | (21) | 2 | | 2 | 132 | 61 | 145 | |
| | 616 | 57 | 673 | (21) | 652 | (397) | 255 | (22) | 233 | 1,572 | 262 | 207 | |
| Logistics | | | | | | | | | | | | | |
| Railroads | | 391 | 391 | (64) | 327 | (215) | 112 | (17) | 95 | 581 | 86 | 75 | |
| Ports | | 106 | 106 | (19) | 87 | (59) | 28 | (1) | 27 | 242 | 7 | | |
| Ships | 27 | 24 | 51 | (4) | 47 | (44) | 3 | (2) | 1 | 4 | 1 | | |
| | 27 | 521 | 548 | (87) | 461 | (318) | 143 | (20) | 123 | 827 | 94 | 75 | |
| Others | 1 | 2 | 3 | | 3 | (64) | (61) | | (61) | 126 | | 629 | |
| | 4,384 | 1,665 | 6,049 | (300) | 5,749 | (2,918) | 2,831 | (265) | 2,566 | 11,514 | 1,438 | 1,508 | |

Table of Contents**14 Derivative financial instruments**

Volatility of interest rates, exchange rates and commodity prices are the main market risks to which we are exposed all three are managed through derivative operations. These have the exclusive aim of reducing exposure to risk. We do not contract derivatives for speculative purposes.

We monitor and evaluate our derivative positions on a regular basis and adjust our strategy in response to market conditions. We also periodically review the credit limits and credit worthiness of our counter-parties in these transactions. In view of the policies and practices established for operations with derivatives, management considers the occurrence of non-measurable risk situations as unlikely.

The asset (liability) balances and the change in fair value of derivative financial instruments are as follows (the quarterly information is unaudited):

| | Interest rates (LIBOR) | Currencies | Gold | Alumina | Aluminum | Total |
|--|---------------------------------------|-------------------|-------------|----------------|-----------------|--------------|
| Unrealized gains (losses) at April 1, 2006 | (3) | 1 | (58) | (73) | (163) | (296) |
| Financial settlement | 1 | | 4 | 13 | 15 | 33 |
| Unrealized gains (losses) in the period | 1 | 1 | (7) | (15) | (31) | (51) |
| Effect of exchange rate changes | | | | 1 | 1 | 2 |
| Unrealized gains (losses) at June 30, 2006 | (1) | (*) 2 | (61) | (74) | (178) | (312) |
| Unrealized gains (losses) at January 1, 2006 | (4) | 1 | (46) | (53) | (157) | (259) |
| Financial settlement | | | 4 | 14 | 14 | 32 |
| Unrealized gains (losses) in the period | 1 | | (12) | (29) | (4) | (44) |
| Effect of exchange rate changes | | | (4) | (5) | (16) | (25) |
| Unrealized gains (losses) at March 31, 2006 | (3) | (*) 1 | (58) | (73) | (163) | (296) |
| Unrealized gains (losses) at April 1, 2005 | (12) | 3 | (31) | (50) | (113) | (203) |
| Financial settlement | 4 | | 2 | 9 | 9 | 24 |
| Unrealized gains (losses) in the period | | (1) | 3 | 24 | 59 | 85 |
| Effect of exchange rate changes | (1) | | (4) | (5) | (9) | (19) |

| | | | | | | |
|---|------------|--------------|-------------|-------------|--------------|--------------|
| Unrealized gains (losses) at June 30, 2005 | (9) | (*)2 | (30) | (22) | (54) | (113) |
| Unrealized gains (losses) at January 1, 2006 | (4) | 1 | (46) | (53) | (157) | (259) |
| Financial settlement | 1 | | 8 | 27 | 29 | 65 |
| Unrealized gains (losses) in the period | 2 | 1 | (19) | (44) | (35) | (95) |
| Effect of exchange rate changes | | | (4) | (4) | (15) | (23) |
| Unrealized gains (losses) at June 30, 2006 | (1) | (*)2 | (61) | (74) | (178) | (312) |
| Unrealized gains (losses) at January 1, 2005 | (17) | 4 | (37) | (55) | (127) | (232) |
| Financial settlement | 7 | | 4 | 17 | 19 | 47 |
| Unrealized gains (losses) in the period | 2 | (2) | 6 | 21 | 63 | 90 |
| Effect of exchange rate changes | (1) | | (3) | (5) | (9) | (18) |
| Unrealized gains (losses) at June 30, 2005 | (9) | (*)2 | (30) | (22) | (54) | (113) |

(*) Included as others in Other assets.

Unrealized gains (losses) in the period are included in our income statement under the caption of financial expenses.

Final maturity dates for the above instruments are as follows:

| | |
|-----------------------|----------|
| Gold | Dec 2008 |
| Interest rates(LIBOR) | Oct 2007 |
| Currencies | Dec 2011 |
| Alumina | Dec 2008 |
| Alumínio | Dec 2008 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA VALE DO RIO DOCE
(Registrant)

Date: August 4, 2006

By: /s/ Fabio de Oliveira Barbosa
Fabio de Oliveira Barbosa
Chief Financial Officer