

VALLEY OF THE RIO DOCE CO

Form 6-K

March 24, 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

March 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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**BOVESPA: VALE3, VALE5**

**NYSE: RIO, RIOPR**

**LATIBEX: XVALO, XVALP**

**PERFORMANCE OF COMPANHIA VALE DO RIO DOCE IN 2004**

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*Except where otherwise indicated, the operational and financial information contained in this press release is presented based on the consolidated figures in accordance with generally accepted accounting principles in the United States of America (US GAAP). Except for the information on investments and market behavior, this information is based on quarterly financial statements reviewed by the Company's independent accountants. The main subsidiaries of CVRD that are consolidated are: Caemi, PPSA, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Docenave, Ferrovia Centro-Atlântica (FCA), Itaco, CVRD Overseas and Rio Doce International Finance.*

**2004, A RECORD-BREAKING YEAR**

Rio de Janeiro, March 21, 2005 – Companhia Vale do Rio Doce (CVRD) posted net income of US\$ 2.573 billion in 2004, 66.2% higher than its previous record income of US\$ 1.548 billion, in 2003. Earnings per share was US\$ 2.23. Return on equity (ROE) was 34.8%, exceeding the 31.7% ROE of 2003.

A combination of three factors made it possible for CVRD to break new records while creating substantial value for its shareholders: (a) strong growth in global demand for ores and metals; (b) expansion of capacity in all the Company's operational activities, resulting from implementation of highly competitive projects and successful acquisitions; (c) important efficiency gains.

Total shareholder return over the period 2001-2004 reached, on average, 38.9% per year. In 2004 it was 45.9%.

The operating performance was excellent: Adjusted EBIT<sup>(1)</sup> (earnings before interest and taxes) almost doubled, from US\$ 1.644 billion in 2003 to US\$ 3.123 billion in 2004. The adjusted EBIT margin, of 38.7%, was the highest in CVRD's history.

Cash flow measured by adjusted EBITDA<sup>(2)</sup> (earnings before interest, taxes, depreciation and amortization) was US\$ 3.722 billion, compared to US\$ 2.130 billion in 2003.

Several other records were attained in 2004:

Gross revenue, US\$8.479 billion, was 52.9% higher than in 2003.

Volume of iron ore and pellets sold, 231.043 million tons, was 24.0% higher than in 2003.

Sales of manganese ore exceeded the 1-million-ton mark for the first time (vs. 885 thousand tons sold in 2003).

Shipments of ferro alloys were 616 thousand tons, 22.7% up from 2003.

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Bauxite sales increased 41.0%, from 1.472 million tons in 2003 to 2.076 million tons in 2004.

CVRD's railroads carried 28.743 billion ntk of general cargo for clients in 2004, compared to 26.295 billion ntk in 2003.

Four important projects were completed in 2004: the Sossego copper mine, the expansion of iron ore production capacity at Carajás to 70 million tons per year, the Pier III of the Ponta da Madeira maritime terminal, and the Candonga hydroelectric power plant.

The Company invested US\$ 1.956 billion in the year, the second highest annual figure in its history, in real terms. From this amount, US\$ 1.245 billion was spent on organic growth, US\$ 568 million on sustaining existing business, and US\$ 143 million on acquisitions.

In 2004 CVRD distributed US\$ 0.68 per share in dividends to its shareholders, 15.7% more than in 2003 and 29.7% more than in 2002.

**Highlights of the fourth quarter 2004 (4Q04) result**

Net income of US\$ 721 million, the second largest ever on a quarterly basis, representing an increase of 167.0% in relation to 4Q03.

Adjusted EBITDA of US\$ 1.001 billion, also the second highest quarterly EBITDA in the Company's history.

Record gross revenues, US\$ 2.428 billion, 43.7% higher than in 4Q03.

Record sales volume of iron ore and pellets, 61.824 million tons, 11.0% higher than in 4Q03.

Record shipments of manganese ore: 323 thousand tons, vs. 207 thousand tons in 4Q03.

Record volume of sales of primary aluminum, 113 thousand tons.

**SELECTED FINANCIAL INDICATORS**

|                                       | US\$ million |             |             |            |            |             |             |            |
|---------------------------------------|--------------|-------------|-------------|------------|------------|-------------|-------------|------------|
|                                       | 4Q03<br>(A)  | 3Q04<br>(B) | 4Q04<br>(C) | %<br>(C/A) | %<br>(C/B) | 2003<br>(D) | 2004<br>(E) | %<br>(E/D) |
| Gross revenues                        | 1,690        | 2,287       | 2,428       | 43.7       | 6.2        | 5,545       | 8,479       | 52.9       |
| Gross margin (%)                      | 38.6         | 51.5        | 47.9        |            |            | 41.5        | 49.4        |            |
| Adjusted EBIT                         | 392          | 886         | 822         | 109.7      | (7.2)      | 1,644       | 3,123       | 90.0       |
| Adjusted EBIT margin (%)              | 23.9         | 40.8        | 35.5        |            |            | 39.8        | 46.1        |            |
| Adjusted EBITDA                       | 568          | 1,007       | 1,001       | 76.2       | (0.6)      | 2,130       | 3,722       | 74.7       |
| Net earnings                          | 270          | 943         | 721         | 167.0      | (23.5)     | 1,548       | 2,573       | 66.2       |
| Annualized ROE (%)                    | 31.7         | 32.7        | 34.8        |            |            | 31.7        | 34.8        |            |
| Total debt/Adjusted LTM<br>EBITDA (x) | 1.89         | 1.34        | 1.10        |            |            | 1.89        | 1.10        |            |
| Capex *                               | 871.6        | 424.0       | 685.7       | (21.3)     | 61.7       | 1987.9      | 1956.0      | (1.6)      |

\* including acquisitions

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**BUSINESS OUTLOOK**

In spite of the slowdown in the second half, the world economy is estimated to have grown by 4.8% in 2004, the highest rate in the last 20 years, while international trade grew by 18.6% in the year the highest expansion since 1995.

The recovery was led by the United States, with GDP growth of 4.4%. A 9.5% expansion of the Chinese economy was also extremely important for the excellent performance of the world economy. In broad terms it was a synchronized recovery, though with reasonable variance between regions: 1.7% growth in the Euro zone, 2.6% in Japan, and 6% in Latin America, with the Brazilian economy showing its best performance since 1994 with GDP growth of 5.2%.

As well as the natural cyclical effect of the global economy recovery, the strong growth of China, faster than its already high average annual growth rate over the last 20 years (9.2%), and the fact that its economy is an intensive user of industrial raw materials at this stage of economic development, contributed to considerable demand pressure for ores and metals.

In response to the acceleration of demand, world steel production exceeded one billion tons for the first time, reaching 1.055 billion in the year, 8.8% higher than 2003, and almost double the average annual growth rate of 4.5% in the post-Asian-crisis period (1998-2003). In spite of this significant supply reaction, for the second year running there was a substantial increase in the prices of steel products.

Also as a result of this movement, seaborne iron ore trade grew to 602 million tons in 2004, 12.1% more than in 2003. Part of the disequilibrium between supply and demand was satisfied by the emergence of a spot market of considerable scale, in which prices reached multiples of the benchmark prices.

We expect the world economy to continue to grow at a rate above average long-term trend, although more slowly than in the first half of 2004. Together with the good outlook for the performance of the Chinese economy this tends to support up cycle of ores and metals prices.

Although investments by the global metals and mining industry are firmly expanding, indicating that in 2005 they could reach twice their amount of 2002, we believe that, at least for the next two years, reasonably large-scale imbalances between supply and demand in several markets continue to exist, especially iron ore, alumina and aluminum.

Capacity utilization levels are extremely high, resulting in higher operational costs and problems in the supply chain. Inventories, both in absolute terms and also in relation to consumption, are at historically low levels, while a considerable portion of the increase in the value of investments programmed is due to the increase in the cost of equipment. Further, the average time between the decision to invest and the conclusion of a project is relatively long, and has increased, worldwide, due to the increase in requirements for approval.

In the specific case of iron ore, we estimate an increase of global seaborne demand of 50 million tons. This increase, of 8.3%, would be lower than in 2004, but still shows significant vigor, as this expansion is stonger than the growth trend of the last 10 years of 5% since the beginning of the 90s. In view of the relative rigidity of supply expansion in the short term, with operation at full capacity and virtual non-existence of inventories, persistence of very tight market conditions can be foreseen.

Although CVRD's programmed iron ore production for this year is more than 10% greater than in 2004, the Company still faces excess demand.

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In 2004 the Company signed contracts for supply of iron ore and pellets totaling approximately 750 million tons with about 40 clients in the Americas, Asia and Europe, with weighted average maturity of seven years. The shipments under these new contracts will provide support for investments in expansion of production capacity.

According to estimates by the *International Copper Study Group* there was a 705,000-ton deficit in copper in 2004, after an imbalance between demand and production of 368,000 tons in 2003. Further more, the known inventories of copper are at their lowest level for the last 18 years. For this year, there is a forecast of balance between supply and demand starting in the third quarter, but without short-term availability for the necessary rebuilding of inventories.

We expect the Brazilian economy to continue to recover from the period of low growth in 2002 and 2003, while exports will continue to increase, resulting in favorable conditions for the logistics services offered by CVRD in Brazil.

### **IMPORTANT RECENT EVENTS**

#### **Iron ore and pellets: prices for 2005**

On February 22, 2005 CVRD and Nippon Steel agreed a 71.5% increase in prices of iron ore fines from Carajás and Southern System.

On March 3, CVRD completed agreement with Arcelor on prices for blast furnace pellets for 2005: an increase of 86.67% for the Tubarão product and 86.43% for the São Luís product.

The agreement with Nippon Steel marked the first time that CVRD agreed the reference price with an Asian client. This can be explained by the fact that Asia is responsible for more than two thirds of the global seaborne iron ore imports and for approximately 80% of the demand growth in recent years.

#### **Fostering growth**

CVRD has announced a capital expenditure budget of US\$ 3.332 billion for 2005. Of the total budgeted, 22.1% will be allocated to sustain the existing business, and 77.9% to investment in organic growth.

The amount for organic growth is made up of US\$ 2.221 billion to be invested in brownfield and greenfield projects, and US\$ 375 million in research and development. This is the largest annual Capex in CVRD's history, in both nominal and real terms. Over the period 2003-2005, 74% of the Company's total investment was directed to organic growth, projects, and research and development.

The Company has won several international tenders for exploration of mineral deposits that strengthen its growth potential in the long term.

One was an international tender by the government of Mozambique for exploration of coal deposits in the Moatize region, the world's largest unexplored coal reserve. The Company paid US\$ 122.8 million for the concession. Feasibility studies for exploration of these reserves are currently in progress.

In Argentina, CVRD obtained a license for research, evaluation and exploration of a potash deposit in a region on the Colorado River, in the province of Neuquén.

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In Brazil, CVRD won an international tender, for US\$ 20.0 million, for research, evaluation and exploration of a bauxite deposit in the region of Pitinga, in the Brazilian state of Amazonas.

In Peru, CVRD obtained the rights to exploration of the Bayóvar phosphates deposit, in the department of Piura.

**Copper processing plant**

CVRD will build a semi-industrial plant to process copper by the hydrometallurgical route, to test this new technological option for production of the metal from sulphide copper concentrate. The investment is estimated at US\$ 58 million and the plant will have production capacity of 10 million tons of copper cathode per year. If the technology is approved, a larger-scale plant will be built for processing of copper from other deposits, such as Salobo.

**Repurchase of debt securities**

In December 2004 CVRD completed the repurchase of US\$ 186.996 million of its US\$ 300 million debt issue with political risk insurance (PRI) and maturity in 2007.

**Minimum dividend to shareholders of US\$ 1 billion**

CVRD's senior management will submit a proposal to the Board of Directors for payment of minimum dividend of US\$ 1 billion to shareholders for 2005, corresponding to US\$ 0.87 per share outstanding.

**SALES VOLUME AND REVENUE**

**A new order of magnitude**

CVRD's gross operating revenue in 2004 was US\$ 8.479 billion, 52.9% more than in 2003 when it was US\$ 5.545 billion. This is not only a new record, but indicates a change in the Company's size until 2002 its annual revenue has usually been on a level close to US\$ 4 billion.

The US\$ 2.934 billion increase in revenue in 2004 is primarily the result of expansion in sales volume which contributed US\$ 1.585 billion, or 54.0%, of the growth.

Europe continued to be the main destination of CVRD's sales, providing revenue of US\$ 2.552 billion in 2004, or 30.1% of the Company's total revenue. Sales to Brazil were in second place, with US\$ 2.367 billion, 27.9% of the total, followed by China with US\$ 996 million (11.7%), Japan with US\$ 788 million (9.3%), and emerging Asia (excluding China) with US\$ 405 million (4.8%). Year-on-year growth was highest in sales to the US, at 105.8%, growing from US\$ 189 million to US\$ 389 million followed by Japan, with year-on-year growth of 88.1%, from US\$ 419 to US\$ 788 million; and China, with growth of 71.7%, from US\$ 580 to US\$ 996 million.

Revenue in 4Q04, also a record, at US\$ 2.428 billion, was 43.7% higher than in 4Q03. The increase in prices was responsible for 65.2% of this growth.

**Ferrous mineral sales reached an all-time high**

Ferrous minerals iron ore, pellets, manganese and ferro alloys produced revenues of US\$ 5.844 billion, 68.9% of the Company's total revenue. Shipments

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of iron ore generated US\$ 3.995 billion, pellets US\$ 1.095 billion, operational services at the Tubarão pelletizing plants US\$ 53 million, manganese ore US\$ 76 million and ferro alloys US\$ 590 million.

In 2004, CVRD's shipments of iron ore and pellets totaled 231.043 million tons, a record, and 24.0% more than the 186.309 million tons of 2003. This enabled CVRD to maintain its leadership in the world seaborne market, with 32.1% of the volume of iron ore and pellets traded in 2004, compared to around 20% at the late 1990s.

Total sales volume of iron ore was 203.536 million tons, and in pellets, 27.507 million tons.

In view of the disequilibrium between global iron ore supply and demand, the Company acquired 15.926 million of iron ore from small mining companies that operate in the Iron Quadrangle, in the Brazilian state of Minas Gerais, to complement its own production and satisfy the growing demand from its clients. These purchases of iron ore from third parties increased by 73.1% from 9.200 million tons in 2003.

In 2004, CVRD's shipments to the Chinese market totaled 41.045 million tons, or 17.8% of the total volume sold. This gave CVRD 19.8% market share in the Chinese iron ore imports. The second largest consumer of CVRD's iron ore and pellets was Germany, with 10.6% of the Company's 2004 sales, Japan, with 9.0%, France with 4.9%, and Belgium with 3.5%. The high quality of CVRD's iron ore products enables it to maintain the position of an important supplier of the Asian steelmakers even with the comparative disadvantage of the longer distance.

The Company sold 55.676 million tons of iron ore in the Brazilian market, consisting of 35.893 million to the steel industry and pig iron producers, and 19.784 million to the pelletizing joint ventures of Tubarão (Nibrasco, Itabrasco, Hispanobras and Kobrasco). The pellet feed sold to these companies is transformed into pellets, which are totally exported.

In 4Q04 CVRD's sales of iron ore and pellets reached a new record volume, of 61.824 million tons, 11.0% more than the 55.676 million tons sold in 4Q03. The revenue from the sales of these products another record, US\$ 1.420 billion was 33.8% greater than in 4Q03.

The average sale price of iron ore in 2004 was US\$ 19.63 per ton, and the average sale price of pellets was US\$ 39.81 per ton respectively, increases of 20.0% and 18.6% over 2003. In 4Q04 average price of iron ore was US\$ 20.69 per ton, and pellets, US\$ 40.56 per ton.

CVRD's sales of manganese ore were a new record in 2004, at 1.002 million tons, 13.2% more than in 2003. The strong expansion of demand caused a substantial increase of prices of this product the average price in 2004 was US\$ 75.85/ton, 37.0% more than in 2003.

The Company shipped 323 thousand tons of manganese ore in 4Q04, 56.0% more than in 4Q03, and a quarterly record.

Shipments of ferro alloys in 2004 were 22.7% higher than in 2003, at 616 thousand tons also a new record. This was achieved in spite of a maintenance stoppage in RDME, in the second quarter of the year. Volume sold in 4Q04 was 124 thousand tons, 18.4% less than in 4Q03.

The considerable growth in demand for ferro alloys, derived from steel production, contributed to a strong increase in prices. In 4Q04 the average price of CVRD's sales was US\$ 1,346.77 per ton, 135.3% higher than the price realized in 4Q03. In

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2004 the average sale price of manganese ferro alloys, which involve a range of types (MC FeMn, HC FeMn, SiMn) with differentiated prices, was US\$ 957.14 per ton, compared to US\$ 547.81 in 2003.

The price of manganese ore continues to increase in 2005, following the trend in prices of iron ore. By contrast, the prices of alloys have begun to fall as a result of the increase in production caused by reactivation of furnaces with high operational costs.

**Aluminum products generate revenue of US\$ 1.250 billion**

In 2004 the products of the aluminum chain bauxite, alumina and primary aluminum generated revenue of US\$ 1.250 billion, 46.7% more than in 2003, and representing 14.7% of CVRD's total revenue.

The volume of bauxite sold in 2004 was 2.076 million tons, 41.0% more than in 2003. This increase in shipment volume, giving rise to another record, was made possible by the expansion of production capacity at Trombetas (MRN), concluded in 2Q03.

The average sale price of bauxite in 2004 was US\$ 25.53 per ton, slightly higher than the average price for the previous year, US\$ 25.14.

In 4Q04 the Company sold 514 thousand tons of bauxite, 13 thousand tons more than in 4Q03.

Consolidation of Albras starting as of January 2004 produced some changes in the statistics for sales of products in the alumina chain. As a result of this, there is a reduction in the quantities of aluminum sold, due to the elimination of the sales of Alunorte (alumina refinery) to Albras (aluminum smelter). On the other hand, the figures show higher volumes of sales of primary aluminum, since 100% of the sales of Albras are now included, whereas last year only the sales made by CVRD in relation to its take from the smelter were included.

Sales of alumina totaled 1.788 million tons in 2004, compared to 2.653 million in 2003. The volume sold in 4Q04 reached 462 million tons, compared to 756 million tons in 4Q03. Reflecting the strong scarcity of alumina in the global market, the average price realized on CVRD's shipments was US\$ 256.15 per ton in 2004, equivalent to 14.9% of the average price of aluminum at LME, 37.3% higher than in 2003. In 4Q04, the average realization price was US\$ 305.19 per ton, corresponding to 16.7% of the average aluminum price.

In 2004 CVRD's sales of primary aluminum were 430 thousand tons, an increase of 104.8% from 2003. These sales were made at an average price of US\$ 1,688.37 per ton, 19.8% higher than in 2003.

CVRD's sales of aluminum in 4Q04 were 113 thousand tons, vs. 56 thousand tons in 4Q03, for an average price of US\$ 1,725.66 per ton. Due to the existence of considerable stocks in 2003, aluminum prices reacted slowly to the impact on demand caused by the global economic recovery, playing the role of a late cycle commodity.

CVRD's aluminum businesses as a whole generated revenue of US\$ 354 million in the fourth quarter of 2004, 39.4% more than in 4Q03.

**Copper: good timing**

Sossego was the only greenfield copper project in the world to start operating in 2004. The first shipments of copper concentrate took place in June, and totaled 269 thousand tons in the year, for revenue of US\$ 201 million.

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Sossego came into operation at a very good moment, since copper prices increased 57.0% in 2004, much more than expected. Currently, in the first quarter of 2005, copper prices are at their highest since the end of 1988.

The rate of expansion of global demand, the weakness of the US dollar and the low level of inventories brought together a very favorable environment for copper prices. For the profitability of a copper concentrate producer, two other factors are also important: the price of gold, which tends to reduce the production cost of copper, and the TC/RC charges charged for processing and refining by the smelters. The latter, due to the growth of supply of copper concentrate, practically doubled in 2005, reaching their highest level since the mid-1990s, contributing to a reduction in the profit margins of concentrate producers such as CVRD. However, the negative effect of this factor is more than offset by the current levels of gold prices, around US\$ 430 per ounce, and copper, around US\$ 1.50 per pound.

In 4Q04 CVRD sold 139 thousand tons of copper concentrate, 44.8% more than in 3Q04, with a substantial increase in revenue, from US\$ 70 million in 3Q04 to US\$ 107 million in 4Q04. The average realization sale price of copper concentrate was US\$ 769.78 in 4Q04, compared to US\$ 729.17 in 3Q04 and US\$ 705.88 in 2Q04.

#### **Industrial minerals: record kaolin sales**

In 2004 CVRD's sales revenues of potash amounted to US\$ 124 million, 31.9% more than in 2003. The growth mainly reflected the increase in prices, since volumes sold in fact fell, from 674 thousand tons in 2003 to 630 thousand tons in 2004, due to the execution of the capacity expansion project at the Taquari-Vassouras mine.

The average price of potash sales was US\$ 196.83 per ton, 41.1% higher than in 2003.

CVRD sold 165 thousand tons of potash in 4Q04, almost equal to its 4Q03 sales of 169 thousand tons, generating revenue of US\$ 35 million.

Kaolin sales generated revenue of US\$ 164 million in 2004, 70.8% more than in 2003. Sales volume increased 84.6%, to 1.207 million tons on two factors: (a) the consolidation of Cadam for 12 months in 2004, compared to only four months in 2003; and (b) increases of production in 2004 at both PPSA and Cadam.

In 4Q04, CVRD sold 311 thousand tons of kaolin, 11.1% more than in 4Q03. Revenue from these sales was 9.8%, higher, at US\$ 45 million in 4Q04, compared to US\$ 41 million for 4Q03.

The average price of kaolin in 2004, US\$ 136.70 per ton, was 6.9% lower than in 2003, and in 4Q04, at US\$ 144.69 per ton, showed a recovery from the previous quarters US\$ 128.53 in 3Q04, and US\$ 133.11 in 2Q04.

#### **Logistics: new records in railway transportation, port services and coastal shipping**

CVRD's logistics services provided revenue of US\$ 877 million in 2004, 45.2% more than in 2003, contributing 10.3% of the Company's total revenue for the year.

Railway transportation of general cargo for clients, on the Carajás, Vitória-Minas, and Centro-Atlântica railroads (EFC, EFVM, FCA) produced revenue of US\$ 612 million. Port services added US\$ 173 million, and coastal shipping and port support services US\$ 92 million.

CVRD's railroads transported 28.743 billion ntk of general cargo for clients, 9.3% more than in 2003, a new all-time record. The main cargos transported were steel

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industry inputs and products (46.6%), agricultural products (32.2%) and fuels (9.8%).

On all three railroads the revenue per thousand ntk (kntk) of general cargo increased: on EFVM, from US\$ 13.94 in 2003 to US\$ 16.83 in 2004; on EFC, from US\$ 12.48 to US\$ 14.57; and on FCA from US\$ 16.82 to US\$ 21.56.

Volume transported in 4Q04, at 6.907 billion ntk, was higher than in 4Q03 (6.402 billion ntk), though volume carried in 4Q04 was lower than in the two previous quarters, a seasonal effect reflecting the grain harvests: the peak is usually in the third quarter, with a decline in the fourth quarter and the subsequent first quarter, recovering in the second quarter.

Reduction of accidents is one of CVRD's main goals in the operation of its railroads. Even operating at full capacity, the Company has succeeded in reducing the number of accidents in recent years. Between 2001 and 2004 the Company was able to reduce the number of accidents in its railways at an average annual rate of 13.1%.

The Company's ports and maritime terminals handled 28.741 million tons of cargo for clients, 7.2% more than in 2003. Volume in 4Q04 was 7.097 million tons, compared to 5.288 million tons in 4Q03.

**VOLUME SOLD IRON ORE AND PELLETS**

|              | thousand tons |              |               |              |               |              |                |              |                |              |
|--------------|---------------|--------------|---------------|--------------|---------------|--------------|----------------|--------------|----------------|--------------|
|              | <b>4Q03</b>   | <b>%</b>     | <b>3Q04</b>   | <b>%</b>     | <b>4Q04</b>   | <b>%</b>     | <b>2003</b>    | <b>%</b>     | <b>2004</b>    | <b>%</b>     |
| Iron ore     | 48,839        | 87.7         | 53,606        | 88.7         | 54,748        | 88.6         | 162,683        | 87.3         | 203,536        | 88.1         |
| Pellets      | 6,837         | 12.3         | 6,847         | 11.3         | 7,076         | 11.4         | 23,626         | 12.7         | 27,507         | 11.9         |
| <b>Total</b> | <b>55,676</b> | <b>100.0</b> | <b>60,453</b> | <b>100.0</b> | <b>61,824</b> | <b>100.0</b> | <b>186,309</b> | <b>100.0</b> | <b>231,043</b> | <b>100.0</b> |

**IRON ORE AND PELLET SALES BY DESTINATION**

|   | thousand tons |             |               |             |
|---|---------------|-------------|---------------|-------------|
|   | <b>2003</b>   | <b>%</b>    | <b>2004</b>   | <b>%</b>    |
| <b>EU</b>                               | <b>49,681</b> | <b>26.7</b> | <b>69,558</b> | <b>30.1</b> |
| Germany                                 | 19,753        | 10.6        | 24,512        | 10.6        |
| France                                  | 8,842         | 4.7         | 11,364        | 4.9         |
| Belgium                                 | 6,743         | 3.6         | 8,022         | 3.5         |
| Italy                                   | 5,587         | 3.0         | 8,151         | 3.5         |
| Others                                  | 8,756         | 4.7         | 17,509        | 7.6         |
| <b>China</b>                            | <b>29,460</b> | <b>15.8</b> | <b>41,045</b> | <b>17.8</b> |
| <b>Japan</b>                            | <b>18,126</b> | <b>9.7</b>  | <b>20,773</b> | <b>9.0</b>  |
| <b>South Korea</b>                      | <b>7,538</b>  | <b>4.0</b>  | <b>9,614</b>  | <b>4.2</b>  |
| <b>Middle East</b>                      | <b>5,780</b>  | <b>3.1</b>  | <b>7,073</b>  | <b>3.1</b>  |
| <b>USA</b>                              | <b>3,849</b>  | <b>2.1</b>  | <b>5,467</b>  | <b>2.4</b>  |
| <b>Brazil</b>                           | <b>47,084</b> | <b>25.3</b> | <b>55,677</b> | <b>24.1</b> |
| Steel mills and pig iron producers      | 27,976        | 15.0        | 35,893        | 15.5        |
| Pelletizing joint ventures <sup>a</sup> | 19,108        | 10.3        | 19,784        | 8.6         |
| <b>RoW</b>                              | <b>24,791</b> | <b>13.3</b> | <b>21,837</b> | <b>9.5</b>  |

|              |                |              |                |              |
|--------------|----------------|--------------|----------------|--------------|
| <b>Total</b> | <b>186,309</b> | <b>100.0</b> | <b>231,044</b> | <b>100.0</b> |
|--------------|----------------|--------------|----------------|--------------|

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<sup>a</sup>The JVs buy pellet feed from CVRD. All JV's pellet production is exported.

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|                     | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | thousand<br>tons<br><b>2004</b> |
|---------------------|-------------|-------------|-------------|-------------|---------------------------------|
| Manganese ore       | 207         | 313         | 323         | 885         | 1,002                           |
| Ferro-alloys        | 152         | 156         | 124         | 502         | 616                             |
| Alumina             | 756         | 508         | 462         | 2,653       | 1,788                           |
| Primary aluminum    | 56          | 101         | 113         | 210         | 430                             |
| Bauxite             | 501         | 652         | 514         | 1,472       | 2,076                           |
| Potash              | 169         | 161         | 165         | 674         | 630                             |
| Kaolin              | 280         | 319         | 311         | 654         | 1,207                           |
| Copper concentrates | 0           | 96          | 139         | 0           | 269                             |

**LOGISTICS SERVICES**

|                         | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | thousand<br>tons<br><b>2004</b> |
|-------------------------|-------------|-------------|-------------|-------------|---------------------------------|
| Railroads (million ntk) | 6,402       | 7,968       | 6,907       | 26,295      | 28,743                          |
| Ports                   | 5,288       | 7,634       | 7,097       | 26,803      | 28,741                          |

**GROSS REVENUES BY PRODUCT**

|                                 | <b>4Q03</b>  | <b>%</b>    | <b>3Q04</b>  | <b>%</b>    | <b>4Q04</b>  | <b>%</b>    | <b>2003</b>  | <b>%</b>    | US\$ million<br><b>2004</b> | <b>%</b>    |
|---------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|-----------------------------|-------------|
| <b>Ferrous minerals</b>         | <b>1,179</b> | <b>69.8</b> | <b>1,579</b> | <b>69.0</b> | <b>1,647</b> | <b>67.8</b> | <b>3,849</b> | <b>69.4</b> | <b>5,844</b>                | <b>68.9</b> |
| Iron ore                        | 821          | 48.6        | 1,093        | 47.8        | 1,133        | 46.7        | 2,662        | 48.0        | 3,995                       | 47.1        |
| Pellet plant operation services | 14           | 0.8         | 12           | 0.5         | 14           | 0.6         | 45           | 0.8         | 53                          | 0.6         |
| Pellets                         | 240          | 14.2        | 281          | 12.3        | 287          | 11.8        | 793          | 14.3        | 1,095                       | 12.9        |
| Manganese ore                   | 11           | 0.7         | 20           | 0.9         | 36           | 1.5         | 49           | 0.9         | 76                          | 0.9         |
| Ferro-alloys                    | 87           | 5.1         | 169          | 7.4         | 167          | 6.9         | 275          | 5.0         | 590                         | 7.0         |
| Others                          | 6            | 0.4         | 4            | 0.2         | 10           | 0.4         | 25           | 0.5         | 35                          | 0.4         |
| <b>Non ferrous minerals</b>     | <b>65</b>    | <b>3.8</b>  | <b>146</b>   | <b>6.4</b>  | <b>187</b>   | <b>7.7</b>  | <b>190</b>   | <b>3.4</b>  | <b>489</b>                  | <b>5.8</b>  |
| Potash                          | 24           | 1.4         | 35           | 1.5         | 35           | 1.4         | 94           | 1.7         | 124                         | 1.5         |
| Kaolin                          | 41           | 2.4         | 41           | 1.8         | 45           | 1.9         | 96           | 1.7         | 164                         | 1.9         |
| Copper concentrates             | 0            |             | 70           | 3.1         | 107          | 4.4         |              |             | 201                         | 2.4         |
| <b>Aluminum products</b>        | <b>254</b>   | <b>15.0</b> | <b>327</b>   | <b>14.3</b> | <b>354</b>   | <b>14.6</b> | <b>852</b>   | <b>15.4</b> | <b>1,250</b>                | <b>14.7</b> |
|                                 | 82           | 4.9         | 177          | 7.7         | 195          | 8.0         | 296          | 5.3         | 726                         | 8.6         |

|                           |              |              |              |              |              |              |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Primary aluminum          |              |              |              |              |              |              |              |              |              |              |
| Alumina                   | 149          | 8.8          | 130          | 5.7          | 141          | 5.8          | 495          | 8.9          | 458          | 5.4          |
| Bauxite                   | 14           | 0.8          | 17           | 0.7          | 13           | 0.5          | 37           | 0.7          | 53           | 0.6          |
| Others                    | 9            | 0.5          | 3            | 0.1          | 5            | 0.2          | 24           | 0.4          | 13           | 0.1          |
| <b>Logistics services</b> | <b>192</b>   | <b>11.4</b>  | <b>232</b>   | <b>10.2</b>  | <b>234</b>   | <b>9.6</b>   | <b>604</b>   | <b>10.9</b>  | <b>877</b>   | <b>10.3</b>  |
| Railroads                 | 127          | 7.5          | 164          | 7.2          | 162          | 6.7          | 373          | 6.7          | 612          | 7.2          |
| Ports                     | 38           | 2.2          | 43           | 1.9          | 47           | 1.9          | 144          | 2.6          | 173          | 2.0          |
| Shipping                  | 27           | 1.6          | 25           | 1.1          | 25           | 1.0          | 87           | 1.6          | 92           | 1.1          |
| Others                    | <b>0</b>     |              | <b>3</b>     | <b>0.1</b>   | <b>6</b>     | <b>0.2</b>   | <b>50</b>    | <b>0.9</b>   | <b>19</b>    | <b>0.2</b>   |
| <b>Total</b>              | <b>1,690</b> | <b>100.0</b> | <b>2,287</b> | <b>100.0</b> | <b>2,428</b> | <b>100.0</b> | <b>5,545</b> | <b>100.0</b> | <b>8,479</b> | <b>100.0</b> |

## GROSS REVENUES BY DESTINATION

|                          | US\$ million |              |              |              |              |              |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                          | 4Q03         | %            | 3Q04         | %            | 4Q04         | %            | 2003         | %            | 2004         | %            |
| Europe                   | 614          | 36,3         | 699          | 30,6         | 625          | 25,7         | 1.784        | 32,2         | 2.552        | 30,1         |
| Brazil                   | 481          | 28,5         | 621          | 27,2         | 678          | 27,9         | 1.705        | 30,7         | 2.367        | 27,9         |
| China                    | 190          | 11,2         | 277          | 12,1         | 345          | 14,2         | 580          | 10,5         | 996          | 11,7         |
| Japan                    | 98           | 5,8          | 200          | 8,7          | 220          | 9,1          | 419          | 7,6          | 788          | 9,3          |
| Emerging Asia (ex-China) | 86           | 5,1          | 87           | 3,8          | 134          | 5,5          | 251          | 4,5          | 405          | 4,8          |
| USA                      | 37           | 2,2          | 118          | 5,2          | 134          | 5,5          | 189          | 3,4          | 389          | 4,6          |
| Rest of the World        | 184          | 10,9         | 285          | 12,5         | 292          | 12,0         | 617          | 11,1         | 982          | 11,6         |
| <b>Total</b>             | <b>1.690</b> | <b>100,0</b> | <b>2.287</b> | <b>100,0</b> | <b>2.428</b> | <b>100,0</b> | <b>5.545</b> | <b>100,0</b> | <b>8.479</b> | <b>100,0</b> |

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**Table of Contents****US GAAP****AVERAGE PRICES REALIZED**

|                     | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | US\$/ton<br><b>2004</b> |
|---------------------|-------------|-------------|-------------|-------------|-------------------------|
| Iron ore            | 16.81       | 20.39       | 20.69       | 16.36       | 19.63                   |
| Pellets             | 35.10       | 41.04       | 40.56       | 33.56       | 39.81                   |
| Manganese ore       | 53.14       | 63.90       | 111.46      | 55.37       | 75.85                   |
| Ferro Alloys        | 572.37      | 1,083.33    | 1,346.77    | 547.81      | 957.14                  |
| Alumina             | 197.09      | 255.91      | 305.19      | 186.58      | 256.15                  |
| Aluminum            | 1,464.29    | 1,752.48    | 1,725.66    | 1,409.52    | 1,688.37                |
| Bauxite             | 27.94       | 26.07       | 25.29       | 25.14       | 25.53                   |
| Potash              | 142.01      | 217.39      | 212.12      | 139.47      | 196.83                  |
| Kaolin              | 146.43      | 128.53      | 144.69      | 146.79      | 136.70                  |
| Copper concentrates |             | 729.17      | 769.78      |             | 747.21                  |

**OPERATIONAL EXCELLENCE AMID COST INFLATION**

Worldwide, the metals and mining industry has been undergoing cyclical pressures from costs of labor, energy and equipment.

In addition, the currencies of the main producing countries, such as the Brazilian Real, the Chilean Peso, the Canadian Dollar, the South African Rand and the Australian Dollar, have appreciated significantly against the US Dollar (USD). While this stimulates high prices in USD for ores and metals, it also leads to increases in mining companies' costs. In the case of the Brazilian Real (BRL), the nominal appreciation against the USD was 26.6% between December 2002 and February 2005.

Finally, operation at full capacity eventually has the effect of increasing costs – examples are expenses on demurrage, and a larger number of maintenance stoppages.

In this adverse environment CVRD has, thanks to rigorous costs controls, succeeded in working with a high level of operational efficiency. To optimize its performance, in 2005 it launched an operational excellence program, made up of dozens of small projects to reduce costs and achieve productivity gains.

Operational profit in 2004, measured by adjusted EBIT, was US\$ 3.123 billion, the highest in the Company's history, and 90.0% higher than in 2003, US\$ 1.644 billion. Adjusted EBIT margin was 38.7%, 800 basis points more than the 30.7% of 2003.

The higher margin is basically due to a lower ratio between cost of goods sold (COGS) and net revenues, which fell from 58.5% in 2003 to 50.6% in 2004. While net revenues increased by 50.7%, from US\$ 5.350 billion in 2003 to US\$ 8.066 billion in 2004, COGS grew by only 30.5%, from US\$ 3.128 billion to US\$ 4.081 billion.

In absolute terms, the main item in the increase in COGS was outsourced services, US\$ 239 million higher than in 2003. This component was strongly affected by the consolidation of Caemi, which contracts transportation services to carry its iron ore to the Guaíba island maritime terminal. Also, there was a US\$ 206 million increase in the account line of *materials* due to: (i) inflation-linked increases in prices in Brazil; (ii) consolidation of Caemi, FCA and Albras; and (iii) nominal appreciation of the BRL against the USD.



The increase in demurrage expenses expressing the effect of the enormous pressure of demand for iron ore on the logistics infrastructure, of 80.4% from US\$

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46 million in 2003 to US\$ 83 million in 2004, was another factor in the growth of COGS. The Company is implementing a program to reduce ships' waiting time in ports, and consequently demurrage expenses.

Another important cost increase was due to research and development expenditure growth. R&D expenditure was 86.6% higher, at US\$ 153<sup>1</sup> million in 2004 than its level of US\$ 82 million in 2003 reflecting CVRD's decision to intensify efforts to find new mineral deposits in Brazil, South America, Africa and Asia, and studies for the development of projects to increase capacity in several sectors. These investments are preparing for the Company's future growth and are in line with its strategy of focus on organic growth.

SG&A expenses increased from US\$ 265 million to US\$ 452 million. The main factors in this increase were: (i) a US\$ 57 million increase in personnel expenses, due to wages increases of 17% in July 2003 and 4.5% in July 2004, and the increase in headcount due to the consolidation of new companies; (ii) an increase of US\$ 48 million in selling expenses; (iii) an increase of US\$ 29 million in consultancy expenses; and (iv) an increase of US\$ 21 million in contingencies.

Adjusted EBIT margins of all the segments of CVRD's business increased from 2003 to 2004. In ferrous minerals it rose from 36.7% in 2003 to 42.3% in 2004; in non-ferrous minerals from 28.6% to 41.9%; in aluminum from 16.4% to 41.7%; and in logistics from 21.7% to 21.9%.

Adjusted EBIT in 4Q04, at US\$ 822 million, was more than double its value of US\$ 392 million in 4Q03, and was 7.2% lower than in 3Q04 (US\$ 886 million).

The year-on-year change of US\$ 430 million in adjusted EBIT from 4Q03 to 4Q04 is mainly due to an increase of US\$ 679 million in net operating revenues, partially offset by additional costs of US\$ 203 million.

The components of COGS which most grew were: (i) materials, US\$ 67 million higher, caused by deferral of expenditures from 3Q04 to 4Q04 due to implementation of the enterprise resources planning system (ERP) and to material prices increases due to inflation; (ii) an increase of US\$ 59 million in purchase of iron ore and pellets from third parties - volumes reached 4.217 million tons in 4Q04 from 2.088 million tons in 4Q03; and (iii) an increase of US\$ 60 million in expenses on electricity, mainly due to the consolidation of Albras, reflecting the fact that aluminum production is electricity intensive. It is important to point out that energy cost at Albras in 4Q04 includes provisions of US\$ 18 million relative to legal pending issues. Recurring cost of electric energy to produce primary aluminum in 4Q04 was US\$ 42 million.

Other factors with a negative impact on adjusted EBIT in 4Q04, as compared with 4Q03, were a US\$ 30 million increase in expenses on R&D, and an increase of US\$ 13 million in provisions for employee bonuses.

Relative to 3Q04, adjusted EBIT decreased by US\$ 64 million, leading also to a lower adjusted EBIT margin, that decreased to 35.5% from 40.8%.

Part of the reduction in adjusted EBIT, US\$ 47 million, is explained by non-recurring factors: (a) provision of US\$ 18 million in Albras; (b) several provisions in SG&A of US\$ 11 million; (c) increase of US\$ 18 million in material costs generated by deferral of expenses due to the implementation of the ERP, as previously explained.

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<sup>1</sup> The value of the investments in research and development of 2004, informed in the press release concerning the investment program for 2005 - of January 18, 2005 - was US\$ 184 million. This amount refers to the actual disbursement during 2004.

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The increase in prices of primary aluminum on the London Metal Exchange (LME) has a counterpart in the increase of prices of alumina and electricity used in its production, since both are indexed to the final prices of the metal. Albras has long-term contracts for the supply of alumina and electricity based on these standards and consequently its costs has been growing. In 4Q04, as a consequence of the increase in the price of primary aluminum, the electricity cost of the smelter increased US\$ 10 million relatively to 3Q04.

There was also an increase in COGS caused by higher demurrage expenses, which increased by US\$ 29 million, vessel chartering for coastal shipping, US\$ 12 million, research and development, US\$ 31 million, and provisions for payment of employee bonus, US\$ 5 million.

**COGS BREAKDOWN**

|                                     | <b>4Q03</b>  | <b>%</b>     | <b>3Q04</b>  | <b>%</b>     | <b>4Q04</b>  | <b>%</b>     | <b>2003</b>  | <b>%</b>     | <b>2004</b>  | US\$<br>million |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| Personnel                           | 100          | 10.0         | 98           | 9.3          | 108          | 8.9          | 291          | 9.3          | 386          | 9.5             |
| Material                            | 124          | 12.3         | 173          | 16.4         | 191          | 15.8         | 410          | 13.1         | 616          | 15.1            |
| Fuels                               | 108          | 10.7         | 119          | 11.3         | 128          | 10.6         | 350          | 11.2         | 446          | 10.9            |
| Electric energy                     | 56           | 5.6          | 67           | 6.4          | 116          | 9.6          | 143          | 4.6          | 315          | 7.7             |
| Outsourced services                 | 239          | 23.8         | 224          | 21.3         | 217          | 18.0         | 574          | 18.4         | 813          | 19.9            |
| Acquisition of iron ore and pellets | 66           | 6.6          | 123          | 11.7         | 125          | 10.3         | 356          | 11.4         | 466          | 11.4            |
| Acquisition of other products       | 169          | 16.8         | 102          | 9.7          | 110          | 9.1          | 604          | 19.3         | 411          | 10.1            |
| Depreciation and exhaustion         | 77           | 7.7          | 95           | 9.0          | 100          | 8.3          | 228          | 7.3          | 375          | 9.2             |
| Others                              | 66           | 6.6          | 52           | 4.9          | 113          | 9.4          | 172          | 5.5          | 253          | 6.2             |
| <b>Total</b>                        | <b>1,005</b> | <b>100.0</b> | <b>1,053</b> | <b>100.0</b> | <b>1,208</b> | <b>100.0</b> | <b>3,128</b> | <b>100.0</b> | <b>4,081</b> | <b>100.0</b>    |

**ADJUSTED EBIT MARGIN**

|  | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>23.9</b> | <b>29.8</b> | <b>23.5</b> | <b>24.4</b> | <b>34.7</b> | <b>30.7</b> | <b>38.7</b> |

**RECORD CASH GENERATION: US\$ 3.7 BILLION**

CVRD's 2004 cash generation as measured by adjusted EBITDA was another all-time record: US\$ 3.722 billion, 74.7% more than the 2003 EBITDA of US\$ 2.130 billion, and 2.1 times 2002 adjusted EBITDA of US\$ 1.780 billion.

4Q04 was the eleventh consecutive quarter of growth in last-twelve-month adjusted EBITDA.

The main source of the increase in adjusted EBITDA in 2004 was the growth of US\$ 1.479 billion in adjusted EBIT. Additionally, depreciation and amortization increased by US\$ 161 million, reflecting the expansion of the asset base, while dividends received from joint ventures and affiliates grew by US\$ 3 million. On the other hand, write-offs of assets computed in 2003, which had improved that year's cash flow by US\$ 51 million, did not recur in 2004.

Of the total US\$ 200 million in dividends received by CVRD in 2004, US\$ 100 million were paid by Samarco, and US\$ 54 million by MRN.

Cash flow by business area in 2004 was as follows: ferrous minerals 70.6%, aluminum 16.3%, logistics 9.2% and non-ferrous minerals 3.4%.

Adjusted EBITDA in 4Q04 was US\$ 1,001 billion, 76.2% more than in 4Q03. The main factor leading to that, again, was adjusted EBIT, US\$ 430 million higher than

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in 4Q03. Depreciation in 4Q04 was US\$ 119 million US\$ 41 million higher than in 4Q03 and dividends received were US\$ 60 million, practically unchanged from US\$ 59 million in 4Q03.

In 4Q04 ferrous minerals contributed with 71.9% of the cash generation, aluminum 14.9%, logistics 6.7% and non-ferrous minerals 5.9%. Copper was the main factor in the increased contribution of non-ferrous minerals to adjusted EBITDA in 4Q04.

**ADJUSTED EBITDA**

|   | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b>  | US\$<br>million<br><b>2004</b> |
|---|-------------|-------------|-------------|--------------|--------------------------------|
| Net operating revenues                                | 1,638       | 2,173       | 2,317       | 5,350        | 8,066                          |
| COGS  | (1,005)     | (1,053)     | (1,208)     | (3,128)      | (4,081)                        |
| SG&A  | (97)        | (112)       | (133)       | (265)        | (452)                          |
| Research and development                              | (37)        | (36)        | (67)        | (82)         | (153)                          |
| Other operational expenses                            | (107)       | (86)        | (87)        | (231)        | (257)                          |
| <b>Adjusted EBIT</b>                                  | <b>392</b>  | <b>886</b>  | <b>822</b>  | <b>1,644</b> | <b>3,123</b>                   |
| Depreciation, amortization & exhaustion               | 78          | 102         | 119         | 238          | 399                            |
| Dividends received                                    | 59          | 19          | 60          | 197          | 200                            |
| Adjustment for non-recurring items (asset impairment) | 39          |             |             | 51           |                                |
| <b>Adjusted EBITDA</b>                                | <b>568</b>  | <b>1007</b> | <b>1001</b> | <b>2,130</b> | <b>3,722</b>                   |

**ADJUSTED EBITDA BY BUSINESS AREA**

|                      | <b>4Q03</b> | <b>%</b>     | <b>3Q04</b>  | <b>%</b>     | <b>4Q04</b>  | <b>%</b>     | <b>2003</b>  | <b>%</b>     | <b>2004</b>  | US\$<br>million<br><b>%</b> |
|----------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|
| Ferrous minerals     | 446         | 78.5         | 722          | 71.7         | 720          | 71.9         | 1,646        | 77.3         | 2,626        | 70.6                        |
| Non-ferrous minerals | 2           | 0.4          | 33           | 3.3          | 59           | 5.9          | 32           | 1.5          | 128          | 3.4                         |
| Logistics            | 31          | 5.5          | 100          | 9.9          | 67           | 6.7          | 180          | 8.5          | 341          | 9.2                         |
| Aluminum             | 75          | 13.2         | 152          | 15.1         | 149          | 14.9         | 199          | 9.3          | 606          | 16.3                        |
| Others               | 14          | 2.5          |              | 0.0          | 6            | 0.6          | 73           | 3.4          | 21           | 0.6                         |
| <b>Total</b>         | <b>568</b>  | <b>100.0</b> | <b>1,007</b> | <b>100.0</b> | <b>1,001</b> | <b>100.0</b> | <b>2,130</b> | <b>100.0</b> | <b>3,722</b> | <b>100.0</b>                |

**RECORD NET INCOME: US\$ 2.6 BILLION**

CVRD's net income in 2004, US\$ 2.573 billion, was 66.2% higher than in 2003, US\$ 1.548 billion. This is the first time that CVRD has posted net earnings in excess of US\$ 2 billion.

There was a non-recurring gain in 2004 of US\$ 404 million derived from the sale of CVRD stake in CST. Part of this amount, US\$ 314 million, was accounted in 3Q04. The remaining US\$ 90 million was accounted in 4Q04 on the financial settlement of the second tranche of the sale transaction.

The sale of the stake in Fosfertil had produced a positive result of US\$ 17 million in 4Q03. Hence, gains on sales of assets were responsible for US\$ 387 million of the total growth of US\$ 1.025 billion in earnings in 2004.

There were two other important factors in the increase in net earnings: (a) an improvement of US\$ 1.479 billion in operating income; and (b) an increase of US\$ 236 million in equity income from subsidiaries.

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The equity income from holdings in the steel industry, US\$ 271 million in 2004 compared to US\$ 81 million in 2003, was one of the main reasons for the increase in CVRD's total equity income.

Among the pelletizing joint ventures, the star performer was Samarco, which increased its contribution to CVRD net earnings from US\$ 70 million in 2003 to US\$ 117 million in 2004.

Logistics made a positive contribution of US\$ 33 million in 2004, compared to negative equity income of US\$ 52 million in the previous year.

Equity income from the aluminum area was lower, falling from US\$ 147 million in 2003 to US\$ 71 million in 2004, the main reason being the consolidation of Albras starting in January 2004, which had provided equity income of US\$ 104 million in 2003. Excluding this effect, the contribution from CVRD's holdings in MRN and Valesul increased by US\$ 28 million in 2004.

The following were negative factors in the 2004 result: (a) an increase of US\$ 340 million in net financial expenses; (b) a decrease of US\$ 177 million in positive monetary variation (c) an increase of US\$ 452 million in provisions for income tax and social contribution; and (c) an increase of US\$ 118 million in minority interests.

Financial expenses in 2004 were US\$ 320 million greater than in 2003. US\$ 176 million of this total resulted from the consolidation of Albras, Caemi and FCA, US\$ 24 million from losses on derivatives for hedge against commodity price volatility, and US\$ 22 million from the repurchase of CVRD 2007 bonds. From the amount derived from consolidations, US\$ 98 million are relative to losses on derivatives contracted for hedging against volatility in aluminum prices.

The Company's net income in 4Q04 was US\$ 721 million, 167.0% higher than in 4Q03.

Operating income in 4Q03 was US\$ 430 million higher than in 4Q04. US\$ 283 million of this amount came from monetary variation and US\$ 91 million from equity income.

By the same year-on-year comparison, gains on sales of assets were US\$ 73 million higher, and the net result of adjustments in minority interest was US\$ 17 million lower. On the other hand there was a substantial increase in provisions for income tax and social contribution, of US\$ 330 million.

**RESULTS FROM SHAREHOLDINGS**

|                               | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | US\$<br>million<br><b>2004</b> |
|-------------------------------|-------------|-------------|-------------|-------------|--------------------------------|
| Iron ore and pellets          | 23          | 50          | 55          | 134         | 170                            |
| Aluminum, alumina and bauxite | 24          | 20          | 19          | 146         | 71                             |
| Logistics                     | 36          | 8           | 11          | (50)        | 33                             |
| Steel                         | 21          | 50          | 95          | 82          | 271                            |
| Others                        | (16)        | (1)         | (1)         | (6)         | (3)                            |
| <b>Total</b>                  | <b>88</b>   | <b>127</b>  | <b>179</b>  | <b>306</b>  | <b>542</b>                     |

**DEBT: LOWER LEVERAGE, HIGHER INTEREST COVERAGE, LOWER RISK PROFILE**



CVRD's total debt on December 31, 2004 was US\$ 4.088 billion, US\$ 330 million lower than on September 30, 2004, US\$ 4.418 billion. Part of the reduction on debt was due to repurchase of 62.33% of the US\$ 300 million PRI bonds outstanding

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issued in 2002 and due in 2007. The purpose of this transaction was the improvement of cash management with the buyback of securities that did not fully reflect the Company's level of risk.

Net debt at the end of December 2004 was US\$ 2.839 billion, compared to US\$ 2.479 billion at the end of September, and US\$ 3.443 billion at the end of December 2003.

The Company's leverage indicators improved substantially: gross debt/adjusted EBITDA fell from 1.89x as of December 31, 2003 to 1.10x as of December 31, 2004. Total debt/enterprise value fell from 16.0% to 11.8%. Interest coverage measured as adjusted EBITDA/interest paid increased, from 11.51x at the end of 2003 to 12.41x at the end of 2004. These changes are in line with the Company's strategy of preserving a sound balance sheet.

CVRD has also been successful in reducing the implicit risk of its debt portfolio. Average debt maturity was increased, from 3.60 years at December 2003 to 6.83 years at December 2004, helping reduce refinancing risks. One of the main factors in this change was the issue of a 30-year bond, CVRD 2034. At the same time the percentage of debt with floating interest rates decreased from 71% in December 2002 to 56% in December 2004, reducing interest rate risk. The change in the risk profile took place with an increase in the average cost of debt of less than 100 basis points.

The Company contracted committed credit lines totaling US\$ 500 million, contributing to efficiency in cash management and reducing risks of liquidity.

CVRD is rated *Ba1* by Moody's, only one notch below investment grade, with a positive outlook. In view of the importance of cost of capital for its growth projects and creation of value for the shareholders, obtaining the investment grade rating is one of the Company's main targets.

**FINANCIAL EXPENSES**

|  | 4Q03         | 3Q04         | 4Q04         | 2003         | US\$<br>million<br>2004 |
|--|--------------|--------------|--------------|--------------|-------------------------|
| <b>Financial Expenses on:</b>                |              |              |              |              |                         |
| Debt with third parties                      | (50)         | (61)         | (63)         | (182)        | (259)                   |
| Debt with related parties                    | (2)          | (3)          |              | (14)         | (10)                    |
| <b>Total debt-related financial expenses</b> | <b>(52)</b>  | <b>(64)</b>  | <b>(63)</b>  | <b>(196)</b> | <b>(269)</b>            |
|  |              |              |              |              | US\$<br>million         |
| <b>Gross Interest on:</b>                    | <b>4Q03</b>  | <b>3Q04</b>  | <b>4Q04</b>  | <b>2003</b>  | <b>2004</b>             |
| Tax and labour contingencies                 | (24)         | (11)         | (11)         | (46)         | (37)                    |
| Tax on financial transactions (CPMF)         | (8)          | (9)          | (11)         | (23)         | (38)                    |
| Derivatives                                  | 5            | (36)         | (67)         | (12)         | (139)                   |
| Others                                       | (43)         | (45)         | (106)        | (74)         | (188)                   |
| <b>Total gross interest</b>                  | <b>(70)</b>  | <b>(101)</b> | <b>(195)</b> | <b>(155)</b> | <b>(402)</b>            |
| <b>Total</b>                                 | <b>(122)</b> | <b>(165)</b> | <b>(258)</b> | <b>(351)</b> | <b>(671)</b>            |

**DEBT INDICATORS**

|   |             |             |             |             | US\$<br>million |
|---|-------------|-------------|-------------|-------------|-----------------|
|   | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | <b>2004</b>     |
| Gross debt                                      | 4,028       | 4,418       | 4,088       | 4,028       | 4,088           |
| Net debt  | 3,443       | 2,479       | 2,839       | 3,443       | 2,839           |
| Gross debt / Adjusted LTM EBITDA (x)            | 1.89        | 1.34        | 1.10        | 1.89        | 1.10            |
| Adjusted LTM EBITDA / LTM interest expenses (x) | 11.51       | 13.00       | 12.41       | 11.51       | 12.41           |
| Gross debt / EV (x)                             | 0.16        | 0.16        | 0.12        | 0.16        | 0.12            |

EV = enterprise value = market capitalization + net debt

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A conference call and webcast will be held on March 23 Wednesday at noon Rio de Janeiro time, 10:00 a.m. US Eastern Standard time and 3:00 p.m. UK time. Instructions for participation are available on CVRD's website [www.cvr.com.br](http://www.cvr.com.br), *Investor Relations* section. A recording of the conference call and webcast will be available on the site for 90 days after March 23, 2004.

**FINANCIAL STATEMENTS**

|  |              |              |              |              | US\$<br>million |
|--|--------------|--------------|--------------|--------------|-----------------|
|  | <b>4Q03</b>  | <b>3Q04</b>  | <b>4Q04</b>  | <b>2003</b>  | <b>2004</b>     |
| Gross operating revenues                     | 1,690        | 2,287        | 2,428        | 5,545        | 8,479           |
| Taxes  | (52)         | (114)        | (111)        | (195)        | (413)           |
| <b>Net operating revenue</b>                 | <b>1,638</b> | <b>2,173</b> | <b>2,317</b> | <b>5,350</b> | <b>8,066</b>    |
| Cost of goods sold                           | (1,005)      | (1,053)      | (1,208)      | (3,128)      | (4,081)         |
| <b>Gross profit</b>                          | <b>633</b>   | <b>1,120</b> | <b>1,109</b> | <b>2,222</b> | <b>3,985</b>    |
| Gross margin (%)                             | 38.6         | 51.5         | 47.9         | 41.5         | 49.4            |
| Selling, general and administrative expenses | (97)         | (112)        | (133)        | (265)        | (452)           |
| Research and development expenses            | (37)         | (36)         | (67)         | (82)         | (153)           |
| Employee profit-sharing                      | (9)          | (17)         | (22)         | (32)         | (69)            |
| Others                                       | (98)         | (69)         | (65)         | (199)        | (188)           |
| <b>Operating profit</b>                      | <b>392</b>   | <b>886</b>   | <b>822</b>   | <b>1,644</b> | <b>3,123</b>    |
| Financial revenues                           | 18           | 10           | 41           | 102          | 82              |
| Financial expenses                           | (122)        | (165)        | (258)        | (351)        | (671)           |
| Monetary variation                           | (8)          | 77           | 275          | 242          | 65              |
| Gains on sale of affiliates                  | 17           | 314          | 90           | 17           | 404             |
| Tax and social contribution (Current)        | 10           | (285)        | (10)         | (90)         | (433)           |
| Tax and social contribution (Deferred)       | (76)         | 61           | (386)        | (207)        | (316)           |
| Equity income and provision for losses       | 88           | 127          | 179          | 306          | 542             |
| Accounting changes for asset write-offs      |              |              |              | (10)         |                 |
| Minority shareholding participation          | (49)         | (82)         | (32)         | (105)        | (223)           |
| <b>Net earnings</b>                          | <b>270</b>   | <b>943</b>   | <b>721</b>   | <b>1,548</b> | <b>2,573</b>    |
| <b>Earnings per share (US\$)</b>             | <b>0.23</b>  | <b>0.82</b>  | <b>0.63</b>  | <b>1.34</b>  | <b>2.23</b>     |

**BALANCE SHEET**

|               |                 |                 | US\$<br>million |
|---------------|-----------------|-----------------|-----------------|
|               | <b>12/31/03</b> | <b>09/30/04</b> | <b>12/31/04</b> |
| <b>Assets</b> |                 |                 |                 |
| Current       | 2,474           | 4,246           | 3,890           |
| Long term     | 1,442           | 1,694           | 1,603           |
| Fixed         | 7,518           | 8,780           | 10,222          |
| <b>Total</b>  | <b>11,434</b>   | <b>14,720</b>   | <b>15,715</b>   |

**Liabilities**

|                      |               |               |               |
|----------------------|---------------|---------------|---------------|
| Current              | 2,253         | 2,600         | 2,455         |
| Long term            | 4,297         | 5,640         | 5,869         |
| Shareholders' equity | 4,884         | 6,480         | 7,391         |
| Paid up capital      | 3,367         | 3,707         | 3,707         |
| Reserves             | 1,517         | 2,773         | 3,684         |
| <b>Total</b>         | <b>11,434</b> | <b>14,720</b> | <b>15,715</b> |

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**Table of Contents****US GAAP****CASH FLOW STATEMENT**

|   | <b>4Q03</b>  | <b>3Q04</b>  | <b>4Q04</b>  | <b>2003</b>    | US\$<br>million<br><b>2004</b> |
|---|--------------|--------------|--------------|----------------|--------------------------------|
| <b>Cash flows from operating activities:</b>  |              |              |              |                |                                |
| Net income  | 270          | 943          | 721          | 1,548          | 2,573                          |
| Adjustments to reconcile net income with cash provided by operating activities:                             |              |              |              |                |                                |
| Depreciation, depletion and amortization  | 78           | 102          | 119          | 238            | 399                            |
| Dividends received  | 59           | 19           | 60           | 197            | 200                            |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (88)         | (127)        | (179)        | (306)          | (542)                          |
| Deferred income taxes   | 76           | (61)         | 386          | 207            | 316                            |
| Provisions for contingencies  | 30           | 53           | 42           | 9              | 137                            |
| Impairment of property, plant and equipment   | 39           |              |              | 51             | 0                              |
| Gain on sale of investment  | (17)         | (314)        | (90)         | (17)           | (404)                          |
| Change in accounting practice for asset retirement obligations  |              |              |              | 10             | 0                              |
| Pension plan  | 0            |              | 0            | 0              | 0                              |
| Foreign exchange and monetary losses  | 4            | (118)        | (106)        | (382)          | 112                            |
| Net unrealized derivative losses  | 20           | 36           | 66           | 43             | 134                            |
| Minority interest   | 49           | 82           | 32           | 105            | 223                            |
| Juros pagáveis, líquidos  | 43           | 42           | 38           | 24             | 93                             |
| Others  | (62)         | 10           | (66)         | (27)           | (89)                           |
| Decrease (increase) in assets:  |              |              |              |                |                                |
| Accounts receivable   | (68)         |              | 57           | 37             | (98)                           |
| Inventories   | 6            | (39)         | (95)         | (22)           | (216)                          |
| Others  | (36)         | (44)         | (76)         | (9)            | (78)                           |
| Increase (decrease) in liabilities:   |              |              |              |                |                                |
| Suppliers   | 59           | 26           | 288          | (18)           | 230                            |
| Payroll and related charges   | (17)         | 27           | 22           | (25)           | 28                             |
| Income Tax  | 0            | 370          | (22)         | 0              | 348                            |
| Others  | 69           | 96           | (126)        | 94             | 105                            |
| <b>Net cash provided by operating activities</b>  | <b>514</b>   | <b>1,103</b> | <b>1,071</b> | <b>1,757</b>   | <b>3,471</b>                   |
| Cash flows from investing activities:   |              |              |              |                |                                |
| Loans and advances receivable   | (56)         | (9)          | (14)         | (51)           | 36                             |
| Guarantees and deposits   | (13)         | (48)         | (21)         | (99)           | (111)                          |
| Additions to investments  | 1            | (4)          | (15)         | (68)           | (34)                           |
| Additions to property, plant and equipment  | (594)        | (348)        | (877)        | (1,543)        | (2,022)                        |
| Proceeds from disposals of investment   | 83           | 415          | 164          | 83             | 579                            |
| Proceeds from disposals of property, plant and equipment  |              | 4            | 7            | 58             | 11                             |
| Net cash used to acquire subsidiaries   |              |              |              | (380)          | 0                              |
| <b>Net cash used in investing activities</b>  | <b>(579)</b> | <b>10</b>    | <b>(756)</b> | <b>(2,000)</b> | <b>(1,541)</b>                 |
| Cash flows from financing activities:   |              |              |              |                |                                |

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|  |              |              |              |              |                |
|--|--------------|--------------|--------------|--------------|----------------|
| Short-term debt, net issuances (repayments)                  | (1)          | 40           | (100)        | (38)         | (60)           |
| Loans  | 22           | 13           | (18)         | 46           | (6)            |
| Long-term debt   | 41           | 43           | 116          | 1,039        | 1,051          |
| Repayments of long-term debt                                 | (351)        | (225)        | (390)        | (770)        | (1,286)        |
| Interest attributed to stockholders                          | (427)        |              | (518)        | (675)        | (787)          |
| <b>Net cash used in financing activities</b>                 | <b>(716)</b> | <b>(129)</b> | <b>(910)</b> | <b>(398)</b> | <b>(1,088)</b> |
| Increase (decrease) in cash and cash equivalents             | (781)        | 984          | (595)        | (641)        | 842            |
| Effect of exchange rate changes on cash and cash equivalents | 26           | (104)        | (95)         | 135          | (204)          |
| Initial cash in new consolidated subsidiaries                | 0            | 0            | 0            | 0            | 26             |
| Cash and cash equivalents, beginning of period               | 1,340        | 1,059        | 1,939        | 1,091        | 585            |
| <b>Cash and cash equivalents, end of period</b>              | <b>585</b>   | <b>1,939</b> | <b>1,249</b> | <b>585</b>   | <b>1,249</b>   |
| Cash paid during the period for:                             |              |              |              |              |                |
| Interest on short-term debt                                  | 0            | 0            | (3)          | (7)          | (5)            |
| Interest on long-term debt                                   | (38)         | (82)         | (82)         | (178)        | (295)          |
| Income tax   | (16)         |              | (108)        | (55)         | (108)          |
| Non-cash transactions  |              |              |              |              |                |
| Conversion of loans receivable to investments                | (91)         | (43)         | (67)         | (187)        | (192)          |
| Income tax paid with credits                                 |              |              | 0            | 0            | (81)           |
| Interest capitalized   | (6)          | (11)         | (9)          | (19)         | (31)           |

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**Table of Contents****US GAAP****APPENDIX****Reconciliation of non-GAAP information with corresponding US GAAP figures**

## (1) Adjusted EBIT

|                          | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b>  | US\$<br>million<br><b>2004</b> |
|--------------------------|-------------|-------------|-------------|--------------|--------------------------------|
| Net operating revenues   | 1,638       | 2,173       | 2,317       | 5,350        | 8,066                          |
| COGS                     | (1,005)     | (1,053)     | (1,208)     | (3,128)      | (4,081)                        |
| SG&A                     | (97)        | (112)       | (133)       | (265)        | (452)                          |
| Research & development   | (37)        | (36)        | (67)        | (82)         | (153)                          |
| Other operating expenses | (107)       | (86)        | (87)        | (231)        | (257)                          |
| <b>Adjusted EBIT</b>     | <b>392</b>  | <b>886</b>  | <b>822</b>  | <b>1,644</b> | <b>3,123</b>                   |

## (2) Adjusted EBITDA

The term EBITDA refers to a financial measure that is defined as earnings (losses) before interest, taxes, depreciation and amortisation; we use the term Adjusted EBITDA to reflect that our financial measure also excludes monetary gains/losses, equity in results of affiliates and joint ventures less dividends received from those companies, changes in provision for losses on equity investments, adjustments for changes in accounting practices, minority interests and non-recurring expenses. However, Adjusted EBITDA is not a measure determined under GAAP in the United States of America and may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with GAAP. We have presented Adjusted EBITDA to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. The following schedule reconciles Adjusted EBITDA to net cash provided by (used in) operating activities reported on our Consolidated Statements of Cash Flows, which we believe is the most directly comparable GAAP measure:

**RECONCILIATION BETWEEN ADJUSTED EBITDA VS, OPERATING CASH FLOW**

|                                      | <b>4Q03</b> | <b>3Q04</b>  | <b>4Q04</b>  | <b>2003</b>  | US\$<br>million<br><b>2004</b> |
|--------------------------------------|-------------|--------------|--------------|--------------|--------------------------------|
| <b>Operating cash flow</b>           | <b>514</b>  | <b>1,103</b> | <b>1,071</b> | <b>1,763</b> | <b>3,471</b>                   |
| Income tax                           | 0           | 285          | 0            | 94           | 423                            |
| Income tax paid                      | (10)        |              | 10           | (4)          | 10                             |
| Monetary and foreign exchange losses | 4           | 41           | (169)        | 140          | (177)                          |
| Financial expenses                   | 61          | 113          | 179          | 196          | 496                            |
| Net working capital                  | (13)        | (436)        | (48)         | (59)         | (319)                          |
| Others                               | 12          | (99)         | (42)         | (1)          | (182)                          |
| <b>Adjusted EBITDA</b>               | <b>568</b>  | <b>1,007</b> | <b>1,001</b> | <b>2,129</b> | <b>3,722</b>                   |



(3) Gross debt / last 12 months adjusted EBITDA

|  | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | <b>2004</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Total debt / adjusted LTM EBITDA (x)     | 1.89        | 1.34        | 1.10        | 1.89        | 1.10        |
| Total debt / LTM operating cash flow (x) | 2.26        | 1.51        | 1.18        | 2.26        | 1.18        |

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(4) Net debt

**RECONCILIATION BETWEEN GROSS DEBT VS, NET DEBT**

|                           | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | US\$<br>million<br><b>2004</b> |
|---------------------------|-------------|-------------|-------------|-------------|--------------------------------|
| Gross debt                | 4,028       | 4,418       | 4,088       | 4,028       | 4,088                          |
| Cash and cash equivalents | 585         | 1,939       | 1,249       | 585         | 1,249                          |
| Net debt                  | 3,443       | 2,479       | 2,839       | 3,443       | 2,839                          |

(5) Total debt / *enterprise value*

|                               | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | <b>2004</b> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total debt / EV (x)           | 15.98       | 16.16       | 11.77       | 15.98       | 11.77       |
| Total debt / total assets (x) | 35.23       | 30.01       | 26.01       | 35.23       | 26.01       |

*Enterprise Value* = net debt + market capitalization

(6) Adjusted LTM EBITDA / LTM interest expenses

|  | <b>4Q03</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2003</b> | <b>2004</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Adjusted LTM EBITDA / LTM interest expenses (x)  | 11.51       | 13.00       | 12.41       | 11.51       | 12.41       |
| LTM operating income / LTM interest expenses (x) | 8.89        | 10.64       | 10.41       | 8.89        | 10.41       |

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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**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Stockholders of Companhia Vale do Rio Doce**

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity, present fairly, in all material respects, the financial position of Companhia Vale do Rio Doce and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain affiliates, the investments in which total US\$ 376 million at December 31, 2003 and equity in earnings of US\$157 million and US\$60 million for 2003 and 2002, respectively. Also, we did not audit the financial statements of certain majority-owned subsidiaries as at and for the years ended December 31, 2003, which statements reflect total assets of US\$1,352 million at December 31, 2003 and total revenues of US\$839 million and US\$426 million for 2003 and 2002, respectively. The financial statements of these affiliates and subsidiaries were audited by other auditors whose reports there on have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts for these affiliates and subsidiaries, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for the opinion expressed above. The financial information relating to quarterly consolidated statements of income, of cash flows, of changes in stockholders' equity and related explanatory notes included in the consolidated financial statements have not been audited by us.

As discussed in Note 4 to the financial statements, the Company changed its method of accounting for asset retirement obligations, as from January 1, 2003.

PricewaterhouseCoopers  
Auditores Independentes

Rio de Janeiro, Brazil  
March 21, 2005

**Table of Contents****Consolidated Balance Sheets****Expressed in millions of United States dollars**

|   | <b>As of December 31,</b> |               |
|---|---------------------------|---------------|
|   | <b>2004</b>               | <b>2003</b>   |
| Assets  |                           |               |
| Current assets  |                           |               |
| Cash and cash equivalents   | 1,249                     | 585           |
| Accounts receivable   |                           |               |
| Related parties   | 124                       | 115           |
| Unrelated parties   | 905                       | 703           |
| Loans and advances to related parties   | 56                        | 56            |
| Inventories   | 849                       | 505           |
| Deferred income tax   | 203                       | 91            |
| Recoverable taxes   | 285                       | 214           |
| Others  | 219                       | 205           |
|   | <b>3,890</b>              | <b>2,474</b>  |
| Property, plant and equipment, net  | <b>9,063</b>              | <b>6,484</b>  |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses on equity investments | <b>1,159</b>              | <b>1,034</b>  |
| Other assets  |                           |               |
| Goodwill on acquisition of subsidiaries   | 486                       | 451           |
| Loans and advances  |                           |               |
| Related parties   | 55                        | 40            |
| Unrelated parties   | 56                        | 68            |
| Prepaid pension cost  | 170                       | 82            |
| Deferred income tax   | 70                        | 234           |
| Judicial deposits   | 531                       | 407           |
| Unrealized gain on derivative instruments   | 4                         | 5             |
| Others  | 231                       | 155           |
|   | <b>1,603</b>              | <b>1,442</b>  |
| <b>TOTAL</b>  | <b>15,715</b>             | <b>11,434</b> |

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**Consolidated Balance Sheets**  
**Expressed in millions of United States dollars**  
**(Except number of shares)**

(Continued)

|   | <b>As of December 31,</b> |              |
|---|---------------------------|--------------|
|   | <b>2004</b>               | <b>2003</b>  |
| Liabilities and stockholders' equity  |                           |              |
| Current liabilities   |                           |              |
| Suppliers   | 689                       | 482          |
| Payroll and related charges   | 141                       | 78           |
| Interest attributed to stockholders   | 11                        | 118          |
| Current portion of long-term debt - unrelated parties   | 730                       | 1,009        |
| Short-term debt   | 74                        | 129          |
| Loans from related parties  | 52                        | 119          |
| Provision for income taxes  | 433                       | 21           |
| Others  | 325                       | 297          |
|   | <b>2,455</b>              | <b>2,253</b> |
| Long-term liabilities   |                           |              |
| Employees post-retirement benefits  | 215                       | 198          |
| Long-term debt - unrelated parties  | 3,214                     | 2,767        |
| Loans from related parties  | 18                        | 4            |
| Provisions for contingencies (Note 18)  | 914                       | 635          |
| Unrealized loss on derivative instruments   | 236                       | 96           |
| Others  | 484                       | 268          |
|   | <b>5,081</b>              | <b>3,968</b> |
| Minority interests  | <b>788</b>                | <b>329</b>   |
| Stockholders' equity  |                           |              |
| Preferred class A stock - 1,800,000,000 no-par-value shares authorized and 415,727,739 issued | 1,176                     | 1,055        |
| Common stock - 900,000,000 no-par-value shares authorized and 749,949,429 issued              | 2,121                     | 1,902        |
| Treasury stock - 11,951 (2003 - 12,549) preferred and 14,145,510 common shares                | (88)                      | (88)         |
| Additional paid-in capital  | 498                       | 498          |
| Other cumulative comprehensive deficit  | (3,774)                   | (4,375)      |
| Appropriated retained earnings  | 4,143                     | 3,035        |
| Unappropriated retained earnings  | 3,315                     | 2,857        |
|   | <b>7,391</b>              | <b>4,884</b> |

|       |  |        |        |
|-------|--|--------|--------|
| TOTAL |  | 15,715 | 11,434 |
|-------|--|--------|--------|

*See notes to consolidated financial statements.*

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**Table of Contents****Consolidated Statements of Income**

Expressed in millions of United States dollars

(except number of shares and per-share amounts)

|   | Three months ended (unaudited) |                                      |                      | Year ended December 31, |                |                |
|---|--------------------------------|--------------------------------------|----------------------|-------------------------|----------------|----------------|
|   | December<br>31, 2004           | September<br>30, 2004<br>(unaudited) | December<br>31, 2003 | 2004                    | 2003           | 2002           |
| Operating revenues, net of discounts, returns and allowances      |                                |                                      |                      |                         |                |                |
| Sales of ores and metals  | 1,834                          | 1,725                                | 1,244                | 6,333                   | 4,060          | 3,342          |
| Revenues from logistic services                                   | 234                            | 232                                  | 192                  | 877                     | 604            | 458            |
| Aluminum products   | 354                            | 327                                  | 254                  | 1,250                   | 852            | 462            |
| Other products and services                                       | 6                              | 3                                    |                      | 19                      | 29             | 20             |
|   | <b>2,428</b>                   | <b>2,287</b>                         | <b>1,690</b>         | <b>8,479</b>            | <b>5,545</b>   | <b>4,282</b>   |
| Taxes on revenues   | (111)                          | (114)                                | (52)                 | (413)                   | (195)          | (159)          |
| Net operating revenues  | <b>2,317</b>                   | <b>2,173</b>                         | <b>1,638</b>         | <b>8,066</b>            | <b>5,350</b>   | <b>4,123</b>   |
| Operating costs and expenses                                      |                                |                                      |                      |                         |                |                |
| Cost of ores and metals sold                                      | (840)                          | (751)                                | (670)                | (2,881)                 | (2,066)        | (1,579)        |
| Cost of logistic services   | (155)                          | (126)                                | (138)                | (513)                   | (370)          | (252)          |
| Cost of aluminum products   | (210)                          | (174)                                | (194)                | (674)                   | (678)          | (412)          |
| Others  | (3)                            | (2)                                  | (3)                  | (13)                    | (14)           | (20)           |
|   | <b>(1,208)</b>                 | <b>(1,053)</b>                       | <b>(1,005)</b>       | <b>(4,081)</b>          | <b>(3,128)</b> | <b>(2,263)</b> |
| Selling, general and administrative expenses                      | (133)                          | (112)                                | (97)                 | (452)                   | (265)          | (224)          |
| Research and development  | (67)                           | (36)                                 | (37)                 | (153)                   | (82)           | (50)           |
| Employee profit sharing plan                                      | (22)                           | (17)                                 | (9)                  | (69)                    | (32)           | (38)           |
| Others  | (65)                           | (69)                                 | (98)                 | (188)                   | (199)          | (119)          |
|   | <b>(1,495)</b>                 | <b>(1,287)</b>                       | <b>(1,246)</b>       | <b>(4,943)</b>          | <b>(3,706)</b> | <b>(2,694)</b> |
| Operating income  | <b>822</b>                     | <b>886</b>                           | <b>392</b>           | <b>3,123</b>            | <b>1,644</b>   | <b>1,429</b>   |
| Non-operating income (expenses)                                   |                                |                                      |                      |                         |                |                |
| Financial income  | 41                             | 10                                   | 18                   | 82                      | 102            | 127            |
| Financial expenses  | (258)                          | (165)                                | (122)                | (671)                   | (351)          | (375)          |
| Foreign exchange and monetary gains (losses), net                 | 275                            | 77                                   | (8)                  | 65                      | 242            | (580)          |
| Gain on sale of investments                                       | 90                             | 314                                  | 17                   | 404                     | 17             |                |
|   | <b>148</b>                     | <b>236</b>                           | <b>(95)</b>          | <b>(120)</b>            | <b>10</b>      | <b>(828)</b>   |
| Income before income taxes, equity results and minority interests | <b>970</b>                     | <b>1,122</b>                         | <b>297</b>           | <b>3,003</b>            | <b>1,654</b>   | <b>601</b>     |

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|   |              |              |             |              |              |             |
|---|--------------|--------------|-------------|--------------|--------------|-------------|
| Income taxes  |              |              |             |              |              |             |
| Current   | (10)         | (285)        | 10          | (433)        | (90)         | (12)        |
| Deferred  | (386)        | 61           | (76)        | (316)        | (207)        | 161         |
|   | <b>(396)</b> | <b>(224)</b> | <b>(66)</b> | <b>(749)</b> | <b>(297)</b> | <b>149</b>  |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 179          | 127          | 88          | 542          | 306          | (87)        |
| Minority interests  | (32)         | (82)         | (49)        | (223)        | (105)        | 17          |
| Income from continuing operations   | <b>721</b>   | <b>943</b>   | <b>270</b>  | <b>2,573</b> | <b>1,558</b> | <b>680</b>  |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |              |              |             |              | (10)         |             |
| Net income  | <b>721</b>   | <b>943</b>   | <b>270</b>  | <b>2,573</b> | <b>1,548</b> | <b>680</b>  |
| Basic and diluted earnings per Preferred Class A Share  | <b>0.63</b>  | <b>0.82</b>  | <b>0.23</b> | <b>2.23</b>  | <b>1.34</b>  | <b>0.59</b> |
| Basic and diluted earnings per Common Share   | <b>0.63</b>  | <b>0.82</b>  | <b>0.23</b> | <b>2.23</b>  | <b>1.34</b>  | <b>0.59</b> |
| Weighted average number of shares outstanding (thousands of shares)   |              |              |             |              |              |             |
| Common shares   | 735,804      | 735,804      | 735,804     | 735,804      | 735,804      | 749,592     |
| Preferred Class A shares  | 415,716      | 415,716      | 415,714     | 415,716      | 415,714      | 405,126     |

*See notes to consolidated financial statements.*

**Table of Contents****Consolidated Statements of Cash Flows**  
**Expressed in millions of United States dollars**

|   | Three months ended (unaudited) |                                      |                      | Year ended December 31, |              |              |
|---|--------------------------------|--------------------------------------|----------------------|-------------------------|--------------|--------------|
|   | December<br>31,<br>2004        | September<br>30, 2004<br>(unaudited) | December<br>31, 2003 | 2004                    | 2003         | 2002         |
| Cash flows from operating activities:   |                                |                                      |                      |                         |              |              |
| Net income  | 721                            | 943                                  | 270                  | 2,573                   | 1,548        | 680          |
| Adjustments to reconcile net income to cash provided by operating activities:                               |                                |                                      |                      |                         |              |              |
| Depreciation, depletion and amortization  | 119                            | 102                                  | 78                   | 399                     | 238          | 214          |
| Dividends received  | 60                             | 19                                   | 59                   | 200                     | 197          | 91           |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (179)                          | (127)                                | (88)                 | (542)                   | (306)        | 87           |
| Deferred income taxes   | 386                            | (61)                                 | 76                   | 316                     | 207          | (161)        |
| Provisions for contingencies  | 42                             | 53                                   | 30                   | 137                     | 9            | 53           |
| Impairment of property, plant and equipment   | 4                              | 7                                    | 39                   | 34                      | 51           | 62           |
| Gain on sale of investments   | (90)                           | (314)                                | (17)                 | (404)                   | (17)         |              |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |                                |                                      |                      |                         | 10           |              |
| Foreign exchange and monetary losses (gains)  | (106)                          | (118)                                | 4                    | 112                     | (382)        | 1,031        |
| Unrealized derivative losses, net   | 66                             | 36                                   | 20                   | 134                     | 43           | 83           |
| Minority interests  | 32                             | 82                                   | 49                   | 223                     | 105          | (17)         |
| Interest payable, net   | 38                             | 42                                   | 43                   | 93                      | 24           |              |
| Others  | (70)                           | 3                                    | (62)                 | (123)                   | (27)         | 57           |
| Decrease (increase) in assets:  |                                |                                      |                      |                         |              |              |
| Accounts receivable   | 57                             |                                      | (68)                 | (98)                    | 37           | (123)        |
| Inventories   | (95)                           | (39)                                 | 6                    | (216)                   | (22)         | (69)         |
| Others  | (76)                           | (44)                                 | (36)                 | (78)                    | (9)          | (105)        |
| Increase (decrease) in liabilities:   |                                |                                      |                      |                         |              |              |
| Suppliers   | 288                            | 26                                   | 59                   | 230                     | (18)         | 102          |
| Payroll and related charges   | 22                             | 27                                   | (17)                 | 28                      | (25)         | 23           |
| Income taxes  | (22)                           | 370                                  |                      | 348                     |              |              |
| Others  | (126)                          | 96                                   | 69                   | 105                     | 94           | 94           |
| <b>Net cash provided by operating activities</b>  | <b>1,071</b>                   | <b>1,103</b>                         | <b>514</b>           | <b>3,471</b>            | <b>1,757</b> | <b>2,102</b> |
| Cash flows from investing activities:   |                                |                                      |                      |                         |              |              |
| Loans and advances receivable   |                                |                                      |                      |                         |              |              |
| Related parties   |                                |                                      |                      |                         |              |              |
| Additions   | (21)                           | (6)                                  | (65)                 | (33)                    | (157)        | (101)        |
| Repayments  | 5                              |                                      | 9                    | 51                      | 71           | 75           |

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|  |              |              |              |                |                |              |
|--|--------------|--------------|--------------|----------------|----------------|--------------|
| Others   | 2            | (3)          |              | 18             | 35             | 20           |
| Guarantees and deposits                                      | (21)         | (48)         | (13)         | (111)          | (99)           | (78)         |
| Additions to investments                                     | (15)         | (4)          | 1            | (34)           | (68)           | (1)          |
| Additions to property, plant and equipment                   | (877)        | (348)        | (594)        | (2,022)        | (1,543)        | (766)        |
| Proceeds from disposal of investments                        | 164          | 415          | 83           | 579            | 83             |              |
| Proceeds from disposals of property, plant and equipment     | 7            | 4            |              | 11             | 58             | 7            |
| Cash used to acquire subsidiaries, net of cash acquired      |              |              |              |                | (380)          | (45)         |
| Net cash provided by (used in) investing activities          | <b>(756)</b> | <b>10</b>    | <b>(579)</b> | <b>(1,541)</b> | <b>(2,000)</b> | <b>(889)</b> |
| Cash flows from financing activities:                        |              |              |              |                |                |              |
| Short-term debt, net issuances (repayments)                  | (100)        | 40           | (1)          | (60)           | (38)           | (345)        |
| Loans  |              |              |              |                |                |              |
| Related parties  |              |              |              |                |                |              |
| Additions  |              | 15           | 24           | 21             | 72             | 54           |
| Repayments   | (18)         | (2)          | (2)          | (27)           | (26)           | (75)         |
| Issuances of long-term debt                                  |              |              |              |                |                |              |
| Related parties  | 20           |              | 12           | 20             | 14             | 17           |
| Others   | 96           | 43           | 29           | 1,031          | 1,025          | 698          |
| Repayments of long-term debt                                 |              |              |              |                |                |              |
| Related parties  |              | (3)          |              | (3)            | (4)            | (15)         |
| Others   | (390)        | (222)        | (351)        | (1,283)        | (766)          | (330)        |
| Interest attributed to stockholders                          | (518)        |              | (427)        | (787)          | (675)          | (602)        |
| Net cash used in financing activities                        | <b>(910)</b> | <b>(129)</b> | <b>(716)</b> | <b>(1,088)</b> | <b>(398)</b>   | <b>(598)</b> |
| Increase (decrease) in cash and cash equivalents             | (595)        | 984          | (781)        | 842            | (641)          | 615          |
| Effect of exchange rate changes on cash and cash equivalents | (95)         | (104)        | 26           | (204)          | 135            | (641)        |
| Initial cash in new consolidated subsidiary                  |              |              |              | 26             |                |              |
| Cash and cash equivalents, beginning of period               | 1,939        | 1,059        | 1,340        | 585            | 1,091          | 1,117        |
| Cash and cash equivalents, end of period                     | <b>1,249</b> | <b>1,939</b> | <b>585</b>   | <b>1,249</b>   | <b>585</b>     | <b>1,091</b> |
| Cash paid during the period for:                             |              |              |              |                |                |              |
| Interest on short-term debt                                  | (3)          |              |              | (5)            | (7)            | (46)         |
| Interest on long-term debt                                   | (82)         | (82)         | (38)         | (295)          | (178)          | (157)        |
| Income tax   | (108)        |              | (16)         | (108)          | (55)           | (12)         |
| Non-cash transactions  |              |              |              |                |                |              |
| Conversion of loans to investments                           | (67)         | (43)         | (91)         | (192)          | (187)          | (55)         |
| Income tax paid with credits                                 |              |              |              | (100)          | (81)           |              |
| Interest capitalized   | (9)          | (11)         | (6)          | (31)           | (19)           | (27)         |

*See notes to consolidated financial statements.*

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**Consolidated Statements of Changes in Stockholders' Equity**  
**Expressed in millions of United States dollars**  
**(except number of shares and per-share amounts)**

|   | Three months ended (unaudited) |                                      |                      | Year ended December 31, |         |         |
|---|--------------------------------|--------------------------------------|----------------------|-------------------------|---------|---------|
|   | December 31,<br>2004           | September 30,<br>2004<br>(unaudited) | December 31,<br>2003 | 2004                    | 2003    | 2002    |
| Preferred class A stock (including one special share) |                                |                                      |                      |                         |         |         |
| Beginning of the period                               | 1,176                          | 1,176                                | 1,055                | 1,055                   | 904     | 820     |
| Transfer from appropriated retained earnings          |                                |                                      |                      | 121                     | 151     | 84      |
| End of the period                                     | 1,176                          | 1,176                                | 1,055                | 1,176                   | 1,055   | 904     |
| Common stock  |                                |                                      |                      |                         |         |         |
| Beginning and end of the period                       | 2,121                          | 2,121                                | 1,902                | 1,902                   | 1,630   | 1,479   |
| Transfer from appropriated retained earnings          |                                |                                      |                      | 219                     | 272     | 151     |
| End of the period                                     | 2,121                          | 2,121                                | 1,902                | 2,121                   | 1,902   | 1,630   |
| Treasury stock  |                                |                                      |                      |                         |         |         |
| Beginning and end of the period                       | (88)                           | (88)                                 | (88)                 | (88)                    | (88)    | (88)    |
| Additional paid-in capital                            |                                |                                      |                      |                         |         |         |
| Beginning and end of the period                       | 498                            | 498                                  | 498                  | 498                     | 498     | 498     |
| Other cumulative comprehensive deficit                |                                |                                      |                      |                         |         |         |
| Cumulative translation adjustments                    |                                |                                      |                      |                         |         |         |
| Beginning of the period                               | (4,296)                        | (4,757)                              | (4,473)              | (4,449)                 | (5,185) | (3,475) |
| Change in the period                                  | 427                            | 461                                  | 24                   | 580                     | 736     | (1,710) |

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|  |                |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| End of the period  | <b>(3,869)</b> | <b>(4,296)</b> | <b>(4,449)</b> | <b>(3,869)</b> | <b>(4,449)</b> | <b>(5,185)</b> |
| Unrealized gain<br>on<br>available-for-sale<br>securities  |                |                |                |                |                |                |
| Beginning of the<br>period                                 | 82             | 61             | 14             | 74             |                |                |
| Change in the<br>period                                    | 13             | 21             | 60             | 21             | 74             |                |
| End of the period  | <b>95</b>      | <b>82</b>      | <b>74</b>      | <b>95</b>      | <b>74</b>      |                |
| Adjustments<br>relating to<br>investments in<br>affiliates |                |                |                |                |                |                |
| Beginning of the<br>period                                 |                |                | 10             |                | 10             | 10             |
| Transfer to<br>retained earnings                           |                |                | (10)           |                | (10)           |                |
| Beginning and<br>end of the period                         |                |                |                |                |                | <b>10</b>      |
| Total other<br>cumulative<br>comprehensive<br>deficit      | <b>(3,774)</b> | <b>(4,214)</b> | <b>(4,375)</b> | <b>(3,774)</b> | <b>(4,375)</b> | <b>(5,175)</b> |
| Appropriated<br>retained earnings                          |                |                |                |                |                |                |
| Beginning of the<br>period                                 | 2,719          | 2,501          | 2,251          | 3,035          | 2,230          | 3,212          |
| Transfer (to) from<br>retained earnings                    | 1,424          | 218            | 784            | 1,448          | 1,228          | (747)          |
| Transfer to capital<br>stock                               |                |                |                | (340)          | (423)          | (235)          |
| End of the period  | <b>4,143</b>   | <b>2,719</b>   | <b>3,035</b>   | <b>4,143</b>   | <b>3,035</b>   | <b>2,230</b>   |
| Unappropriated<br>retained earnings                        |                |                |                |                |                |                |
| Beginning of the<br>period                                 | 4,268          | 3,667          | 3,472          | 2,857          | 3,288          | 2,184          |
| Net income   | 721            | 943            | 270            | 2,573          | 1,548          | 680            |
| Interest attributed<br>to stockholders                     |                |                |                |                |                |                |
| Preferred class A<br>stock                                 | (90)           | (45)           | (40)           | (241)          | (275)          | (117)          |
| Common stock   | (160)          | (79)           | (71)           | (426)          | (486)          | (206)          |

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|   |                      |                      |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Appropriation (to) from reserves                        | (1,424)              | (218)                | (774)                | (1,448)              | (1,218)              | 747                  |
| End of the period                                       | <b>3,315</b>         | <b>4,268</b>         | <b>2,857</b>         | <b>3,315</b>         | <b>2,857</b>         | <b>3,288</b>         |
| Total stockholders equity                               | <b>7,391</b>         | <b>6,480</b>         | <b>4,884</b>         | <b>7,391</b>         | <b>4,884</b>         | <b>3,287</b>         |
| Comprehensive income (deficit) is comprised as follows: |                      |                      |                      |                      |                      |                      |
| Net income  | 721                  | 943                  | 270                  | 2,573                | 1,548                | 680                  |
| Cumulative translation adjustments                      | 427                  | 461                  | 24                   | 580                  | 736                  | (1,710)              |
| Unrealized gain (loss) on available-for-sale securities | 13                   | 21                   | 60                   | 21                   | 74                   |                      |
| Total comprehensive income (deficit)                    | <b>1,161</b>         | <b>1,425</b>         | <b>354</b>           | <b>3,174</b>         | <b>2,358</b>         | <b>(1,030)</b>       |
| <b>Shares</b>   |                      |                      |                      |                      |                      |                      |
| Preferred class A stock (including three special share) | <b>415,727,739</b>   | <b>415,727,739</b>   | <b>415,727,739</b>   | <b>415,727,739</b>   | <b>415,727,739</b>   | <b>415,727,739</b>   |
| Common stock  | <b>749,949,429</b>   | <b>749,949,429</b>   | <b>749,949,429</b>   | <b>749,949,429</b>   | <b>749,949,429</b>   | <b>749,949,429</b>   |
| Treasury stock (1)                                      |                      |                      |                      |                      |                      |                      |
| Beginning of the period                                 | (14,157,477)         | (14,158,059)         | (14,158,059)         | (14,158,059)         | (14,158,953)         | (14,145,783)         |
| Acquisitions  |                      |                      |                      |                      |                      | (13,170)             |
| Sales   | 16                   | 582                  |                      | 598                  | 894                  |                      |
| End of the period                                       | <b>(14,157,461)</b>  | <b>(14,157,477)</b>  | <b>(14,158,059)</b>  | <b>(14,157,461)</b>  | <b>(14,158,059)</b>  | <b>(14,158,953)</b>  |
|   | <b>1,151,519,707</b> | <b>1,151,519,691</b> | <b>1,151,519,109</b> | <b>1,151,519,707</b> | <b>1,151,519,109</b> | <b>1,151,518,215</b> |
| <b>Interest attributed to stockholders (per share)</b>  |                      |                      |                      |                      |                      |                      |
|   | 0.22                 | 0.11                 | 0.10                 | 0.58                 | 0.66                 | 0.28                 |



|   |      |      |      |      |      |      |
|---|------|------|------|------|------|------|
| Preferred class A<br>stock (including<br>one special share) |      |      |      |      |      |      |
| Common stock  | 0.22 | 0.11 | 0.10 | 0.58 | 0.66 | 0.28 |

(1) As of December 31, 2004, 14,145,510 common shares and 11,951 preferred shares were held in treasury in the amount of US\$ 88. The 14,145,510 common shares guarantee a loan to our subsidiary Alunorte.

**Notes to consolidated financial statements.**

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

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 operations and those of our joint ventures and affiliates are described in Note 13.

The main operating subsidiaries we consolidate are as follows:

| <b>Subsidiary</b>                                     | <b>% ownership</b> | <b>% voting capital</b> | <b>Head office location</b> | <b>Principal activity</b>           |
|---|--------------------|-------------------------|-----------------------------|-------------------------------------|
| Alumina do Norte do Brasil S.A. - Alunorte (Alunorte) | 57                 | 61                      | Brazil                      | Alumina                             |
| Alumínio Brasileiro S.A. - Albras (Albras) (8)        | 51                 | 51                      | Brazil                      | Aluminum                            |
| CADAM S.A. (CADAM) (2) (4)                            | 37                 | 100                     | Brazil                      | Kaolin                              |
| CELMAR S.A. - Indústria de Celulose e Papel (3)       | 100                | 100                     | Brazil                      | Forestry                            |
| CVRD Overseas Ltd.                                    | 100                | 100                     | Cayman Island               | Trading                             |
| Ferrovía Centro-Atlântica S.A. (4)                    | 100                | 100                     | Brazil                      | Logistics                           |
| Ferteco Mineração S.A. - FERTECO (3)                  | 100                | 100                     | Brazil                      | Iron ore and Pellets                |
| Itabira Rio Doce Company Ltd. - ITACO                 | 100                | 100                     | Cayman Island               | Trading                             |
| Mineração Serra do Sossego S.A. (5)                   | 100                | 100                     | Brazil                      | Copper                              |
| Minerações Brasileiras Reunidas S.A. - MBR (4) (7)    | 56                 | 90                      | Brazil                      | Iron ore                            |
| Navegação Vale do Rio Doce S.A. - DOCENAVE            | 100                | 100                     | Brazil                      | Shipping                            |
| Pará Pigmentos S.A.                                   | 76                 | 86                      | Brazil                      | Kaolin                              |
| Rio Doce International Finance Ltd. - RDIF            | 100                | 100                     | Bahamas                     | International finance               |
| Rio Doce Manganês S.A. (6)                            | 100                | 100                     | Brazil                      | Manganese and Ferroalloys           |
| Rio Doce Manganèse Europe - RDME                      | 100                | 100                     | France                      | Ferroalloys                         |
| Rio Doce Manganese Norway - RDMN                      | 100                | 100                     | Norway                      | Ferroalloys                         |
| Salobo Metais S.A. (1)                                | 100                | 100                     | Brazil                      | Copper                              |
| Urucum Mineração S.A.                                 | 100                | 100                     | Brazil                      | Iron ore, Ferroalloys and Manganese |

(1) Development stage companies

(2) Through Caemi Mineração e Metalurgia S.A. Caemi holds 61.48% of the total capital and 100% of the voting capital of Cadam. CVRD holds 60.2% of the total capital and 100% of the voting capital of Caemi.

- (3) Merged with CVRD on August 29, 2003
- (4) Consolidated as from September 2003
- (5) Merged with CVRD on December 30, 2003
- (6) Formerly Sibra-Eletrosiderúrgica Brasileira S.A.
- (7) Through Caemi Mineração e Metalurgia S.A. and Belém Administrações e Participações Ltda.
- (8) Consolidated as from January 1, 2004 (See Note 4)

## **2 Basis of consolidation**

All majority-owned subsidiaries where we have both share and management control are consolidated, with elimination of all significant intercompany accounts and transactions. Additionally variable interest entities in which are the primary beneficiary (Note 4(b)) are consolidated as from January 1, 2004. 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 (Note 13).

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.

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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.

Our condensed consolidated interim financial information for the three-month periods ended December 31, 2004, September 30, 2004, and December 31, 2003 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. Certain interim footnotes have been excluded due of the inclusion of the footnote for the annual information.

**3 Summary of significant accounting policies**

In preparing the consolidated financial statements, we are required to use estimates to account for certain assets, liabilities, revenues and expenses. Our 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.

**(a) Basis of presentation**

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( US GAAP ), which differ in certain respects from the accounting practices adopted in Brazil that we use in preparing our statutory financial statements.

The U.S. dollar amounts for the years presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards 52 Foreign Currency Translation (SFAS 52).

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy and accordingly, up to June 30, 1997, we adopted the U.S. dollar as both our functional currency and reporting currency.

As from July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary and changed our functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian Reais), for Brazilian operations and extensions thereof. Accordingly, we translated the U.S. dollar amounts of non-monetary assets and liabilities into Reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R\$2.6544 and R\$2.8892 to US\$1.00 at December 31, 2004 and 2003, respectively), 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.

The net exchange transaction gain (loss) included in our statement of income was US\$65, US\$242 and (US\$580) in 2004, 2003 and 2002, respectively, included within the line Foreign exchange and monetary losses, net .

**(b) Business combinations**

We adopt the procedures determined by SFAS 141 Business Combinations to recognize acquisitions of interests in other companies. The method of accounting used in our business combination transactions is the purchase method, which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase to be recognized as an intangible asset. On the acquisition of assets, which include the rights to mine reserves of natural resources, the

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establishment of values for these assets includes the placing of fair values on purchased reserves, which are classified in the balance sheet as property, plant and equipment.

Goodwill was amortized in a systematic manner over the periods estimated to be benefited through December 31, 2001. As required by SFAS 142 Goodwill and Other Intangible Assets from January 1, 2002 goodwill resulting from the acquisitions is no longer amortized, but is tested for impairment at least annually and reduced to fair value to the extent any such impairment is identified.

**(c) Inventories**

Inventories are stated at the average cost of purchase or production, lower than replacement or realizable values. We record allowances for slow moving or obsolete inventories when considered appropriate, reflecting our periodic assessment of recoverability. A write-down of inventory utilizing the allowance establishes a new cost basis for the related inventory.

Finished goods inventories include all related materials, labor and direct production expenditures, and exclude general and administrative expenses.

**(d) Property, plant and equipment**

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight -line basis at annual rates which take into consideration the useful lives of the items, such as: from 2% to 20% for the railroads, 5% for ships, 3% for buildings, from 2% to 5% for installations and from 5% to 20% for mining and other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed until economic viability of mining activities is established; subsequently such costs are capitalized together with further exploration costs. We capitalize mine development costs as from the time we actually begin such development.

**(e) Available-for-sale equity securities**

Equity securities classified as available-for-sale are recorded in accordance with SFAS 115 Accounting for Certain Investments in Debt and Equity Securities . Accordingly, we exclude unrealized holding gains and losses, net of taxes, if applicable, from income and recognize them, net of tax effects, as a separate component of stockholders equity until realized.

**(f) Revenues and expenses**

Revenues are recognized when title has transferred to the customer or services are rendered. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from transportation services, other than shipping operations, is recognized when the service order has been fulfilled. Shipping operations are recorded on the completed voyage basis and net revenue, costs and expenses of voyages not completed at period-end are deferred. Anticipated losses on voyages are provided when probable and can be reasonably estimated. Expenses and costs are recognized on the accrual basis.

**(g) Environmental and site reclamation and restoration costs**

Expenditures relating to ongoing compliance with environmental regulations are charged against earnings or capitalized as appropriate. These ongoing programs are designed to minimize the environmental impact of our activities. With respect to our major iron ore mine at Carajás, which has extensive remaining reserves, liabilities for final site reclamation and restoration costs will be recorded when the respective reclamation and restoration strategies can be reasonably determined and the related costs can be reasonably estimated.

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**(h) Compensated absences**

We fully accrue the employees' compensation liability for vacations vested during the year.

**(i) Income taxes**

In accordance with SFAS 109 "Accounting for Income Taxes", the deferred tax effects of tax loss carryforwards and temporary differences have been recognized in the consolidated financial statements. A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recoverable in the future.

**(j) Statement of cash flows**

Cash flows relating to overnight financing and investment are reported net. Short-term investments that have a ready market and maturity to us, when purchased, of 90 days or less are considered cash equivalents.

**(k) Earnings per share**

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the period.

**(l) Interest attributed to stockholders**

As from January 1, 1996 Brazilian corporations are permitted to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed 50% of net income for the year nor 50% of retained earnings plus revenue reserves.

The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge equivalent to the statutory tax rate applied to such amount. Income tax is withheld from the stockholders relative to interest at the rate of 15%.

Under Brazilian law, interest attributable to stockholders is considered as part of the annual minimum dividend (Note 16). Accordingly such distributions are treated as dividends for accounting purposes.

We have opted to pay such tax -deductible interest to our stockholders and have therefore accrued the amounts due as of December 31, 2004, 2003 and 2002, with a direct charge to stockholders' equity.

**(m) Derivatives and hedging activities**

As of January 1, 2001 we adopted SFAS 133 "Accounting for Derivative Financial Instruments and Hedging Activities", as amended by SFAS 137, SFAS 138 and SFAS 149. Those standards require that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in current earnings or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge.

**(n) Comprehensive income**



We have disclosed comprehensive income as part of the Statement of Changes in Stockholders' Equity, in compliance with SFAS 130 Reporting Comprehensive Income .

**(o) Reclassification**

Certain minor reclassifications have been made to the financial statements for 2003 and 2002 to make them comparable with the 2004 presentation.

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**Table of Contents****(p) Stockpiled inventory**

We classify proven and probable reserve quantities attributable to stockpiled inventory as inventory and account for them as processed when they are removed from the mine. These reserve quantities are not included in the total proven and probable reserve quantities used in the units of production, depreciation, depletion and amortization calculations.

**(q) Removal of waste materials to access mineral deposits**

During the development of a mine, before production commences, stripping costs (i.e., the costs associated with the removal of overburden and other waste materials) are capitalized as part of the depreciable cost of building and constructing the mine. Such costs are subsequently amortized over the useful life of the mine based on proven and probable reserves.

Post-production stripping costs are recorded as cost of sales when incurred.

**4 Change in accounting practice****(a) 2003 SFAS 143**

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143 Accounting for Asset Retirement Obligations. We adopted SFAS 143 as from January 1, 2003, and as a consequence an additional US\$26 for asset retirement obligations was recorded as Others - long-term liabilities, a net increase of US\$11 in mine development costs was registered within Property, plant and equipment and a resulting charge of US\$10 was registered as Change in Accounting Practice for Asset Retirement Obligations on the Statement of Income, net of income tax (US\$15 gross of deferred income tax). Over time the liabilities will be accreted for the change in their present value and initial capitalized costs will be amortized over the useful lives of the related assets.

**(b) 2004 FIN 46R**

As from January 1, 2004 we have consolidated Albras based on our 51% interest in that entity under FASB Interpretation (FIN) Consolidation of Variable Interest Entities (revised December 2003). Albras is an Aluminum company with revenues of US\$707 and total assets of US\$805 for the year ended December 31, 2004 which sells all of its output to its shareholders based in its participation.

Albras purchases its principal raw material, alumina, from Alunorte and obtains financing principally from CVRD and its subsidiaries. None of Albras or CVRD's assets guarantee Albras' obligations except for industrial property, plant and equipment of US\$316 given in guarantee of US\$192 of third party basis but CVRD has provided financial guarantees for Albras financings. Had Albras been consolidated at and for the year ended December 31, 2003 CVRD's consolidated statement of income would have been as follows:

|  | <b>CVRD</b> | <b>Albras</b> | <b>2003<br/>Pro Forma<br/>(unaudited)</b> |
|--|-------------|---------------|---|
| Net revenues                                       | 5,350       | 165           | 5,515                                     |
| Cost of sales                                      | (3,128)     | 58            | (3,070)                                   |
| Operating costs                                    | (578)       | (16)          | (594)                                     |
| Non-operating income (expense)                     | 10          | 34            | 44  |
| Income taxes                                       | (297)       | (36)          | (333)                                     |
| Equity in results of affiliates and joint ventures | 306         | (105)         | 201                                       |
| Change in accounting practice                      | (10)        |               | (10)                                      |
| Minority interests                                 | (105)       | (100)         | (205)                                     |

Net income

**1,548**

**1,548**

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**5 Recently-issued accounting pronouncements**

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment which sets accounting requirements for share-based compensation to employees, including employee-stock-purchase-plans (ESPPs) and provides guidance on accounting for awards to non-employees. This Statement will require companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. For public entities, this Statement is effective for the first interim period beginning after June 15, 2005. We do not currently provide any share-based payments to employees or non-employees.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB No. 29. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. We will apply this Statement in the event exchanges of nonmonetary assets occur in fiscal periods beginning after June 15, 2005.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4, which amends Chapter 4 of ARB No. 43 that deals with inventory pricing. The Statement clarifies the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. Under previous guidance, paragraph 5 of ARB No. 43, chapter 4, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs might be considered to be so abnormal, under certain circumstances, as to require treatment as current period charges. This Statement eliminates the criterion of so abnormal and requires that the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for 2005. Also, this Statement requires that allocation of fixed production overheads to inventories by June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date this Statement is issued. The provisions of this Statement shall be applied prospectively. We are analyzing the requirements of this new Statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

In September 2004, the FASB issued FSP EITF Issue 03-1-1, which delayed the effective date of paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. Paragraphs 10-20 of EITF Issue No. 03-1 give guidance on how to evaluate and recognize an impairment loss that is other than temporary. Application of these paragraphs has been deferred pending issuance, of proposed FSP EITF Issue 03-1a. We do not expect EITF Issue No. 03-01 to have any impact on its financial position, results of operations or cash flows.

At its March 31, 2004 meeting, the Emerging Issues Task Force (EITF) reached final consensus on EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share. Typically, a participating security is entitled to share in a company's earnings, often via a formula tied to dividends on the company's common stock. The issue clarifies what is meant by the term participating security, as used in Statement 128. When an instrument is deemed to be a participating security, it has the potential to significantly reduce basic earnings per common share because the two-class method must be used to compute the instrument's effect on earnings per share. The consensus also covers other instruments whose terms include a participation feature. The consensus also addresses the allocation of losses. If undistributed earnings must be allocated to participating securities under the two-class method, losses should also be allocated. However, EITF 03-6 limits this allocation only to situations when the security has



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(1) the right to participate in the earnings of the company, and (2) an objectively determinable contractual obligation to share in net losses of the company;

The consensus reached in EITF 03-6 is effective for fiscal periods beginning after March 31, 2004. EPS in prior periods must be retroactively adjusted in order to comply with the consensus decisions reached in EITF 03-6. We do not expect that this consensus will have any impact on its calculation of Basic and Diluted EPS.

## **6 Our privatization**

In May 1997, we were privatized by the Brazilian Government, which transferred voting control to Valepar S.A. ( Valepar ). The Brazilian Government has retained certain rights with respect to our future decisions and those of Valepar and has also caused us to enter into agreements which may affect our activities and results of operations in the future. These rights and agreements are:

Preferred Special Share. The Brazilian Government holds three preferred special shares of CVRD which confers upon it permanent veto rights over changes in our (i) name, (ii) headquarters location, (iii) corporate purpose with respect to mineral exploration, (iv) continued operation of our integrated iron ore mining systems and (v) certain other matters.

Shareholder revenue interests. On July 7, 1997, we issued to shareholders of record on April 18, 1997 (including the Brazilian Government) revenue interests providing holders thereof with the right to receive semi-annual payments based on a percentage of our net revenues above threshold production volumes from identified mining resources. These instruments are not secured by the corresponding mineral reserves and deposits (Note 18(f)).

## **7 Major acquisitions and disposals during the years presented**

We made the following acquisitions during the periods presented. Pro forma information with respect to our acquisitions of the control of Alunorte in June 2002 and Caemi in September 2003 is shown in items (b) and (c) below:

- (a) In December 2001, acting through our wholly-owned foreign subsidiary Itabira Rio Doce Company Ltd. ITACO, we acquired common shares of Caemi Mineração e Metalurgia S.A. (Caemi), corresponding to 16.82% of its total capital and 50% of its voting capital from a wholly-owned subsidiary of Mitsui & Co., Ltd. (Mitsui) for US\$ 279. Caemi is a Brazilian company headquartered in Rio de Janeiro, which operates in the iron ore, kaolin, refractory bauxite and railroad sectors and was accounted for as an equity investee up to September 2, 2003 (see below).

This acquisition was approved by the European Commission subject to the commitment for Caemi to sell its equity investment in Quebec Cartier Mining Company (QCM), a Canadian producer of iron ore and pellets. On December 31, 2003 Caemi sold its holding of QCM 's common shares to the Quebec Provincial Government for the symbolic amount of 100 Canadian dollars and converted loans to QCM of 20 million Canadian dollars into preferred stock with no voting rights (other than on matters required by law). Caemi will continue to guarantee certain financings of QCM until 2007 and has undertaken to provide further financial support to QCM, if necessary, in the form of subordinated loans up to 2010, limited to 34.5 million Canadian dollars (equivalent to US\$27 at December 31, 2004 ). The fair value of this commitment has been fully provided.

CVRD and Mitsui, each of which held 50% of Caemi 's common shares, entered into a shareholder agreement requiring both shareholders to approve all major decisions affecting Caemi.

On September 2, 2003 we acquired a further 43.37% of the capital of Caemi for US\$426, increasing our total participation to 60.23%. Caemi has been consolidated as from this date.



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The acquisition cost of the 43.37% of Caemi, net of cash acquired, was as follows:

|   |                              |
|---|------------------------------|
|   | <b>September 2,<br/>2003</b> |
| Estimated fair value of assets                  | 1,699                        |
| Estimated fair value of liabilities             | (716)                        |
| Net assets at fair value                        | <b>983</b>                   |
| Interest in total capital acquired              | 43.37%                       |
| Estimated fair value of net assets acquired     | 426                          |
| Purchase price                                  | 426                          |
| Less cash acquired                              | (46)                         |
| Acquisition cost of Caemi, net of cash acquired | <b>380</b>                   |

**Caemi Pro forma**

The unaudited condensed pro forma statement of income below shows the impact of the acquisition of Caemi on the consolidated statements of income as if the current 60.23% participation in Caemi had been acquired on January 1, 2002 (instead of the 16.86% equity investment previously held, being 16.82% initially acquired and 0.04% purchased subsequently).

|   | <b>2003</b>         |                                       |                                      |             | <b>2002</b>         |                                      |
|---|---------------------|---------------------------------------|--------------------------------------|-------------|---------------------|--------------------------------------|
|   | <b>CVRD</b>         | <b>Pre-<br/>acquisition<br/>CAEMI</b> | <b>Pro<br/>Forma<br/>(unaudited)</b> | <b>CVRD</b> | <b>CAEMI</b>        | <b>Pro<br/>Forma<br/>(unaudited)</b> |
|   | <b>Consolidated</b> | <b>(1)</b>                            | <b>Consolidated</b>                  | <b>(2)</b>  | <b>Consolidated</b> | <b>(2)</b>                           |
| Net operating revenues  | 5.350               | 424                                   | 5.774                                | 4.123       | 572                 | 4.695                                |
| Operating costs and expenses  | (3.706)             | (343)                                 | (4.049)                              | (2.694)     | (545)               | (3.239)                              |
| Operating income (loss)   | 1.644               | 81                                    | 1.725                                | 1.429       | 27                  | 1.456                                |
| Non-operating income (expenses)   | 10                  | 16                                    | 26                                   | (828)       | (101)               | (929)                                |
| Income before income taxes, equity results and minority interests   | 1.654               | 97                                    | 1.751                                | 601         | (74)                | 527                                  |
| Income taxes  | (297)               | (41)                                  | (338)                                | 149         | 12                  | 161                                  |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 306                 | (20)                                  | 286                                  | (87)        | (2)(3)              | (89)                                 |
| Minority interests  | (105)               | 18                                    | (87)                                 | 17          | 64                  | 81                                   |
| Income from continuing operations   | 1.558               | 54                                    | 1.612                                | 680         |                     | 680                                  |



|   |              |           |              |            |            |
|---|--------------|-----------|--------------|------------|------------|
| Change in accounting practice for<br>asset retirement obligations | (10)         |           | (10)         |            |            |
| <b>Net income</b>   | <b>1.548</b> | <b>54</b> | <b>1.602</b> | <b>680</b> | <b>680</b> |

- 
- (1) Period from January to August, 2003 (Consolidated as from September 2003).  
 (2) Period from January to December, 2002, net of consolidation adjustments.  
 (3) Includes elimination of Caemi equity investment write-down based on quoted market price - US\$86.
- (b)** On June 27, 2002 we acquired a further 12.62% of the capital of ALUNORTE for US\$42, increasing our participation to 57.03% (represented by 62.09% of total common stock and 19.05% of total preferred stock). ALUNORTE has been consolidated as from this date.

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Unaudited pro forma information with respect to the effect on our consolidated statements of income, reflecting the consolidation of ALUNORTE as if control has been acquired as at January 1, 2002 is as follows:

|   | <b>CVRD</b>         |                 | <b>2002</b>        |
|---|---------------------|-----------------|--------------------|
|   | <b>Consolidated</b> | <b>ALUNORTE</b> | <b>Pro Forma</b>   |
|   |                     |                 | <b>(unaudited)</b> |
| Net operating revenues  | 4.123               | 138             | 4.261              |
| Operating costs and expenses                                      | (2.694)             | (151)           | (2.845)            |
| Operating income  | 1.429               | (13)            | 1.416              |
| Non-operating income (expenses)                                   | (828)               | (38)            | (866)              |
| Income before income taxes, equity results and minority interests | 601                 | (51)            | 550                |
| Income taxes  | 149                 |                 | 149                |
| Equity in results of affiliates and joint ventures                | (28)                | 23              | (5)                |
| Change in provision for losses on equity investments              | (59)                |                 | (59)               |
| Minority interests  | 17                  | 28              | 45                 |
| <b>Net income</b>   | <b>680</b>          |                 | <b>680</b>         |

- (c) On October 10, 2003, the subsidiary Companhia Paulista de Ferro Ligas (CPFL) finalized the sale of its shares in Fertilizantes Fosfatados S.A. (Fosfértil) to Bunge Fertilizantes S.A. for US\$84. The profit on the operation was US\$61.
- (d) On November 7, 2003 we sold our investment in Companhia Ferroviária do Nordeste (CFN) to CSN for a symbolic amount, recording a loss on this transaction of US\$44.
- (e) On July 30, 2004 we sold part of our stake in Companhia Siderúrgica de Tubarão CST representing 4.42% of the voting capital and 29.96% of the non-voting capital for US\$415. In December 2004 we concluded the sale of our remaining 20.51% voting capital interest for US\$163. The profit on the transaction was US\$314 and US\$90, respectively.

**8 Income taxes**

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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 months ended (unaudited) |                       |                      | Year ended December 31, |              |            |
|---|--------------------------------|-----------------------|----------------------|-------------------------|--------------|------------|
|   | December<br>31,<br>2004        | September<br>30, 2004 | December<br>31, 2003 | 2004                    | 2003         | 2002       |
| Income before income taxes, equity results and minority interests                       | <b>970</b>                     | <b>1,122</b>          | <b>297</b>           | <b>3,003</b>            | <b>1,654</b> | <b>601</b> |
| Federal income tax and social contribution expense at statutory enacted rates           | (330)                          | (381)                 | (101)                | (1,021)                 | (562)        | (204)      |
| Adjustments to derive effective tax rate:   |                                |                       |                      |                         |              |            |
| Tax benefit on interest attributed to stockholders                                      | 65                             | 50                    | 42                   | 214                     | 271          | 99         |
| Exempt foreign income (expenses)  | 69                             | 143                   | (26)                 | 247                     | (59)         | 196        |
| Difference on tax basis of equity investees   | (135)                          | (75)                  | (56)                 | (240)                   | (56)         | 20         |
| Tax effect related to provision for losses and write-downs                              |                                |                       |                      |                         |              | 29         |
| Tax incentives  | 9                              | 32                    | 12                   | 53                      | 60           | 4          |
| Valuation allowance reversal (provision)  | 6                              | 19                    | 40                   | 77                      | 53           | (12)       |
| Non-taxable losses on derivative  | (57)                           |                       |                      | (57)                    |              |            |
| Other non-taxable gains (losses)  | (23)                           | (12)                  | 23                   | (22)                    | (4)          | 17         |
| Federal income tax and social contribution expense in consolidated statements of income | <b>(396)</b>                   | <b>(224)</b>          | <b>(66)</b>          | <b>(749)</b>            | <b>(297)</b> | <b>149</b> |

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We have certain tax incentives relative to our iron ore and manganese operations in Carajás, potash in Sergipe and relative to alumina in Alunorte. The incentives relative to iron ore and manganese comprise full income tax exemption on defined production levels up to 2005 and partial exemption up to 2013. The incentive relative to potash expires in 2013 while incentives relative to alumina expire in 2010. 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.

The major components of the deferred tax accounts in the balance sheet are as follows:

|  | <b>As of December 31</b> |             |
|--|--------------------------|-------------|
|  | <b>2004</b>              | <b>2003</b> |
| <b>Current deferred tax assets</b>                             |                          |             |
| Accrued expenses deductible only when disbursed                | 110                      | 91          |
| Interest attributed to stockholders                            | 93                       |             |
|  | <b>203</b>               | <b>91</b>   |
| <b>Long-term deferred tax assets and liabilities</b>           |                          |             |
| <b>Assets</b>  |                          |             |
| Deferred tax relative to temporary differences                 |                          | 3           |
| Tax deductible goodwill in business combinations               | 10                       | 79          |
| Related to provision for losses and write-downs of investments | 51                       | 149         |
| Employees post retirement benefits provision                   | 83                       | 73          |
| Tax loss carryforwards   | 235                      | 132         |
| Other temporary differences                                    | 19                       | 206         |
|  | 398                      | 642         |
| <b>Liabilities</b>   |                          |             |
| Inflationary income  | (23)                     | (26)        |
| Relative to investments acquired                               | (115)                    | (202)       |
| Prepaid retirement benefit                                     | (58)                     | (28)        |
| Fair value adjustments in business combinations                | (55)                     | (40)        |
|  | (251)                    | (296)       |
| <b>Valuation allowance</b>                                     |                          |             |
| Beginning balance  | (112)                    | (230)       |
| Translation adjustments  | (42)                     | (37)        |
| Business acquisition, sales and others                         |                          | 102         |
| Change in allowance  | 77                       | 53          |
| Ending balance   | (77)                     | (112)       |
| Net long-term deferred tax assets                              | <b>70</b>                | <b>234</b>  |

**9 Cash and cash equivalents**

|                                   | <b>As of December 31</b> |             |
|-----------------------------------|--------------------------|-------------|
|                                   | <b>2004</b>              | <b>2003</b> |
| Cash                              | 123                      | 88          |
| Deposits in local currency        | 385                      | 267         |
| Deposits in United States dollars | 741                      | 230         |
|                                   | <b>1,249</b>             | <b>585</b>  |

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**Table of Contents****10 Accounts receivable**

|   | <b>As of December 31</b> |             |
|---|--------------------------|-------------|
|   | <b>2004</b>              | <b>2003</b> |
| Customers   |                          |             |
| Domestic  | 236                      | 195         |
| Export, all denominated in<br>United States dollars | 847                      | 665         |
|   | <b>1.083</b>             | <b>860</b>  |
| Allowance for doubtful accounts                     | (37)                     | (30)        |
| Allowance for ore weight credits                    | (17)                     | (12)        |
| Total   | <b>1.029</b>             | <b>818</b>  |

Accounts receivable from customers in the steel industry represent 29.2% and 27.5% of domestic receivables and export receivables represent 82.0% and 88.1% at December 31, 2004 and 2003, respectively.

No single customer accounted for more than 10% of total revenues in any of the years presented.

**11 Inventories**

|                                      | <b>As of December 31</b> |             |
|--------------------------------------|--------------------------|-------------|
|                                      | <b>2004</b>              | <b>2003</b> |
| Finished products                    |                          |             |
| Iron ore and pellets                 | 205                      | 146         |
| Manganese and ferroalloys            | 156                      | 78          |
| Alumina                              | 20                       | 20          |
| Aluminum                             | 54                       |             |
| Kaolin                               | 17                       | 16          |
| Others                               | 11                       | 8           |
| Spare parts and maintenance supplies | 386                      | 237         |
|                                      | <b>849</b>               | <b>505</b>  |

**Table of Contents****12 Property, plant and equipment****a) By business area:**

|                           | As of December 31, 2004 |                          |              | As of December 31, 2003 |                          |              |
|---------------------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|
|                           | Cost                    | Accumulated depreciation | Net          | Cost                    | Accumulated depreciation | Net          |
| <b>Ferrous</b>            |                         |                          |              |                         |                          |              |
| Ferrous - Southern System |                         |                          |              |                         |                          |              |
| Mining                    | 2,397                   | 963                      | 1,434        | 2,196                   | 812                      | 1,384        |
| Railroads                 | 1,047                   | 447                      | 600          | 866                     | 389                      | 477          |
| Marine terminals          | 326                     | 153                      | 173          | 183                     | 87                       | 96           |
|                           | <b>3,770</b>            | <b>1,563</b>             | <b>2,207</b> | <b>3,245</b>            | <b>1,288</b>             | <b>1,957</b> |
| Ferrous - Northern System |                         |                          |              |                         |                          |              |
| Mining                    | 804                     | 318                      | 486          | 676                     | 277                      | 399          |
| Railroads                 | 1,072                   | 446                      | 626          | 924                     | 376                      | 548          |
| Marine terminals          | 270                     | 100                      | 170          | 196                     | 85                       | 111          |
|                           | <b>2,146</b>            | <b>864</b>               | <b>1,282</b> | <b>1,796</b>            | <b>738</b>               | <b>1,058</b> |
| Pelletizing               | 430                     | 160                      | 270          | 382                     | 133                      | 249          |
| Ferroalloys               | 362                     | 197                      | 165          | 273                     | 153                      | 120          |
| Energy                    | 198                     | 18                       | 180          | 128                     | 11                       | 117          |
| Construction in progress  | 1,546                   |                          | 1,546        | 914                     |                          | 914          |
|                           | <b>8,452</b>            | <b>2,802</b>             | <b>5,650</b> | <b>6,738</b>            | <b>2,323</b>             | <b>4,415</b> |
| <b>Non-Ferrous</b>        |                         |                          |              |                         |                          |              |
| Copper                    | 578                     | 71                       | 507          |                         |                          |              |
| Potash                    | 65                      | 30                       | 35           | 54                      | 22                       | 32           |
| Gold                      | 6                       | 2                        | 4            | 27                      | 25                       | 2            |
| Kaolin                    | 254                     | 97                       | 157          | 220                     | 75                       | 145          |
| Research and projects     | 33                      | 19                       | 14           | 86                      | 62                       | 24           |
| Construction in progress  | 731                     |                          | 731          | 797                     |                          | 797          |
|                           | <b>1,667</b>            | <b>219</b>               | <b>1,448</b> | <b>1,184</b>            | <b>184</b>               | <b>1,000</b> |
| <b>Logistics</b>          |                         |                          |              |                         |                          |              |
| General cargo             | 769                     | 232                      | 537          | 575                     | 188                      | 387          |
| Maritime transportation   | 31                      | 8                        | 23           | 8                       | 6                        | 2            |
| Construction in progress  | 114                     |                          | 114          | 35                      |                          | 35           |
|                           | <b>914</b>              | <b>240</b>               | <b>674</b>   | <b>618</b>              | <b>194</b>               | <b>424</b>   |
| <b>Holdings</b>           |                         |                          |              |                         |                          |              |
| Aluminum                  | 1,317                   | 445                      | 872          | 545                     | 92                       | 453          |

|                          |               |              |              |              |              |
|--------------------------|---------------|--------------|--------------|--------------|--------------|
| Others                   | 1             | 1            | 2            | 1            | 1            |
| Construction in progress | 230           | 230          | 111          |              | 111          |
|                          | <b>1,548</b>  | <b>445</b>   | <b>1,103</b> | <b>658</b>   | <b>93</b>    |
| <b>Corporate Center</b>  |               |              |              |              |              |
| Corporate                | 68            | 43           | 25           | 67           | 39           |
| Construction in progress | 163           |              | 163          | 41           | 41           |
|                          | <b>231</b>    | <b>43</b>    | <b>188</b>   | <b>108</b>   | <b>28</b>    |
| <b>Total</b>             | <b>12,812</b> | <b>3,749</b> | <b>9,063</b> | <b>9,306</b> | <b>2,822</b> |

## b) By type of assets:

|                          | As of December 31, 2004 |                          |              | As of December 31, 2003 |                          |              |
|--------------------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|
|                          | Cost                    | Accumulated depreciation | Net          | Cost                    | Accumulated depreciation | Net          |
| Land and buildings       | 991                     | 396                      | 595          | 749                     | 303                      | 446          |
| Installations            | 3,600                   | 1,262                    | 2,338        | 2,466                   | 932                      | 1,534        |
| Equipment                | 1,218                   | 574                      | 644          | 883                     | 405                      | 478          |
| Railroads                | 2,091                   | 884                      | 1,207        | 1,741                   | 756                      | 985          |
| Mine development costs   | 1,345                   | 150                      | 1,195        | 931                     | 123                      | 808          |
| Others                   | 783                     | 483                      | 300          | 638                     | 303                      | 335          |
|                          | <b>10,028</b>           | <b>3,749</b>             | <b>6,279</b> | <b>7,408</b>            | <b>2,822</b>             | <b>4,586</b> |
| Construction in progress | 2,784                   |                          | 2,784        | 1,898                   |                          | 1,898        |
| <b>Total</b>             | <b>12,812</b>           | <b>3,749</b>             | <b>9,063</b> | <b>9,306</b>            | <b>2,822</b>             | <b>6,484</b> |



**Table of Contents**

Losses on disposals and impairments of property, plant and equipment totaled US\$34, US\$51 and US\$62 in 2004, 2003 and 2002, respectively. Disposals and impairments mainly relate to impairment of gold mines, sales of ships and trucks, locomotives and other equipment which were replaced in the normal course of business.

In 2002 we sold certain forestry assets of our subsidiary Florestas Rio Doce S.A. for US\$59 and recorded a gain on this sale of US\$49. In 2003 we sold a gold mining operation for US\$ 21 the equivalent to its book value.

**(c) Hydroelectric projects**

We participate in several jointly-owned hydroelectric plants, already in operation or under construction. We have an undivided interest in these plants and are responsible for our proportionate share of the costs of construction and operation and are entitled to our proportionate share of the energy produced. We record our proportion of these assets as property, plant and equipment.

The situation of these projects at December 31, 2004 is as follows:

| <b>Project</b>  | <b>Date of completion / expected completion</b> | <b>Our interest %</b> | <b>Plant in service \$</b> | <b>Our share of plant in service \$</b> | <b>Our share of accumulated depreciation \$</b> | <b>Plant under construction \$</b> | <b>Our share of plant under construction \$</b> |
|-----------------|---|-----------------------|----------------------------|---|---|------------------------------------|---|
| Igarapava       | September, 1999                                 | 38.1                  | 148                        | 56                                      | (11)  |                                    |   |
| Porto Estrela   | November, 2001                                  | 33.3                  | 63                         | 21                                      | (2)   |                                    |   |
| Funil           | January, 2003                                   | 51.0                  | 129                        | 66                                      | (4)   |                                    |   |
| Candongá        | September, 2004                                 | 50.0                  | 110                        | 55                                      | (1)   |                                    |   |
| Aimorés         | July, 2005                                      | 51.0                  |                            |   |   | 237                                | 121   |
| Capim Branco I  | 2006  | 48.4                  |                            |   |   | 69                                 | 33  |
| Capim Branco II | 2006  | 48.4                  |                            |   |   | 27                                 | 13  |
| Foz do Chapecó  |   | 40.0                  |                            |   |   | 4                                  | 2   |
| Estreito        |   | 30.0                  |                            |   |   | 7                                  | 2   |

Income and expenses relating to operating plants are not material.

**Table of Contents****13 Investments in affiliated companies and joint ventures**

|                                       | Participation in capital (%)<br>voting total |       | Net income for the period |     | December 31, |            | Equity Adjustments |                    |                                |            |                         |                   | Dividends received             |                   |                         |           |           |
|---------------------------------------|--|-------|---------------------------|-----|--------------|------------|--------------------|--------------------|--------------------------------|------------|-------------------------|-------------------|--------------------------------|-------------------|-------------------------|-----------|-----------|
|                                       |  |       |                           |     | 2004         |            | Investments        |                    | Three months ended (unaudited) |            | Year ended December 31, |                   | Three months ended (unaudited) |                   | Year ended December 31, |           |           |
|                                       |  |       |                           |     | 2004         | 2003       | December 31, 2004  | September 30, 2004 | December 31, 2004              | 2004       | 2003                    | December 31, 2002 | September 30, 2004             | December 31, 2003 | 2004                    | 2003      | 2002      |
|                                       |  |       |                           |     | 2004         | 2003       | 2004               | 2004               | 2003                           | 2004       | 2003                    | 2002              | 2004                           | 2003              | 2004                    | 2003      | 2002      |
| icas de<br>erais S.A.                 | 22.99  | 11.46 | 1,223                     | 995 | 140          | 31         | 62                 | 18                 |                                | 114        | 34                      | (15)              |                                |                   | 13                      | 3         | 4         |
| hia                                   |  |       |                           |     |              |            |                    |                    |                                |            |                         |                   |                                |                   |                         |           |           |
| ica de<br>CST (1)                     |  |       |                           |     |              | 86         | 15                 | 9                  | 19                             | 102        | 45                      | 19                |                                | 17                |                         | 52        | 4         |
| ia Steel<br>es Inc. CSI               | 50.00  | 50.00 | 298                       | 109 | 149          | 103        | 18                 | 23                 | 2                              | 55         | 2                       | 19                | 7                              |                   | 9                       | 5         | 9         |
| AR (cost<br>available for<br>vestment | 4.85   | 4.85  |                           |     | 110          | 89         |                    |                    |                                |            |                         |                   |                                |                   |                         |           |           |
|                                       |  |       |                           |     | <b>399</b>   | <b>309</b> | <b>95</b>          | <b>50</b>          | <b>21</b>                      | <b>271</b> | <b>81</b>               | <b>23</b>         | <b>7</b>                       | <b>17</b>         | <b>22</b>               | <b>60</b> | <b>17</b> |
| <b>um and</b>                         |  |       |                           |     |              |            |                    |                    |                                |            |                         |                   |                                |                   |                         |           |           |
| ão Rio do<br>A. MRN                   | 40.00  | 40.00 | 427                       | 142 | 171          | 168        | 16                 | 16                 | 12                             | 57         | 33                      | 38                | 13                             | 11                | 54                      | 27        | 31        |
| Alumínio<br>VALESUL                   | 54.51  | 54.51 | 101                       | 26  | 55           | 49         | 3                  | 4                  | 2                              | 14         | 10                      | 14                | 3                              | 6                 | 12                      | 9         | 6         |
| o<br>o S.A.<br>S                      | 51.00  | 51.00 |                           |     |              | 112        |                    |                    | 10                             |            | 104                     |                   |                                |                   |                         |           |           |
| o<br>o S.A.<br>S change<br>sion for   |  |       |                           |     |              |            |                    |                    |                                |            |                         | 10                | (23)                           |                   |                         |           |           |
| do Norte<br>1 S.A.                    | 62.09  | 57.03 |                           |     |              |            |                    |                    |                                |            |                         |                   |                                |                   |                         |           |           |

ORTE (4)

|              |        |       |     |     |     | 226        | 329        | 19        | 20        | 24        | 71         | 147        | 39          | 16        |           | 17        | 66         | 36        | 37        |
|--------------|--------|-------|-----|-----|-----|------------|------------|-----------|-----------|-----------|------------|------------|-------------|-----------|-----------|-----------|------------|-----------|-----------|
| Mineração e  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| gia S.A. (3) | 100.00 | 60.23 |     |     |     |            |            |           |           |           |            | 23         | (102)       |           |           |           |            |           | 3         |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| asileira de  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ção          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| SCO (6)      | 51.11  | 51.00 | 60  | 25  | 30  | 18         | 4          | 3         |           |           | 13         | 3          | 4           |           |           |           |            |           | 2         |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| -Brasileira  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ização       |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| MOBRÁS       | 51.00  | 50.89 | 50  | 17  | 26  | 17         | 3          | 2         |           |           | 9          | 3          | 5           | 1         |           |           | 1          | 2         | 2         |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| -Brasileira  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ização       |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| SCO          | 50.00  | 50.00 | 25  | 21  | 13  | 1          | 4          | 4         | 1         | 11        | 1          | (2)        |             |           |           |           |            |           |           |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| -Brasileira  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ização       |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| SCO -        |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| n provision  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| s            |        |       |     |     |     |            |            |           |           | 8         |            | 17         | (15)        |           |           |           |            |           |           |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| asileira de  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ção          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ASCO (6)     | 51.00  | 50.90 | 36  | 12  | 18  | 11         | 2          | 1         |           |           | 6          | 3          | 5           |           |           |           |            | 1         | 4         |
| ustrial      |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ent          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| y GIIC       | 50.00  | 50.00 | 90  | 32  | 45  | 40         | 6          | 4         | 3         | 16        | 12         | 5          | 4           |           |           | 11        | 9          | 6         |           |
| SCO          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ão S.A.      |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| CO (5)       | 50.00  | 50.00 | 441 | 233 | 261 | 221        | 37         | 35        | 12        | 117       | 70         | 28         | 32          | 19        | 25        | 100       | 78         | 17        |           |
| a Serra      |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| A. MSG       | 50.00  | 50.00 | 36  | (6) | 18  | 15         | (1)        |           |           |           | (3)        | 2          | 4           |           |           |           |            | 1         | 1         |
|              |        |       |     |     | 24  | 21         |            | 1         | (1)       | 1         | (1)        | 2          | 2           |           |           |           |            |           |           |
|              |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
|              |        |       |     |     |     | <b>435</b> | <b>344</b> | <b>55</b> | <b>50</b> | <b>23</b> | <b>170</b> | <b>133</b> | <b>(66)</b> | <b>37</b> | <b>19</b> | <b>25</b> | <b>112</b> | <b>91</b> | <b>35</b> |
| s            |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| hia          |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| ria do       |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| e CFN        |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| n provision  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| s (2)        |        |       |     |     |     |            |            |           |           |           |            | (3)        | (4)         |           |           |           |            |           |           |
| n Ferrovias  |        |       |     |     |     | 1          | 1          |           |           |           |            |            | (1)         |           |           |           |            |           |           |
| antes S.A.   |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |
| n provision  |        |       |     |     |     |            |            |           |           |           |            |            |             |           |           |           |            |           |           |



**Table of Contents****14 Short-term debt**

Our short-term borrowings are from commercial banks and relate export financing denominated in United States dollars.

Average annual interest rates on short-term borrowings were 2.33%, 3.19% and 3.97% at 2004, 2003 and 2002, respectively.

**15 Long-term debt**

|   | <b>As of December 31</b>   |              |                              |              |
|---|----------------------------|--------------|------------------------------|--------------|
|   | <b>Current liabilities</b> |              | <b>Long-Term liabilities</b> |              |
|   | <b>2004</b>                | <b>2003</b>  | <b>2004</b>                  | <b>2003</b>  |
| <b>Foreign debt</b>   |                            |              |                              |              |
| Loans and financing contracted in the following currencies: |                            |              |                              |              |
| United States dollars                                       | 376                        | 470          | 1,179                        | 1,151        |
| Japanese Yen  | 1                          | 30           | 2                            | 2            |
| Others  | 3                          | 3            | 23                           | 25           |
| Fixed Rate Notes - US\$ denominated                         |                            | 300          | 913                          | 600          |
| Securitization of export receivables - US\$ denominated     | 55                         | 44           | 425                          | 481          |
| Perpetual notes   |                            |              | 65                           | 65           |
| Accrued charges   | 61                         | 54           |                              |              |
|   | <b>496</b>                 | <b>901</b>   | <b>2,607</b>                 | <b>2,324</b> |
| <b>Local debt</b>   |                            |              |                              |              |
| Indexed by Long-Term Interest Rate - TJLP                   | 22                         | 10           | 89                           | 88           |
| Indexed by General Price Index-Market (IGPM)                | 21                         | 16           | 14                           | 19           |
| Basket of currencies  | 7                          | 30           | 17                           | 23           |
| Non-convertible debentures                                  |                            |              | 117                          | 90           |
| Indexed by U.S. dollars                                     | 166                        | 33           | 368                          | 221          |
| Accrued charges   | 18                         | 19           | 2                            | 2            |
|   | <b>234</b>                 | <b>108</b>   | <b>607</b>                   | <b>443</b>   |
| <b>Total</b>  | <b>730</b>                 | <b>1,009</b> | <b>3,214</b>                 | <b>2,767</b> |

The long-term portion at December 31, 2004 becomes due in the following years:

|  |              |
|--|--------------|
| 2005   | 411          |
| 2006   | 459          |
| 2007   | 486          |
| 2008   | 235          |
| 2009 thereafter  | 1,441        |
| No due date (Perpetual notes and non-convertible debentures) | 182          |
|  | <b>3,214</b> |

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At December 31, 2004 annual interest rates on long-term debt were as follows:

|                            |              |
|----------------------------|--------------|
| Up to 7%                   | 2.574        |
| 7.1% to 9%                 | 1.202        |
| 9.1% to 11%                | 18           |
| Over 11%                   | 79           |
| Variable (Perpetual notes) | 71           |
|                            | <b>3.944</b> |

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The indexes applied to debt and respective percentage variations in each year were as follows:

|   | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|---|-------------|-------------|-------------|
| TJLP Long-Term Interest Rate (effective rate) | 9.8         | 11.5        | 9.9         |
| IGP-M General Price Index Market              | 12.4        | 8.7         | 25.3        |
| United States Dollar                          | (8.1)       | (18.2)      | 52.3        |

On December 15, 2004 Vale Overseas Limited finalized the cash tender offer for its US\$ 300 million principal amount outstanding 8.625% Enhanced Guaranteed Notes due 2007. The amount of US\$ 186.9 has been repurchased by the price of US\$ 1,117.34 per US\$ 1,000.00 of principal Notes remaining US\$ 113.1 of amount outstanding.

At December 31, 2004 the US\$ denominated Fixed Rate Notes of US\$913 (2003 US\$900) and other debt of US\$1,834 (2003 US\$1,634) are unsecured. The export securitization of US\$480 (2003 US\$525) is secured by existing and future accounts receivable of our subsidiary CVRD Overseas Ltd. Loans from international lenders of US\$170 (2003 US\$232) are guaranteed by the Federal Government, to which we have given counter-guarantees of US\$170 (2003 US\$165) secured by our own shares and accounts receivable of a subsidiary. We also have loans from local and international institutions secured by property, plant and equipment in the amount of US\$251 (2003 US\$165). The remaining long-term debt of US\$296 (2003 US\$387) is secured mainly by assets of subsidiaries.

**16 Stockholders equity**

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters that come before a stockholders meeting, except for the election of the Board of Directors, which is restricted to the holders of common stock. As described in Note 6, the Brazilian Government holds a preferred special share which confers to it permanent veto rights over certain matters.

A three for one stock split proposal was approved by the Extraordinary General Shareholders Meeting on August 18, 2004. Therefore, CVRD's capital is composed of 1,165,677,168 shares, with 749,949,429 common shares and 415,727,739 preferred class A shares. All share numbers and per share amounts included herein reflect retroactive application of the stock.

As of December 31, 2004, we had acquired 14,157,461 shares to be held in treasury for subsequent disposal or cancellation at an average weighted unit cost of US\$6.17 (minimum cost of US\$ 2.67 and maximum of US\$7.84).

Both common and preferred stockholders are entitled to receive a dividend of at least 25% of annual net income, upon approval at the annual stockholders meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records or, if greater, 3% of the statutory book equity value per share. With respect to each of 2004, 2003 and 2002 we distributed dividends to preferred stockholders in excess of this limit. Interest attributed to stockholders as from January 1, 1996 is considered part of the minimum dividend.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the statutory accounting records and such payments are made in Reais. At December 31, 2004, we had no undistributed retained earnings. In addition, appropriated retained earnings at December 31, 2004 includes US\$3,221, related to the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders.

No withholding tax is payable on distribution of profits earned as from January 1, 1996, except for distributions in the form of interest attributed to stockholders (Note 3 (e)).





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Brazilian laws and our By-laws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis, all determined in accordance with amounts stated in the statutory accounting records, as detailed below:

|                                      | Three months ended (unaudited) |                       |                      | Year ended December 31 |              |              |
|--------------------------------------|--------------------------------|-----------------------|----------------------|------------------------|--------------|--------------|
|                                      | December<br>31, 2004           | September<br>30, 2004 | December<br>31, 2003 | 2004                   | 2003         | 2002         |
| Appropriated retained earnings       |                                |                       |                      |                        |              |              |
| Unrealized income reserve            |                                |                       |                      |                        |              |              |
| Balance January 1                    | 195                            | 179                   | 255                  | 193                    | 211          | 548          |
| Transfer to retained earnings        | (65)                           | 16                    | (62)                 | (63)                   | (18)         | (337)        |
| Balance December 31                  | <b>130</b>                     | <b>195</b>            | <b>193</b>           | <b>130</b>             | <b>193</b>   | <b>211</b>   |
| Expansion reserve                    |                                |                       |                      |                        |              |              |
| Balance January 1                    | 1,795                          | 1,651                 | 1,361                | 2,090                  | 1,494        | 1,667        |
| Transfer to capital stock            | -                              | -                     | -                    | (309)                  | (423)        | -            |
| Transfer from (to) retained earnings | 1,296                          | 144                   | 729                  | 1,310                  | 1,019        | (173)        |
| Balance December 31                  | <b>3,091</b>                   | <b>1,795</b>          | <b>2,090</b>         | <b>3,091</b>           | <b>2,090</b> | <b>1,494</b> |
| Legal reserve                        |                                |                       |                      |                        |              |              |
| Balance January 1                    | 378                            | 348                   | 292                  | 374                    | 241          | 325          |
| Transfer from (to) retained earnings | 151                            | 30                    | 82                   | 155                    | 133          | (84)         |
| Balance December 31                  | <b>529</b>                     | <b>378</b>            | <b>374</b>           | <b>529</b>             | <b>374</b>   | <b>241</b>   |
| Fiscal incentive depletion reserve   |                                |                       |                      |                        |              |              |
| Balance January 1                    | 351                            | 323                   | 343                  | 347                    | 284          | 649          |
| Transfer to capital stock            | -                              | -                     | -                    | -                      | -            | (212)        |
| Transfer to retained earnings        | 27                             | 28                    | 4                    | 31                     | 63           | (153)        |
| Balance December 31                  | <b>378</b>                     | <b>351</b>            | <b>347</b>           | <b>378</b>             | <b>347</b>   | <b>284</b>   |
| Fiscal incentive investment reserve  |                                |                       |                      |                        |              |              |
| Balance January 1                    | -                              | -                     | -                    | 31                     | -            | 23           |
| Transfer to capital stock            | -                              | -                     | -                    | (31)                   | -            | (23)         |
| Transfer from retained earnings      | 15                             | -                     | 31                   | 15                     | 31           | -            |
| Balance December 31                  | <b>15</b>                      | <b>-</b>              | <b>31</b>            | <b>15</b>              | <b>31</b>    | <b>-</b>     |
| Total appropriated retained earnings | <b>4,143</b>                   | <b>2,719</b>          | <b>3,035</b>         | <b>4,143</b>           | <b>3,035</b> | <b>2,230</b> |

The purpose and basis of appropriation to such reserves is described below:

Unrealized income reserve - this represents principally our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

Expansion reserve - this is a general reserve for expansion of our activities.

Legal reserve - this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income under Brazilian GAAP up to a limit of 20% of capital stock under Brazilian GAAP.

Fiscal incentive depletion reserve - this represents an additional amount relative to mineral reserve depletion equivalent to 20% of the sales price of mining production, which is deductible for tax purposes providing an equivalent amount is transferred from retained earnings to the reserve account. This fiscal incentive expired in 1996.

Fiscal incentive investment reserve - this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve also contemplates tax incentives (Note 8).

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**Table of Contents****Basic and diluted earnings per share**

Basic and diluted earnings per share amounts have been calculated as follows:

|   | <b>Income<br/>(Numerator)<br/>(US\$<br/>million)</b> | <b>Thousand of<br/>Shares<br/>(Denominator)</b> | <b>Basic and<br/>diluted<br/>per<br/>share<br/>amount<br/>(US\$ per<br/>share)</b> |
|---|--|---|--|
| Net income for the year ended December 31, 2004 | 2,573  |   |  |
| Income available to preferred stockholders      | 929  | 415,716   | 2.23   |
| Income available to common stockholders         | 1,644  | 735,804   | 2.23   |
| Net income for the year ended December 31, 2003 | 1,548  |   |  |
| Income available to preferred stockholders      | 559  | 415,714   | 1.34   |
| Income available to common stockholders         | 989  | 735,804   | 1.34   |
| Net income for the year ended December 31, 2002 | 680  |   |  |
| Income available to preferred stockholders      | 239  | 405,126   | 0.59   |
| Income available to common stockholders         | 441  | 749,592   | 0.59   |

**17 Pension plans**

Since 1973 we have sponsored a defined benefit pension plan (the Old Plan ) covering substantially all employees, with benefits based on years of service, salary and social security benefits. This plan is administered by Fundação Vale do Rio Doce de Seguridade Social VALIA and was funded by monthly contributions made by us and our employees, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new pension plan, which is primarily a defined contribution plan with a defined benefit feature relative to service prior to May 2000 (the New Plan ), and offered our active employees the opportunity of transferring to the New Plan. Over 98% of our active employees opted to transfer to the New Plan. The Old Plan will continue in existence, covering almost exclusively retired participants and their beneficiaries.

Additionally we provide employees with supplementary pension payments through the Abono Complementação plan.

The following information details the status of the defined benefit elements of the Old Plan and supplementary pension plan (SPP) in accordance with SFAS 132 Employers Disclosure about Pensions and Other Post-retirement Benefits , as amended.

**Table of Contents****(a) Change in benefit obligation**

|   | <b>As of December 31</b> |                  |
|---|--------------------------|------------------|
|   | <b>2004</b>              | <b>2003</b>      |
| Benefit obligation at beginning of year | 1.485                    | 1.476            |
| Service cost                            | 2                        | 2                |
| Interest cost                           | 188                      | 151              |
| Benefits paid                           | (133)                    | (128)            |
| Effect of exchange rate changes         | 137                      | 20               |
| Actuarial loss                          | 40                       | (36)             |
| <br>Benefit obligation at end of year   | <br><b>1.719</b>         | <br><b>1.485</b> |

We use a measurement date of December 31 for our pension and post- retirement benefit plans.

**(b) Change in plan assets**

|  | <b>As of December 31</b> |                  |
|--|--------------------------|------------------|
|  | <b>2004</b>              | <b>2003</b>      |
| Fair value of plan assets at beginning of year | 1.657                    | 1.301            |
| Actual return on plan assets                   | 410                      | 436              |
| Employer contributions                         | 37                       | 31               |
| Benefits paid                                  | (133)                    | (128)            |
| Effect of exchange rate changes                | 137                      | 17               |
| <br>Fair value of plan assets at end of year   | <br><b>2.108</b>         | <br><b>1.657</b> |

Old plan assets at December 31, 2004 include US\$274 of portfolio investments in our own shares (US\$194 at December 31, 2003) and US\$37 of shares of related parties (US\$20 at December 31, 2003), as well as US\$303 of Federal Government Securities (US\$323 at December 31, 2003).

Employer contributions expected for 2005 are US\$ 16 (unaudited).

**(c) Accrued pension cost liability (prepaid pension cost)**

|  | <b>As of December 31</b> |               |
|--|--------------------------|---------------|
|  | <b>2004</b>              | <b>2003</b>   |
| Funded status, excess of benefit obligation over plan assets | (389)                    | (172)         |
| Unrecognized net transitory obligation                       | (51)                     | (56)          |
| Unrecognized net actuarial loss                              | 459                      | 323           |
| <br>Accrued pension cost liability (prepaid pension cost)    | <br><b>19</b>            | <br><b>95</b> |

**(d) Assumptions used in each year (expressed in nominal terms)**

|                                | <b>2004</b> | <b>2003</b> |
|--------------------------------|-------------|-------------|
| Discount rate                  | 13.40% p.a  | 13.40% p.a  |
| Expected return on plan assets | 13.40% p.a  | 13.40% p.a  |

|                               |                |           |           |
|-------------------------------|----------------|-----------|-----------|
| Rate of compensation increase | up to 47 years | 6.91% p.a | 6.91% p.a |
| Inflation                     |                | 5.00% p.a | 5.00% p.a |

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**Table of Contents****(e) Investment targets and composition of plan assets**

The fair value of Old Plan assets for these plans is US\$2,079 and US\$1,637 at the end of 2004 and 2003, respectively. The asset allocation for the Company's Old Plan at the end of 2004 and 2003, and the target allocation for 2005, by asset category, follows.

| Asset category    | Target<br>allocation<br>for 2005<br>(unaudited) | Percentage of plan assets<br>at<br>December 31, |             |
|-------------------|---|---|-------------|
|                   |   | 2004  | 2003        |
| Equity securities | 29%   | 29%   | 27%         |
| Real estate       | 6%  | 6%  | 6%          |
| Loans             | 3%  | 3%  | 2%          |
| Fixed Income      | 62%   | 62%   | 65%         |
| <b>Total</b>      | <b>100%</b>                                     | <b>100%</b>                                     | <b>100%</b> |

The fixed income allocation target of 59% was established in order to match the asset with the benefit payments. The proposal for 2004 is an increase of up to 33% in the investments in inflation-indexed funds. The remaining investments in fixed income would be responsible for the payment of short-term plan benefits.

The increase in the target allocation for equity securities is related to a 32% expected return in the IBOVESPA (Brazilian stock index). This high return is due to an expected increase of corporate profits, and a belief that Brazil's risk will decrease, economic activity will increase, and U.S. interest rates will remain low.

**(f) Pension costs**

|   | Year ended December 31 |             |          |
|---|------------------------|-------------|----------|
|   | 2005<br>(unaudited)    | 2004        | 2003     |
| Service cost                                  | 2                      | 2           | 2        |
| Interest cost                                 | 220                    | 188         | 151      |
| Estimated return on plan assets               | (274)                  | (213)       | (158)    |
| Amortization of initial transitory obligation | 9                      | 9           | 9        |
| Amortization of actuarial gain/loss           | (15)                   | (24)        | -        |
| Net periodic pension cost                     | <b>(58)</b>            | <b>(38)</b> | <b>4</b> |

In addition to benefits provided under the SPP and Old 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\$61 and US\$57, at December 31, 2004 and 2003, respectively, plus US\$4 and US\$4, respectively, in current liabilities.

The cost recognized in the years 2004, 2003 and 2002 relative to the defined contribution element of the New Plan was US\$7, US\$5 and US\$5, respectively.

**Table of Contents****18 Commitments and contingencies**

- (a) At December 31, 2004, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of US\$7, as follows:

| <b>Affiliate or Joint Venture</b> | <b>Amount<br/>denominated<br/>guarantee</b> | <b>currency</b> | <b>Purpose</b>    | <b>Final<br/>maturity</b> | <b>Counter<br/>guarantees</b> |
|-----------------------------------|---|-----------------|-------------------|---------------------------|-------------------------------|
| SAMARCO                           | 6   | US\$            | Debt<br>guarantee | 2008                      | None                          |
| VALESUL                           | 1   | R\$             | Debt<br>guarantee | 2007                      | None                          |
|                                   | <b>7</b>                                    |                 |                   |                           |                               |

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 Guarantor's 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 made against 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:

|                       | <b>December 31, 2004</b>                   |                              | <b>December 31, 2003</b>                   |                              |
|-----------------------|--|------------------------------|--|------------------------------|
|                       | <b>Provision<br/>for<br/>contingencies</b> | <b>Judicial<br/>deposits</b> | <b>Provision<br/>for<br/>contingencies</b> | <b>Judicial<br/>deposits</b> |
| Labor claims          | 221  | 109                          | 177  | 66                           |
| Civil claims          | 185  | 72                           | 167  | 54                           |
| Tax - related actions | 502  | 344                          | 285  | 279                          |
| Others                | 6  | 6                            | 6  | 8                            |
|                       | <b>914</b>                                 | <b>531</b>                   | <b>635</b>                                 | <b>407</b>                   |

Labor - related actions principally comprise employee claims for (i) payment of time spent travelling 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.

Civil actions principally relate 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.

Tax - related actions principally comprise our challenges of certain revenue taxes, value added tax and of the tax on checking accountant transactions CPMF.

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 2004, 2003 and 2002 aggregated US\$67, US\$182 and US\$178, respectively, and additional provisions aggregated US\$183, US\$146 and US\$264, respectively.

In addition to the contingencies for which we have made provisions we have possible losses



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totaling US\$727 at December 31, 2004, for which based on the advice of our legal counsel, no provision is maintained.

- (c) We are defendants in two actions seeking substantial compensatory damages brought by the Municipality of Itabira, State of Minas Gerais, which we believe are without merit. Due to the remote likelihood that any loss will arise therefrom no provision has been made in the financial statements with respect to these two actions.
- (d) We are committed under a take-or-pay agreement to purchase approximately 42,391 thousand metric tons of bauxite from Mineração Rio do Norte S.A. - MRN at a formula price, calculated based on the current London Metal Exchange (LME) quotation for aluminum. Based on a market price of US\$ 20.45 per metric ton as of December 31, 2004, this arrangement represents the following total commitment:

|                     |            |
|---------------------|------------|
| 2005                | 57         |
| 2006                | 57         |
| 2007                | 57         |
| 2008                | 57         |
| 2009 and thereafter | 625        |
|                     | <b>853</b> |

- (e) We and BNDES entered into a contract, known as the Mineral Risk Contract, in March 1997, relating to prospecting authorizations for mining regions where drilling and exploration are still in their early stages. The Mineral Risk Contract provides for the joint development of certain unexplored mineral deposits in approximately two million identified hectares of land in the Carajás region, as well as proportional participation in any financial benefits earned from the development of such resources. Iron ore and manganese deposits already identified and subject to development are specifically excluded from the Mineral Risk Contract.

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide US\$ 205 million, which represents half of the US\$ 410 million in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region. We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of December 31, 2004, the remaining contributions towards exploration and development activities totaled US\$ 52 million. In the event that either of us wishes to conduct further exploration and development after having spent such US\$ 205 million, the contract provides that each party may either choose to match the other party's contributions, or may choose to have its financial interest proportionally diluted. If a party's participation in the project is diluted to an amount lower than 40% of the amount invested in connection with exploration and development projects, then the Mineral Risk Contract provides that the diluted party will lose all the rights and benefits provided for in the Mineral Risk Contract and any amounts previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us through a finder's fee production royalty on their share of mineral resources that are discovered and placed into production. This finder's fee is equal to 3.5% of the revenues derived from the sale of gold, silver and platinum group metals and 1.5% of the revenues derived from the sale of other minerals, including copper, except for gold and other minerals discovered at Serra Leste, for which the finder's fee is equal to 6.5% of revenues.

- (f) 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.

In preparation for the issuance of the debentures, we issued series B preferred shares on a one-for-one basis to all holders of our common shares and series A preferred shares. We then exchanged all of the series B shares for the debentures at par value. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. During 2002 we registered the debentures with the Securities

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Commissions (CVM) in order to permit trading.

Under Brazilian Central Bank regulations, pre-privatization shareholders that held their shares through our preferred share American Depositary Receipt, or ADR, program and institutional investors that held their shares through rule 1,298/87 of Brazilian Central Bank were not permitted to receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank to distribute the debentures to these investors, but the Central Bank rejected our request. We renewed our request to the Central Bank, but we cannot be sure that we will succeed. Therefore, unless the Central Bank approves our request, the debentures will not have any value for ADR holders and foreign investors through Annex V of Brazilian Central Bank.

Under the terms of the debentures, holders will have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned as of May 1997, to the extent that we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned as of May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted at which time we are required to repay the original par value plus accrued interest. Based on current production levels, and estimates for new projects, we began payments referring to copper resources in 2004 and expect to start payments referring to iron ore resources in approximately 2020 for the Northern System and 2030 for the Southern System, and payments related to other mineral resources at the end of the current decade.

The table below summarizes the amounts we will be required to pay under the debentures based on the net revenues we earn from the identified mineral resources and the sale of mineral rights.

| <b>Area</b>                                | <b>Mineral</b>                              | <b>Required Payments by CVRD</b>   |
|--|---|--|
| Southern System                            | Iron ore                                    | 1.8% of net revenue, after total sales from May 1997 exceeds 1.7 billion tons. |
| Northern System                            | Iron ore                                    | 1.8% of net revenue, after total sales from May 1997 exceeds 1.2 billion tons. |
| Pojuca, Andorinhas, Liberdade and Sossego  | Gold and copper                             | 2.5% of net revenue from the beginning of commercialization.                   |
| Igarapé Bahia and Alemão                   | Gold and copper                             | 2.5% of net revenue, after total sales from May 1997 exceeds 70 tons of gold.  |
| Fazenda Brasileiro (*)                     | Gold  | 2.5% of net revenue after total sales from May 1997 exceeds 26 tons.           |
| Other areas, excluding Carajás/Serra Leste | Gold  | 2.5% of net revenue.   |
| Other areas owned as of May 1997           | Other minerals                              | 1% of net revenue, 4 years after the beginning of the commercialization.       |
| All areas                                  | Sale of mineral rights owned as of May 1997 | 1% of the sales price.   |

We sold Fazenda Brasileiro in August 2003 and paid the corresponding amount of US\$2 to debenture holders in 2004.

- (g) 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

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recoveries are considered uncertain. The changes are demonstrated as follows:

|   | Three months ended (unaudited) |                                     |                     | Year ended |           |
|---|--------------------------------|-------------------------------------|---------------------|------------|-----------|
|   | December<br>31,2004            | September<br>30,2004<br>(unaudited) | December<br>31,2003 | 2004       | 2003      |
| <b>Environmental liabilities beginning of period</b>  | <b>91</b>                      | <b>82</b>                           | <b>60</b>           | <b>81</b>  | <b>15</b> |
| Initial recognition of SFAS 143 as at January 1, 2003 |                                |                                     |                     |            | 26        |
| Increase due to new subsidiaries acquired             |                                |                                     | 2                   |            | 11        |
| Accretion expense                                     | 5                              | 3                                   | 2                   | 13         | 6         |
| Liabilities settled in the current period             |                                | (2)                                 |                     | (3)        |           |
| Revisions in estimated cash flows                     | 31                             |                                     | 15                  | 31         | 15        |
| Cumulative translation adjustment                     | 7                              | 8                                   | 2                   | 12         | 8         |
| <b>Environmental liabilities end of period</b>        | <b>134</b>                     | <b>91</b>                           | <b>81</b>           | <b>134</b> | <b>81</b> |

Had SFAS 143 been applied prior to January 1, 2003, the pro forma asset retirement obligation at December 31, 2003, would have been US\$41. Additionally, had SFAS 143 been applied previously, net income for the year ended December 31, 2002 on a pro forma basis would have been lower by US\$8 (unaudited). Had SFAS 143 been applied in prior years the impact on net income and earnings per share have been as follows:

|  |             |
|--|-------------|
|  | <b>2002</b> |
| Net income   | 680         |
| Net income (pro forma unaudited)   | 672         |
| Basic and diluted earnings per Preferred Class A Share                       | 1,77        |
| Basic and diluted earnings per Common Share                                  | 1,77        |
| Basic and diluted earnings per Preferred Class A Share (pro forma unaudited) | 1,75        |
| Basic and diluted earnings per Common Share (pro forma unaudited)            | 1,75        |

**(h) Description of Leasing Arrangements**

We conduct part of our railroad operation from leased facilities. The lease, which is for 30 years expiring in August, 2026, is classified as an operating lease and can be renewable for a further 30 years. At the end of the lease term, we are required to return the concession and the lease assets. In most cases, management expects that in the normal course of business, leases will be renewed.

## Operating Leases

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non- cancelable lease terms in excess of one year as of December 31, 2004:

|                          |    |
|--------------------------|----|
| Year ending December 31: |    |
| 2005                     | 44 |
| 2006                     | 44 |
| 2007                     | 44 |

|  |            |
|--|------------|
| 2008                                   | 44         |
| Later years                            | 790        |
| <b>Total minimum payments required</b> | <b>966</b> |

The total expenses of operating leases in 2004 and 2003 was US\$39 and US\$37, respectively.

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**19 Segment and geographical information**

In 1999 we adopted 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. Our business segments are currently organized 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.

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 investments in joint ventures and affiliates engaged in bauxite mining and aluminum metal smelting.

Steel - comprises our investments in joint ventures and affiliates operating in the steel industry.

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

Information presented to senior 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.

Consolidated net income and principal assets in accordance with US GAAP are reconciled as follows:

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**Results by segment before eliminations**

|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>As of and for the three</b> |       |  |  |                           |  |  |  |                     |  |  |  |
|-------|-------|-------|-----|---------|---------|---------|-------|-------|-------|-----|-------|---------|---------|--------------------------------|-------|--|--|---------------------------|--|--|--|---------------------|--|--|--|
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>December 31, 2004</b>       |       |  |  | <b>September 30, 2004</b> |  |  |  |                     |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Holdings</b>                |       |  |  | <b>Holdings</b>           |  |  |  | <b>Non</b>          |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>(1)</b>                     |       |  |  | <b>(1)</b>                |  |  |  | <b>Non</b>          |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Eliminations</b>            |       |  |  | <b>Eliminations</b>       |  |  |  | <b>Eliminations</b> |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Consolidated</b>            |       |  |  | <b>Consolidated</b>       |  |  |  | <b>Consolidated</b> |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Ferrous</b>                 |       |  |  | <b>ferrous</b>            |  |  |  | <b>Ferrous</b>      |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Isogit</b>                  |       |  |  | <b>Isogit</b>             |  |  |  | <b>Isogit</b>       |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Aluminum</b>                |       |  |  | <b>Aluminum</b>           |  |  |  | <b>Aluminum</b>     |  |  |  |
|       |       |       |     |         |         |         |       |       |       |     |       |         |         | <b>Other</b>                   |       |  |  | <b>Other</b>              |  |  |  | <b>Other</b>        |  |  |  |
| 256   | 27    | 455   |     | (1.099) | 1.750   | 2.041   | 150   | 24    | 419   |     | (968) | 1.666   | 1,650   | 36                             | 22    |  |  |                           |  |  |  |                     |  |  |  |
| 45    | 234   | 68    |     | (66)    | 678     | 376     | 55    | 234   | 53    |     | (97)  | 621     | 296     | 30                             | 156   |  |  |                           |  |  |  |                     |  |  |  |
| (242) | (194) | (390) | (1) | 1.165   | (1.487) | (1.714) | (172) | (158) | (320) |     | 1.065 | (1.299) | (1,552) | (76)                           | (147) |  |  |                           |  |  |  |                     |  |  |  |
| (11)  | (5)   | (9)   |     |         | (119)   | (72)    | (12)  | (9)   | (9)   |     |       | (102)   | (60)    | (7)                            | (6)   |  |  |                           |  |  |  |                     |  |  |  |
| 48    | 62    | 124   | (1) |         | 822     | 631     | 21    | 91    | 143   |     |       | 886     | 334     | (17)                           | 25    |  |  |                           |  |  |  |                     |  |  |  |
| 2     | 4     | 7     | 1   | (78)    | 41      | 39      |       | 5     | 6     |     | (40)  | 10      | 50      |                                | 3     |  |  |                           |  |  |  |                     |  |  |  |
| (3)   | (2)   | (99)  |     | 78      | (258)   | (150)   |       | (4)   | (52)  | 1   | 40    | (165)   | (136)   |                                | (4)   |  |  |                           |  |  |  |                     |  |  |  |
| 4     | (1)   | 41    | (1) |         | 275     | 22      | 3     | 6     | 46    |     |       | 77      | (12)    | 1                              | (2)   |  |  |                           |  |  |  |                     |  |  |  |
|       | 8     |       | 82  |         | 90      |         |       |       |       |     | 314   | 314     | 17      |                                |       |  |  |                           |  |  |  |                     |  |  |  |
| (3)   | 11    | 19    | 94  |         | 179     | 50      |       | 8     | 20    | 49  |       | 127     | 23      |                                | 36    |  |  |                           |  |  |  |                     |  |  |  |
|       | (3)   | (3)   | 1   |         | (396)   | (197)   |       | (3)   | (23)  | (1) |       | (224)   | (60)    | (3)                            | (1)   |  |  |                           |  |  |  |                     |  |  |  |
|       |       | (15)  |     |         | (32)    | (39)    | (2)   |       | (41)  |     |       | (82)    | (39)    | 1                              |       |  |  |                           |  |  |  |                     |  |  |  |
| 48    | 79    | 74    | 176 |         | 721     | 356     | 22    | 103   | 99    | 363 |       | 943     | 177     | (18)                           | 57    |  |  |                           |  |  |  |                     |  |  |  |
| 1     | 19    | 81    |     | (123)   | 185     | 198     |       | 13    | 29    |     | (102) | 138     | 147     |                                | 10    |  |  |                           |  |  |  |                     |  |  |  |
|       | 6     | 77    |     | (122)   | 134     | 132     |       | 9     | 64    |     | (87)  | 118     | 75      |                                |       |  |  |                           |  |  |  |                     |  |  |  |
| 24    | 2     | 164   |     | (401)   | 625     | 871     | 80    | 2     | 205   |     | (459) | 699     | 750     | 26                             | 10    |  |  |                           |  |  |  |                     |  |  |  |
| 43    |       | 8     |     | (48)    | 107     | 132     | 63    |       |       |     | (48)  | 147     | 88      |                                |       |  |  |                           |  |  |  |                     |  |  |  |



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|       |     |       |     |         |       |       |       |     |     |         |       |       |       |
|-------|-----|-------|-----|---------|-------|-------|-------|-----|-----|---------|-------|-------|-------|
| 17    |     | 95    |     | (74)    | 220   | 164   | 2     | 81  |     | (47)    | 200   | 165   | 4     |
| 72    |     | 30    |     | (210)   | 345   | 401   |       | 40  |     | (164)   | 277   | 290   | 5     |
| 99    |     |       |     | (121)   | 134   | 143   | 5     |     |     | (61)    | 87    | 135   | 1     |
| 256   | 27  | 455   |     | (1,099) | 1,750 | 2,041 | 150   | 24  | 419 | (968)   | 1,666 | 1,650 | 36    |
| 45    | 234 | 68    |     | (66)    | 678   | 376   | 55    | 234 | 53  | (97)    | 621   | 296   | 30    |
| 301   | 261 | 523   |     | (1,165) | 2,428 | 2,417 | 205   | 258 | 472 | (1,065) | 2,287 | 1,946 | 66    |
| 1,448 | 674 | 1,102 | 1   |         | 9,063 | 5,050 | 1,147 | 577 | 952 | 1       | 7,727 | 4,495 | 1,000 |
| 208   | 180 | 82    | 1   |         | 877   | 131   | 40    | 114 | 63  |         | 348   | 318   | 125   |
|       | 79  | 226   | 419 |         | 1,159 | 387   |       | 70  | 219 | 377     | 1,053 | 344   |       |
| 1,099 | 680 | 976   | 27  |         | 7,326 | 4,557 | 913   | 565 | 819 | 31      | 6,885 | 4,137 | 266   |

(1) Albras was consolidated as from January 1, 2004 (Note 4(b)).

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Table of Contents**Operating income by product after eliminations**

| December 31, 2004 |                   |            |                               |  |                  |            |              |             |              | September 30, 2004 |            |             |                               |                  |            |              |       |
|-------------------|-------------------|------------|-------------------------------|--|------------------|------------|--------------|-------------|--------------|--------------------|------------|-------------|-------------------------------|------------------|------------|--------------|-------|
| Net               | Cost and expenses | Equipment  | Depreciation and amortization | Impairment/Gain on sale of property, plant and equipment | Operating income | Expenses   | Domestic     | Total       | Value added  | Net revenues       | Expenses   | Equipment   | Depreciation and amortization | Operating income | Expenses   | Domestic     | Total |
|                   |                   |            |                               |  |                  |            |              |             |              |                    |            |             |                               |                  |            |              |       |
| 00                | (519)             | 581        | (78)                          | 503  | 880              | 213        | 1,093        | (34)        | 1,059        | (463)              | 596        | (67)        | 529                           | 675              | 146        | 821          |       |
| 38                | (206)             | 82         | (7)                           | 75   | 229              | 64         | 293          | (12)        | 281          | (239)              | 42         | (2)         | 40                            | 198              | 56         | 254          |       |
| 7                 | (15)              | 22         |                               | 22   | 16               | 4          | 20           | (2)         | 18           | (17)               | 1          |             | 1                             | 8                | 3          | 11           |       |
| 51                | (114)             | 47         | (5)                           | 42   | 113              | 60         | 173          | (15)        | 158          | (43)               | 115        | (3)         | 112                           | 62               | 31         | 93           |       |
| <b>36</b>         | <b>(854)</b>      | <b>732</b> | <b>(90)</b>                   | <b>642</b>   | <b>1,238</b>     | <b>341</b> | <b>1,579</b> | <b>(63)</b> | <b>1,516</b> | <b>(762)</b>       | <b>754</b> | <b>(72)</b> | <b>682</b>                    | <b>943</b>       | <b>236</b> | <b>1,179</b> |       |
|                   | (2)               | (2)        |                               | (2)  |                  |            |              |             |              |                    |            |             |                               |                  |            |              |       |
| 4                 | (13)              | 21         | (1)                           | 20   |                  | 35         | 35           | (5)         | 30           | (16)               | 14         | (1)         | 13                            |                  | 24         | 24           |       |
| 3                 | (27)              | 16         | (3)                           | 13   | 36               | 5          | 41           | (1)         | 40           | (23)               | 17         | (4)         | 13                            | 36               | 5          | 41           |       |
| 7                 | (46)              | 61         | (7)                           | 54   | 56               | 14         | 70           | (3)         | 67           | (40)               | 27         | (7)         | 20                            |                  |            |              |       |
| <b>4</b>          | <b>(88)</b>       | <b>96</b>  | <b>(11)</b>                   | <b>85</b>  | <b>92</b>        | <b>54</b>  | <b>146</b>   | <b>(9)</b>  | <b>137</b>   | <b>(79)</b>        | <b>58</b>  | <b>(12)</b> | <b>46</b>                     | <b>36</b>        | <b>29</b>  | <b>65</b>    |       |
| 6                 | (92)              | 44         | (5)                           | 39   | 127              | 3          | 130          | (4)         | 126          | (102)              | 24         | (5)         | 19                            | 111              | 38         | 149          |       |
| 9                 | (111)             | 88         | (4)                           | 84   | 172              | 8          | 180          | (1)         | 179          | (54)               | 125        | (4)         | 121                           | 91               |            | 91           |       |
| 3                 | (13)              |            |                               |  | 17               |            | 17           |             | 17           | (14)               | 3          |             | 3                             | 12               | 2          | 14           |       |
| <b>8</b>          | <b>(216)</b>      | <b>132</b> | <b>(9)</b>                    | <b>123</b>   | <b>316</b>       | <b>11</b>  | <b>327</b>   | <b>(5)</b>  | <b>322</b>   | <b>(170)</b>       | <b>152</b> | <b>(9)</b>  | <b>143</b>                    | <b>214</b>       | <b>40</b>  | <b>254</b>   |       |
| 3                 | (99)              | 34         | (7)                           | 27   |                  | 164        | 164          | (27)        | 137          | (88)               | 49         | (9)         | 40                            |                  | 127        | 127          |       |
| 9                 | (25)              | 14         | (1)                           | 13   |                  | 43         | 43           | (8)         | 35           | (20)               | 15         | (1)         | 14                            |                  | 38         | 38           |       |
| 3                 | (46)              | (23)       | (1)                           | (24)   | 16               | 9          | 25           | (2)         | 23           | (25)               | (2)        | 1           | (1)                           | 18               | 9          | 27           |       |
| 5                 | (170)             | 25         | (9)                           | 16   | 16               | 216        | 232          | (37)        | 195          | (133)              | 62         | (9)         | 53                            | 18               | 174        | 192          |       |
| 4                 | (48)              | (44)       |                               | (44)   | 4                | (1)        | 3            |             | 3            | (41)               | (38)       |             | (38)                          | (2)              | 2          |              |       |
| 7                 | (1,376)           | 941        | (119)                         | 822  | 1,666            | 621        | 2,287        | (114)       | 2,173        | (1,185)            | 988        | (102)       | 886                           | 1,209            | 481        | 1,690        |       |



**Table of Contents****Results by segment - before eliminations**

As of and for

|  | 2004                     |                             |                       |              |                    | 2003                     |                             |                       |              |                    |                          |                             |                       |              |                    |                          |
|--|--------------------------|-----------------------------|-----------------------|--------------|--------------------|--------------------------|-----------------------------|-----------------------|--------------|--------------------|--------------------------|-----------------------------|-----------------------|--------------|--------------------|--------------------------|
|  | Non-ferrous<br>Logistics | Holdings<br>(2)<br>Aluminum | Other<br>Eliminations | Consolidated | Ferrous<br>ferrous | Non-ferrous<br>Logistics | Holdings<br>(2)<br>Aluminum | Other<br>Eliminations | Consolidated | Ferrous<br>ferrous | Non-ferrous<br>Logistics | Holdings<br>(2)<br>Aluminum | Other<br>Eliminations | Consolidated | Ferrous<br>ferrous | Non-ferrous<br>Logistics |
|  | 521                      | 92                          | 1,635                 | -            | (3,725)            | 6,112                    | 5,256                       | 105                   | 75           | 758                | -                        | (2,354)                     | 3,840                 | 4,200        | 143                | 41                       |
|  | 163                      | 871                         | 227                   | -            | (318)              | 2,367                    | 1,142                       | 107                   | 472          | 165                | -                        | (181)                       | 1,705                 | 996          | 96                 | 374                      |
|  | (556)                    | (622)                       | (1,322)               | (1)          | 4,043              | (4,957)                  | (4,882)                     | (192)                 | (367)        | (760)              | 3                        | 2,535                       | (3,663)               | (3,782)      | (226)              | (245)                    |
|  | (35)                     | (29)                        | (34)                  | -            | -                  | (399)                    | (191)                       | (18)                  | (14)         | (15)               | -                        | -                           | (238)                 | (170)        | (25)               | (14)                     |
|  | <b>93</b>                | <b>312</b>                  | <b>506</b>            | <b>(1)</b>   | <b>-</b>           | <b>3,123</b>             | <b>1,325</b>                | <b>2</b>              | <b>166</b>   | <b>148</b>         | <b>3</b>                 | <b>-</b>                    | <b>1,644</b>          | <b>1,244</b> | <b>(12)</b>        | <b>156</b>               |
|  | 2                        | 15                          | 16                    | 3            | (205)              | 82                       | 195                         | 1                     | 14           | 10                 | 4                        | (122)                       | 102                   | 193          | 1                  | 11                       |
|  | (6)                      | (15)                        | (218)                 | -            | 205                | (671)                    | (406)                       | (4)                   | (9)          | (49)               | (5)                      | 122                         | (351)                 | (433)        | (6)                | (5)                      |
|  | 5                        | (1)                         | 39                    | 2            | -                  | 65                       | 150                         | 16                    | (14)         | 93                 | (3)                      | -                           | 242                   | (442)        | (36)               | (18)                     |
|  | -                        | 8                           | -                     | 396          | -                  | 404                      | 17                          | -                     | -            | -                  | -                        | -                           | 17                    | -            | -                  | -                        |
|  | -                        | 33                          | 71                    | 268          | -                  | 542                      | 133                         | -                     | (52)         | 147                | 78                       | -                           | 306                   | (66)         | -                  | (88)                     |
|  | (7)                      | (9)                         | (4)                   | (3)          | -                  | (749)                    | (266)                       | (3)                   | (2)          | (27)               | 1                        | -                           | (297)                 | 145          | -                  | (8)                      |
|  | (2)                      | -                           | (120)                 | -            | -                  | (223)                    | (44)                        | (3)                   | -            | (58)               | -                        | -                           | (105)                 | 2            | (6)                | -                        |
|  | <b>85</b>                | <b>343</b>                  | <b>290</b>            | <b>665</b>   | <b>-</b>           | <b>2,573</b>             | <b>1,104</b>                | <b>9</b>              | <b>103</b>   | <b>264</b>         | <b>78</b>                | <b>-</b>                    | <b>1,558</b>          | <b>643</b>   | <b>(59)</b>        | <b>48</b>                |
|  | -                        | -                           | -                     | -            | -                  | -                        | (10)                        | -                     | -            | -                  | -                        | -                           | (10)                  | -            | -                  | -                        |
|  | <b>85</b>                | <b>343</b>                  | <b>290</b>            | <b>665</b>   | <b>-</b>           | <b>2,573</b>             | <b>1,094</b>                | <b>9</b>              | <b>103</b>   | <b>264</b>         | <b>78</b>                | <b>-</b>                    | <b>1,548</b>          | <b>643</b>   | <b>(59)</b>        | <b>48</b>                |
|  | 1                        | 65                          | 221                   | -            | (426)              | 596                      | 526                         | -                     | 38           | 156                | -                        | (329)                       | 391                   | 392          | -                  | 25                       |

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|              |            |              |           |                |              |              |            |            |            |           |                |              |              |            |            |
|--------------|------------|--------------|-----------|----------------|--------------|--------------|------------|------------|------------|-----------|----------------|--------------|--------------|------------|------------|
| -            | 15         | 186          | -         | (345)          | 389          | 337          | 8          | -          | 32         | -         | (188)          | 189          | 340          | 35         | 3          |
| 194          | 12         | 730          | -         | (1,607)        | 2,552        | 2,213        | 76         | 30         | 378        | -         | (913)          | 1,784        | 1,799        | 100        | 9          |
| 107          | -          | 8            | -         | (141)          | 386          | 292          | -          | 4          | -          | -         | (70)           | 226          | 239          | -          | -          |
| 31           | -          | 361          | -         | (287)          | 788          | 569          | 13         | -          | 96         | -         | (259)          | 419          | 488          | 3          | 1          |
| 81           | -          | 129          | -         | (606)          | 996          | 897          | 7          | -          | 77         | -         | (401)          | 580          | 574          | 4          | 1          |
| 107          | -          | -            | -         | (313)          | 405          | 422          | 1          | 3          | 19         | -         | (194)          | 251          | 368          | 1          | 2          |
| 521          | 92         | 1,635        | -         | (3,725)        | 6,112        | 5,256        | 105        | 75         | 758        | -         | (2,354)        | 3,840        | 4,200        | 143        | 41         |
| 163          | 871        | 227          | -         | (318)          | 2,367        | 1,142        | 107        | 472        | 165        | -         | (181)          | 1,705        | 996          | 96         | 374        |
| <b>684</b>   | <b>963</b> | <b>1,862</b> | <b>-</b>  | <b>(4,043)</b> | <b>8,479</b> | <b>6,398</b> | <b>212</b> | <b>547</b> | <b>923</b> | <b>-</b>  | <b>(2,535)</b> | <b>5,545</b> | <b>5,196</b> | <b>239</b> | <b>415</b> |
| 1,448        | 674        | 1,102        | 1         | -              | 9,063        | 4,495        | 1,000      | 424        | 564        | 1         | -              | 6,484        | 2,346        | 400        | 144        |
| 381          | 579        | 202          | -         | -              | 2,022        | 822          | 440        | 186        | 95         | -         | -              | 1,543        | 524          | 132        | 33         |
| -            | 79         | 226          | 419       | -              | 1,159        | 344          | -          | 44         | 329        | 317       | -              | 1,034        | 350          | -          | (10)       |
| <b>1,099</b> | <b>680</b> | <b>976</b>   | <b>27</b> | <b>-</b>       | <b>7,326</b> | <b>4,137</b> | <b>266</b> | <b>429</b> | <b>498</b> | <b>20</b> | <b>-</b>       | <b>5,350</b> | <b>2,364</b> | <b>119</b> | <b>161</b> |

(1) Control of Alunorte was acquired and consolidated from June 2002.

(2) Albras was consolidated as from January 1, 2004 (note 4(b)).

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**Operating income by product after eliminations**

|      | 2004  |   |   |       |                     |       |          |       |          |         | 2003           |      |                 |       |                         |       |   |  |   |  |                     |  |          |  |          |  |  |  |
|------|---|---|---|-------|---------------------|-------|----------|-------|----------|---------|----------------|------|-----------------|-------|-------------------------|-------|---|--|---|--|---------------------|--|----------|--|----------|--|--|--|
|      | Impairment/<br>Gain<br>on<br>sale<br>of<br>property,<br>plant<br>and<br>equipment |   | Depreciation,<br>depletion<br>and<br>amortization |       | Operating<br>income |       | Expenses |       | Revenues |         | Value<br>added |      | Net<br>revenues |       | Cost<br>and<br>expenses |       | Impairment/<br>Gain<br>on<br>sale<br>of<br>property,<br>plant<br>and<br>equipment |  | Depreciation,<br>depletion<br>and<br>amortization |  | Operating<br>income |  | Expenses |  | Revenues |  |  |  |
| (61) | 2.106   | - | (270)   | 1.836 | 2.108               | 554   | 2.662    | (65)  | 2.597    | (1.318) | 1.279          | (10) | (105)           | 1.164 | 1.642                   | 505   | 2.1   |  |   |  |                     |  |          |  |          |  |  |  |
| (24) | 280   | - | (12)  | 268   | 627                 | 211   | 838      | (19)  | 819      | (627)   | 192            | (12) | (11)            | 169   | 530                     | 143   | 6   |  |   |  |                     |  |          |  |          |  |  |  |
| (46) | 26  | - | -   | 26    | 38                  | 11    | 49       | (5)   | 44       | (35)    | 9              | -    | (2)             | 7     | 24                      | 12    |   |  |   |  |                     |  |          |  |          |  |  |  |
| (15) | 258   | - | (15)  | 243   | 201                 | 99    | 300      | (21)  | 279      | (218)   | 61             | (17) | (10)            | 34    | 176                     | 71    | 2   |  |   |  |                     |  |          |  |          |  |  |  |
| (46) | 2.670   | - | (297)   | 2.373 | 2.974               | 875   | 3.849    | (110) | 3.739    | (2.198) | 1.541          | (39) | (128)           | 1.374 | 2.372                   | 731   | 3.1   |  |   |  |                     |  |          |  |          |  |  |  |
| (2)  | (2)   | - | -   | (2)   | 21                  | -     | 21       | -     | 21       | (2)     | 19             | -    | (2)             | 17    | 103                     | -     | 1   |  |   |  |                     |  |          |  |          |  |  |  |
| (51) | 58  | - | (5)   | 53    | -                   | 94    | 94       | (12)  | 82       | (40)    | 42             | -    | (7)             | 35    | -                       | 91    |   |  |   |  |                     |  |          |  |          |  |  |  |
| (93) | 65  | - | (14)  | 51    | 83                  | 13    | 96       | (3)   | 93       | (70)    | 23             | (12) | (7)             | 4     | 40                      | 5     |   |  |   |  |                     |  |          |  |          |  |  |  |
| (90) | 108   | - | (16)  | 92    | -                   | -     | -        | -     | -        | -       | -              | -    | -               | -     | -                       | -     |   |  |   |  |                     |  |          |  |          |  |  |  |
| (36) | 229   | - | (35)  | 194   | 104                 | 107   | 211      | (15)  | 196      | (112)   | 84             | (12) | (16)            | 56    | 143                     | 96    | 2   |  |   |  |                     |  |          |  |          |  |  |  |
| (50) | 90  | - | (19)  | 71    | 342                 | 153   | 495      | (8)   | 487      | (363)   | 124            | -    | (15)            | 109   | 85                      | 74    | 1   |  |   |  |                     |  |          |  |          |  |  |  |
| (86) | 450   | - | (15)  | 435   | 312                 | 8     | 320      | -     | 320      | (295)   | 25             | -    | -               | 25    | 279                     | 1     | 2   |  |   |  |                     |  |          |  |          |  |  |  |
| (48) | 5   | - | -   | 5     | 34                  | 3     | 37       | (1)   | 36       | (33)    | 3              | -    | -               | 3     | 23                      | -     |   |  |   |  |                     |  |          |  |          |  |  |  |
| (84) | 545   | - | (34)  | 511   | 688                 | 164   | 852      | (9)   | 843      | (691)   | 152            | -    | (15)            | 137   | 387                     | 75    | 4   |  |   |  |                     |  |          |  |          |  |  |  |
| (34) | 178   | - | (28)  | 150   | -                   | 373   | 373      | (39)  | 334      | (153)   | 181            | -    | (70)            | 111   | -                       | 286   | 2   |  |   |  |                     |  |          |  |          |  |  |  |
| (89) | 55  | - | (4)   | 51    | 1                   | 143   | 144      | (14)  | 130      | (75)    | 55             | -    | (9)             | 46    | -                       | 107   | 1   |  |   |  |                     |  |          |  |          |  |  |  |
| (23) | (38)  | - | (1)   | (39)  | 54                  | 33    | 87       | (3)   | 84       | (122)   | (38)           | -    | -               | (38)  | 26                      | 39    |   |  |   |  |                     |  |          |  |          |  |  |  |
| (46) | 195   | - | (33)  | 162   | 55                  | 549   | 604      | (56)  | 548      | (350)   | 198            | -    | (79)            | 119   | 26                      | 432   | 4   |  |   |  |                     |  |          |  |          |  |  |  |
| (32) | (117)   | - | -   | (117) | 19                  | 10    | 29       | (5)   | 24       | (66)    | (42)           | -    | -               | (42)  | -                       | 20    |   |  |   |  |                     |  |          |  |          |  |  |  |
| (44) | 3.522   | - | (399)   | 3.123 | 3.840               | 1.705 | 5.545    | (195) | 5.350    | (3.417) | 1.933          | (51) | (238)           | 1.644 | 2.928                   | 1.354 | 4.2   |  |   |  |                     |  |          |  |          |  |  |  |

**Table of Contents****20 Related party transactions**

Transactions with major related parties resulted in the following balances:

|  | <b>2004</b>   |                    | <b>As of December 31<br/>2003</b> |                    |
|--|---------------|--------------------|-----------------------------------|--------------------|
|  | <b>Assets</b> | <b>Liabilities</b> | <b>Assets</b>                     | <b>Liabilities</b> |
| <b>AFFILIATED COMPANIES AND JOINT VENTURES</b> |               |                    |                                   |                    |
| HISPANOBRAS                                    | 25            | 39                 | 18                                | 29                 |
| ITABRASCO                                      | 24            | 28                 | 16                                | 17                 |
| NIBRASCO                                       | 32            | 29                 | 36                                | 25                 |
| KOBRASCO                                       | 43            | 18                 | 51                                | 14                 |
| CST  | -             | -                  | 31                                | -                  |
| USIMINAS                                       | 7             | -                  | 7                                 | -                  |
| MSG  | -             | -                  | 1                                 | 17                 |
| MRS  | 13            | 19                 | 2                                 | 8                  |
| FERROBAN                                       | 39            | 8                  | 1                                 | 4                  |
| MRN  | 1             | 20                 | 3                                 | 20                 |
| SAMARCO  | 22            | -                  | 1                                 | -                  |
| ALBRAS   | -             | -                  | 14                                | 95                 |
| Others   | 29            | 31                 | 30                                | 38                 |
|  | <b>235</b>    | <b>192</b>         | <b>211</b>                        | <b>267</b>         |
| Current  | 180           | 174                | 171                               | 263                |
| Long-term                                      | 55            | 18                 | 40                                | 4                  |

These balances are included in the following balance sheet classifications:

|                                       | <b>2004</b>   |                    | <b>As of December 31<br/>2003</b> |                    |
|---------------------------------------|---------------|--------------------|-----------------------------------|--------------------|
|                                       | <b>Assets</b> | <b>Liabilities</b> | <b>Assets</b>                     | <b>Liabilities</b> |
| <b>Current assets</b>                 |               |                    |                                   |                    |
| Accounts receivable                   | 124           | -                  | 115                               | -                  |
| Loans and advances to related parties | 56            | -                  | 56                                | -                  |
| <b>Other assets</b>                   |               |                    |                                   |                    |
| Loans and advances to related parties | 55            | -                  | 40                                | -                  |
| <b>Current liabilities</b>            |               |                    |                                   |                    |
| Suppliers                             | -             | 122                | -                                 | 144                |
| Loans from related parties            | -             | 52                 | -                                 | 119                |
| <b>Long-term liabilities</b>          |               |                    |                                   |                    |
| Long-term debt                        | -             | 18                 | -                                 | 4                  |

**235**

**192**

**211**

**267**

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The principal amounts of business and financial operations carried out with major related parties are as follows:

|  | <b>Year ended December 31</b> |                |               |                |               |                |
|--|-------------------------------|----------------|---------------|----------------|---------------|----------------|
|  | <b>2004</b>                   |                | <b>2003</b>   |                | <b>2002</b>   |                |
|  | <b>Income</b>                 | <b>Expense</b> | <b>Income</b> | <b>Expense</b> | <b>Income</b> | <b>Expense</b> |
| <b>AFFILIATED COMPANIES AND JOINT VENTURES</b> |                               |                |               |                |               |                |
| CST  | 251                           |                | 136           |                | 152           |                |
| NIBRASCO                                       | 147                           | 3              | 116           | 133            | 146           | 150            |
| ALUNORTE (to June 2002)                        |                               |                |               |                | 6             |                |
| SIDERAR  | 86                            |                | 53            |                | 35            |                |
| ITABRASCO                                      | 84                            | 1              | 61            | 20             | 74            | 53             |
| HISpanoBRAS                                    | 97                            |                | 66            | 69             | 77            | 77             |
| KOBRASCO                                       | 92                            | 2              | 62            | 57             | 84            | 46             |
| USIMINAS                                       | 109                           |                | 79            |                | 76            |                |
| ALBRAS (to December 2003)                      |                               |                | 149           | 286            | 73            | 265            |
| VALESUL  | 16                            |                | 10            |                | 7             | 1              |
| MRN  |                               | 154            |               |                |               | 56             |
| Others   | 105                           | 213            | 55            | 176            | 79            | 94             |
| <b>BRAZILIAN FEDERAL GOVERNMENT</b>            |                               |                |               |                |               |                |
| Banco do Brasil S.A                            |                               |                |               |                | 3             |                |
| BNDES  |                               |                |               |                |               | 2              |
|  | <b>987</b>                    | <b>373</b>     | <b>787</b>    | <b>741</b>     | <b>812</b>    | <b>744</b>     |

These amounts are included in the following statement of income classifications:

|                                      | <b>Year ended December 31</b> |                |               |                |               |                |
|--------------------------------------|-------------------------------|----------------|---------------|----------------|---------------|----------------|
|                                      | <b>2004</b>                   |                | <b>2003</b>   |                | <b>2002</b>   |                |
|                                      | <b>Income</b>                 | <b>Expense</b> | <b>Income</b> | <b>Expense</b> | <b>Income</b> | <b>Expense</b> |
| Sales / Cost of iron ore and pellets | 843                           | 187            | 608           | 317            | 599           | 380            |
| Revenues from logistic services      | 95                            |                | 13            |                | 66            |                |
| Sales / Cost of aluminum products    | 15                            | 155            | 153           | 427            | 74            | 314            |
| Financial income/expenses            | (6)                           | (13)           | (17)          | (4)            | 15            | 18             |
| Others                               | 40                            | 44             | 30            | 1              | 58            | 32             |
|                                      | <b>987</b>                    | <b>373</b>     | <b>787</b>    | <b>741</b>     | <b>812</b>    | <b>744</b>     |

**21 Fair value of financial instruments**

The carrying amount of our current financial instruments generally approximates fair market value because of the short-term maturity or frequent repricing of these instruments.

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The market value of our listed long-term investments, where available, is disclosed in Note 13 to these financial statements.

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair market value of long-term debt (current portion not included) at December 31, 2004 and 2003 is estimated as follows:

|                   | <b>As of December 31</b> |             |
|-------------------|--------------------------|-------------|
|                   | <b>2004</b>              | <b>2003</b> |
| Fair market value | 3,355                    | 2,839       |
| Carrying value    | 3,214                    | 2,767       |

Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. Changes in assumptions could significantly affect the estimates.

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**Table of Contents****22 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 use derivatives for speculation 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 movement in fair value of derivative financial instruments are as follows (the quarterly information is unaudited):

|  | <b>Gold</b> | <b>Interest<br/>rates<br/>(LIBOR)</b> | <b>Currencies</b> | <b>Alumina</b> | <b>Aluminum</b> | <b>Total</b> |
|--|-------------|---------------------------------------|-------------------|----------------|-----------------|--------------|
| Unrealized gains (losses) at October 1, 2004               | (32)        | (31)                                  | 1                 | (37)           | (65)            | (164)        |
| Financial settlement                                       | 4           | 12                                    |                   |                |                 | 16           |
| Unrealized gains (losses) in the period                    | (5)         | 3                                     | 3                 | (14)           | (54)            | (67)         |
| Effect of exchange rate changes                            | (4)         | (1)                                   |                   | (4)            | (8)             | (17)         |
| <b>Unrealized gains (losses) at<br/>December 31, 2004</b>  | <b>(37)</b> | <b>(17)</b>                           | <b>4</b>          | <b>(55)</b>    | <b>(127)</b>    | <b>(232)</b> |
| Unrealized gains (losses) at July 1, 2004                  | (25)        | (30)                                  | 1                 | (30)           | (37)            | (121)        |
| Financial settlement                                       |             | 3                                     |                   |                |                 | 3            |
| Unrealized gains (losses) in the period                    | (5)         | (1)                                   |                   | (5)            | (25)            | (36)         |
| Effect of exchange rate changes                            | (2)         | (3)                                   |                   | (2)            | (3)             | (10)         |
| <b>Unrealized gains (losses) at<br/>September 30, 2004</b> | <b>(32)</b> | <b>(31)</b>                           | <b>1</b>          | <b>(37)</b>    | <b>(65)</b>     | <b>(164)</b> |
| Unrealized gains (losses) at October 1, 2003               | (22)        | (60)                                  | 2                 | (5)            |                 | (85)         |
| Financial settlement                                       | 3           | 12                                    |                   |                |                 | 15           |
| Unrealized gains (losses) in the period                    | (12)        | 2                                     | 3                 | (13)           |                 | (20)         |
| Effect of exchange rate changes                            | (1)         |                                       |                   |                |                 | (1)          |
| <b>Unrealized gains (losses) at<br/>December 31, 2003</b>  | <b>(32)</b> | <b>(46)</b>                           | <b>5</b>          | <b>(18)</b>    |                 | <b>(91)</b>  |
| Unrealized gains (losses) at January 1, 2004               | (32)        | (46)                                  | 5                 | (18)           |                 | (91)         |
| Gain recognized upon consolidation of Albras               |             |                                       |                   |                | (20)            | (20)         |
| Financial settlement                                       | 4           | 29                                    | (2)               |                |                 | 31           |
| Unrealized gains (losses) in the period                    | (5)         | 1                                     | 1                 | (33)           | (98)            | (134)        |

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|   |             |             |            |             |              |              |
|---|-------------|-------------|------------|-------------|--------------|--------------|
| Effect of exchange rate changes                           | (4)         | (1)         |            | (4)         | (9)          | (18)         |
| <b>Unrealized gains (losses) at<br/>December 31, 2004</b> | <b>(37)</b> | <b>(17)</b> | <b>4</b>   | <b>(55)</b> | <b>(127)</b> | <b>(232)</b> |
| Unrealized gains (losses) at January 1,<br>2003           | (15)        | (60)        | (1)        | 3           |              | (73)         |
| Financial settlement                                      | 8           | 30          |            |             |              | 38           |
| Unrealized gains (losses) in the period                   | (24)        | (3)         | 6          | (22)        |              | (43)         |
| Effect of exchange rate changes                           | (1)         | (13)        |            | 1           |              | (13)         |
| <b>Unrealized gains (losses) at<br/>December 31, 2003</b> | <b>(32)</b> | <b>(46)</b> | <b>5</b>   | <b>(18)</b> |              | <b>(91)</b>  |
| Unrealized gains (losses) at January 1,<br>2002           | 7           | (36)        | (4)        |             |              | (33)         |
| Gain recognized upon consolidation of<br>Alunorte         |             |             |            | 2           |              | 2            |
| Financial settlement                                      | (2)         | 21          | 3          | 1           |              | 23           |
| Unrealized gains (losses) in the period                   | (22)        | (60)        | (1)        |             |              | (83)         |
| Effect of exchange rate changes                           | 2           | 15          | 1          |             |              | 18           |
| <b>Unrealized gains (losses) at<br/>December 31, 2002</b> | <b>(15)</b> | <b>(60)</b> | <b>(1)</b> | <b>3</b>    |              | <b>(73)</b>  |

Movements for the three month periods ended December 31, 2004, September 30, 2004 and December 31, 2003 are unaudited.

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Unrealized gains (losses) in the period are included in our income statement under the 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 |
| Aluminum               | Dec 2006 |

**(a) Interest Rate and Exchange Rate Risk**

Interest rate risks mainly relate to that part of the foreign debt borrowed at floating rates. The foreign currency debt is largely subject to fluctuations in the London Interbank Offered Rate - LIBOR. That portion of local currency denominated debt that is subject to floating rates is linked to the Long Term Interest Rate - TJLP, fixed quarterly by the Brazilian Central Bank. We have used derivative instruments to protect ourselves against fluctuations in the LIBOR rate.

There is an exchange rate risk associated with our foreign currency denominated debt. On the other hand, the majority of our revenues is denominated in, or automatically indexed to, the U.S. dollar, while the majority of our costs is denominated in Reais. This provides a natural hedge against any devaluation of the Brazilian real against the U.S. dollar. When events of this nature occur, the immediate negative impact on foreign currency denominated debt is offset over time by the positive effect of devaluation on future cash flows.

With the floating exchange rate regime in Brazil, we adopt a strategy of monitoring market fluctuations, using derivatives to protect against specific risks from exchange rate variation.

From time to time we enter into foreign exchange derivative swap transactions seeking to change the characteristics of our real-denominated cash investments to US dollar-indexed instruments. The extent of such transactions depends on our perception of market and currency risk, but is never speculative in nature. All such operations are marked-to-market at each balance sheet date and the effect included in financial income or expense. During the periods presented our use of such instruments was not significant.

**(b) Commodity Price Risk**

We also use derivative instruments to manage exposure to changing gold prices and to ensure an average minimum profit level for future and alumina production. However, they may also have the effect of eliminating potential gains on certain price increases in the spot market. We manage our contract positions actively, and the results are reviewed at least monthly, allowing adjustments to targets and strategy to be made in response to changing market conditions.

In the case of gold and alumina derivatives, our policy has been to settle all contracts through cash payments or receipts, without physical delivery of product.

**Table of Contents****23 Information about independent auditors**

Our consolidated financial statements are audited by PricewaterhouseCoopers Auditores Independentes. The financial statements of certain of our subsidiaries and affiliates have been audited by independent auditors other than PricewaterhouseCoopers Auditores Independentes as described below, and, as mentioned in their report, PricewaterhouseCoopers Auditores Independentes has relied on such audits when expressing their opinion on our consolidated financial statements.

The following entities prepare financial statements accordance with US GAAP which are audited in accordance with auditing standards generally accept in the United States of America:

|   | <b>Auditors</b> | <b>Years Audited</b> | <b>City</b>   | <b>State</b> | <b>Country</b> |
|---|-----------------|----------------------|---------------|--------------|----------------|
| Alumina do Norte do Brasil S.A. - ALUNORTE                | Trevisan        | 2003                 | RJ            | RJ           | Brazil         |
| Alumina do Norte do Brasil S.A. - ALUNORTE                | Deloitte        | 2002                 | RJ            | RJ           | Brazil         |
| Alumínio Brasileiro S.A. - ALBRAS (1)                     | Trevisan        | 2003                 | RJ            | RJ           | Brazil         |
| California Steel Industries, Inc.                         | KPMG LLP        | 2002, 2001           | Orange County | CA           | USA            |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO       | Deloitte        | 2003, 2002, 2001     | RJ            | RJ           | Brazil         |
| Companhia Coreano Brasileira de Pelotização - KOBRASCO    | Deloitte        | 2003, 2002           | Vitória       | ES           | Brazil         |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRAS | Deloitte        | 2003, 2002           | Vitória       | ES           | Brazil         |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO     | Deloitte        | 2003, 2002           | Vitória       | ES           | Brazil         |
| DOCEPAR S.A.  | Deloitte        | 2003, 2002           | RJ            | RJ           | Brazil         |
| Mineração Rio do Norte S.A.                               | Deloitte        | 2003, 2002           | RJ            | RJ           | Brazil         |
| Navegação Vale do Rio Doce S.A. - DOCENAVE                | Deloitte        | 2003, 2002           | RJ            | RJ           | Brazil         |
| Rio Doce Manganês S.A.                                    | Deloitte        | 2003, 2002           | Salvador      | BA           | Brazil         |
| Urucum Mineração S.A.                                     | Deloitte        | 2003                 | Salvador      | BA           | Brazil         |
| Valesul Alumínio S.A.                                     | KPMG            | 2002                 | RJ            | RJ           | Brazil         |
| Valesul Alumínio S.A.                                     | Deloitte        | 2003                 | RJ            | RJ           | Brazil         |

(1) Consolidated as from January, 1, 2004

Deloitte Touche Tohmatsu Auditores Idependentes

RJ - Rio de Janeiro

ES - Espírito Santo

BA - Bahia

KPMG Auditores Independentes

Trevisan Auditores Independentes

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**Supplemental Financial Statements**

The following unaudited information provides additional details in relation to certain financial ratios.

EBITDA Earnings Before Interest, Income Tax, Depreciation and Amortization

- (a) EBITDA represents operating income plus depreciation, amortization and depletion plus impairment/gain on sale of property, plant and equipment plus dividends received from equity investees.
- (b) EBITDA is not a US GAAP measure and does not represent cash flow for the periods presented and should not be considered as an alternative to net income (loss), as an indicator of our operating performance or as an alternative to cash flow as a source of liquidity.
- (c) Our definition of EBITDA may not be comparable with EBITDA as defined by other companies.
- (d) Although EBITDA, as defined above, does not provide a US GAAP measure of operating cash flows, our management uses it to measure our operating performance and it is commonly used by financial analysts in evaluating our business.

Selected financial indicators for the main affiliates and joint ventures are available on the Company 's website, [www.cvrd.com.br](http://www.cvrd.com.br), under investor relations

**Table of Contents****Indexes on CVRD s Consolidated Debt (Additional information - Unaudited)**

|   | As of and for the three month periods ended |                    |                   | As of and for the year ended |                   |
|---|---|--------------------|-------------------|------------------------------|-------------------|
|   | December 31, 2004                           | September 30, 2004 | December 31, 2003 | December 31, 2004            | December 31, 2003 |
| <b>Current debt</b>                                   |   |                    |                   |                              |                   |
| Current portion of long-term debt - unrelated parties | 730   | 719                | 1,009             | 730                          | 1,009             |
| Short-term debt                                       | 74  | 201                | 129               | 74                           | 129               |
| Loans from related parties                            | 52  | 62                 | 119               | 52                           | 119               |
|   | <b>856</b>                                  | <b>982</b>         | <b>1,257</b>      | <b>856</b>                   | <b>1,257</b>      |
| <b>Long-term debt</b>                                 |   |                    |                   |                              |                   |
| Long-term debt - unrelated parties                    | 3,214                                       | 3,434              | 2,767             | 3,214                        | 2,767             |
| Loans from related parties                            | 18  | 2                  | 4                 | 18                           | 4                 |
|   | <b>3,232</b>                                | <b>3,436</b>       | <b>2,771</b>      | <b>3,232</b>                 | <b>2,771</b>      |
| <b>Gross debt (current plus long-term debt)</b>       | <b>4,088</b>                                | <b>4,418</b>       | <b>4,028</b>      | <b>4,088</b>                 | <b>4,028</b>      |
| <b>Interest paid over:</b>                            |   |                    |                   |                              |                   |
| Short-term debt                                       | (3)   | -                  | -                 | (5)                          | (7)               |
| Long-term debt  | (82)  | (82)               | (38)              | (295)                        | (178)             |
| <b>Interest paid</b>                                  | <b>(85)</b>                                 | <b>(82)</b>        | <b>(38)</b>       | <b>(300)</b>                 | <b>(185)</b>      |
| <b>EBITDA</b>   | <b>1,001</b>                                | <b>1,007</b>       | <b>568</b>        | <b>3,722</b>                 | <b>2,130</b>      |
| <b>Stockholders equity</b>                            | <b>7,391</b>                                | <b>6,480</b>       | <b>4,884</b>      | <b>7,391</b>                 | <b>4,884</b>      |
| <b>LTM EBITDA / LTM Interest paid</b>                 | <b>12.41</b>                                | <b>13.00</b>       | <b>11.51</b>      | <b>12.41</b>                 | <b>11.51</b>      |
| <b>Gross Debt / LTM EBITDA</b>                        | <b>1.10</b>                                 | <b>1.34</b>        | <b>1.89</b>       | <b>1.10</b>                  | <b>1.89</b>       |
| <b>Gross debt / Equity Capitalization (%)</b>         | <b>36</b>                                   | <b>41</b>          | <b>45</b>         | <b>36</b>                    | <b>45</b>         |
| <b>Financial expenses</b>                             |   |                    |                   |                              |                   |
| Third party - local debt                              | (11)  | (12)               | (9)               | (48)                         | (24)              |
| Third party - foreign debt                            | (52)  | (49)               | (41)              | (211)                        | (158)             |
| Related party debt                                    | -   | (3)                | (2)               | (10)                         | (14)              |
| Gross interest  | (63)  | (64)               | (52)              | (269)                        | (196)             |
| Labor and civil claims and tax-related actions        | (11)  | (11)               | (24)              | (37)                         | (46)              |
| Tax on financial transactions - CPMF                  | (11)  | (9)                | (8)               | (38)                         | (23)              |
| Derivatives (Interest rate / Currencies)              | 6   | (1)                | 5                 | 2                            | 3                 |
| Derivatives (Gold / Alumina / Aluminium / Energy)     | (73)  | (35)               | (25)              | (136)                        | (46)              |
| Others  | (106)                                       | (45)               | (18)              | (193)                        | (43)              |



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|   | (258)        | (165)        | (122)        | (671)        | (351)        |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Financial income</b>                                       |              |              |              |              |              |
| Cash and cash equivalents                                     | 20           | 9            | 14           | 48           | 68           |
| Others  | 21           | 1            | 4            | 34           | 34           |
|   | <b>41</b>    | <b>10</b>    | <b>18</b>    | <b>82</b>    | <b>102</b>   |
| <b>Financial expenses, net</b>                                | <b>(217)</b> | <b>(155)</b> | <b>(104)</b> | <b>(589)</b> | <b>(249)</b> |
| Foreign exchange and monetary gain<br>(losses) on liabilities | 370          | 242          | 303          | 184          | 1,266        |
| Foreign exchange and monetary gain<br>(losses) on assets      | (95)         | (165)        | (311)        | (119)        | (1,024)      |
| <b>Foreign exchange and monetary gain<br/>(losses), net</b>   | <b>275</b>   | <b>77</b>    | <b>(8)</b>   | <b>65</b>    | <b>242</b>   |
| <b>Financial result, net</b>                                  | <b>58</b>    | <b>(78)</b>  | <b>(112)</b> | <b>(524)</b> | <b>(7)</b>   |

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**Table of Contents****Calculation of EBITDA (Additional information - Unaudited)**

|                        | As of and for the three months ended |                    |                   | As of and for the year ended |                   |
|------------------------|--------------------------------------|--------------------|-------------------|------------------------------|-------------------|
|                        | December 31, 2004                    | September 30, 2004 | December 31, 2003 | December 31, 2004            | December 31, 2003 |
| Operating income       | 822                                  | 886                | 392               | 3,123                        | 1,644             |
| Depreciation           | 119                                  | 102                | 78                | 399                          | 238               |
|                        | <b>941</b>                           | <b>988</b>         | <b>470</b>        | <b>3,522</b>                 | <b>1,882</b>      |
| Write-down of assets   |                                      |                    | 39                |                              | 51                |
| Dividends received     | 60                                   | 19                 | 59                | 200                          | 197               |
| <b>EBITDA</b>          | <b>1,001</b>                         | <b>1,007</b>       | <b>568</b>        | <b>3,722</b>                 | <b>2,130</b>      |
| Net operating revenues | 2,317                                | 2,173              | 1,638             | 8,066                        | 5,350             |
| <b>Margin EBITDA</b>   | <b>43.2%</b>                         | <b>46.3%</b>       | <b>34.7%</b>      | <b>46.1%</b>                 | <b>39.8%</b>      |

**Adjusted EBITDA x Operating Cash Flows (Additional information - Unaudited)**

|   | As of and for the three months ended |                      |                    |                      |                   |                      | As of and for the year ended |                      |                   |                      |
|---|--------------------------------------|----------------------|--------------------|----------------------|-------------------|----------------------|------------------------------|----------------------|-------------------|----------------------|
|   | December 31, 2004                    |                      | September 30, 2004 |                      | December 31, 2003 |                      | December 31, 2004            |                      | December 31, 2003 |                      |
|   | EBITDA                               | Operating cash flows | EBITDA             | Operating cash flows | EBITDA            | Operating cash flows | EBITDA                       | Operating cash flows | EBITDA            | Operating cash flows |
| Net income  | 721                                  | 721                  | 943                | 943                  | 270               | 270                  | 2,573                        | 2,573                | 1,548             | 1,548                |
| Income tax  | 386                                  | 386                  | (61)               | (61)                 | 76                | 76                   | 316                          | 316                  | 207               | 207                  |
| Income tax cash   | 10                                   |                      | 285                |                      | (10)              |                      | 433                          |                      | 90                |                      |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (179)                                | (179)                | (127)              | (127)                | (88)              | (88)                 | (542)                        | (542)                | (306)             | (306)                |
| Foreign exchange and monetary   | (275)                                | (106)                | (77)               | (118)                | 8                 | 4                    | (65)                         | 112                  | (242)             | (382)                |

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losses

|  |              |              |              |              |            |            |              |              |              |              |
|--|--------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|--------------|
| Financial expenses   | 217          | 38           | 155          | 42           | 104        | 43         | 589          | 93           | 249          | 24           |
| Minority interests   | 32           | 32           | 82           | 82           | 49         | 49         | 223          | 223          | 105          | 105          |
| Change in accounting practice for asset retirement obligations |              |              |              |              |            |            |              |              | 10           | 10           |
| Gain on sale of investments                                    | (90)         | (90)         | (314)        | (314)        | (17)       | (17)       | (404)        | (404)        | (17)         | (17)         |
| Net working capital  |              | 48           |              | 436          |            | 13         |              | 319          |              | 57           |
| Others   |              | 42           |              | 99           |            | (12)       |              | 182          |              | 25           |
| <b>Operating income</b>  | <b>822</b>   | <b>892</b>   | <b>886</b>   | <b>982</b>   | <b>392</b> | <b>338</b> | <b>3,123</b> | <b>2,872</b> | <b>1,644</b> | <b>1,271</b> |
| Depreciation, depletion and amortization                       | 119          | 119          | 102          | 102          | 78         | 78         | 399          | 399          | 238          | 238          |
| Dividends received   | 60           | 60           | 19           | 19           | 59         | 59         | 200          | 200          | 197          | 197          |
| Impairment of property, plant and equipment                    |              |              |              |              | 39         | 39         |              |              | 51           | 51           |
|  | <b>1,001</b> | <b>1,071</b> | <b>1,007</b> | <b>1,103</b> | <b>568</b> | <b>514</b> | <b>3,722</b> | <b>3,471</b> | <b>2,130</b> | <b>1,757</b> |
| <b>Operating cash flows</b>                                    |              | <b>1,071</b> |              | <b>1,103</b> |            | <b>514</b> |              | <b>3,471</b> |              | <b>1,757</b> |
| Income tax   |              | 10           |              | 285          |            | (10)       |              | 433          |              | 90           |
| Foreign exchange and monetary losses                           |              | (169)        |              | 41           |            | 4          |              | (177)        |              | 140          |
|  |              | 179          |              | 113          |            | 61         |              | 496          |              | 225          |

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Financial  
expenses

Net working  
capital

|      |       |      |       |      |
|------|-------|------|-------|------|
| (48) | (436) | (13) | (319) | (57) |
|------|-------|------|-------|------|

Others

|      |      |    |       |      |
|------|------|----|-------|------|
| (42) | (99) | 12 | (182) | (25) |
|------|------|----|-------|------|

**EBITDA**

|              |              |            |              |              |
|--------------|--------------|------------|--------------|--------------|
| <b>1,001</b> | <b>1,007</b> | <b>568</b> | <b>3,722</b> | <b>2,130</b> |
|--------------|--------------|------------|--------------|--------------|

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**Board of Directors, Fiscal Council and Executive Officers**

**Board of Directors**

Sérgio Ricardo Silva Rosa  
Chairman

Arlindo Magno de Oliveira

Cláudio Bernardo Guimarães de Moraes

Erik Persson

Francisco Valadares Póvoa

Jaques Wagner

Katsuto Momii

Mário da Silveira Teixeira Júnior

Oscar Augusto de Camargo Filho

Renato da Cruz Gomes

Ricardo Carvalho Giambroni

**Advisory Committees of the Board of Directors**

**Audit Committee**

Antonio José de Figueiredo Ferreira  
Heitor Ribeiro Filho  
Inácio Clemente da Silva  
Paulo Roberto Ferreira de Medeiros

**Executive Development Committee**

Arlindo Magno de Oliveira  
Francisco Valadares Póvoa  
João Moisés de Oliveira  
Olga Nietta Loffredi  
Oscar Augusto de Camargo Filho

**Strategic Committee**

Roger Agnelli  
Gabriel Stoliar

**Fiscal Council**

Pedro Carlos de Mello

Marcelo Amaral Moraes

Oswaldo Mário Pêgo de Amorim Azevedo

Joaquim Vieira Ferreira Levy

**Executive Officers**

Roger Agnelli  
**Chief Executive Officer**

José Carlos Martins  
**Executive Officer for Equity Holdings and  
Business Development**

Armando de Oliveira Santos Neto  
**Executive Officer for Ferrous Minerals**

Carla Grasso  
**Executive Officer for Human Resources and  
Corporate Services**

José Lancaster  
**Executive Officer for Non-Ferrous Minerals**

Fábio de Oliveira Barbosa  
**Chief Financial Officer**

Gabriel Stoliar  
**Executive Officer for Planning**

Guilherme Rodolfo Laager  
**Executive Officer for Logistics**

Cézar Manoel de Medeiros  
José Roberto Mendonça de Barros  
Samir Zraick

**Finance Committee**

Roger Agnelli  
Fábio de Oliveira Barbosa  
Rômulo de Mello Dias  
Wanderlei Viçoso Fagundes  
Wanderley Rezende de Souza

Otto de Souza Marques Junior  
Chief Officer of Control Department

Marcus Vinícius Dias Severini  
Chief Accountant  
CRC-RJ 093892/O-3

**Governance and Ethics Committee**

Renato da Cruz Gomes  
Ricardo Simonsen  
Ricardo Carvalho Giambroni

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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: March 24, 2005

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