

VALLEY OF THE RIO DOCE CO

Form 6-K

March 26, 2004

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 2004

Commission File Number 001-15030

**Valley of the Rio Doce Company**

(Translation of Registrant's name into English)

Avenida Graca Aranha, No. 26  
20030-900 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-\_\_.)



**Table of Contents**

United States GAAP Financial Statements for 2003 of Companhia Vale do Rio Doce

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This current report on Form 6-K is hereby incorporated by reference into the Registration Statement on Form F-4 of Vale Overseas Limited, File No. 333-109610; the Registration Statement on Form F-4 of Companhia Vale do Rio Doce, File No. 333-109610-01; the Registration Statement on Form F-3 of Vale Overseas Limited, File No. 333-110867-01; and the Registration Statement on Form F-3 of Companhia Vale do Rio Doce, File No. 333-110867.

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Financial Statements US GAAP 2003

Filed with The Comissão de Valores  
Mobiliários - CVM (Brazilian Securities  
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Gerência Geral de Controladoria -GECOL

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## REPORT OF INDEPENDENT ACCOUNTANTS

### 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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 and US\$343 million at December 31, 2003 and 2002, respectively, and equity in earnings of US\$157 million, US\$60 million and US\$53 million for 2003, 2002 and 2001, respectively. Also, we did not audit the financial statements of certain majority-owned subsidiaries as at and for the years ended December 31, 2003, 2002 and 2001, which statements reflect total assets of US\$1,352 million and US\$969 million at December 31, 2003 and 2002, respectively, and total revenues of US\$839 million, US\$426 million and US\$407 million for 2003, 2002 and 2001, respectively. The financial statements of these affiliates and subsidiaries were audited by other auditors whose reports thereon 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 auditing standards generally accepted in the United States of America 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 stockholder's 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  
February 20, 2004

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

|   | <b>As of December 31,</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2003</b>               | <b>2002</b>         |
| Assets  |                           |                     |
| Current assets  |                           |                     |
| Cash and cash equivalents   | 585                       | 1,091               |
| Accounts receivable   |                           |                     |
| Related parties   | 115                       | 121                 |
| Unrelated parties   | 703                       | 539                 |
| Loans and advances to related parties   | 56                        | 49                  |
| Inventories   | 505                       | 292                 |
| Deferred income tax   | 91                        | 211                 |
| Others  | 419                       | 286                 |
|   | <u>2,474</u>              | <u>2,589</u>        |
| Property, plant and equipment, net  | <b>6,484</b>              | <b>3,297</b>        |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses on equity investments | <b>1,034</b>              | <b>732</b>          |
| Other assets  |                           |                     |
| Goodwill on acquisition of subsidiaries   | 451                       | 412                 |
| Loans and advances  |                           |                     |
| Related parties   | 40                        | 89                  |
| Unrelated parties   | 68                        | 73                  |
| Prepaid pension cost  | 82                        | 79                  |
| Deferred income tax   | 234                       | 358                 |
| Judicial deposits   | 407                       | 239                 |
| Unrealized gain on derivative instruments   | 5                         | 3                   |
| Others  | 155                       | 84                  |
|   | <u>1,442</u>              | <u>1,337</u>        |
| <b>TOTAL</b>  | <b><u>11,434</u></b>      | <b><u>7,955</u></b> |

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

(Continued)

|   | <b>As of December 31,</b> |              |
|---|---------------------------|--------------|
|   | <b>2003</b>               | <b>2002</b>  |
| Liabilities and stockholders' equity  |                           |              |
| Current liabilities   |                           |              |
| Suppliers   | 482                       | 365          |
| Payroll and related charges   | 78                        | 76           |
| Interest attributed to stockholders   | 118                       | 3            |
| Current portion of long-term debt - unrelated parties                                       | 1,009                     | 717          |
| Short-term debt   | 129                       | 184          |
| Loans from related parties  | 119                       | 64           |
| Others  | 318                       | 99           |
|   | <b>2,253</b>              | <b>1,508</b> |
| Long-term liabilities   |                           |              |
| Employees post-retirement benefits  | 198                       | 141          |
| Long-term debt - unrelated parties  | 2,767                     | 2,359        |
| Loans from related parties  | 4                         | 7            |
| Provisions for contingencies (Note 18)  | 635                       | 428          |
| Unrealized loss on derivative instruments   | 96                        | 76           |
| Others  | 268                       | 122          |
|   | <b>3,968</b>              | <b>3,133</b> |
| Minority interests  | <b>329</b>                | <b>27</b>    |
| Stockholders' equity  |                           |              |
| Preferred class A stock - 600,000,000 no-par-value shares authorized and 138,575,913 issued | 1,055                     | 904          |
| Common stock - 300,000,000 no-par-value shares authorized and 249,983,143 issued            | 1,902                     | 1,630        |
| Treasury stock - 4,183 (2002 - 4,481) preferred and 4,715,170 common shares                 | (88)                      | (88)         |
| Additional paid-in capital  | 498                       | 498          |
| Other cumulative comprehensive income   | (4,375)                   | (5,175)      |

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|                                  |               |              |
|----------------------------------|---------------|--------------|
| Appropriated retained earnings   | 3,035         | 2,230        |
| Unappropriated retained earnings | 2,857         | 3,288        |
|                                  | <u>4,884</u>  | <u>3,287</u> |
| <br>                             |               |              |
| TOTAL                            | <u>11,434</u> | <u>7,955</u> |

*See notes to consolidated financial statements.*

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

|   | Three months ended   |                       |                      | Year ended December 31, |                |                |
|---|----------------------|-----------------------|----------------------|-------------------------|----------------|----------------|
|   | December<br>31, 2003 | September<br>30, 2003 | December<br>31, 2002 | 2003                    | 2002           | 2001           |
|   | (unaudited)          |                       |                      |                         |                |                |
| Operating revenues, net of discounts,<br>returns and allowances |                      |                       |                      |                         |                |                |
| Sales of ores and metals  |                      |                       |                      |                         |                |                |
| Iron ore and pellets  | 1,075                | 918                   | 737                  | 3,500                   | 2,820          | 2,600          |
| Gold  |                      | 5                     | 13                   | 21                      | 103            | 139            |
| Manganese and ferroalloys                                       | 104                  | 81                    | 67                   | 349                     | 283            | 259            |
| Potash  | 24                   | 28                    | 24                   | 94                      | 91             | 71             |
| Others  | 41                   | 25                    | 12                   | 96                      | 45             | 41             |
|   | <b>1,244</b>         | <b>1,057</b>          | <b>853</b>           | <b>4,060</b>            | <b>3,342</b>   | <b>3,110</b>   |
| Revenues from logistic services                                 | 192                  | 159                   | 98                   | 604                     | 458            | 608            |
| Aluminum products   | 254                  | 243                   | 150                  | 852                     | 462            | 284            |
| Other products and services                                     |                      | 24                    |                      | 29                      | 20             | 75             |
|   | <b>1,690</b>         | <b>1,483</b>          | <b>1,101</b>         | <b>5,545</b>            | <b>4,282</b>   | <b>4,077</b>   |
| Value-added tax   | (52)                 | (51)                  | (42)                 | (195)                   | (159)          | (142)          |
|   | <b>1,638</b>         | <b>1,432</b>          | <b>1,059</b>         | <b>5,350</b>            | <b>4,123</b>   | <b>3,935</b>   |
| Operating costs and expenses                                    |                      |                       |                      |                         |                |                |
| Cost of ores and metals sold                                    | (670)                | (530)                 | (392)                | (2,066)                 | (1,579)        | (1,550)        |
| Cost of logistic services                                       | (138)                | (89)                  | (56)                 | (370)                   | (252)          | (378)          |
| Cost of aluminum products                                       | (194)                | (185)                 | (139)                | (678)                   | (412)          | (269)          |
| Others  | (3)                  | (8)                   | (2)                  | (14)                    | (20)           | (75)           |
|   | <b>(1,005)</b>       | <b>(812)</b>          | <b>(589)</b>         | <b>(3,128)</b>          | <b>(2,263)</b> | <b>(2,272)</b> |
| Selling, general and administrative<br>expenses                 | (97)                 | (74)                  | (51)                 | (265)                   | (224)          | (241)          |
| Research and development  | (37)                 | (22)                  | (14)                 | (82)                    | (50)           | (43)           |
| Employee profit sharing plan                                    | (9)                  | (2)                   | (18)                 | (32)                    | (38)           | (38)           |
| Others  | (98)                 | (21)                  | (46)                 | (199)                   | (119)          | (379)          |

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|   |                |              |              |                |                |                |
|---|----------------|--------------|--------------|----------------|----------------|----------------|
|   | <u>(1,246)</u> | <u>(931)</u> | <u>(718)</u> | <u>(3,706)</u> | <u>(2,694)</u> | <u>(2,973)</u> |
| Operating income  | <u>392</u>     | <u>501</u>   | <u>341</u>   | <u>1,644</u>   | <u>1,429</u>   | <u>962</u>     |
| Non-operating income (expenses)   |                |              |              |                |                |                |
| Financial income  | 18             | 27           | 40           | 102            | 127            | 135            |
| Financial expenses  | (122)          | (83)         | (48)         | (351)          | (375)          | (335)          |
| Foreign exchange and monetary gains (losses), net   | (8)            | (57)         | 257          | 242            | (580)          | (426)          |
| Gain on sale of investments   | 17             |              |              | 17             |                | 784            |
|   | <u>(95)</u>    | <u>(113)</u> | <u>249</u>   | <u>10</u>      | <u>(828)</u>   | <u>158</u>     |
| Income before income taxes, equity results and minority interests   | <u>297</u>     | <u>388</u>   | <u>590</u>   | <u>1,654</u>   | <u>601</u>     | <u>1,120</u>   |
| Income taxes  |                |              |              |                |                |                |
| Current   | 10             | 41           | (8)          | (90)           | (12)           | 46             |
| Deferred  | (76)           | (41)         | (101)        | (207)          | 161            | 172            |
|   | <u>(66)</u>    |              | <u>(109)</u> | <u>(297)</u>   | <u>149</u>     | <u>218</u>     |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 88             | 89           | 121          | 306            | (87)           | (53)           |
| Minority interests  | (49)           | (9)          | (33)         | (105)          | 17             | 2              |
| Income from continuing operations   | <u>270</u>     | <u>468</u>   | <u>569</u>   | <u>1,558</u>   | <u>680</u>     | <u>1,287</u>   |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |                |              |              | (10)           |                |                |
| Net income  | <u>270</u>     | <u>468</u>   | <u>569</u>   | <u>1,548</u>   | <u>680</u>     | <u>1,287</u>   |
| Basic earnings per Preferred Class A Share  | <u>0.70</u>    | <u>1.22</u>  | <u>1.48</u>  | <u>4.03</u>    | <u>1.77</u>    | <u>3.34</u>    |

|  |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Basic earnings per Common Share  | <u>0.70</u> | <u>1.22</u> | <u>1.48</u> | <u>4.03</u> | <u>1.77</u> | <u>3.34</u> |
| Weighted average number of shares<br>outstanding (thousands of shares) |             |             |             |             |             |             |
| Common shares  | 245,268     | 245,268     | 249,864     | 245,268     | 249,864     | 249,864     |
| Preferred Class A shares   | 138,571     | 138,571     | 135,042     | 138,571     | 135,042     | 135,042     |

*See notes to consolidated financial statements.*

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

|   | Three months ended      |                       |                      | Year ended December 31, |              |              |
|---|-------------------------|-----------------------|----------------------|-------------------------|--------------|--------------|
|   | December<br>31,<br>2003 | September<br>30, 2003 | December<br>31, 2002 | 2003                    | 2002         | 2001         |
|   | (unaudited)             |                       |                      |                         |              |              |
| Cash flows from operating activities:   |                         |                       |                      |                         |              |              |
| Net income  | 270                     | 468                   | 569                  | 1,548                   | 680          | 1,287        |
| Adjustments to reconcile net income to cash provided by operating activities:                               |                         |                       |                      |                         |              |              |
| Depreciation, depletion and amortization  | 78                      | 63                    | 43                   | 238                     | 214          | 212          |
| Dividends received  | 59                      | 66                    | 19                   | 197                     | 91           | 132          |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (88)                    | (89)                  | (121)                | (306)                   | 87           | 53           |
| Deferred income taxes   | 76                      | 41                    | 101                  | 207                     | (161)        | (172)        |
| Current income taxes contingency  |                         |                       |                      |                         |              |              |
| Provisions for other contingencies  |                         |                       | (1)                  | 9                       | 53           | 79           |
| Impairment of property, plant and equipment   | 39                      |                       | 51                   | 51                      | 62           | 79           |
| Gain on sale of investments   | (17)                    |                       |                      | (17)                    |              | (784)        |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |                         |                       |                      | 10                      |              |              |
| Pension plan  | 4                       | 3                     | 3                    | 12                      | 11           | 32           |
| Foreign exchange and monetary losses (gains)  | 5                       | 13                    | (310)                | (382)                   | 1,031        | 460          |
| Net unrealized derivative losses (gains)  | 20                      | 21                    | 7                    | 43                      | 83           | 38           |
| Minority interests  | 49                      | 9                     | 33                   | 105                     | (17)         | (2)          |
| Others  | 6                       | (20)                  | (73)                 | (15)                    | 46           | 131          |
| Decrease (increase) in assets:  |                         |                       |                      |                         |              |              |
| Accounts receivable   | (68)                    | (24)                  | 49                   | 37                      | (123)        | (49)         |
| Inventories   | 6                       | (27)                  | (26)                 | (22)                    | (69)         | (40)         |
| Others  | (36)                    | (1)                   | (21)                 | (9)                     | (105)        | 17           |
| Increase (decrease) in liabilities:   |                         |                       |                      |                         |              |              |
| Suppliers   | 59                      | (2)                   | 125                  | (18)                    | 102          | 21           |
| Payroll and related charges   | (17)                    | (15)                  | 1                    | (25)                    | 23           | 42           |
| Others  | 69                      | (71)                  | 55                   | 94                      | 94           | (18)         |
|   |                         |                       |                      |                         |              |              |
| Net cash provided by operating activities   | <b>514</b>              | <b>435</b>            | <b>504</b>           | <b>1,757</b>            | <b>2,102</b> | <b>1,518</b> |

Cash flows from investing activities:  
Loans and advances receivable

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|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Related parties  |                   |                   |                   |                   |                   |                   |
| Additions  | (65)              | (15)              | (66)              | (157)             | (101)             | (75)              |
| Repayments   | 9                 | 33                | 23                | 71                | 75                | 79                |
| Others   |                   | 18                | 2                 | 35                | 20                | 7                 |
| Guarantees and deposits                                      | (13)              | 78                | (17)              | (99)              | (78)              | (85)              |
| Additions to investments                                     | 1                 | (8)               |                   | (68)              | (1)               | (338)             |
| Additions to property, plant and equipment                   | (594)             | (443)             | (258)             | (1,543)           | (766)             | (595)             |
| Proceeds from disposal of investments                        | 83                |                   | (49)              | 83                |                   | 989               |
| Proceeds from disposals of property, plant and equipment     |                   | 21                | 5                 | 58                | 7                 | 3                 |
| Cash used to acquire subsidiaries, net of cash acquired      |                   | (380)             |                   | (380)             | (45)              | (516)             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash used in investing activities                        | <b>(579)</b>      | <b>(696)</b>      | <b>(360)</b>      | <b>(2,000)</b>    | <b>(889)</b>      | <b>(531)</b>      |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash flows from financing activities:                        |                   |                   |                   |                   |                   |                   |
| Short-term debt, net issuances (repayments)                  | (1)               | (4)               | (202)             | (38)              | (345)             | (28)              |
| Loans  |                   |                   |                   |                   |                   |                   |
| Related parties  |                   |                   |                   |                   |                   |                   |
| Additions  | 24                | 48                | 22                | 72                | 54                | 145               |
| Repayments   | (2)               | (2)               | (46)              | (26)              | (75)              | (44)              |
| Issuances of long-term debt                                  |                   |                   |                   |                   |                   |                   |
| Related parties  | 12                |                   | 6                 | 14                | 17                | 66                |
| Others   | 29                | 779               | 37                | 1,025             | 698               | 317               |
| Repayments of long-term debt                                 |                   |                   |                   |                   |                   |                   |
| Related parties  |                   |                   |                   | (4)               | (15)              | (40)              |
| Others   | (351)             | (139)             | (85)              | (766)             | (330)             | (310)             |
| Interest attributed to stockholders                          | (427)             | (33)              | (273)             | (675)             | (602)             | (1,066)           |
| Treasury stock   |                   |                   |                   |                   |                   | (27)              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash used in financing activities                        | <b>(716)</b>      | <b>649</b>        | <b>(541)</b>      | <b>(398)</b>      | <b>(598)</b>      | <b>(987)</b>      |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Increase (decrease) in cash and cash equivalents             | (781)             | 388               | (397)             | (641)             | 615               |                   |
| Effect of exchange rate changes on cash and cash equivalents | 26                | (14)              | 86                | 135               | (641)             | (94)              |
| Cash and cash equivalents, beginning of period               | 1,340             | 966               | 1,402             | 1,091             | 1,117             | 1,211             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash and cash equivalents, end of period                     | <b>585</b>        | <b>1,340</b>      | <b>1,091</b>      | <b>585</b>        | <b>1,091</b>      | <b>1,117</b>      |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash paid during the period for:                             |                   |                   |                   |                   |                   |                   |
| Interest on short-term debt                                  |                   |                   | (15)              | (7)               | (46)              | (45)              |
| Interest on long-term debt                                   | (38)              | (54)              | (35)              | (178)             | (157)             | (164)             |
| Income tax   | (16)              | (6)               | (8)               | (55)              | (12)              | (46)              |
| Non-cash transactions  |                   |                   |                   |                   |                   |                   |

|  |      |     |      |       |      |       |
|--|------|-----|------|-------|------|-------|
| Special pension plan contribution in shares of CSN |      |     |      |       |      | (249) |
| Conversion of loans receivable to investments      | (91) | (9) | (15) | (187) | (55) | (35)  |
| Income tax paid with credits                       |      |     |      | (81)  |      |       |

*See notes to consolidated financial statements.*

**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   |                       |                      | Year ended December 31, |       |       |
|---|----------------------|-----------------------|----------------------|-------------------------|-------|-------|
|   | December<br>31, 2003 | September<br>30, 2003 | December<br>31, 2002 | 2003                    | 2002  | 2001  |
|   | (unaudited)          |                       |                      |                         |       |       |
| Preferred class A<br>stock (including one<br>special share) |                      |                       |                      |                         |       |       |
| Beginning of the<br>period                                  | 1,055                | 1,055                 | 904                  | 904                     | 820   | 709   |
| Transfer from<br>appropriated retained<br>earnings          |                      |                       |                      | 151                     | 84    | 111   |
| End of the period   | 1,055                | 1,055                 | 904                  | 1,055                   | 904   | 820   |
| Common stock  |                      |                       |                      |                         |       |       |
| Beginning of the<br>period                                  | 1,902                | 1,902                 | 1,630                | 1,630                   | 1,479 | 1,279 |
| Transfer from<br>appropriated retained<br>earnings          |                      |                       |                      | 272                     | 151   | 200   |
| End of the period   | 1,902                | 1,902                 | 1,630                | 1,902                   | 1,630 | 1,479 |
| Treasury stock  |                      |                       |                      |                         |       |       |
| Beginning of the<br>period                                  | (88)                 | (88)                  | (88)                 | (88)                    | (88)  | (61)  |
| Acquisitions in 2001  |                      |                       |                      |                         |       | (27)  |
| End of the period   | (88)                 | (88)                  | (88)                 | (88)                    | (88)  | (88)  |
| Additional paid-in<br>capital                               |                      |                       |                      |                         |       |       |
| End of the period   | 498                  | 498                   | 498                  | 498                     | 498   | 498   |

|   |                |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Other cumulative comprehensive income               |                |                |                |                |                |                |
| Amounts not recognized as net periodic pension cost |                |                |                |                |                |                |
| Beginning of the period                             |                |                |                |                |                | (100)          |
| Excess of additional minimum liability              |                |                |                |                |                | 151            |
| Tax effect on above                                 |                |                |                |                |                | (51)           |
| End of the period                                   |                |                |                |                |                |                |
| Cumulative translation adjustments                  |                |                |                |                |                |                |
| Beginning of the period                             | (4.473)        | (4.406)        | (5.295)        | (5.185)        | (3.475)        | (2.972)        |
| Change in the period                                | 24             | (67)           | 110            | 736            | (1.710)        | (503)          |
| End of the period                                   | <b>(4.449)</b> | <b>(4.473)</b> | <b>(5.185)</b> | <b>(4.449)</b> | <b>(5.185)</b> | <b>(3.475)</b> |
| Unrealized gain on available-for-sale securities    |                |                |                |                |                |                |
| Beginning of the period                             | 14             | 18             |                |                |                | 24             |
| Change in the period                                | 60             | (4)            |                | 74             |                | (24)           |
| End of the period                                   | <b>74</b>      | <b>14</b>      |                | <b>74</b>      |                |                |
| Adjustments relating to investments in affiliates   |                |                |                |                |                |                |
| Beginning of the period                             | 10             | 10             | 10             | 10             | 10             | 8              |
| Change in the period                                |                |                |                |                |                | 2              |
| Transfer to retained earnings                       | (10)           |                |                | (10)           |                |                |

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| End of the period                                    |                | <b>10</b>      | <b>10</b>      |                | <b>10</b>      | <b>10</b>      |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Total other cumulative comprehensive income          | <b>(4.375)</b> | <b>(4.449)</b> | <b>(5.175)</b> | <b>(4.375)</b> | <b>(5.175)</b> | <b>(3.465)</b> |
| Appropriated retained earnings                       |                |                |                |                |                |                |
| Beginning of the period                              | 2.251          | 2.292          | 1.635          | 2.230          | 3.212          | 3.537          |
| Transfer (to) from retained earnings                 | 784            | (41)           | 595            | 1.228          | (747)          | (14)           |
| Transfer to capital stock                            |                |                |                | (423)          | (235)          | (311)          |
| End of the period                                    | <b>3.035</b>   | <b>2.251</b>   | <b>2.230</b>   | <b>3.035</b>   | <b>2.230</b>   | <b>3.212</b>   |
| Retained earnings                                    |                |                |                |                |                |                |
| Beginning of the period                              | 3.472          | 3.281          | 3.314          | 3.288          | 2.184          | 1.647          |
| Net income   | 270            | 468            | 569            | 1.548          | 680            | 1.287          |
| Interest attributed to stockholders                  |                |                |                |                |                |                |
| Preferred class A stock                              | (40)           | (115)          |                | (275)          | (117)          | (276)          |
| Common stock   | (71)           | (203)          |                | (486)          | (206)          | (488)          |
| Appropriation (to) from reserves                     | (774)          | 41             | (595)          | (1.218)        | 747            | 14             |
| End of the period                                    | <b>2.857</b>   | <b>3.472</b>   | <b>3.288</b>   | <b>2.857</b>   | <b>3.288</b>   | <b>2.184</b>   |
| Total stockholders equity                            | <b>4.884</b>   | <b>4.641</b>   | <b>3.287</b>   | <b>4.884</b>   | <b>3.287</b>   | <b>4.640</b>   |
| Comprehensive income (loss) is comprised as follows: |                |                |                |                |                |                |
| Net income   | 270            | 468            | 569            | 1.548          | 680            | 1.287          |
| Amounts not recognized as net periodic pension cost  |                |                |                |                |                | 100            |

|   |                    |                    |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cumulative translation adjustments                      | 24                 | (67)               | 110                | 736                | (1.710)            | (503)              |
| Unrealized gain (loss) on available-for-sale securities | 60                 | (4)                |                    | 74                 |                    | (24)               |
| Adjustments relating to investments in affiliates       |                    |                    |                    |                    |                    | 2                  |
| <b>Total comprehensive income (loss)</b>                | <b>354</b>         | <b>397</b>         | <b>679</b>         | <b>2.358</b>       | <b>(1.030)</b>     | <b>862</b>         |
| <b>Shares</b>   |                    |                    |                    |                    |                    |                    |
| Preferred class A stock (including one special share)   | <b>138.575.913</b> | <b>138.575.913</b> | <b>138.575.913</b> | <b>138.575.913</b> | <b>138.575.913</b> | <b>138.575.913</b> |
| Common stock  | <b>249.983.143</b> | <b>249.983.143</b> | <b>249.983.143</b> | <b>249.983.143</b> | <b>249.983.143</b> | <b>249.983.143</b> |
| Treasury stock (1)                                      |                    |                    |                    |                    |                    |                    |
| Beginning of the period                                 | (4.719.353)        | (4.719.405)        | (4.719.921)        | (4.719.651)        | (4.715.261)        | (3.659.311)        |
| Acquisitions  |                    |                    |                    |                    | (4.390)            | (1.055.950)        |
| Sales   |                    | 52                 | 270                | 298                |                    |                    |
| End of the period                                       | <b>(4.719.353)</b> | <b>(4.719.353)</b> | <b>(4.719.651)</b> | <b>(4.719.353)</b> | <b>(4.719.651)</b> | <b>(4.715.261)</b> |
|   | <b>383.839.703</b> | <b>383.839.703</b> | <b>383.839.405</b> | <b>383.839.703</b> | <b>383.839.405</b> | <b>383.843.795</b> |
| <b>Interest attributed to stockholders (per share)</b>  |                    |                    |                    |                    |                    |                    |
| Preferred class A stock (including one special share)   | 0,29               | 0,83               |                    | 1,98               | 0,84               | 1,99               |
| Common stock  | 0,29               | 0,83               |                    | 1,98               | 0,84               | 1,99               |

(1) As of December 31, 2003, 4,715,170 common shares and 4,183 preferred shares were held in treasury in the amount of US\$ 88. The 4,715,170 common shares guarantee a loan of to our subsidiary Alunorte.

**See notes to consolidated financial statements.**



**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:

| Subsidiary                                       | %<br>ownership | Head office<br>location | Principal<br>activity     |
|--|----------------|-------------------------|---------------------------|
| Alumina do Norte do Brasil S.A. Alunorte         | 57             | Brazil                  | Aluminum                  |
| CADAM S.A. (2) (4)                               | 61             | Brazil                  | Kaolin                    |
| CELMAR S.A. Indústria de Celulose e Papel (3)    | 100            | Brazil                  | Forestry                  |
| CVRD Overseas Ltd.                               | 100            | Cayman Island           | Trading                   |
| Ferrovias Centro-Atlântica S.A. (4)              | 100            | Brazil                  | Logistics                 |
| Ferteco Mineração S.A. FERTECO (3)               | 100            | Brazil                  | Iron ore and Pellets      |
| Itabira Rio Doce Company Ltd. ITACO              | 100            | Cayman Island           | Trading                   |
| Mineração Serra do Sossego S.A. (1) (5)          | 100            | Brazil                  | Copper                    |
| Minerações Brasileiras Reunidas S.A. MBR (2) (4) | 85             | Brazil                  | Iron ore                  |
| Navegação Vale do Rio Doce S.A. DOCENAVE         | 100            | Brazil                  | Shipping                  |
| Pará Pigmentos S.A.                              | 76             | Brazil                  | Kaolin                    |
| Rio Doce International Finance Ltd. RDIF         | 100            | Bahamas                 | International finance     |
| Rio Doce Manganês Europe RDME                    | 100            | France                  | Ferroalloys               |
| Rio Doce Manganese Norway RDMN                   | 100            | Norway                  | Ferroalloys               |
| Salobo Metais S.A. (1)                           | 100            | Brazil                  | Copper                    |
| Rio Doce Manganês S.A. (6)                       | 100            | Brazil                  | Manganese and Ferroalloys |
| Urucum Mineração S.A.                            | 100            | Brazil                  | Iron ore, Ferroalloys and |
| Vale do Rio Doce Alumínio S.A. ALUVALE (5)       | 100            | Brazil                  | Manganese<br>Aluminum     |

(1) Development stage companies

(2) Through Caemi Mineração e Metalurgia S.A.

(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.

## **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.

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 (see 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.

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, 2003, September 30, 2003, and December 31, 2002 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 to 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\$2.8892 and R\$3.5333 to US\$1.00 at December 31, 2003 and 2002, 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 \$222, (\$515) and (\$410) in 2003, 2002 and 2001, 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 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.

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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 not 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 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 (See 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, 2003, 2002 and 2001, 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.

The transition adjustment relating to the fair value of derivatives existing as of December 31, 2000 is recorded as a charge of \$8 in our statement of income for the year ended December 31, 2001. In view of the immateriality of this effect of a change in accounting principle the corresponding amount was included with other non-operating expenses. Certain of our affiliated companies and joint ventures also recorded similar charges, of which our portion of \$4 is included in the caption Equity in results of affiliates and joint ventures in the statement of income.

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Further information about our derivatives and hedging activities is included in Note 22.

**(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 2002 and 2001 to make them comparable with the 2003 presentation.

**4 Change in accounting practice**

In June 2001, the FASB issued SFAS 143 Accounting for Asset Retirement Obligations . We adopted SFAS 143 as from January 1, 2003, and as a consequence an additional \$26 for asset retirement obligations was recorded as Others long-term liabilities , a net increase of \$11 in mine development costs was registered within Property, plant and equipment and a resulting charge of \$10 was registered as Change in Accounting Practice for Asset Retirement Obligations on the Statement of Income, net of income tax (\$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.

**5 Recently-issued accounting pronouncements**

In December 2003, the FASB issued FIN 46R Consolidation of Variable Interest Entities, (revised December 2003) . The primary objectives of FIN 46R are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities or VIEs) and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures regarding the nature, purpose, size and activities of the VIE and the enterprise's maximum exposure to loss as a result of its involvement with the VIE.

The implementation date of FIN 46R is the first period ending after December 15, 2003 for Special Purpose Entities (SPEs) and as from January 1 2004 for previously existing variable interest entities which are not SPEs. FIN 46R may be applied prospectively with a cumulative adjustment as of the date on which it is first applied or by restating previously issued financing statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. It is possible that we will consolidate or disclose information in relation to certain joint ventures and equity investments.

With respect to SPEs the adoption of FIN 46R did not result in consolidation of any additional entities at December 31, 2003.

We are evaluating the impact of implementing FIN 46R as from January 1, 2004 with respect to consolidating variable interest entities which are not SPEs.

In May 2003 FASB issued SFAS No. 150 Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity , which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The FASB decided to make this statement effective shortly after issuance for contracts created or modified after it is issued

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and for existing contracts at the beginning of the first interim period beginning after June 15, 2003. We do not expect SFAS 150 to have a material impact on our financial statements.

Emerging Issue Task Force No. 01-08 (EITF 01-08), *Determining Whether an Arrangement is a Lease*, provides guidance in determining whether an arrangement should be considered a lease subject to the requirements of FASB Statement No. 13 (FAS 13), *Accounting for Leases*. The rule defines, among others, that an arrangement conveys the right to use the property, plant, and equipment (PP&E) if the purchaser (lessee) has (1) the ability to operate the PP&E, (2) control physical access to the PP&E, or (3) it is remote that one or more other parties will take more than a minor amount of the output and the pricing for the output is not fixed per unit or based on current market prices at the date of delivery.

The consensus is to be applied to arrangements agreed or committed to, modified, or acquired in business combinations initiated after the beginning of an entity's next reporting period beginning after May 28, 2003. We have not entered into significant arrangements since this date.

## **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 a preferred special share 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.
- . Preferred Class A Share of Valepar. The Brazilian Government held a preferred class A share of Vale par which confers upon it approval rights for a period of five years in respect of (i) concentration of ownership of Vale par by particular types of investors in excess of prescribed limitations and (ii) changes in the Valepar holding company structure relating to ownership of our common shares. This share was cancelled on April 28, 2003.
- . 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.

In addition to the preferred special share mentioned above, the National Treasury and the Banco Nacional de Desenvolvimento Econômico e Social BNDDES, the Government owned development bank, together held 32% of our common shares and 4% of our preferred shares, which in aggregate represented 22% of our total capital at December 31, 2001. These common shares were sold through a public offering in Brazil and abroad which was completed on March 27, 2002.

## **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) On April 27, 2001 we acquired 100% of Ferteco Mineração S.A. FERTECO, a non-public company whose main activity is production and commercialization of iron ore and pellets, for \$523 in cash.

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The assets and liabilities acquired and corresponding goodwill were as follows:

|                           |            |
|---------------------------|------------|
| Fair value of assets      | 401        |
| Fair value of liabilities | (251)      |
|                           | <hr/>      |
| Net assets at fair value  | 150        |
| Purchase price            | 523        |
|                           | <hr/>      |
| Goodwill                  | <b>373</b> |
|                           | <hr/>      |

For FERTECO inventories were valued at \$57, property, plant and equipment were valued at \$178, and the deferred tax liability was \$24.

- (b) In December 2001, acting through our wholly-owned foreign subsidiary Itabira Rio Doce Company Ltd. - Itaco, we acquired 659,375,000 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 Cayman Iron Ore Investment Co., Ltd., 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 \$27 at December 31, 2003). 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.

The estimated net assets and corresponding goodwill were as follows:

|   |                     |
|---|---------------------|
|   | <b>December 31,</b> |
|   | <b>2001</b>         |
|   | <hr/>               |
| Estimated fair value of assets              | 1,127               |
| Estimated fair value of liabilities         | (734)               |
|   | <hr/>               |
| Net assets at fair value                    | <b>393</b>          |
| Interest in total capital acquired          | 16.82%              |
| Estimated fair value of net assets acquired | 66                  |

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|                |                   |
|----------------|-------------------|
| Purchase price | <u>279</u>        |
| Goodwill       | <u><b>213</b></u> |

On September 2, 2003 we acquired a further 43.37% of the capital of Caemi for \$426, increasing our 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 income statement 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<br/>Consolidated</b> | <b>Pre-<br/>acquisition<br/>CAEMI<br/>(1)</b> | <b>Pro<br/>Forma<br/>(unaudited)</b> | <b>CVRD<br/>Consolidated</b> | <b>CAEMI<br/>(2)</b> | <b>Pro<br/>Forma<br/>(unaudited)</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 | 306                          | (20)  | 286                                  | (87)                         | (2)(3)               | (89)                                 |

|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| on equity investments  |                   |                   |                   |                   |                   |                   |
| Minority interests   | (105)             | 18                | (87)              | 17                | 64                | 81                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income from continuing operations                              | 1,558             | 54                | 1,612             | 680               |                   | 680               |
| Change in accounting practice for asset retirement obligations | (10)              |                   | (10)              |                   |                   |                   |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Net income</b>  | <b>1,548</b>      | <b>54</b>         | <b>1,602</b>      | <b>680</b>        |                   | <b>680</b>        |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

(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 - \$86.

(c) On June 27, 2002 we acquired a further 12.62% of the capital of ALUNORTE for \$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.

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, 2001 is as follows:

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|   | 2002                 |                         |                           | 2001                 |            |                           |
|---|----------------------|-------------------------|---------------------------|----------------------|------------|---------------------------|
|   | Pre-                 |                         | Pro<br>Forma<br>Unaudited | Pre-                 |            | Pro<br>Forma<br>Unaudited |
|   | CVRD<br>Consolidated | acquisition<br>ALUNORTE |                           | CVRD<br>Consolidated | ALUNORTE   |                           |
| Net operating revenues  | 4,123                | 138                     | 4,261                     | 3,935                | 294        | 4,229                     |
| Operating costs and expenses  | (2,694)              | (151)                   | (2,845)                   | (2,973)              | (219)      | (3,192)                   |
| Operating income  | 1,429                | (13)                    | 1,416                     | 962                  | 75         | 1,037                     |
| Non-operating income (expenses)   | (828)                | (38)                    | (866)                     | 158                  | (83)       | 75                        |
| Income before income taxes,<br>equity results and minority<br>interests | 601                  | (51)                    | 550                       | 1,120                | (8)        | 1,112                     |
| Income taxes  | 149                  |                         | 149                       | 218                  | (5)        | 213                       |
| Equity in results of affiliates and<br>joint ventures                   | (28)                 | 23                      | (5)                       | (49)                 | 7          | (42)                      |
| Change in provision for losses on<br>equity investments                 | (59)                 |                         | (59)                      | (4)                  |            | (4)                       |
| Minority interests  | 17                   | 28                      | 45                        | 2                    |            | 2                         |
| <b>Net income</b>   | <b>680</b>           |                         | <b>680</b>                | <b>1,287</b>         | <b>(6)</b> | <b>1,281</b>              |

- (d) On March 9, 2001 we transferred our 10.33% interest in Companhia Siderúrgica Nacional – CSN to VALIA, as a special pension plan contribution, for \$249 (fair market value determined based on the weighted average price of the last thirty trading sessions at the São Paulo stock exchange in the period ended on March 9, 2001). This transfer resulted in a gain of \$107. We have provided VALIA with a guarantee that we will make additional contributions to the pension plan if the market value of the CSN shares falls below threshold levels prior to the sale thereof by VALIA. At December 31, 2003 we have provided \$1 in respect of this commitment.
- (e) On April 27, 2001 we concluded the sale of our 32.00% interest in Bahia Sul Celulose S.A. - BSC for \$318, received in cash on May 7, 2001. This operation resulted in a gain of \$170.
- (f) On June 6, 2001 we concluded the sale of our 51.48% interest in Celulose Nipo-Brasileira S.A. - CENIBRA for \$671, received in cash on September 14, 2001. This operation resulted in a gain of \$507.
- (g) 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 \$84. The profit on the operation was \$61.

This transaction is in line with CVRD's focus on mining and logistics and its strategy to sell equity participations which had assumed the nature of portfolio investments.

- (h) 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 \$44.

## **8 Income taxes**

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.

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

|   | Three months ended |                    |                   | Year ended December 31, |            |              |
|---|--------------------|--------------------|-------------------|-------------------------|------------|--------------|
|   | December 31, 2003  | September 30, 2003 | December 31, 2002 | 2003                    | 2002       | 2001         |
|   | (unaudited)        |                    |                   |                         |            |              |
| Income before income taxes, equity results and minority interests                       | <b>297</b>         | <b>388</b>         | <b>590</b>        | <b>1,654</b>            | <b>601</b> | <b>1,120</b> |
| Federal income tax and social contribution expense at statutory enacted rates           | (101)              | (132)              | (200)             | (562)                   | (204)      | (381)        |
| Adjustments to derive effective tax rate:   |                    |                    |                   |                         |            |              |
| Tax benefit on interest attributed to stockholders                                      | 42                 | 107                | 9                 | 271                     | 99         | 260          |
| Exempt foreign income (expenses)  | (26)               | 9                  | 22                | (59)                    | 196        | 226          |
| Difference on tax basis of equity investees   | (56)               |                    | 20                | (56)                    | 20         | 58           |
| Tax effect related to provision for losses and write-downs                              |                    |                    | 29                |                         | 29         | 59           |
| Tax incentives  | 12                 | 8                  | 2                 | 60                      | 4          | 26           |
| Valuation allowance reversal (provision)  | 40                 | 4                  | 25                | 53                      | (12)       | (44)         |
| Other non-taxable gains (losses)  | 23                 | 4                  | (16)              | (4)                     | 17         | 14           |
| Federal income tax and social contribution expense in consolidated statements of income | <b>(66)</b>        |                    | <b>(109)</b>      | <b>(297)</b>            | <b>149</b> | <b>218</b>   |

We have certain tax incentives relative to our iron ore and manganese operations in Carajás and relative to alumina in Barcarena. 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. Both 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:

|  | As of December 31 |      |
|--|-------------------|------|
|  | 2003              | 2002 |
| <b>Net current deferred tax assets</b> |                   |      |

|  |              |              |
|--|--------------|--------------|
| Accrued expenses deductible only when disbursed                                  | 91           | 211          |
|  | <u>91</u>    | <u>211</u>   |
| <b>Long-term deferred tax assets and liabilities</b>                             |              |              |
| <b>Assets</b>  |              |              |
| Deferred tax relative to temporary differences                                   | 3            | 5            |
| Tax deductible goodwill in business combinations                                 | 79           | 66           |
| Related to provision for losses and write-downs of investments                   | 149          | 158          |
| Additional retirement benefits provision, net of unrecognized pension obligation | 73           | 47           |
| Tax loss carryforwards   | 132          | 187          |
| Other temporary differences  | 206          | 211          |
|  | <u>642</u>   | <u>674</u>   |
| <b>Liabilities</b>   |              |              |
| Inflationary income  | (26)         | (21)         |
| Relative to investments acquired   | (202)        |              |
| Prepaid retirement benefit   | (28)         | (27)         |
| Fair value adjustments in business combinations                                  | (40)         | (38)         |
|  | <u>(296)</u> | <u>(86)</u>  |
| <b>Valuation allowance</b>   |              |              |
| Beginning balance  | (230)        | (213)        |
| Translation adjustments  | (37)         | 73           |
| Business acquisition, sales and others   | 102          | (78)         |
| Net change in allowance  | 53           | (12)         |
|  | <u>(112)</u> | <u>(230)</u> |
| Ending balance   | <u>(112)</u> | <u>(230)</u> |
| Net long-term deferred tax assets  | <u>234</u>   | <u>358</u>   |

**9 Cash and cash equivalents**

|                                   | <b>As of December<br/>31</b> |              |
|-----------------------------------|------------------------------|--------------|
|                                   | <b>2003</b>                  | <b>2002</b>  |
| Cash                              | 88                           | 51           |
| Deposits in local currency        | 267                          | 220          |
| Deposits in United States dollars | 230                          | 820          |
|                                   | <b>585</b>                   | <b>1,091</b> |

**10 Accounts receivable**

|  | <b>As of December<br/>31</b> |             |
|--|------------------------------|-------------|
|  | <b>2003</b>                  | <b>2002</b> |
| Customers  |                              |             |
| Domestic   | 195                          | 189         |
| Export, all denominated in United States dollars | 665                          | 503         |
|  | <b>860</b>                   | <b>692</b>  |
| Allowance for doubtful accounts                  | (30)                         | (26)        |
| Allowance for ore weight credits                 | (12)                         | (6)         |
|  | <b>818</b>                   | <b>660</b>  |

Accounts receivable from customers in the steel industry amount to 27.5% and 18.4% of domestic receivables (export receivables 88.1% and 95.1%) at December 31, 2003 and 2002, respectively. No single customer accounted for more than 10% of total revenues in any of the years presented.

**11 Inventories**

|  | <b>As of December<br/>31</b> |             |
|--|------------------------------|-------------|
|  | <b>2003</b>                  | <b>2002</b> |

|                                      |            |            |
|--------------------------------------|------------|------------|
| Finished products                    |            |            |
| Iron ore and pellets                 | 146        | 86         |
| Manganese and ferroalloys            | 78         | 51         |
| Alumina                              | 20         | 15         |
| Kaolin                               | 16         | 6          |
| Others                               | 8          | 6          |
| Spare parts and maintenance supplies | 237        | 128        |
|                                      | <u>505</u> | <u>292</u> |

**12 Property, plant and equipment****a) Per business area:**

|                           | <b>As of December 31, 2003</b> |                                 |              | <b>As of December 31, 2002</b> |                                 |              |
|---------------------------|--------------------------------|---------------------------------|--------------|--------------------------------|---------------------------------|--------------|
|                           | <b>Cost</b>                    | <b>Accumulated depreciation</b> | <b>Net</b>   | <b>Cost</b>                    | <b>Accumulated depreciation</b> | <b>Net</b>   |
| <b>Ferrous</b>            |                                |                                 |              |                                |                                 |              |
| Ferrous - Southern System |                                |                                 |              |                                |                                 |              |
| Mining                    | 2,196                          | 812                             | 1,384        | 728                            | 318                             | 410          |
| Railroads                 | 866                            | 389                             | 477          | 646                            | 308                             | 338          |
| Marine terminals          | 183                            | 87                              | 96           | 99                             | 60                              | 39           |
|                           | <b>3,245</b>                   | <b>1,288</b>                    | <b>1,957</b> | <b>1,473</b>                   | <b>686</b>                      | <b>787</b>   |
| Ferrous - Northern System |                                |                                 |              |                                |                                 |              |
| Mining                    | 676                            | 277                             | 399          | 483                            | 208                             | 275          |
| Railroads                 | 924                            | 376                             | 548          | 727                            | 292                             | 435          |
| Marine terminals          | 196                            | 85                              | 111          | 139                            | 65                              | 74           |
|                           | <b>1,796</b>                   | <b>738</b>                      | <b>1,058</b> | <b>1,349</b>                   | <b>565</b>                      | <b>784</b>   |
| Pelletizing               | 382                            | 133                             | 249          | 283                            | 76                              | 207          |
| Ferroalloys               | 273                            | 153                             | 120          | 171                            | 96                              | 75           |
| Energy                    | 128                            | 11                              | 117          | 58                             | 6                               | 52           |
| Construction in progress  | 914                            |                                 | 914          | 406                            |                                 | 406          |
|                           | <b>6,738</b>                   | <b>2,323</b>                    | <b>4,415</b> | <b>3,740</b>                   | <b>1,429</b>                    | <b>2,311</b> |
| <b>Non-Ferrous</b>        |                                |                                 |              |                                |                                 |              |
| Potash                    | 54                             | 22                              | 32           | 39                             | 15                              | 24           |
| Gold                      | 27                             | 25                              | 2            | 119                            | 100                             | 19           |
| Kaolin                    | 220                            | 75                              | 145          | 71                             | 17                              | 54           |
| Research and projects     | 86                             | 62                              | 24           | 63                             | 48                              | 15           |
| Construction in progress  | 797                            |                                 | 797          | 288                            |                                 | 288          |
|                           | <b>1,184</b>                   | <b>184</b>                      | <b>1,000</b> | <b>580</b>                     | <b>180</b>                      | <b>400</b>   |

|                          |                     |                     |                     |                     |                     |                     |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Logistics</b>         |                     |                     |                     |                     |                     |                     |
| General cargo            | 575                 | 188                 | 387                 | 232                 | 109                 | 123                 |
| Maritime transportation  | 8                   | 6                   | 2                   | 10                  | 8                   | 2                   |
| Construction in progress | 35                  |                     | 35                  | 19                  |                     | 19                  |
|                          | <u>618</u>          | <u>194</u>          | <u>424</u>          | <u>261</u>          | <u>117</u>          | <u>144</u>          |
| <b>Holdings</b>          |                     |                     |                     |                     |                     |                     |
| Aluminum                 | 545                 | 92                  | 453                 | 248                 | 55                  | 193                 |
| Others                   | 2                   | 1                   | 1                   | 12                  | 2                   | 10                  |
| Construction in progress | 111                 |                     | 111                 | 204                 |                     | 204                 |
|                          | <u>658</u>          | <u>93</u>           | <u>565</u>          | <u>464</u>          | <u>57</u>           | <u>407</u>          |
| <b>Corporate Center</b>  |                     |                     |                     |                     |                     |                     |
| Corporate                | 67                  | 28                  | 39                  | 35                  | 13                  | 22                  |
| Construction in progress | 41                  |                     | 41                  | 13                  |                     | 13                  |
|                          | <u>108</u>          | <u>28</u>           | <u>80</u>           | <u>48</u>           | <u>13</u>           | <u>35</u>           |
| <b>Total</b>             | <b><u>9,306</u></b> | <b><u>2,822</u></b> | <b><u>6,484</u></b> | <b><u>5,093</u></b> | <b><u>1,796</u></b> | <b><u>3,297</u></b> |

## b) Per type of assets:

|                           | As of December 31, 2003 |                          |       | As of December 31, 2002 |                          |     |
|---------------------------|-------------------------|--------------------------|-------|-------------------------|--------------------------|-----|
|                           | Cost                    | Accumulated depreciation | Net   | Cost                    | Accumulated depreciation | Net |
| Land and buildings        | 749                     | 303                      | 446   | 489                     | 188                      | 301 |
| Installations             | 2,466                   | 932                      | 1,534 | 1,448                   | 590                      | 858 |
| Equipment                 | 883                     | 405                      | 478   | 391                     | 196                      | 195 |
| Railroads                 | 1,741                   | 756                      | 985   | 1,258                   | 568                      | 690 |
| Mine development costs    | 353                     | 115                      | 238   | 193                     | 53                       | 140 |
| Purchased mining reserves | 578                     | 8                        | 570   |                         |                          |     |
| Others                    | 638                     | 303                      | 335   | 384                     | 201                      | 183 |

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|                          |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                          | <b>7,408</b>             | <b>2,822</b>             | <b>4,586</b>             | <b>4,163</b>             | <b>1,796</b>             | <b>2,367</b>             |
| Construction in progress | 1,898                    |                          | 1,898                    | 930                      |                          | 930                      |
|                          | <u>          </u>        | <u>          </u>        | <u>          </u>        | <u>          </u>        | <u>          </u>        | <u>          </u>        |
| <b>Total</b>             | <b>9,306</b>             | <b>2,822</b>             | <b>6,484</b>             | <b>5,093</b>             | <b>1,796</b>             | <b>3,297</b>             |
|                          | <b><u>          </u></b> | <b><u>          </u></b> | <b><u>          </u></b> | <b><u>          </u></b> | <b><u>          </u></b> | <b><u>          </u></b> |

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Losses on disposals and impairments of property, plant and equipment totaled \$51, \$62 and \$79 in 2003, 2002 and 2001, 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 \$59 and recorded a gain on this sale of \$49. In 2003 we sold our last significant gold mining operations for \$ 21 which was the 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.

The situation of these projects at December 31, 2003 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                  | 136                     | 52                                   | (8)  |                                 |  |
| Porto Estrela   | November, 2001                                  | 33.3                  | 57                      | 19                                   | (1)  |                                 |  |
| Funil           | January, 2003                                   | 51.0                  | 112                     | 57                                   | (2)  |                                 |  |
| Candongá        | May, 2004                                       | 50.0                  |                         |                                      |  | 87                              | 44   |
| Aimorés         | October, 2004                                   | 51.0                  |                         |                                      |  | 178                             | 91   |
| Capim Branco I  | February, 2006                                  | 48.4                  |                         |                                      |  | 25                              | 12   |
| Capim Branco II | December, 2006                                  | 48.4                  |                         |                                      |  | 8                               | 4  |
| Foz do Chapecó  | July, 2008                                      | 40.0                  |                         |                                      |  | 5                               | 2  |
| Estreito        | October, 2008                                   | 30.0                  |                         |                                      |  | 4                               | 1  |

Income and expenses relating to operating plants are not material.

**13 Investments in affiliated companies and joint ventures**

|  | December 31,                    |               |                                       |     |            | Investments |  |
|--|---------------------------------|---------------|---------------------------------------|-----|------------|-------------|--|
|  | 2003                            |               | Net<br>income<br>for<br>the<br>period |     | 2003       | 2002        |  |
|  | Participation in<br>capital (%) | Net<br>equity |                                       |     |            |             |  |
|  | voting                          | total         |                                       |     |            |             |  |
| <b>Steel</b>   |                                 |               |                                       |     |            |             |  |
| Usinas Siderúrgicas de Minas Gerais S.A. -<br>USIMINAS                                     | 22.99                           | 11.46         | 271                                   | 297 | 31         |             |  |
| Companhia Siderúrgica de Tubarão - CST (1)   | 26.93                           | 28.79         | 307                                   | 161 | 86         | 27          |  |
| California Steel Industries Inc. - CSI   | 50.00                           | 50.00         | 206                                   | 5   | 103        | 107         |  |
| SIDERAR (costs \$15) - available for sale<br>investments                                   | 4.85                            | 4.85          |                                       |     | 89         | 30          |  |
|  |                                 |               |                                       |     | <u>309</u> | <u>164</u>  |  |
| <b>Aluminum and bauxite</b>  |                                 |               |                                       |     |            |             |  |
| Mineração Rio do Norte S.A. - MRN  | 40.00                           | 40.00         | 420                                   | 81  | 168        | 162         |  |
| Valesul Alumínio S.A. - VALESUL  | 54.51                           | 54.51         | 90                                    | 18  | 49         | 39          |  |
| Alumínio Brasileiro S.A. - ALBRAS  | 51.00                           | 51.00         | 220                                   | 203 | 112        |             |  |
| Alumínio Brasileiro S.A. - ALBRAS - change<br>in provision for losses                      |                                 |               |                                       |     |            | (1)         |  |
| Alumina do Norte do Brasil S.A. - ALUNORTE<br>(4)  | 62.09                           | 57.03         |                                       |     |            |             |  |
|  |                                 |               |                                       |     | <u>329</u> | <u>200</u>  |  |
| <b>Ferrous</b>   |                                 |               |                                       |     |            |             |  |
| Caemi Mineração e Metalurgia S.A. (3)  | 100.00                          | 60.23         |                                       | 17  |            | 77          |  |
| Companhia Nipo-Brasileira de Pelotização -<br>NIBRASCO                                     | 51.11                           | 51.00         | 35                                    | 6   | 18         | 12          |  |
| Companhia Hispano-Brasileira de Pelotização -<br>HISPANOBRÁS                               | 51.00                           | 50.89         | 32                                    | 6   | 17         | 14          |  |
| Companhia Coreano-Brasileira de Pelotização -<br>KOBRASCO                                  | 50.00                           | 50.00         |                                       | 38  | 1          |             |  |
| Companhia Coreano-Brasileira de Pelotização -<br>KOBRASCO - change in provision for losses |                                 |               |                                       |     |            | (16)        |  |
| Companhia Ítalo-Brasileira de Pelotização -<br>ITABRASCO                                   | 51.00                           | 50.90         | 21                                    | 5   | 11         | 9           |  |
| Gulf Industrial Investment Company - GIIC  | 50.00                           | 50.00         | 80                                    | 24  | 40         | 37          |  |
| SAMARCO Mineração S.A. - SAMARCO (5)   | 50.00                           | 50.00         | 369                                   | 140 | 221        | 184         |  |
| Minas da Serra Geral S.A. - MSG  | 50.00                           | 50.00         | 31                                    | 4   | 15         | 9           |  |

|  |       |       |  |                   |                   |
|--|-------|-------|--|-------------------|-------------------|
| Others   |       |       |  | 21                | 24                |
|  |       |       |  | <u>          </u> | <u>          </u> |
|  |       |       |  | <b>344</b>        | <b>350</b>        |
| <b>Logistics</b>   |       |       |  |                   |                   |
| Companhia Ferroviária do Nordeste - CFN - change in provision for losses (2) |       |       |  |                   |                   |
| Ferrobán - Ferrovias Bandeirantes S.A. - change in provision for losses      |       |       |  | 1                 |                   |
| Ferrovía Centro-Atlántica S.A. - FCA - change in provision for losses (3)    |       |       |  |                   |                   |
| MRS Logística S.A.   |       |       |  | 39                |                   |
| MRS Logística S.A. - change in provision for losses                          |       |       |  |                   | (6)               |
| SePETIBA Tecon S.A. - change in provision for losses                         |       |       |  |                   | (4)               |
| Others   |       |       |  | 4                 |                   |
|  |       |       |  | <u>          </u> | <u>          </u> |
|  |       |       |  | <b>44</b>         | <b>(10)</b>       |
| <b>Other affiliates and joint ventures</b>                                   |       |       |  |                   |                   |
| Fertilizantes Fosfatados S.A. - FOSFERTIL (2)                                | 10.96 | 11.12 |  |                   | 25                |
| Others   |       |       |  | 8                 | 3                 |
|  |       |       |  | <u>          </u> | <u>          </u> |
|  |       |       |  | <b>8</b>          | <b>28</b>         |
|  |       |       |  | <u>          </u> | <u>          </u> |
| <b>Total</b>   |       |       |  | <b>1,034</b>      | <b>732</b>        |
|  |       |       |  | <u>          </u> | <u>          </u> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|   | <b>Equity Adjustments</b> |                           |                          |                                |                   |                   |
|---|---------------------------|---------------------------|--------------------------|--------------------------------|-------------------|-------------------|
|   | <b>Three months ended</b> |                           |                          | <b>Year ended December 31,</b> |                   |                   |
|   | <b>December 31, 2003</b>  | <b>September 30, 2003</b> | <b>December 31, 2002</b> | <b>2003</b>                    | <b>2002</b>       | <b>2001</b>       |
|   | <u>          </u>         | <u>          </u>         | <u>          </u>        | <u>          </u>              | <u>          </u> | <u>          </u> |
| <b>Steel</b>  |                           |                           |                          |                                |                   |                   |
| Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS |                           | 14                        |                          | 34                             | (15)              |                   |

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|   |           |           |           |            |             |            |
|---|-----------|-----------|-----------|------------|-------------|------------|
| Companhia Siderúrgica de Tubarão - CST (1)  | 19        | 14        | 8         | 45         | 19          | (1)        |
| California Steel Industries Inc. - CSI  | 2         | (2)       | 7         | 2          | 19          | (3)        |
| SIDERAR (costs \$15) - available for sale investments                                   | —         | —         | —         | —          | —           | —          |
|   | <b>21</b> | <b>26</b> | <b>15</b> | <b>81</b>  | <b>23</b>   | <b>(4)</b> |
| <b>Aluminum and bauxite</b>   |           |           |           |            |             |            |
| Mineração Rio do Norte S.A. - MRN   | 12        | 11        | 7         | 33         | 38          | 32         |
| Valesul Alumínio S.A. - VALESUL   | 2         | 2         | 6         | 10         | 14          | 11         |
| Alumínio Brasileiro S.A. - ALBRAS   | 10        | 14        |           | 104        |             |            |
| Alumínio Brasileiro S.A. - ALBRAS - change in provision for losses                      |           |           | 69        |            | 10          | 4          |
| Alumina do Norte do Brasil S.A. - ALUNORTE (4)  |           |           |           |            | (23)        | (6)        |
|   | <b>24</b> | <b>27</b> | <b>82</b> | <b>147</b> | <b>39</b>   | <b>41</b>  |
| <b>Ferrous</b>  |           |           |           |            |             |            |
| Caemi Mineração e Metalurgia S.A. (3)   |           | 5         | (11)      | 23         | (102)       |            |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO                                     |           | 3         | 2         | 3          | 4           | (2)        |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS                               |           | 1         |           | 3          | 5           | 5          |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO                                  | 1         |           |           | 1          | (2)         | (8)        |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO - change in provision for losses | 8         | 1         | 3         | 17         | (15)        |            |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO                                   |           | 1         | 1         | 3          | 5           | 4          |
| Gulf Industrial Investment Company - GIIC   | 3         | 3         | 2         | 12         | 5           | (17)       |
| SAMARCO Mineração S.A. - SAMARCO (5)  | 12        | 17        | 31        | 70         | 28          | 11         |
| Minas da Serra Geral S.A. - MSG   |           | 1         |           | 2          | 4           |            |
| Others  | (1)       |           |           | (1)        | 2           |            |
|   | <b>23</b> | <b>32</b> | <b>28</b> | <b>133</b> | <b>(66)</b> | <b>(7)</b> |
| <b>Logistics</b>  |           |           |           |            |             |            |
| Companhia Ferroviária do Nordeste - CFN - change in provision for losses (2)            |           | (1)       | (1)       | (3)        | (4)         | (8)        |
| Ferroban - Ferrovias Bandeirantes S.A. - change in provision for losses                 |           |           |           |            | (1)         |            |
| Ferrovia Centro-Atlântica S.A. - FCA - change in provision for losses (3)               |           | (8)       | (10)      | (93)       | (42)        | (95)       |
| MRS Logística S.A.  | 37        | 5         |           | 39         | (20)        |            |
| MRS Logística S.A. - change in provision for losses                                     |           | 2         | 7         | 6          | (7)         |            |
| SePETIBA Tecon S.A. - change in provision for losses                                    | (1)       | 1         | 2         | (1)        | (9)         | (3)        |
| Others  |           |           | (5)       |            | (5)         | (2)        |

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|   |             |            |            |             |             |              |
|---|-------------|------------|------------|-------------|-------------|--------------|
|   | —           | —          | —          | —           | —           | —            |
|   | <b>36</b>   | <b>(1)</b> | <b>(7)</b> | <b>(52)</b> | <b>(88)</b> | <b>(108)</b> |
| <b>Other affiliates and joint ventures</b>    |             |            |            |             |             |              |
| Fertilizantes Fosfatados S.A. - FOSFERTIL (2) | (9)         | 5          | 3          | 1           | 8           | 5            |
| Others  | (7)         |            |            | (4)         | (3)         | 20           |
|   | —           | —          | —          | —           | —           | —            |
|   | <b>(16)</b> | <b>5</b>   | <b>3</b>   | <b>(3)</b>  | <b>5</b>    | <b>25</b>    |
|   | —           | —          | —          | —           | —           | —            |
| <b>Total</b>                                  | <b>88</b>   | <b>89</b>  | <b>121</b> | <b>306</b>  | <b>(87)</b> | <b>(53)</b>  |
|   | —           | —          | —          | —           | —           | —            |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|   | Dividends received      |                       |                            |           |           | Quoted<br>market  |
|---|-------------------------|-----------------------|----------------------------|-----------|-----------|-------------------|
|   | Three months ended      |                       | Year ended<br>December 31, |           |           | Decem-<br>ber 31, |
|   | December<br>31,<br>2003 | September<br>30, 2003 | December<br>31,<br>2002    | 2003      | 2002      | 2001              |
|   | 2003                    | 2003                  | 2002                       | 2003      | 2002      | 2001              |
|   |                         |                       |                            |           |           | 2003              |
|   | (unaudited)             |                       |                            |           |           |                   |
| <b>Steel</b>  |                         |                       |                            |           |           |                   |
| Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS   |                         | 3                     |                            | 3         | 4         | 3                 |
| Companhia Siderúrgica de Tubarão - CST (1)            | 17                      | 30                    | 3                          | 52        | 4         | 10                |
| California Steel Industries Inc. - CSI                |                         | 2                     | 3                          | 5         | 9         | 2                 |
| SIDERAR (costs \$15) - available for sale investments |                         |                       |                            |           |           |                   |
|   | —                       | —                     | —                          | —         | —         | —                 |
|   | <b>17</b>               | <b>35</b>             | <b>6</b>                   | <b>60</b> | <b>17</b> | <b>15</b>         |
|   | —                       | —                     | —                          | —         | —         | —                 |
|   |                         |                       |                            |           |           | <b>89</b>         |
|   | <b>17</b>               | <b>35</b>             | <b>6</b>                   | <b>60</b> | <b>17</b> | <b>15</b>         |
|   | —                       | —                     | —                          | —         | —         | —                 |
|   |                         |                       |                            |           |           | <b>784</b>        |
| <b>Aluminum and bauxite</b>                           |                         |                       |                            |           |           |                   |
| Mineração Rio do Norte S.A. - MRN                     | 11                      | 11                    |                            | 27        | 31        | 31                |
| Valesul Alumínio S.A. - VALESUL                       | 6                       |                       | 6                          | 9         | 6         |                   |
| Alumínio Brasileiro S.A. - ALBRAS                     |                         |                       |                            |           |           |                   |

Alumínio Brasileiro S.A. - ALBRAS -  
change in provision for losses  
Alumina do Norte do Brasil S.A. -  
ALUNORTE (4)

|   |           |           |          |           |           |           |            |
|---|-----------|-----------|----------|-----------|-----------|-----------|------------|
|   | —         | —         | —        | —         | —         | —         | —          |
|   | <b>17</b> | <b>11</b> | <b>6</b> | <b>36</b> | <b>37</b> | <b>31</b> |            |
| <b>Ferrous</b>  |           |           |          |           |           |           |            |
| Caemi Mineração e Metalurgia S.A. (3)   |           |           |          |           | 3         |           | 290        |
| Companhia Nipo-Brasileira de Pelotização<br>- NIBRASCO  |           |           | 2        |           | 2         | 5         |            |
| Companhia Hispano-Brasileira de<br>Pelotização - HISPANOBRÁS                                  |           |           | 1        | 2         | 2         | 5         |            |
| Companhia Coreano-Brasileira de<br>Pelotização - KOBRASCO                                     |           |           |          |           |           |           |            |
| Companhia Coreano-Brasileira de<br>Pelotização - KOBRASCO - change in<br>provision for losses |           |           |          |           |           |           |            |
| Companhia Ítalo-Brasileira de Pelotização<br>- ITABRASCO                                      |           |           | 4        | 1         | 4         | 5         |            |
| Gulf Industrial Investment Company -<br>GIIC  |           | 4         |          | 9         | 6         | 11        |            |
| SAMARCO Mineração S.A. -<br>SAMARCO (5)   | 25        | 14        |          | 78        | 17        | 21        |            |
| Minas da Serra Geral S.A. - MSG   |           |           |          | 1         | 1         | 5         |            |
| Others  |           |           |          |           |           |           |            |
|   | —         | —         | —        | —         | —         | —         | —          |
|   | <b>25</b> | <b>18</b> | <b>7</b> | <b>91</b> | <b>35</b> | <b>52</b> | <b>290</b> |

**Logistics**

Companhia Ferroviária do Nordeste - CFN  
- change in provision for losses (2)  
Ferrobán - Ferrovias Bandeirantes S.A. -  
change in provision for losses  
Ferrovia Centro-Atlântica S.A. - FCA -  
change in provision for losses (3)  
MRS Logística S.A.  
MRS Logística S.A. - change in provision  
for losses  
Sepetiba Tecon S.A. - change in provision  
for losses  
Others

|  |   |   |   |   |   |    |   |
|--|---|---|---|---|---|----|---|
|  | — | — | — | — | — | —  | — |
|  |   |   |   |   |   |    |   |
| <b>Other affiliates and joint ventures</b>       |   |   |   |   |   |    |   |
| Fertilizantes Fosfatados S.A. -<br>FOSFERTIL (2) |   | 2 |   | 9 | 2 | 3  |   |
| Others   |   |   |   | 1 |   | 31 |   |
|  | — | — | — | — | — | —  | — |

|              |                  |                  |                  |                   |                  |                   |                     |
|--------------|------------------|------------------|------------------|-------------------|------------------|-------------------|---------------------|
|              | —                | <u>2</u>         | —                | <u>10</u>         | <u>2</u>         | <u>34</u>         | —                   |
| <b>Total</b> | <b><u>59</u></b> | <b><u>66</u></b> | <b><u>19</u></b> | <b><u>197</u></b> | <b><u>91</u></b> | <b><u>132</u></b> | <b><u>1,074</u></b> |

- (1) During the quarter ended June 30, 2003 CVRD acquired an additional 4.42% of the voting shares and 5.64% of the preferred shares, representing 5.17% of CST's total capital for \$ 60;
- (2) Investment sold in 2003;
- (3) Consolidated as from September 02, 2003, after acquisition of control;
- (4) Consolidated as from June 30, 2002, after acquisition of control;
- (5) Investment includes goodwill of \$37 and \$30 in 2003 and 2002, respectively.

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**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 3.19%, 3.97% and 4.96% in 2003, 2002 and 2001, respectively.

**15 Long-term debt**

|   | <b>As of December 31</b>   |             |                              |              |
|---|----------------------------|-------------|------------------------------|--------------|
|   | <b>Current liabilities</b> |             | <b>Long-Term liabilities</b> |              |
|   | <b>2003</b>                | <b>2002</b> | <b>2003</b>                  | <b>2002</b>  |
| Foreign debt  |                            |             |                              |              |
| Loans and financing contracted in the following currencies: |                            |             |                              |              |
| United States dollars                                       | 470                        | 431         | 1,151                        | 1,034        |
| Japanese Yen  | 30                         | 1           | 2                            | 29           |
| Others  | 3                          | 1           | 25                           | 1            |
| Fixed Rate Notes US\$ denominated                           | 300                        | 200         | 600                          | 600          |
| Securitization of export receivables US\$ denominated       | 44                         | 25          | 481                          | 275          |
| Perpetual notes   |                            |             | 65                           | 63           |
| Accrued charges   | 54                         | 20          |                              |              |
|   | <b>901</b>                 | <b>678</b>  | <b>2,324</b>                 | <b>2,002</b> |
| Local debt  |                            |             |                              |              |
| Indexed by Long-Term Interest Rate TJLP                     | 10                         | 8           | 88                           | 22           |
| Indexed by General Price Index-Market (IGPM)                | 16                         | 14          | 19                           | 24           |
| Basket of currencies  | 30                         | 13          | 23                           | 32           |
| Non-convertible debentures                                  |                            |             | 90                           | 64           |
| Indexed by U.S. dollars                                     | 33                         | 1           | 221                          | 215          |
| Accrued charges   | 19                         | 3           | 2                            |              |
|   | <b>108</b>                 | <b>39</b>   | <b>443</b>                   | <b>357</b>   |
| Total   | <b>1,009</b>               | <b>717</b>  | <b>2,767</b>                 | <b>2,359</b> |

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The long-term portion at December 31, 2003 becomes due in the following years:

|  |              |
|--|--------------|
| 2005   | 480          |
| 2006   | 564          |
| 2007   | 554          |
| 2008   | 198          |
| Thereafter   | 816          |
| No due date (Perpetual notes and non-convertible debentures) | 155          |
|  | <hr/>        |
|  | <b>2,767</b> |
|  | <hr/>        |

At December 31, 2003 annual interest rates on long-term debt were as follows:

|                            |              |
|----------------------------|--------------|
| Up to 7%                   | 2,366        |
| 7.1% to 9%                 | 930          |
| 9.1% to 11%                | 316          |
| Over 11%                   | 99           |
| Variable (Perpetual notes) | 65           |
|                            | <hr/>        |
|                            | <b>3,776</b> |
|                            | <hr/>        |

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

|   | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|-------------|
| TJLP Long-Term Interest Rate (effective rate) | 11.50       | 9.87        | 9.50        |
| IGP-M General Price Index Market              | 8.71        | 25.31       | 10.37       |
| United States Dollar                          | (18.23)     | 52.27       | 18.67       |

At December 31, 2003 the US\$ denominated Fixed Rate Notes of \$900 (2002 - \$800) and other debt of \$1,634 (2002 - \$1,470) are unsecured. The export securitization of \$525 (2002 - \$300) is secured by existing and future accounts receivable of our subsidiary CVRD Overseas Ltd. Loans from international lenders of \$232 (2002- \$295) are guaranteed by the Federal Government, to which we have given counter-guarantees of \$165 (2002 - \$164) secured by our own shares and accounts receivable of a subsidiary. We have also loans from local and international institutions secured by property, plant and equipment in the amount of \$165 (2002 - \$129). The remaining long-term debt of \$387 (2002 - \$213) is secured mainly by assets of subsidiaries.

The Perpetual Notes are exchangeable for 48 billion preferred shares of the affiliate MRN (initially equivalent to 8% of the total number of shares of MRN owned by us). Interest is payable on the Notes in an amount equal to dividends paid on the underlying preferred shares, relative to periods starting as from the 2000 fiscal year. The Notes may be redeemed at our option or the Noteholders at any time by transfer of the underlying preferred shares to the Noteholders, providing the preemptive rights of the existing shareholders of MRN have been waived or have expired. Redemption by transfer of the underlying net assets of MRN is compulsory if certain events occur, including the liquidation or merger of MRN or the transfer of MRN's asset and liabilities to a consortium formed by its shareholders to take over the operations of MRN. In the event of early termination the Notes may be redeemed, at the option the Noteholders, in lieu of transfer of the shares, for a cash sum equal to \$48 plus the net present value of average annual earnings declared and paid by MRN for the three years immediately preceding such termination multiplied by 20 and discounted by 10% per year. This latter amount represents a fair value at December 31, 2003 of \$65.

## 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 on it permanent veto rights over certain matters.

As of December 31, 2003, we had acquired 4,719,353 shares to be held in treasury for subsequent disposal or cancellation at an average weighted unit cost of R\$27.80 (minimum cost of R\$20.07 and maximum of R\$52.09).

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 book equity value per share. With respect to each of 2003, 2002 and 2001 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, 2003, we had no undistributed retained earnings. In addition, appropriated retained earnings at December 31, 2003 includes \$2,283, related to the

unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if

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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 as explained in Note 3 (I).

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   |                       |                      | Year ended December 31 |              |              |
|--------------------------------------|----------------------|-----------------------|----------------------|------------------------|--------------|--------------|
|                                      | December<br>31, 2003 | September<br>30, 2003 | December<br>31, 2002 | 2003                   | 2002         | 2001         |
|                                      | (unaudited)          |                       |                      |                        |              |              |
| Appropriated retained earnings       |                      |                       |                      |                        |              |              |
| Unrealized income reserve            |                      |                       |                      |                        |              |              |
| Balance January 1                    | 255                  | 260                   | 191                  | 211                    | 548          | 874          |
| Transfer to retained earnings        | (62)                 | (5)                   | 20                   | (18)                   | (337)        | (326)        |
|                                      | <b>193</b>           | <b>255</b>            | <b>211</b>           | <b>193</b>             | <b>211</b>   | <b>548</b>   |
| Expansion reserve                    |                      |                       |                      |                        |              |              |
| Balance January 1                    | 1,361                | 1,385                 | 993                  | 1,494                  | 1,667        | 1,546        |
| Transfer to capital stock            |                      |                       |                      | (423)                  |              | (278)        |
| Transfer from (to) retained earnings | 729                  | (24)                  | 501                  | 1,019                  | (173)        | 399          |
|                                      | <b>2,090</b>         | <b>1,361</b>          | <b>1,494</b>         | <b>2,090</b>           | <b>1,494</b> | <b>1,667</b> |
| Legal reserve                        |                      |                       |                      |                        |              |              |
| Balance January 1                    | 292                  | 297                   | 193                  | 241                    | 325          | 307          |
| Transfer from (to) retained earnings | 82                   | (5)                   | 48                   | 133                    | (84)         | 18           |
|                                      | <b>374</b>           | <b>292</b>            | <b>241</b>           | <b>374</b>             | <b>241</b>   | <b>325</b>   |
| Fiscal incentive depletion reserve   |                      |                       |                      |                        |              |              |
| Balance January 1                    | 343                  | 350                   | 258                  | 284                    | 649          | 771          |
| Transfer to capital stock            |                      |                       |                      |                        | (212)        |              |
| Transfer to retained earnings        | 4                    | (7)                   | 26                   | 63                     | (153)        | (122)        |
|                                      | <b>347</b>           | <b>343</b>            | <b>284</b>           | <b>347</b>             | <b>284</b>   | <b>649</b>   |
| Fiscal incentive investment reserve  |                      |                       |                      |                        |              |              |
| Balance January 1                    |                      |                       |                      |                        | 23           | 39           |
| Transfer to capital stock            |                      |                       |                      |                        | (23)         | (33)         |
| Transfer from retained earnings      | 31                   |                       |                      | 31                     |              | 17           |

|                                      |              |              |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                      | —            | —            | —            | —            | —            | —            |
| Balance December 31                  | <b>31</b>    |              |              | <b>31</b>    |              | <b>23</b>    |
|                                      | —            | —            | —            | —            | —            | —            |
| Total appropriated retained earnings | <b>3,035</b> | <b>2,251</b> | <b>2,230</b> | <b>3,035</b> | <b>2,230</b> | <b>3,212</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 the tax incentives described in Note 8.

**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.

The following information details the status of the defined benefit elements of our plans in accordance with SFAS 132 - Employers' Disclosure about Pensions and Other Post-retirement Benefits, as amended.

**(a) Change in benefit obligation**

|   | <b>As of December 31</b> |                     |
|---|--------------------------|---------------------|
|   | <b>2003</b>              | <b>2002</b>         |
| Benefit obligation at beginning of year | 1,308                    | 1,388               |
| Service cost                            | 2                        | 2                   |
| Interest cost                           | 136                      | 120                 |
| Benefits paid                           | (111)                    | (94)                |
| Effect of exchange rate changes         | 20                       | (288)               |
| Actuarial loss                          | 75                       | 180                 |
|   | <u>          </u>        | <u>          </u>   |
| Benefit obligation at end of year       | <b><u>1,430</u></b>      | <b><u>1,308</u></b> |

We use a measurement date of December 1, 2003 for our pension and postretirement benefit plans.

**(b) Change in plan assets**

|  | <b>As of December 31</b> |                   |
|--|--------------------------|-------------------|
|  | <b>2003</b>              | <b>2002</b>       |
| Fair value of plan assets at beginning of year | 1,285                    | 1,374             |
| Actual return on plan assets                   | 432                      | 277               |
| Employer contributions                         | 14                       | 12                |
| Benefits paid                                  | (111)                    | (94)              |
| Effect of exchange rate changes                | 17                       | (284)             |
|  | <u>          </u>        | <u>          </u> |

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|  |                     |                     |
|--|---------------------|---------------------|
| Fair value of plan assets at end of year | <b><u>1,637</u></b> | <b><u>1,285</u></b> |
|--|---------------------|---------------------|

Plan assets at December 31, 2003 include \$194 of portfolio investments in our own shares (\$102 at December 31, 2002) and \$20 of shares of related parties (\$ 8 at December 31, 2002), as well as \$323 of Federal Government Securities (\$387 at December 31, 2002).

Employer contributions expected for 2004 are \$ 14 (unaudited).

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

|  | <b>As of December<br/>31</b> |                   |
|--|------------------------------|-------------------|
|  | <b>2003</b>                  | <b>2002</b>       |
| Funded status, excess of benefit obligation over plan assets | (207)                        | 23                |
| Unrecognized net transitory obligation                       | (56)                         | (65)              |
| Unrecognized net actuarial loss                              | 181                          | (37)              |
|  | <u>          </u>            | <u>          </u> |
| Accrued pension cost liability (prepaid pension cost)        | <b>(82)</b>                  | <b>(79)</b>       |
|  | <u>          </u>            | <u>          </u> |

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

|  | <b>2003</b> | <b>2002</b> |
|--|-------------|-------------|
| Discount rate                                | 11.30% p.a  | 11.30% p.a  |
| Expected return on plan assets               | 13.40% p.a  | 11.30% 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   |

All assumptions will be revised during 2004.

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

The asset allocation for the Company's pension plans at the end of 2003 and 2002, and the target allocation for 2004, by asset category, follows. The fair value of plan assets for these plans is \$1,637 and \$1,285 at the end of 2003 and 2002, respectively.

| Asset category    | <b>Target<br/>allocation<br/>for 2004</b> | <b>Percentage of plan assets at<br/>December 31,</b> |                   |
|-------------------|---|--|-------------------|
|                   |   | <b>2003</b>  | <b>2002</b>       |
| Equity securities | 30%                                       | 27%  | 29%               |
| Real estate       | 7%  | 6%   | 7%                |
| Loans             | 4%  | 2%   | 3%                |
| Fixed Income      | 59%                                       | 65%  | 61%               |
|                   | <u>          </u>                         | <u>          </u>                                    | <u>          </u> |
| <b>Total</b>      | <b>100%</b>                               | <b>100%</b>  | <b>100%</b>       |
|                   | <u>          </u>                         | <u>          </u>                                    | <u>          </u> |

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.

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**(f) Pension costs**

|  | <b>Year ended December 31</b> |             |             |
|--|-------------------------------|-------------|-------------|
|  | <b>2003</b>                   | <b>2002</b> | <b>2001</b> |
| Service cost benefits earned during the period | 2                             | 2           | 2           |
| Interest cost on projected benefit obligation  | 136                           | 120         | 180         |
| Actual return on assets                        | (432)                         | (277)       | (220)       |
| Amortization of initial transitory obligation  | 9                             | 9           | 12          |
| Net deferral                                   | 297                           | 157         | 58          |
|  | <hr/>                         | <hr/>       | <hr/>       |
| Net periodic pension cost                      | <b>12</b>                     | <b>11</b>   | <b>32</b>   |
|  | <hr/>                         | <hr/>       | <hr/>       |

In addition to benefits provided under our pension plan, accruals have been made relative to supplementary benefits extended in previous periods as part of early-retirement programs. Such accruals included in long-term liabilities totaled \$198 and \$141, at December 31, 2003 and 2002, respectively, plus \$32 and \$23, respectively, in current liabilities.

The cost recognized in the years 2003, 2002 and 2001 relative to the defined contribution element of the New Plan was \$5, \$5 and \$3, respectively.

**18 Commitments and contingencies**

- (a) At December 31, 2003, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of \$283, of which \$242 is denominated in United States dollars and the remaining \$41 in local currency, as follows:

| <b>Affiliate or Joint Venture</b> | <b>Amount<br/>of<br/>guarantee</b> | <b>Denominated<br/>currency</b> | <b>Purpose</b>    | <b>Final<br/>maturity</b> | <b>Counter<br/>guarantees</b> |
|-----------------------------------|------------------------------------|---------------------------------|-------------------|---------------------------|-------------------------------|
| ALBRAS                            | 231                                | US\$                            | Debt<br>guarantee | 2007                      | None                          |
|                                   | 40                                 | R\$                             | Debt<br>guarantee | 2010                      | None                          |
| SAMARCO                           | 10                                 | US\$                            | Debt<br>guarantee | 2020                      | None                          |
| VALESUL                           | 1                                  | R\$                             | Debt<br>guarantee | 2006                      | None                          |
| NIBRASCO                          | 1                                  | US\$                            | Debt<br>guarantee | 2004                      | Collateral<br>Pledge          |
|                                   | <hr/>                              |                                 |                   |                           |                               |
|                                   | <b>283</b>                         |                                 |                   |                           |                               |
|                                   | <hr/>                              |                                 |                   |                           |                               |

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

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

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

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

|                     | <b>December 31,<br/>2003</b>               |                              | <b>December 31,<br/>2002</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        | 177  | 66                           | 109  | 52                           |
| Civil claims        | 167  | 54                           | 95   | 32                           |
| Tax related actions | 285  | 279                          | 220  | 153                          |
| Others              | 6  | 8                            | 4  | 2                            |
|                     | <b>635</b>                                 | <b>407</b>                   | <b>428</b>                                 | <b>239</b>                   |

Labor related actions principally comprise employee claims for (i) payment of time spent travelling from their residences to the work-place, (ii) additional payments for alleged dangerous or unhealthy working conditions 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, VAT and of the tax on financial movements - CPMF.

We continue to vigorously pursue our interests in all the above actions but recognize that probably we 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. An increase of \$126 for tax deposits during 2003 refers mainly to an action in which we challenged the annual limitation on use to our tax loss carryforwards.

Contingencies settled in 2003, 2002 and 2001 aggregated \$182 \$178 and \$6, respectively, and additional provisions aggregated \$146, \$264 and \$79, respectively.

In addition to the contingencies for which we have made provisions we have possible losses in connection with tax contingencies totaling \$308 and \$220 at December 31, 2003 and 2002, respectively, for which 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 take annual delivery of approximately 207,060 metric tons per year of aluminum from ALBRAS at market prices. This estimate is based on 51% of ALBRAS expected production and, at a market price of \$1,458.16 per metric ton, at December 31, 2003, represents an annual commitment of \$302. Actual take from Albras was \$296, \$257 and \$220 during 2003, 2002 and 2001, respectively.
- (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.

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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 over a period of five years, which was extended for an additional period of two years. 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, 2003, the remaining contributions towards exploration and development activities totaled US\$ 87 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 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.

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 expect to start payments referring to copper resources in 2004, 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 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.



| <u>Area</u>                                | <u>Mineral</u>                              | <u>Required Payments by CVRD</u>   |
|--|---|--|
| 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 corresponding to our ownership interest at April 15, 1997. |
| 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 will pay the corresponding amount of \$2 debenture holders by March 31, 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 recoveries are considered uncertain. The changes are demonstrated as follows:

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|   |           |
|---|-----------|
| Balance as of October 1, 2003                         | 60        |
| Increase due to new subsidiaries                      | 2         |
| Accretion expense                                     | 2         |
| Revisions to estimated cash flows                     | 15        |
| Cumulative translation adjustment                     | 2         |
|   | —         |
| <b>Balance as of December 31, 2003</b>                | <b>81</b> |
|   | —         |
| Balance as of July 1, 2003                            | 42        |
| Increase due to new subsidiaries                      | 9         |
| Accretion expense                                     | 2         |
| Cumulative translation adjustment                     | 7         |
|   | —         |
| <b>Balance as of September 30, 2003</b>               | <b>60</b> |
|   | —         |
| Balance as of December 31, 2002                       | 15        |
| Initial recognition of SFAS 143 as at January 1, 2003 | 26        |
| Increase due to new subsidiaries acquired             | 11        |
| Accretion expense                                     | 6         |
| Revisions to estimated cash flows                     | 15        |
| Cumulative translation adjustment                     | 8         |
|   | —         |
| <b>Balance as of December 31, 2003</b>                | <b>81</b> |
|   | —         |

The quarterly information is unaudited

Had SFAS 143 been applied prior to January 1, 2003, the pro forma asset retirement obligation at December 31, 2002, 2001 and 2000 would have been \$41, \$44 and \$42, respectively.

Additionally, had SFAS 143 been applied previously, net income for the years ended December 31, 2002 and 2001 on a pro forma basis would have been lower by \$8 and \$6 (unaudited).

Had SFAS 143 been applied in prior years the impact on net income and earnings per share would be as follows:

|  | <b>2002</b> | <b>2001</b> |
|--|-------------|-------------|
|  | —           | —           |
| Net income   | 680         | 1,287       |
| Net income (pro forma unaudited)                                 | 672         | 1,281       |
| Basic earnings per Preferred Class A Share                       | 1.77        | 3.34        |
| Basic earnings per Common Share                                  | 1.77        | 3.34        |
| Basic earnings per Preferred Class A Share (pro forma unaudited) | 1.75        | 3.32        |

|   |      |      |
|---|------|------|
| Basic earnings per Common Share (pro forma unaudited) | 1.75 | 3.32 |
|---|------|------|

## 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

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

Consolidated net income and principal assets are reconciled as follows:

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**Results by segment before eliminations (Unaudited)**

As of and for the three months ended  
December 31, 2003

|   | <u>Holdings</u> |                |           |            |            | Elimination  | Consolidated |
|---|-----------------|----------------|-----------|------------|------------|--------------|--------------|
|   | Ferrous         | Non<br>ferrous | Logistics | Aluminum   | Others     |              |              |
| Gross revenues Export   | 1,650           | 36             | 22        | 233        |            | (732)        | 1,209        |
| Gross revenues Domestic   | 296             | 30             | 156       | 41         |            | (42)         | 481          |
| Cost and expenses   | (1,549)         | (76)           | (146)     | (216)      | (3)        | 774          | (1,216)      |
| Depreciation, depletion and amortization  | (60)            | (7)            | (6)       | (5)        |            |              | (78)         |
| Pension plan  | (3)             |                | (1)       |            |            |              | (4)          |
|   | <u>334</u>      | <u>(17)</u>    | <u>25</u> | <u>53</u>  | <u>(3)</u> |              | <u>392</u>   |
| <b>Operating income (loss)</b>  |                 |                |           |            |            |              |              |
| Financial income  | 50              |                | 3         | 2          |            | (37)         | 18           |
| Financial expenses  | (136)           |                | (4)       | (19)       |            | 37           | (122)        |
| Foreign exchange and monetary gains<br>(losses), net  | (12)            | 1              | (2)       | 6          | (1)        |              | (8)          |
| Gain on sale of investments   | 17              |                |           |            |            |              | 17           |
| Equity in results of affiliates and joint<br>ventures and change in provision for losses<br>on equity investments | 23              |                | 36        | 24         | 5          |              | 88           |
| Income taxes  | (60)            | (3)            | (1)       |            | (2)        |              | (66)         |
| Minority interests  | (39)            | 1              |           | (11)       |            |              | (49)         |
|   | <u>177</u>      | <u>(18)</u>    | <u>57</u> | <u>55</u>  | <u>(1)</u> |              | <u>270</u>   |
| Net income  |                 |                |           |            |            |              |              |
| Sales classified by geographic destination:   |                 |                |           |            |            |              |              |
| Export market   |                 |                |           |            |            |              |              |
| America, except United States   | 147             |                | 10        | 45         |            | (86)         | 116          |
| United States   | 75              |                |           | 7          |            | (45)         | 37           |
| Europe  | 750             | 26             | 10        | 150        |            | (322)        | 614          |
| Middle East/Africa/Oceania  | 88              |                |           |            |            | (20)         | 68           |
| Japan   | 165             | 4              |           |            |            | (71)         | 98           |
| China (2)   | 290             | 5              |           | 12         |            | (117)        | 190          |
| Asia, other than Japan and China  | 135             | 1              | 2         | 19         |            | (71)         | 86           |
|   | <u>1,650</u>    | <u>36</u>      | <u>22</u> | <u>233</u> |            | <u>(732)</u> | <u>1,209</u> |
| Domestic market   | 296             | 30             | 156       | 41         |            | (42)         | 481          |

|   |              |            |            |            |           |              |              |
|---|--------------|------------|------------|------------|-----------|--------------|--------------|
|   | <b>1,946</b> | <b>66</b>  | <b>178</b> | <b>274</b> | <b>—</b>  | <b>(774)</b> | <b>1,690</b> |
| Assets:   |              |            |            |            |           |              |              |
| Property, plant and equipment, net  | 4,495        | 1,000      | 424        | 564        | 1         |              | 6,484        |
| Additions to Property, plant and equipment  | 318          | 125        | 121        | 30         |           |              | 594          |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses | 344          |            | 44         | 329        | 317       |              | 1,034        |
| Capital employed  | <b>4,137</b> | <b>266</b> | <b>429</b> | <b>498</b> | <b>20</b> |              | <b>5,350</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**As of and for the three months ended  
September 30, 2003**

|   | <b>Holdings</b> |                    |                  |                 |               | <b>Elimination</b> | <b>Consolidated</b> |
|---|-----------------|--------------------|------------------|-----------------|---------------|--------------------|---------------------|
|   | <b>Ferrous</b>  | <b>Non ferrous</b> | <b>Logistics</b> | <b>Aluminum</b> | <b>Others</b> |                    |                     |
| Gross revenues Export   | 1,411           | 28                 | 14               | 218             |               | (651)              | 1,020               |
| Gross revenues Domestic   | 309             | 31                 | 130              | 46              |               | (53)               | 463                 |
| Cost and expenses   | (1,282)         | (38)               | (91)             | (210)           | 1             | 704                | (916)               |
| Depreciation, depletion and amortization  | (50)            | (6)                | (3)              | (4)             |               |                    | (63)                |
| Pension plan  | (3)             |                    |                  |                 |               |                    | (3)                 |
| <b>Operating income (loss)</b>  | <b>385</b>      | <b>15</b>          | <b>50</b>        | <b>50</b>       | <b>1</b>      |                    | <b>501</b>          |
| Financial income  | 49              | 1                  | 3                | 2               | 1             | (29)               | 27                  |
| Financial expenses  | (89)            | (2)                | (2)              | (18)            | (1)           | 29                 | (83)                |
| Foreign exchange and monetary gains (losses), net   | (48)            | (4)                | 3                | (8)             |               |                    | (57)                |
| Gain on sale of investments   |                 |                    |                  |                 |               |                    |                     |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 32              |                    | (1)              | 27              | 31            |                    | 89                  |
| Income taxes  | (1)             |                    | (1)              | (1)             | 3             |                    |                     |
| Minority interests  | (3)             |                    |                  | (6)             |               |                    | (9)                 |
| Net income  | <b>325</b>      | <b>10</b>          | <b>52</b>        | <b>46</b>       | <b>35</b>     |                    | <b>468</b>          |

|   |              |            |            |            |           |              |              |
|---|--------------|------------|------------|------------|-----------|--------------|--------------|
| Sales classified by geographic destination:   |              |            |            |            |           |              |              |
| Export market   |              |            |            |            |           |              |              |
| America, except United States   | 142          |            | 10         | 44         |           | (87)         | 109          |
| United States   | 91           | 2          |            | 6          |           | (46)         | 53           |
| Europe  | 534          | 19         | 4          | 96         |           | (236)        | 417          |
| Middle East/Africa/Oceania  | 85           |            |            |            |           | (20)         | 65           |
| Japan   | 160          | 6          |            | 26         |           | (79)         | 113          |
| China (2)   | 275          | 1          |            | 46         |           | (132)        | 190          |
| Asia, other than Japan and China  | 124          |            |            |            |           | (51)         | 73           |
|   | <b>1,411</b> | <b>28</b>  | <b>14</b>  | <b>218</b> |           | <b>(651)</b> | <b>1,020</b> |
| Domestic market   | 309          | 31         | 130        | 46         |           | (53)         | 463          |
|   | <b>1,720</b> | <b>59</b>  | <b>144</b> | <b>264</b> |           | <b>(704)</b> | <b>1,483</b> |
| Assets:   |              |            |            |            |           |              |              |
| Property, plant and equipment, net  | 4,024        | 858        | 439        | 529        | 38        |              | 5,888        |
| Additions to Property, plant and equipment  | 235          | 170        | 16         | 22         |           |              | 443          |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses | 338          |            | 7          | 320        | 325       |              | 990          |
| Capital employed  | <b>3,818</b> | <b>246</b> | <b>473</b> | <b>477</b> | <b>26</b> |              | <b>5,040</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**As of and for the three months ended  
December 31, 2002**

|  |                | <b>Holdings</b>  |                 |               |                    |                     |      |       |
|--|----------------|------------------|-----------------|---------------|--------------------|---------------------|------|-------|
|  |                | <b>Non</b>       | <b>(1)</b>      |               |                    |                     |      |       |
| <b>Ferrous</b>                           | <b>ferrous</b> | <b>Logistics</b> | <b>Aluminum</b> | <b>Others</b> | <b>Elimination</b> | <b>Consolidated</b> |      |       |
| Gross revenues                           | Export         | 1,139            | 24              | 11            | 117                | (525)               | 766  |       |
| Gross revenues                           | Domestic       | 206              | 26              | 138           | 30                 | (1)                 | (64) | 335   |
| Cost and expenses                        |                | (982)            | (97)            | (73)          | (148)              | (13)                | 599  | (714) |
| Depreciation, depletion and amortization |                | (36)             | (3)             | (2)           | (2)                |                     |      | (43)  |
| Pension plan                             |                | (2)              |                 | (1)           |                    |                     |      | (3)   |

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|   |              |             |            |            |             |              |              |
|---|--------------|-------------|------------|------------|-------------|--------------|--------------|
| <b>Operating income (loss)</b>  | <b>325</b>   | <b>(50)</b> | <b>73</b>  | <b>(3)</b> | <b>(14)</b> | <b>10</b>    | <b>341</b>   |
| Financial income  | 77           | 1           | 3          | 3          | 1           | (45)         | 40           |
| Financial expenses  | (83)         | (1)         |            | (6)        | (3)         | 45           | (48)         |
| Foreign exchange and monetary gains (losses), net   | 246          | 11          | (51)       | 55         | 6           | (10)         | 257          |
| Gain on sale of investments   |              |             |            |            |             |              |              |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 28           |             | (7)        | 82         | 18          |              | 121          |
| Income taxes  | (130)        |             | (7)        | 24         | 4           |              | (109)        |
| Minority interests  | 2            | (6)         |            | (29)       |             |              | (33)         |
| <b>Net income</b>   | <b>465</b>   | <b>(45)</b> | <b>11</b>  | <b>126</b> | <b>12</b>   |              | <b>569</b>   |
| Sales classified by geographic destination:   |              |             |            |            |             |              |              |
| Export market   |              |             |            |            |             |              |              |
| America, except United States   | 102          |             | 5          | 10         |             | (59)         | 58           |
| United States   | 89           | 1           |            | 2          |             | (59)         | 33           |
| Europe  | 477          | 19          | 5          | 84         |             | (198)        | 387          |
| Middle East/Africa/Oceania  | 88           |             |            |            |             | (20)         | 68           |
| Japan   | 125          | 1           |            | 11         |             | (58)         | 79           |
| China (2)   |              |             |            |            |             |              |              |
| Asia, other than Japan and China  | 258          | 3           | 1          | 10         |             | (131)        | 141          |
|   | <b>1,139</b> | <b>24</b>   | <b>11</b>  | <b>117</b> |             | <b>(525)</b> | <b>766</b>   |
| Domestic market   | 206          | 26          | 138        | 30         | (1)         | (64)         | 335          |
|   | <b>1,345</b> | <b>50</b>   | <b>149</b> | <b>147</b> | <b>(1)</b>  | <b>(589)</b> | <b>1,101</b> |
| Assets:   |              |             |            |            |             |              |              |
| Property, plant and equipment, net  | 2,346        | 400         | 144        | 383        | 24          |              | 3,297        |
| Additions to Property, plant and equipment  | 144          | 76          | 3          | 35         |             |              | 258          |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses   | 350          |             | (10)       | 200        | 192         |              | 732          |
| <b>Capital employed</b>   | <b>2,364</b> | <b>119</b>  | <b>161</b> | <b>209</b> | <b>24</b>   |              | <b>2,877</b> |

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

(2) In three months ended December 31, 2002 China was classified within Asia.



## Operating income by product after eliminations (unaudited)

For the three months ended  
December 31, 2003

|                    | Revenues     |            |              | Value<br>added<br>tax | Net<br>revenues | Cost and<br>expenses | Impairment/<br>Gain on<br>Sale<br>of<br>property,<br>plant<br>and<br>equipment | Depreciation,<br>depletion<br>and<br>amortization | Operating<br>income |            |
|--------------------|--------------|------------|--------------|-----------------------|-----------------|----------------------|--|---|---------------------|------------|
|                    | Export       | Domestic   | Total        |                       |                 |                      |  |   |                     |            |
| <b>Ferrous</b>     |              |            |              |                       |                 |                      |  |   |                     |            |
| Iron ore           | 675          | 146        | 821          | (13)                  | 808             | (442)                | 366  | (10)  | (36)                | 320        |
| Pellets            | 198          | 56         | 254          |                       | 254             | (179)                | 75   |   | (2)                 | 73         |
| Manganese          | 8            | 3          | 11           | (2)                   | 9               | (15)                 | (6)  |   | (1)                 | (7)        |
| Ferroalloys        | 62           | 31         | 93           | (6)                   | 87              | (76)                 | 11   | (17)  | (3)                 | (9)        |
|                    | <b>943</b>   | <b>236</b> | <b>1,179</b> | <b>(21)</b>           | <b>1,158</b>    | <b>(712)</b>         | <b>446</b>   | <b>(27)</b>                                       | <b>(42)</b>         | <b>377</b> |
| <b>Non ferrous</b> |              |            |              |                       |                 |                      |  |   |                     |            |
| Gold               |              |            |              |                       |                 |                      |  |   |                     |            |
| Potash             |              | 24         | 24           | (3)                   | 21              | (9)                  | 12   |   | (4)                 | 8          |
| Kaolin             | 36           | 5          | 41           | (2)                   | 39              | (27)                 | 12   | (12)  | (3)                 | (3)        |
|                    | <b>36</b>    | <b>29</b>  | <b>65</b>    | <b>(5)</b>            | <b>60</b>       | <b>(36)</b>          | <b>24</b>  | <b>(12)</b>                                       | <b>(7)</b>          | <b>5</b>   |
| <b>Aluminum</b>    |              |            |              |                       |                 |                      |  |   |                     |            |
| Alumina            | 111          | 38         | 149          | (1)                   | 148             | (107)                | 41   |   | (5)                 | 36         |
| Aluminum           | 91           |            | 91           |                       | 91              | (88)                 | 3  |   |                     | 3          |
| Bauxite            | 12           | 2          | 14           | (1)                   | 13              | (12)                 | 1  |   |                     | 1          |
|                    | <b>214</b>   | <b>40</b>  | <b>254</b>   | <b>(2)</b>            | <b>252</b>      | <b>(207)</b>         | <b>45</b>  |   | <b>(5)</b>          | <b>40</b>  |
| <b>Logistics</b>   |              |            |              |                       |                 |                      |  |   |                     |            |
| Railroads          |              | 127        | 127          | (14)                  | 113             | (84)                 | 29   |   | (23)                | 6          |
| Ports              |              | 38         | 38           | (5)                   | 33              | (21)                 | 12   |   | (3)                 | 9          |
| Ships              | 18           | 9          | 27           |                       | 27              | (36)                 | (9)  |   |                     | (9)        |
|                    | <b>18</b>    | <b>174</b> | <b>192</b>   | <b>(19)</b>           | <b>173</b>      | <b>(141)</b>         | <b>32</b>  |   | <b>(26)</b>         | <b>6</b>   |
| Others             | (2)          | 2          |              | (5)                   | (5)             | (33)                 | (38)   |   | 2                   | (36)       |
|                    | <b>1,209</b> | <b>481</b> | <b>1,690</b> | <b>(52)</b>           | <b>1,638</b>    | <b>(1,129)</b>       | <b>509</b>   | <b>(39)</b>                                       | <b>(78)</b>         | <b>392</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**For the three months ended  
September 30, 2003**

|                    | Revenues   |            |            | Value<br>added<br>tax | 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 |
|--------------------|------------|------------|------------|-----------------------|-----------------|-------------------------|---|---|---------------------|
|                    | Export     | Domestic   | Total      |                       |                 |                         |   |   |                     |
| <b>Ferrous</b>     |            |            |            |                       |                 |                         |   |   |                     |
| Iron ore           | 554        | 147        | 701        | (16)                  | 685             | (344)                   | 341   | (31)  | 310                 |
| Pellets            | 159        | 58         | 217        | (7)                   | 210             | (151)                   | 59  | (2)   | 57                  |
| Manganese          | 7          | 4          | 11         | (1)                   | 10              | (14)                    | (4)   |   | (4)                 |
| Ferroalloys        | 46         | 24         | 70         | (6)                   | 64              | (46)                    | 18  | (3)   | 15                  |
|                    | <b>766</b> | <b>233</b> | <b>999</b> | <b>(30)</b>           | <b>969</b>      | <b>(555)</b>            | <b>414</b>  | <b>(36)</b>                                       | <b>378</b>          |
| <b>Non ferrous</b> |            |            |            |                       |                 |                         |   |   |                     |
| Gold               | 5          |            | 5          |                       | 5               | 13                      | 18  |   | 18                  |
| Potash             |            | 28         | 28         | (4)                   | 24              | (12)                    | 12  | (1)   | 11                  |
| Kaolin             | 21         | 4          | 25         |                       | 25              | (24)                    | 1   | (3)   | (2)                 |
|                    | <b>26</b>  | <b>32</b>  | <b>58</b>  | <b>(4)</b>            | <b>54</b>       | <b>(23)</b>             | <b>31</b>   | <b>(4)</b>  | <b>27</b>           |
| <b>Aluminum</b>    |            |            |            |                       |                 |                         |   |   |                     |
| Alumina            | 107        | 42         | 149        | (3)                   | 146             | (99)                    | 47  | (4)   | 43                  |
| Aluminum           | 77         | 4          | 81         |                       | 81              | (73)                    | 8   |   | 8                   |
| Bauxite            | 12         | 1          | 13         |                       | 13              | (11)                    | 2   |   | 2                   |
|                    | <b>196</b> | <b>47</b>  | <b>243</b> | <b>(3)</b>            | <b>240</b>      | <b>(183)</b>            | <b>57</b>   | <b>(4)</b>  | <b>53</b>           |
| <b>Logistics</b>   |            |            |            |                       |                 |                         |   |   |                     |
| Railroads          |            | 101        | 101        | (10)                  | 91              | (35)                    | 56  | (17)  | 39                  |
| Ports              | 1          | 39         | 40         | (3)                   | 37              | (19)                    | 18  | (2)   | 16                  |
| Ships              | 10         | 8          | 18         | (1)                   | 17              | (28)                    | (11)  |   | (11)                |

|        |              |            |              |             |              |              |            |  |             |            |
|--------|--------------|------------|--------------|-------------|--------------|--------------|------------|--|-------------|------------|
|        | <b>11</b>    | <b>148</b> | <b>159</b>   | <b>(14)</b> | <b>145</b>   | <b>(82)</b>  | <b>63</b>  |  | <b>(19)</b> | <b>44</b>  |
| Others | 21           | 3          | 24           |             | 24           | (25)         | (1)        |  |             | (1)        |
|        | <b>1,020</b> | <b>463</b> | <b>1,483</b> | <b>(51)</b> | <b>1,432</b> | <b>(868)</b> | <b>564</b> |  | <b>(63)</b> | <b>501</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**For the three months ended  
December 31, 2002**

|                    | <u>Revenues</u> |                 |              | <u>Value<br/>added<br/>tax</u> | <u>Net<br/>revenues</u> | <u>Cost<br/>and<br/>expenses</u> | <u>Net</u> | <u>Impairment/<br/>Gain on<br/>sale<br/>of<br/>property,<br/>plant<br/>and<br/>equipment</u> | <u>Depreciation,<br/>depletion<br/>and<br/>amortization</u> | <u>Operating<br/>income</u> |
|--------------------|-----------------|-----------------|--------------|--------------------------------|-------------------------|----------------------------------|------------|--|---|-----------------------------|
|                    | <u>Export</u>   | <u>Domestic</u> | <u>Total</u> |                                |                         |                                  |            |  |   |                             |
| <b>Ferrous</b>     |                 |                 |              |                                |                         |                                  |            |  |   |                             |
| Iron ore           | 406             | 135             | 541          | (16)                           | 525                     | (226)                            | 299        |  | (22)  | 277                         |
| Pellets            | 160             | 36              | 196          | (5)                            | 191                     | (144)                            | 47         |  | 2   | 49                          |
| Manganese          | 9               | (2)             | 7            | (1)                            | 6                       | 4                                | 10         |  | (4)   | 6                           |
| Ferroalloys        | 46              | 14              | 60           | (4)                            | 56                      | (46)                             | 10         |  | (1)   | 9                           |
|                    | <b>621</b>      | <b>183</b>      | <b>804</b>   | <b>(26)</b>                    | <b>778</b>              | <b>(412)</b>                     | <b>366</b> |  | <b>(25)</b>   | <b>341</b>                  |
| <b>Non ferrous</b> |                 |                 |              |                                |                         |                                  |            |  |   |                             |
| Gold               | 13              |                 | 13           |                                | 13                      | (32)                             | (19)       | (35)   | 1   | (53)                        |
| Potash             |                 | 24              | 24           | (4)                            | 20                      | (11)                             | 9          |  | (1)   | 8                           |
| Kaolin             | 10              | 2               | 12           |                                | 12                      | (8)                              | 4          |  |   | 4                           |
|                    | <b>23</b>       | <b>26</b>       | <b>49</b>    | <b>(4)</b>                     | <b>45</b>               | <b>(51)</b>                      | <b>(6)</b> | <b>(35)</b>  |   | <b>(41)</b>                 |
| <b>Aluminum</b>    |                 |                 |              |                                |                         |                                  |            |  |   |                             |
| Alumina            | 45              | 28              | 73           | (2)                            | 71                      | (61)                             | 10         |  | (2)   | 8                           |
| Aluminum           | 73              |                 | 73           |                                | 73                      | (64)                             | 9          |  |   | 9                           |
| Bauxite            | 4               |                 | 4            |                                | 4                       | (4)                              |            |  |   |                             |
|                    | <b>122</b>      | <b>28</b>       | <b>150</b>   | <b>(2)</b>                     | <b>148</b>              | <b>(129)</b>                     | <b>19</b>  |  | <b>(2)</b>  | <b>17</b>                   |

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**Logistics**

|           |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|-----------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Railroads | 76                   | 76                   | (8)                  | 68                   | (16)                 | 52                   |                      | (16)                 | 36                   |
| Ports     | 11                   | 11                   | (2)                  | 9                    | (14)                 | (5)                  |                      | (1)                  | (6)                  |
| Ships     | 11                   | 11                   |                      | 11                   | (25)                 | (14)                 |                      |                      | (14)                 |
|           | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        |
|           | <b>98</b>            | <b>98</b>            | <b>(10)</b>          | <b>88</b>            | <b>(55)</b>          | <b>33</b>            |                      | <b>(17)</b>          | <b>16</b>            |
| Others    |                      |                      |                      |                      | 7                    | 7                    |                      | 1                    | 8                    |
|           | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        |
|           | <b>766</b>           | <b>335</b>           | <b>1,101</b>         | <b>(42)</b>          | <b>1,059</b>         | <b>(640)</b>         | <b>419</b>           | <b>(35)</b>          | <b>(43)</b>          |
|           | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> |

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**Results by segment before eliminations**As of and for the year ended December 31,  
2003

|   | <b>Holdings</b> |                    |                  |                 |               | <b>Elimination</b> | <b>Consolidated</b> |
|---|-----------------|--------------------|------------------|-----------------|---------------|--------------------|---------------------|
|   | <b>Ferrous</b>  | <b>Non ferrous</b> | <b>Logistics</b> | <b>Aluminum</b> | <b>Others</b> |                    |                     |
| Gross revenues Export   | 5,256           | 105                | 75               | 758             |               | (2,354)            | 3,840               |
| Gross revenues Domestic   | 1,142           | 107                | 472              | 165             |               | (181)              | 1,705               |
| Cost and expenses   | (4,871)         | (192)              | (366)            | (760)           | 3             | 2,535              | (3,651)             |
| Depreciation, depletion and amortization  | (191)           | (18)               | (14)             | (15)            |               |                    | (238)               |
| Pension plan  | (11)            |                    | (1)              |                 |               |                    | (12)                |
| <b>Operating income</b>   | <b>1,325</b>    | <b>2</b>           | <b>166</b>       | <b>148</b>      | <b>3</b>      |                    | <b>1,644</b>        |
| Financial income  | 195             | 1                  | 14               | 10              | 4             | (122)              | 102                 |
| Financial expenses  | (406)           | (4)                | (9)              | (49)            | (5)           | 122                | (351)               |
| Foreign exchange and monetary gains (losses), net   | 150             | 16                 | (14)             | 93              | (3)           |                    | 242                 |
| Gain on sale of investments   | 17              |                    |                  |                 |               |                    | 17                  |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 133             |                    | (52)             | 147             | 78            |                    | 306                 |
| Income taxes  | (266)           | (3)                | (2)              | (27)            | 1             |                    | (297)               |
| Minority interests  | (44)            | (3)                |                  | (58)            |               |                    | (105)               |
| <b>Income from continuing operations</b>  | <b>1,104</b>    | <b>9</b>           | <b>103</b>       | <b>264</b>      | <b>78</b>     |                    | <b>1,558</b>        |
| Change in accounting practice for asset retirement obligations (note 4)                                     | (10)            |                    |                  |                 |               |                    | (10)                |
| <b>Net income</b>   | <b>1,094</b>    | <b>9</b>           | <b>103</b>       | <b>264</b>      | <b>78</b>     |                    | <b>1,548</b>        |
| Sales classified by geographic destination:   |                 |                    |                  |                 |               |                    |                     |
| Export market   |                 |                    |                  |                 |               |                    |                     |
| America, except United States   | 526             |                    | 38               | 156             |               | (329)              | 391                 |
| United States   | 337             | 8                  |                  | 32              |               | (188)              | 189                 |
| Europe  | 2,213           | 76                 | 30               | 378             |               | (913)              | 1,784               |
| Middle East/Africa/Oceania  | 292             |                    | 4                |                 |               | (70)               | 226                 |
| Japan   | 569             | 13                 |                  | 96              |               | (259)              | 419                 |
| China (2)   | 897             | 7                  |                  | 77              |               | (401)              | 580                 |
| Asia, other than Japan and China  | 422             | 1                  | 3                | 19              |               | (194)              | 251                 |

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|   |              |            |            |            |           |                |              |
|---|--------------|------------|------------|------------|-----------|----------------|--------------|
|   | 5,256        | 105        | 75         | 758        |           | (2,354)        | 3,840        |
| Domestic market   | 1,142        | 107        | 472        | 165        |           | (181)          | 1,705        |
|   | <b>6,398</b> | <b>212</b> | <b>547</b> | <b>923</b> |           | <b>(2,535)</b> | <b>5,545</b> |
| Assets:   |              |            |            |            |           |                |              |
| Property, plant and equipment, net  | 4,495        | 1,000      | 424        | 564        | 1         |                | 6,484        |
| Additions to Property, plant and equipment  | 822          | 440        | 186        | 95         |           |                | 1,543        |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses | 344          |            | 44         | 329        | 317       |                | 1,034        |
| Capital employed  | <b>4,137</b> | <b>266</b> | <b>429</b> | <b>498</b> | <b>20</b> |                | <b>5,350</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**As of and for the year ended December 31,  
2002**

|   | <b>Holdings</b> |                    |                  |                 |               | <b>Elimination</b> | <b>Consolidated</b> |
|---|-----------------|--------------------|------------------|-----------------|---------------|--------------------|---------------------|
|   | <b>Ferrous</b>  | <b>Non ferrous</b> | <b>Logistics</b> | <b>Aluminum</b> | <b>Others</b> |                    |                     |
| Gross revenues Export   | 4,200           | 143                | 41               | 387             |               | (1,843)            | 2,928               |
| Gross revenues Domestic   | 996             | 96                 | 374              | 75              | 3             | (190)              | 1,354               |
| Cost and expenses   | (3,773)         | (225)              | (244)            | (426)           | 7             | 2,033              | (2,628)             |
| Depreciation, depletion and amortization  | (170)           | (25)               | (14)             | (4)             | (1)           |                    | (214)               |
| Pension plan  | (9)             | (1)                | (1)              |                 |               |                    | (11)                |
| <b>Operating income</b>   | <b>1,244</b>    | <b>(12)</b>        | <b>156</b>       | <b>32</b>       | <b>9</b>      |                    | <b>1,429</b>        |
| Financial income  | 193             | 1                  | 11               | 11              | 4             | (93)               | 127                 |
| Financial expenses  | (433)           | (6)                | (5)              | (15)            | (9)           | 93                 | (375)               |
| Foreign exchange and monetary gains (losses), net   | (442)           | (36)               | (18)             | (85)            | 1             |                    | (580)               |
| Gain on sale of investments   |                 |                    |                  |                 |               |                    |                     |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (66)            |                    | (88)             | 39              | 28            |                    | (87)                |

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|   |                 |                 |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Income taxes  | 145             |                 | (8)             | 22              | (10)            |                 | 149             |
| Minority interests  | 2               | (6)             |                 | 21              |                 |                 | 17              |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
| Income from continuing operations   | <b>643</b>      | <b>(59)</b>     | <b>48</b>       | <b>25</b>       | <b>23</b>       |                 | <b>680</b>      |
| Change in accounting practice for asset retirement obligations (note 4)                                   |                 |                 |                 |                 |                 |                 |                 |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
| Net income  | <b>643</b>      | <b>(59)</b>     | <b>48</b>       | <b>25</b>       | <b>23</b>       |                 | <b>680</b>      |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
| Sales classified by geographic destination:   |                 |                 |                 |                 |                 |                 |                 |
| Export market   |                 |                 |                 |                 |                 |                 |                 |
| America, except United States   | 392             |                 | 25              | 27              |                 | (207)           | 237             |
| United States   | 340             | 35              | 3               | 10              |                 | (190)           | 198             |
| Europe  | 1,799           | 100             | 9               | 318             |                 | (734)           | 1,492           |
| Middle East/Africa/Oceania  | 239             |                 |                 |                 |                 | (46)            | 193             |
| Japan   | 488             | 3               | 1               | 11              |                 | (228)           | 275             |
| China (2)   | 574             | 4               | 1               | 21              |                 | (270)           | 330             |
| Asia, other than Japan and China  | 368             | 1               | 2               |                 |                 | (168)           | 203             |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
|   | <b>4,200</b>    | <b>143</b>      | <b>41</b>       | <b>387</b>      |                 | <b>(1,843)</b>  | <b>2,928</b>    |
| Domestic market   | 996             | 96              | 374             | 75              | 3               | (190)           | 1,354           |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
|   | <b>5,196</b>    | <b>239</b>      | <b>415</b>      | <b>462</b>      | <b>3</b>        | <b>(2,033)</b>  | <b>4,282</b>    |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
| Assets:   |                 |                 |                 |                 |                 |                 |                 |
| Property, plant and equipment, net  | 2,346           | 400             | 144             | 383             | 24              |                 | 3,297           |
| Additions to Property, plant and equipment  | 524             | 132             | 33              | 63              | 14              |                 | 766             |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses | 350             |                 | (10)            | 200             | 192             |                 | 732             |
|   | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> | <u>        </u> |
| Capital employed  | <b>2,364</b>    | <b>119</b>      | <b>161</b>      | <b>209</b>      | <b>24</b>       |                 | <b>2,877</b>    |

[Additional columns below]

[Continued from above table, first column(s) repeated]

As of and for the year ended December 31,  
2001

|   |          | <b>Holdings</b> |                        |                  |                 |               |                    |                     |
|---|----------|-----------------|------------------------|------------------|-----------------|---------------|--------------------|---------------------|
|   |          | <b>Ferrous</b>  | <b>Non<br/>ferrous</b> | <b>Logistics</b> | <b>Aluminum</b> | <b>Others</b> | <b>Elimination</b> | <b>Consolidated</b> |
| Gross revenues  | Export   | 3,558           | 173                    | 147              | 283             | 47            | (1,414)            | 2,794               |
| Gross revenues  | Domestic | 1,083           | 78                     | 344              | 1               | 8             | (231)              | 1,283               |
| Cost and expenses   |          | (3,632)         | (176)                  | (412)            | (259)           | (37)          | 1,645              | (2,871)             |
| Depreciation, depletion and amortization  |          | (167)           | (17)                   | (26)             |                 | (2)           |                    | (212)               |
| Pension plan  |          | (27)            | (3)                    | (2)              |                 |               |                    | (32)                |
| <b>Operating income</b>   |          | <b>815</b>      | <b>55</b>              | <b>51</b>        | <b>25</b>       | <b>16</b>     |                    | <b>962</b>          |
| Financial income  |          | 169             | 1                      | 11               | 7               | 6             | (59)               | 135                 |
| Financial expenses  |          | (368)           | (10)                   | (11)             | (1)             | (4)           | 59                 | (335)               |
| Foreign exchange and monetary gains<br>(losses), net  |          | (396)           | (21)                   | (10)             |                 | 1             |                    | (426)               |
| Gain on sale of investments   |          |                 |                        |                  |                 | 784           |                    | 784                 |
| Equity in results of affiliates and joint<br>ventures and change in provision for losses<br>on equity investments |          | (7)             |                        | (108)            | 41              | 21            |                    | (53)                |
| Income taxes  |          | 220             |                        | (3)              | 1               |               |                    | 218                 |
| Minority interests  |          | 2               |                        |                  |                 |               |                    | 2                   |
| <b>Income from continuing operations</b>  |          | <b>435</b>      | <b>25</b>              | <b>(70)</b>      | <b>73</b>       | <b>824</b>    |                    | <b>1,287</b>        |
| Change in accounting practice for asset<br>retirement obligations (note 4)  |          |                 |                        |                  |                 |               |                    |                     |
| <b>Net income</b>   |          | <b>435</b>      | <b>25</b>              | <b>(70)</b>      | <b>73</b>       | <b>824</b>    |                    | <b>1,287</b>        |
| Sales classified by geographic destination:   |          |                 |                        |                  |                 |               |                    |                     |
| Export market   |          |                 |                        |                  |                 |               |                    |                     |
| America, except United States   |          | 238             |                        | 65               | 9               |               | (118)              | 194                 |
| United States   |          | 247             | 139                    | 21               | 73              | 47            | (112)              | 415                 |
| Europe  |          | 1,469           | 33                     | 44               | 173             |               | (635)              | 1,084               |
| Middle East/Africa/Oceania  |          | 216             |                        | 4                |                 |               | (20)               | 200                 |
| Japan   |          | 525             |                        | 10               | 12              |               | (155)              | 392                 |
| China (2)   |          |                 |                        |                  |                 |               |                    |                     |
| Asia, other than Japan and China  |          | 863             | 1                      | 3                | 16              |               | (374)              | 509                 |
| <b>Domestic market</b>  |          | <b>3,558</b>    | <b>173</b>             | <b>147</b>       | <b>283</b>      | <b>47</b>     | <b>(1,414)</b>     | <b>2,794</b>        |
|   |          | 1,083           | 78                     | 344              | 1               | 8             | (231)              | 1,283               |
|   |          | <b>4,641</b>    | <b>251</b>             | <b>491</b>       | <b>284</b>      | <b>55</b>     | <b>(1,645)</b>     | <b>4,077</b>        |

## Assets:

|   |              |            |            |           |           |          |              |
|---|--------------|------------|------------|-----------|-----------|----------|--------------|
| Property, plant and equipment, net  | 3,171        | 240        | 305        |           | 97        |          | 3,813        |
| Additions to Property, plant and equipment  | 508          | 40         | 25         |           | 22        |          | 595          |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses | 673          | 29         | 34         | 287       | 195       |          | 1,218        |
|   | <b>2,976</b> | <b>249</b> | <b>313</b> | <b>18</b> | <b>70</b> | <b>4</b> | <b>3,630</b> |

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

(2) In 2001 China was classified within Asia.

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## Operating income by product after eliminations

Year ended December 31,  
2003

|                    | Revenues     |              |              | Value<br>added<br>tax | Net<br>revenues | Cost and<br>expenses | Net          | Impairment/<br>Gain<br>on sale<br>of<br>property,<br>plant<br>and<br>equipment | Depreciation,<br>depletion<br>and<br>amortization | Operating<br>income |
|--------------------|--------------|--------------|--------------|-----------------------|-----------------|----------------------|--------------|--|---|---------------------|
|                    | Export       | Domestic     | Total        |                       |                 |                      |              |  |   |                     |
| <b>Ferrous</b>     |              |              |              |                       |                 |                      |              |  |   |                     |
| Iron ore           | 2,108        | 554          | 2,662        | (65)                  | 2,597           | (1,318)              | 1,279        | (10)   | (105)   | 1,164               |
| Pellets            | 627          | 211          | 838          | (19)                  | 819             | (627)                | 192          | (12)   | (11)  | 169                 |
| Manganese          | 38           | 11           | 49           | (5)                   | 44              | (35)                 | 9            |  | (2)   | 7                   |
| Ferroalloys        | 201          | 99           | 300          | (21)                  | 279             | (218)                | 61           | (17)   | (10)  | 34                  |
|                    | <b>2,974</b> | <b>875</b>   | <b>3,849</b> | <b>(110)</b>          | <b>3,739</b>    | <b>(2,198)</b>       | <b>1,541</b> | <b>(39)</b>  | <b>(128)</b>                                      | <b>1,374</b>        |
| <b>Non ferrous</b> |              |              |              |                       |                 |                      |              |  |   |                     |
| Gold               | 21           |              | 21           |                       | 21              | (2)                  | 19           |  | (2)   | 17                  |
| Potash             |              | 94           | 94           | (12)                  | 82              | (40)                 | 42           |  | (7)   | 35                  |
| Kaolin             | 83           | 13           | 96           | (3)                   | 93              | (70)                 | 23           | (12)   | (7)   | 4                   |
|                    | <b>104</b>   | <b>107</b>   | <b>211</b>   | <b>(15)</b>           | <b>196</b>      | <b>(112)</b>         | <b>84</b>    | <b>(12)</b>  | <b>(16)</b>                                       | <b>56</b>           |
| <b>Aluminum</b>    |              |              |              |                       |                 |                      |              |  |   |                     |
| Alumina            | 342          | 153          | 495          | (8)                   | 487             | (363)                | 124          |  | (15)  | 109                 |
| Aluminum           | 312          | 8            | 320          |                       | 320             | (295)                | 25           |  |   | 25                  |
| Bauxite            | 34           | 3            | 37           | (1)                   | 36              | (33)                 | 3            |  |   | 3                   |
|                    | <b>688</b>   | <b>164</b>   | <b>852</b>   | <b>(9)</b>            | <b>843</b>      | <b>(691)</b>         | <b>152</b>   |  | <b>(15)</b>                                       | <b>137</b>          |
| <b>Logistics</b>   |              |              |              |                       |                 |                      |              |  |   |                     |
| Railroads          |              | 373          | 373          | (39)                  | 334             | (153)                | 181          |  | (70)  | 111                 |
| Ports              | 1            | 143          | 144          | (14)                  | 130             | (75)                 | 55           |  | (9)   | 46                  |
| Ships              | 54           | 33           | 87           | (3)                   | 84              | (122)                | (38)         |  |   | (38)                |
|                    | <b>55</b>    | <b>549</b>   | <b>604</b>   | <b>(56)</b>           | <b>548</b>      | <b>(350)</b>         | <b>198</b>   |  | <b>(79)</b>                                       | <b>119</b>          |
| Others             | 19           | 10           | 29           | (5)                   | 24              | (66)                 | (42)         |  |   | (42)                |
|                    | <b>3,840</b> | <b>1,705</b> | <b>5,545</b> | <b>(195)</b>          | <b>5,350</b>    | <b>(3,417)</b>       | <b>1,933</b> | <b>(51)</b>  | <b>(238)</b>                                      | <b>1,644</b>        |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**Year ended December 31,  
2002**

|                    | <b>Revenues</b> |                 |              | <b>Value<br/>added<br/>tax</b> | <b>Net<br/>revenues</b> | <b>Cost and<br/>expenses</b> | <b>Net</b>   | <b>Impairment/<br/>Gain<br/>on sale<br/>of<br/>property,<br/>plant and<br/>equipment</b> | <b>Depreciation,<br/>depletion<br/>and<br/>amortization</b> | <b>Operating<br/>income</b> |
|--------------------|-----------------|-----------------|--------------|--------------------------------|-------------------------|------------------------------|--------------|--|---|-----------------------------|
|                    | <b>Export</b>   | <b>Domestic</b> | <b>Total</b> |                                |                         |                              |              |  |   |                             |
| <b>Ferrous</b>     |                 |                 |              |                                |                         |                              |              |  |   |                             |
| Iron ore           | 1,642           | 505             | 2,147        | (63)                           | 2,084                   | (915)                        | 1,169        | (87)   | 1,082   |                             |
| Pellets            | 530             | 143             | 673          | (19)                           | 654                     | (548)                        | 106          | (5)  | 101   |                             |
| Manganese          | 24              | 12              | 36           | (5)                            | 31                      | (20)                         | 11           | (6)  | 5   |                             |
| Ferroalloys        | 176             | 71              | 247          | (14)                           | 233                     | (169)                        | 64           | (5)  | 59  |                             |
|                    | <b>2,372</b>    | <b>731</b>      | <b>3,103</b> | <b>(101)</b>                   | <b>3,002</b>            | <b>(1,652)</b>               | <b>1,350</b> | <b>(103)</b>   | <b>1,247</b>  |                             |
| <b>Non ferrous</b> |                 |                 |              |                                |                         |                              |              |  |   |                             |
| Gold               | 103             |                 | 103          |                                | 103                     | (86)                         | 17           | (35)   | (33)  |                             |
| Potash             |                 | 91              | 91           | (12)                           | 79                      | (43)                         | 36           | (4)  | 32  |                             |
| Kaolin             | 40              | 5               | 45           | (1)                            | 44                      | (27)                         | 17           | (2)  | 15  |                             |
|                    | <b>143</b>      | <b>96</b>       | <b>239</b>   | <b>(13)</b>                    | <b>226</b>              | <b>(156)</b>                 | <b>70</b>    | <b>(35)</b>  | <b>14</b>   |                             |
| <b>Aluminum</b>    |                 |                 |              |                                |                         |                              |              |  |   |                             |
| Alumina            | 85              | 74              | 159          | (4)                            | 155                     | (119)                        | 36           | (4)  | 32  |                             |
| Aluminum           | 279             | 1               | 280          |                                | 280                     | (254)                        | 26           |  | 26  |                             |
| Bauxite            | 23              |                 | 23           |                                | 23                      | (22)                         | 1            |  | 1   |                             |
|                    | <b>387</b>      | <b>75</b>       | <b>462</b>   | <b>(4)</b>                     | <b>458</b>              | <b>(395)</b>                 | <b>63</b>    | <b>(4)</b>   | <b>59</b>   |                             |
| <b>Logistics</b>   |                 |                 |              |                                |                         |                              |              |  |   |                             |
| Railroads          |                 | 286             | 286          | (27)                           | 259                     | (55)                         | 204          | (4)  | 128   |                             |
| Ports              |                 | 107             | 107          | (11)                           | 96                      | (67)                         | 29           | (7)  | 22  |                             |
| Ships              | 26              | 39              | 65           | (3)                            | 62                      | (69)                         | (7)          | (6)  | (20)  |                             |

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|        |              |              |              |              |              |                |              |             |              |              |
|--------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|-------------|--------------|--------------|
|        | <b>26</b>    | <b>432</b>   | <b>458</b>   | <b>(41)</b>  | <b>417</b>   | <b>(191)</b>   | <b>226</b>   | <b>(11)</b> | <b>(85)</b>  | <b>130</b>   |
| Others | 20           | 20           |              |              | 20           | (40)           | (20)         |             | (1)          | (21)         |
|        | <b>2,928</b> | <b>1,354</b> | <b>4,282</b> | <b>(159)</b> | <b>4,123</b> | <b>(2,434)</b> | <b>1,689</b> | <b>(46)</b> | <b>(214)</b> | <b>1,429</b> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

Year ended December 31,  
2001

|                    | Revenues     |            |              | Value<br>added<br>tax | Net<br>revenues | Cost and<br>expenses | Net          | Impairment/<br>Gain<br>on sale<br>of<br>property,<br>depreciation,<br>and<br>amortization | Pension<br>plan | Operating<br>income |            |
|--------------------|--------------|------------|--------------|-----------------------|-----------------|----------------------|--------------|---|-----------------|---------------------|------------|
|                    | Export       | Domestic   | Total        |                       |                 |                      |              |   |                 |                     |            |
| <b>Ferrous</b>     |              |            |              |                       |                 |                      |              |   |                 |                     |            |
| Iron ore           | 1,529        | 474        | 2,003        | (58)                  | 1,945           | (869)                | 1,076        | (263)   | (80)            | 733                 |            |
| Pellets            | 474          | 123        | 597          | (12)                  | 585             | (497)                | 88           | (45)  | (4)             | 39                  |            |
| Manganese          | 50           | 7          | 57           | (5)                   | 52              | (39)                 | 13           |   | (2)             | (6)                 |            |
| Ferroalloys        | 131          | 71         | 202          | (18)                  | 184             | (114)                | 70           |   | (7)             | (10)                |            |
|                    | <b>2,184</b> | <b>675</b> | <b>2,859</b> | <b>(93)</b>           | <b>2,766</b>    | <b>(1,519)</b>       | <b>1,247</b> | <b>(308)</b>  | <b>(93)</b>     | <b>(27)</b>         | <b>819</b> |
| <b>Non ferrous</b> |              |            |              |                       |                 |                      |              |   |                 |                     |            |
| Gold               | 139          |            | 139          |                       | 139             | (99)                 | 40           | (47)  | (15)            | (2)                 |            |
| Potash             |              | 71         | 71           | (6)                   | 65              | (37)                 | 28           | (2)   | (4)             | (1)                 |            |
| Kaolin             | 34           | 7          | 41           | (2)                   | 39              | 5                    | 44           | (29)  | (1)             | 14                  |            |
|                    | <b>173</b>   | <b>78</b>  | <b>251</b>   | <b>(8)</b>            | <b>243</b>      | <b>(131)</b>         | <b>112</b>   | <b>(78)</b>   | <b>(20)</b>     | <b>(3)</b>          | <b>11</b>  |
| <b>Aluminum</b>    |              |            |              |                       |                 |                      |              |   |                 |                     |            |
| Alumina            | 32           |            | 32           |                       | 32              | (32)                 |              |   |                 |                     |            |
| Aluminum           | 230          | 1          | 231          |                       | 231             | (209)                | 22           |   |                 | 22                  |            |
| Bauxite            | 21           |            | 21           |                       | 21              | (19)                 | 2            |   |                 | 2                   |            |
|                    | <b>283</b>   | <b>1</b>   | <b>284</b>   |                       | <b>284</b>      | <b>(260)</b>         | <b>24</b>    |   |                 | <b>24</b>           |            |
| <b>Logistics</b>   |              |            |              |                       |                 |                      |              |   |                 |                     |            |

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|           |              |              |              |              |              |                |              |              |              |             |            |
|-----------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|-------------|------------|
| Railroads |              | 299          | 299          | (26)         | 273          | (89)           | 184          | (10)         | (74)         | (2)         | 98         |
| Ports     |              | 104          | 104          | (10)         | 94           | (45)           | 49           | (3)          | (9)          |             | 37         |
| Ships     | 105          | 100          | 205          | (4)          | 201          | (195)          | 6            | (34)         | (13)         |             | (41)       |
|           | <u>105</u>   | <u>503</u>   | <u>608</u>   | <u>(40)</u>  | <u>568</u>   | <u>(329)</u>   | <u>239</u>   | <u>(47)</u>  | <u>(96)</u>  | <u>(2)</u>  | <u>94</u>  |
| Others    | 49           | 26           | 75           | (1)          | 74           | (56)           | 18           | (1)          | (3)          |             | 14         |
|           | <u>2,794</u> | <u>1,283</u> | <u>4,077</u> | <u>(142)</u> | <u>3,935</u> | <u>(2,295)</u> | <u>1,640</u> | <u>(434)</u> | <u>(212)</u> | <u>(32)</u> | <u>962</u> |

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**20 Related party transactions**

Transactions with major related parties resulted in the following balances:

|  | <b>As of December 31</b> |                    |               |                    |
|--|--------------------------|--------------------|---------------|--------------------|
|  | <b>2003</b>              |                    | <b>2002</b>   |                    |
|  | <b>Assets</b>            | <b>Liabilities</b> | <b>Assets</b> | <b>Liabilities</b> |
| <b>AFFILIATED COMPANIES AND JOINT VENTURES</b> |                          |                    |               |                    |
| FCA  |                          |                    | 70            | 1                  |
| HISpanoBRAS                                    | 18                       | 29                 | 18            | 25                 |
| ITABRASCO                                      | 16                       | 17                 | 19            | 25                 |
| NIBRASCO                                       | 36                       | 25                 | 26            | 17                 |
| KOBRASCO                                       | 51                       | 14                 | 40            | 8                  |
| CST  | 31                       |                    | 23            |                    |
| USIMINAS                                       | 7                        |                    | 5             |                    |
| ALBRAS   | 14                       | 95                 | 10            | 58                 |
| Others   | 38                       | 87                 | 48            | 53                 |
|  | <b>211</b>               | <b>267</b>         | <b>259</b>    | <b>187</b>         |
| Current  | 171                      | 263                | 170           | 180                |
| Long-term                                      | 40                       | 4                  | 89            | 7                  |

These balances are included in the following balance sheet classifications:

|                                       | <b>As of December 31</b> |                    |               |                    |
|---------------------------------------|--------------------------|--------------------|---------------|--------------------|
|                                       | <b>2003</b>              |                    | <b>2002</b>   |                    |
|                                       | <b>Assets</b>            | <b>Liabilities</b> | <b>Assets</b> | <b>Liabilities</b> |
| <b>Current assets</b>                 |                          |                    |               |                    |
| Accounts receivable                   | 115                      |                    | 121           |                    |
| Loans and advances to related parties | 56                       |                    | 49            |                    |
| <b>Other assets</b>                   |                          |                    |               |                    |
| Loans and advances to related parties | 40                       |                    | 89            |                    |
| <b>Current liabilities</b>            |                          |                    |               |                    |
| Suppliers                             |                          | 144                |               | 116                |
| Loans from related parties            |                          | 119                |               | 64                 |

|                       |                    |                    |                    |                    |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
| Long-term liabilities |                    |                    |                    |                    |
| Long-term debt        |                    | 4                  |                    | 7                  |
|                       | <u>    </u>        | <u>    </u>        | <u>    </u>        | <u>    </u>        |
|                       | <b>211</b>         | <b>267</b>         | <b>259</b>         | <b>187</b>         |
|                       | <b><u>    </u></b> | <b><u>    </u></b> | <b><u>    </u></b> | <b><u>    </u></b> |

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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>2003</b>                   |                | <b>2002</b>   |                | <b>2001</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  | 136                           |                | 152           |                | 146           |                |
| NIBRASCO                                       | 116                           | 133            | 146           | 150            | 135           | 132            |
| ALUNORTE (to June 2002)                        |                               |                | 6             |                | 84            | 38             |
| SIDERAR  | 53                            |                | 35            |                | 30            |                |
| ITABRASCO                                      | 61                            | 20             | 74            | 53             | 67            | 33             |
| HISpanoBRAS                                    | 66                            | 69             | 77            | 77             | 74            | 74             |
| KOBRASCO                                       | 62                            | 57             | 84            | 46             | 75            | 63             |
| CENIBRA (to May 2001)                          |                               |                |               |                | 30            | 46             |
| USIMINAS                                       | 79                            |                | 76            |                | 59            |                |
| ALBRAS   | 149                           | 286            | 73            | 265            | 5             | 208            |
| VALESUL  | 10                            |                | 7             | 1              |               |                |
| MRN  |                               |                |               | 56             |               | 17             |
| Others   | 55                            | 176            | 79            | 94             | 99            | 142            |
| <b>BRAZILIAN FEDERAL GOVERNMENT</b>            |                               |                |               |                |               |                |
| Banco do Brasil S.A.                           |                               |                | 3             |                | 27            |                |
| Petróleo Brasileiro S.A. - PETROBRAS           |                               |                |               |                | 2             | 18             |
| Centrais Elétricas Brasileiras S.A.            |                               |                |               |                | 1             |                |
| BNDES  |                               |                |               | 2              | 1             | 19             |
|  | <b>787</b>                    | <b>741</b>     | <b>812</b>    | <b>744</b>     | <b>835</b>    | <b>790</b>     |

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

|                                      | <b>Year ended December 31</b> |                |               |                |               |                |
|--------------------------------------|-------------------------------|----------------|---------------|----------------|---------------|----------------|
|                                      | <b>2003</b>                   |                | <b>2002</b>   |                | <b>2001</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 | 608                           | 317            | 599           | 380            | 518           | 349            |
| Revenues from logistic services      | 13                            |                | 66            |                | 85            |                |
| Sales / Cost of aluminum products    | 153                           | 427            | 74            | 314            |               | 254            |
| Financial income/expenses            | (17)                          | (4)            | 15            | 18             | 180           | 59             |
| Others                               | 30                            | 1              | 58            | 32             | 52            | 128            |

|            |            |            |            |            |            |
|------------|------------|------------|------------|------------|------------|
| <u>787</u> | <u>741</u> | <u>812</u> | <u>744</u> | <u>835</u> | <u>790</u> |
|------------|------------|------------|------------|------------|------------|

**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.

The market value of 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 at December 31, 2003 and 2002 is estimated as follows:

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|                   | <b>As of December 31</b> |             |
|-------------------|--------------------------|-------------|
|                   | <b>2003</b>              | <b>2002</b> |
| Fair market value | 2,839                    | 2,379       |
| Carrying value    | 2,767                    | 2,359       |

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.

## **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.

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

|  | <b>Gold</b>       | <b>Interest<br/>rates<br/>(LIBOR)</b> | <b>Currencies</b> | <b>Alumina</b>    | <b>Total</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)               |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Unrealized gains (losses) at December 31, 2003</b>  | <b>(32)</b>       | <b>(46)</b>                           | <b>5</b>          | <b>(18)</b>       | <b>(91)</b>       |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| Unrealized gains (losses) at July 1, 2003              | (11)              | (65)                                  | (1)               | 1                 | (76)              |
| Financial settlement                                   | 5                 | 4                                     |                   |                   | 9                 |
| Unrealized gains (losses) in the period                | (17)              | (1)                                   | 3                 | (6)               | (21)              |
| Effect of exchange rate changes                        | 1                 | 2                                     |                   |                   | 3                 |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Unrealized gains (losses) at September 30, 2003</b> | <b>(22)</b>       | <b>(60)</b>                           | <b>2</b>          | <b>(5)</b>        | <b>(85)</b>       |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| Unrealized gains (losses) at October 1, 2002           | (4)               | (65)                                  | 2                 | 4                 | (63)              |
| Financial settlement                                   |                   | 3                                     | 2                 | (1)               | 4                 |
| Unrealized gains (losses) realized in the period       | (10)              | 8                                     | (5)               |                   | (7)               |
| Effect of exchange rate changes                        | (1)               | (6)                                   |                   |                   | (7)               |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Unrealized gains (losses) at December 31, 2002</b>  | <b>(15)</b>       | <b>(60)</b>                           | <b>(1)</b>        | <b>3</b>          | <b>(73)</b>       |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| Unrealized gains (losses) at January 1, 2001           | 9                 | (8)                                   | (4)               |                   | (3)               |
| Unrealized gains and (losses) realized in the period   | 2                 | (36)                                  | (4)               |                   | (38)              |
| Financial settlement                                   | (4)               | 8                                     | 4                 |                   | 8                 |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Unrealized gains (losses) at December 31, 2001</b>  | <b>7</b>          | <b>(36)</b>                           | <b>(4)</b>        |                   | <b>(33)</b>       |
|  | <u>          </u> | <u>          </u>                     | <u>          </u> | <u>          </u> | <u>          </u> |
|  |                   |                                       |                   | 2                 | 2                 |

|   |                      |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Gain recognized upon consolidation of Alunorte        |                      |                      |                      |                      |                      |
| 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                   |
|   | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        |
| <b>Unrealized gains (losses) at December 31, 2002</b> | <b>(15)</b>          | <b>(60)</b>          | <b>(1)</b>           | <b>3</b>             | <b>(73)</b>          |
|   | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> |
| 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)                 |
|   | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        | <u>      </u>        |
| <b>Unrealized gains (losses) at December 31, 2003</b> | <b>(32)</b>          | <b>(46)</b>          | <b>5</b>             | <b>(18)</b>          | <b>(91)</b>          |
|   | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> | <b><u>      </u></b> |

Unrealized gains (losses) in the period are included in our income statement under the following captions:

Gold financial expenses;

Interest rates financial expenses;

Currencies financial expenses;

Alumina financial expenses.

Final maturity dates for the above instruments are as follows:

|                        |          |
|------------------------|----------|
| Gold                   | Dec 2007 |
| Interest rates (LIBOR) | Oct 2007 |
| Currencies             | Dec 2011 |
| Alumina                | Sep 2005 |

**(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.

**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 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 in 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> |
|---|-----------------|----------------------|---------------|--------------|----------------|
| <b>Steel</b>  |                 |                      |               |              |                |
| Alumínio Brasileiro S.A. - ALBRAS                         | Trevisan        | 2003                 | RJ            | RJ           | Brazil         |
| Alumínio Brasileiro S.A. - ALBRAS                         | DTT             | 2002, 2001           | RJ            | RJ           | Brazil         |
| Alumina do Norte do Brasil S.A. - ALUNORTE                | Trevisan        | 2003                 | RJ            | RJ           | Brazil         |
| Alumina do Norte do Brasil S.A. - ALUNORTE                | DTT             | 2002, 2001           | RJ            | RJ           | Brazil         |
| Vale do Rio Doce Alumínio S.A. - ALUVALE (1)              | DTT             | 2002, 2001           | RJ            | RJ           | Brazil         |
| California Steel Industries, Inc.                         | KPMG LLP        | 2002, 2001           | Orange County | CA           | USA            |
| Navegação Vale do Rio Doce S.A. - DOCENAVE                | DTT             | 2003, 2002, 2001     | RJ            | RJ           | Brazil         |
| DOCEPAR S.A.  | DTT             | 2003, 2002, 2001     | RJ            | RJ           | Brazil         |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRAS | AA              | 2001                 | Vitória       | ES           | Brazil         |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRAS | DTT             | 2003, 2002           | RJ            | RJ           | Brazil         |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO     | AA              | 2001                 | Vitória       | ES           | Brazil         |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO     | DTT             | 2003, 2002           | RJ            | RJ           | Brazil         |
| Companhia Coreano Brasileira de Pelotização - KOBRASCO    | DTT             | 2003, 2002, 2001     | RJ            | RJ           | Brazil         |
| Mineração Rio do Norte S.A.                               | AA              | 2001                 | RJ            | RJ           | Brazil         |
| Mineração Rio do Norte S.A.                               | DTT             | 2003, 2002           | RJ            | RJ           | Brazil         |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO       | DTT             | 2003, 2002, 2001     | RJ            | RJ           | Brazil         |
| Valesul Alumínio S.A.                                     | KPMG            | 2002, 2001           | RJ            | RJ           | Brazil         |
| Valesul Alumínio S.A.                                     | DTT             | 2003                 | RJ            | RJ           | Brazil         |
| Pará Pigmentos S.A.                                       | DTT             | 2003                 | RJ            | RJ           | Brazil         |
| Ferrovia Centro-Atlântica S.A.                            | DTT             | 2003                 | RJ            | RJ           | Brazil         |
| Urucum Mineração S.A.                                     | DTT             | 2003                 | RJ            | RJ           | Brazil         |
| Rio Doce Manganês S.A.                                    | DTT             | 2003, 2002, 2001     | Salvador      | BA           | Brazil         |

(1) Merged into CVRD in December 2003.

AA - Arthur Andersen S/C (ceased business in 2002)

DTT - Deloitte Touche Tohmatsu

RJ - Rio de Janeiro

ES - Espírito Santo

BA - Bahia

## **24 Subsequent Event**

On January 9, 2004 we launched a bond issue maturing in 2034. The bonds carry a coupon of 8.25% a year with semiannual payment and will be sold at 98.904% of face value, priced to have a yield to maturity of 8.35%, at a spread of 336 basis points over 30-year US Treasuries. The bonds mature on January 17, 2034 and received a risk rating of Ba2 from Moody's Investor Services. The 30-year term is the longest for a bond issued by a Brazilian company in the international capital market.

The bonds are unsecured and non-subordinated obligations of Vale Overseas Limited and have the full and unconditional guarantee of CVRD. The guarantee will be *pari passu* to all obligations of CVRD of a similar nature. The funds raised with this issue are earmarked to cover the general needs of the Company.

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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 26, 2004

By: /s/ Fabio de Oliveira Barbosa

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Fabio de Oliveira Barbosa  
Chief Financial Officer