

VALLEY OF THE RIO DOCE CO

Form 6-K

May 14, 2004

**Table of Contents**

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

May 2004

**Valley of the Rio Doce Company**

(Translation of Registrant's name into English)

Avenida Graça Aranha, No. 26  
20005-900 Rio de Janeiro, RJ, Brazil  
(Address of principal executive office)

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

(Check One) Form 20-F  Form 40-F

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

(Check One) Yes  No

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

(Check One) Yes  No

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

(Check One) Yes  No

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

**TABLE OF CONTENTS**

INDEX TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (US GAAP)  
SIGNATURES

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**Table of Contents**

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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**Table of Contents**

**COMPANHIA VALE DO RIO DOCE**

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

|  | <b>Page</b> |
|--|-------------|
| Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003   | F-3         |
| Consolidated Statements of Income for the three-month periods ended March 31, 2004 and 2003 and December 31, 2003                          | F-5         |
| Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2004 and 2003 and December 31, 2003                      | F-6         |
| Consolidated Statements of Changes in Stockholders' Equity for the three-month periods ended March 31, 2004 and 2003 and December 31, 2003 | F-7         |
| Notes to the Consolidated Financial Information  | F-8         |

**Table of Contents**

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F-2

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

|   | <b>March<br/>31, 2004</b> | <b>December<br/>31, 2003</b> |
|---|---------------------------|------------------------------|
|   | <b>(unaudited)</b>        |                              |
| Assets  |                           |                              |
| Current assets  |                           |                              |
| Cash and cash equivalents   | 1,001                     | 585                          |
| Accounts receivable   |                           |                              |
| Related parties   | 127                       | 115                          |
| Unrelated parties   | 710                       | 703                          |
| Loans and advances to related parties   | 14                        | 56                           |
| Inventories   | 502                       | 505                          |
| Deferred income tax   | 144                       | 91                           |
| Others  | 440                       | 419                          |
|   | <b>2,938</b>              | <b>2,474</b>                 |
| Property, plant and equipment, net  | <b>6,727</b>              | <b>6,484</b>                 |
| Investments in affiliated companies and joint ventures and other investments, net of provision for losses on equity investments | <b>1,069</b>              | <b>1,034</b>                 |
| Other assets  |                           |                              |
| Goodwill on acquisition of subsidiaries   | 448                       | 451                          |
| Loans and advances  |                           |                              |
| Related parties   | 40                        | 40                           |
| Unrelated parties   | 66                        | 68                           |
| Prepaid pension cost  | 78                        | 82                           |
| Deferred income tax   | 205                       | 234                          |
| Judicial deposits   | 424                       | 407                          |
| Unrealized gain on derivative instruments   | 1                         | 5                            |
| Others  | 165                       | 155                          |
|   | <b>1,427</b>              | <b>1,442</b>                 |
| <b>TOTAL</b>  | <b>12,161</b>             | <b>11,434</b>                |

**Table of Contents**

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

(Continued)

|   | <b>March<br/>31, 2004</b> | <b>December<br/>31, 2003</b> |
|---|---------------------------|------------------------------|
|   | <b>(unaudited)</b>        |                              |
| Liabilities and stockholders' equity  |                           |                              |
| Current liabilities   |                           |                              |
| Suppliers   | 441                       | 482                          |
| Payroll and related charges   | 87                        | 78                           |
| Interest attributed to stockholders   | 276                       | 118                          |
| Current portion of long-term debt - unrelated parties                                       | 695                       | 1,009                        |
| Short-term debt   | 171                       | 129                          |
| Loans from related parties  | 87                        | 119                          |
| Others  | 390                       | 318                          |
|   | <b>2,147</b>              | <b>2,253</b>                 |
| Long-term liabilities   |                           |                              |
| Employees post-retirement benefits  | 199                       | 198                          |
| Long-term debt - unrelated parties  | 3,288                     | 2,767                        |
| Loans from related parties  | 3                         | 4                            |
| Provisions for contingencies (Note 10)  | 633                       | 635                          |
| Unrealized loss on derivative instruments   | 121                       | 96                           |
| Others  | 318                       | 268                          |
|   | <b>4,562</b>              | <b>3,968</b>                 |
| Minority interests  | <b>353</b>                | <b>329</b>                   |
| Stockholders' equity  |                           |                              |
| Preferred class A stock - 600,000,000 no-par-value shares authorized and 138,575,913 issued | 1,055                     | 1,055                        |
| Common stock - 300,000,000 no-par-value shares authorized and 249,983,143 issued            | 1,902                     | 1,902                        |
| Treasury stock - 4,183 (2003 - 4,183) preferred and 4,715,170 common shares                 | (88)                      | (88)                         |
| Additional paid-in capital  | 498                       | 498                          |
| Other cumulative comprehensive income   | (4,403)                   | (4,375)                      |
| Appropriated retained earnings  | 3,016                     | 3,035                        |



|                                  |                      |                      |
|----------------------------------|----------------------|----------------------|
| Unappropriated retained earnings | 3,119                | 2,857                |
|                                  | <u>5,099</u>         | <u>4,884</u>         |
| <b>TOTAL</b>                     | <b><u>12,161</u></b> | <b><u>11,434</u></b> |

*See notes to condensed consolidated financial information.*

**F - 4**

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**Table of Contents**

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

|  | <b>Three months ended</b> |                           |                              |
|--|---------------------------|---------------------------|------------------------------|
|  | <b>March<br/>31, 2004</b> | <b>March<br/>31, 2003</b> | <b>December<br/>31, 2003</b> |
| Operating revenues, net of discounts, returns and allowances |                           |                           |                              |
| Sales of ores and metals                                     |                           |                           |                              |
| Iron ore and pellets   | 1,061                     | 746                       | 1,075                        |
| Kaolin   | 39                        | 16                        | 41                           |
| Manganese and ferroalloys                                    | 131                       | 75                        | 104                          |
| Potash   | 23                        | 21                        | 24                           |
| Others   |                           | 9                         |                              |
|  | <b>1,254</b>              | <b>867</b>                | <b>1,244</b>                 |
| Revenues from logistic services                              | 191                       | 115                       | 192                          |
| Aluminum products  | 234                       | 167                       | 254                          |
| Other products and services                                  | 6                         | 4                         |                              |
|  | <b>1,685</b>              | <b>1,153</b>              | <b>1,690</b>                 |
| Value-added tax  | (75)                      | (43)                      | (52)                         |
| Net operating revenues                                       | <b>1,610</b>              | <b>1,110</b>              | <b>1,638</b>                 |
| Operating costs and expenses                                 |                           |                           |                              |
| Cost of ores and metals sold                                 | (643)                     | (428)                     | (670)                        |
| Cost of logistic services                                    | (115)                     | (70)                      | (138)                        |
| Cost of aluminum products                                    | (167)                     | (142)                     | (194)                        |
| Others   | (3)                       | (1)                       | (3)                          |
|  | <b>(928)</b>              | <b>(641)</b>              | <b>(1,005)</b>               |
| Selling, general and administrative expenses                 | (92)                      | (49)                      | (97)                         |
| Research and development                                     | (23)                      | (11)                      | (37)                         |
| Employee profit sharing plan                                 | (13)                      | (12)                      | (9)                          |
| Others   | (25)                      | (34)                      | (98)                         |
|  | <b>(1,081)</b>            | <b>(747)</b>              | <b>(1,246)</b>               |

|   |              |             |             |
|---|--------------|-------------|-------------|
| Operating income  | <b>529</b>   | <b>363</b>  | <b>392</b>  |
| Non-operating income (expenses)   |              |             |             |
| Financial income  | 11           | 28          | 18          |
| Financial expenses  | (109)        | (82)        | (122)       |
| Foreign exchange and monetary gains (losses), net   | (39)         | 50          | (8)         |
| Gain on sale of investments   |              |             | 17          |
|   | <b>(137)</b> | <b>(4)</b>  | <b>(95)</b> |
| Income before income taxes, equity results and minority interests   | <b>392</b>   | <b>359</b>  | <b>297</b>  |
| Income taxes  |              |             |             |
| Current   | (80)         | (6)         | 10          |
| Deferred  | 27           | (65)        | (76)        |
|   | <b>(53)</b>  | <b>(71)</b> | <b>(66)</b> |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | 90           | 94          | 88          |
| Minority interests  | (24)         | (18)        | (49)        |
| Income from continuing operations   | <b>405</b>   | <b>364</b>  | <b>270</b>  |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |              | (10)        |             |
| Net income  | <b>405</b>   | <b>354</b>  | <b>270</b>  |
| Basic earnings per Preferred Class A Share  | <b>1.06</b>  | <b>0.92</b> | <b>0.70</b> |
| Basic earnings per Common Share   | <b>1.06</b>  | <b>0.92</b> | <b>0.70</b> |
| Weighted average number of shares outstanding (thousands of shares)   |              |             |             |
| Common shares   | 245.268      | 245.268     | 245.268     |
| Preferred Class A shares  | 138.571      | 138.571     | 138.571     |

*See notes to condensed consolidated financial information.*



**Table of Contents****Condensed Consolidated Statements of Cash Flows**  
**Expressed in millions of United States dollars (Unaudited)**

|   | <b>Three months ended</b>     |                           |                              |
|---|-------------------------------|---------------------------|------------------------------|
|   | <b>March<br/>31,<br/>2004</b> | <b>March<br/>31, 2003</b> | <b>December<br/>31, 2003</b> |
| Cash flows from operating activities:   |                               |                           |                              |
| Net income  | 405                           | 354                       | 270                          |
| Adjustments to reconcile net income to cash provided by operating activities:                               |                               |                           |                              |
| Depreciation, depletion and amortization  | 95                            | 43                        | 78                           |
| Dividends received  | 61                            | 36                        | 59                           |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (90)                          | (94)                      | (88)                         |
| Deferred income taxes   | (27)                          | 65                        | 76                           |
| Provisions for other contingencies  |                               | 9                         |                              |
| Impairment of property, plant and equipment   |                               |                           | 39                           |
| Gain on sale of investments   |                               |                           | (17)                         |
| Change in accounting practice for asset retirement obligations (Note 4)                                     |                               | 10                        |                              |
| Pension plan  | 3                             | 3                         | 4                            |
| Foreign exchange and monetary losses (gains)  | 43                            | (142)                     | 5                            |
| Net unrealized derivative losses (gains)  | 31                            | 3                         | 20                           |
| Minority interests  | 24                            | 18                        | 49                           |
| Others  | (32)                          | 6                         | 6                            |
| Decrease (increase) in assets:  |                               |                           |                              |
| Accounts receivable   | (25)                          | 64                        | (68)                         |
| Inventories   |                               | 24                        | 6                            |
| Others  | (25)                          | (1)                       | (36)                         |
| Increase (decrease) in liabilities:   |                               |                           |                              |
| Suppliers   | (38)                          | (93)                      | 59                           |
| Payroll and related charges   | (8)                           | (6)                       | (17)                         |
| Others  | 131                           | 57                        | 69                           |
|   | <u>548</u>                    | <u>356</u>                | <u>514</u>                   |
| Net cash provided by operating activities   | 548                           | 356                       | 514                          |
| Cash flows from investing activities:   |                               |                           |                              |
| Loans and advances receivable   |                               |                           |                              |
| Related parties   |                               |                           |                              |
| Additions   |                               | (23)                      | (65)                         |
| Repayments  | 42                            | 29                        | 9                            |
| Others  | 14                            | 16                        |                              |
| Guarantees and deposits   | (20)                          | (12)                      | (13)                         |
| Additions to investments  | (10)                          |                           | 1                            |
| Additions to property, plant and equipment  | (379)                         | (198)                     | (594)                        |

|  |       |       |       |
|--|-------|-------|-------|
| Proceeds from disposal of investments                        |       |       | 83    |
|  | _____ | _____ | _____ |
| Net cash used in investing activities                        | (353) | (188) | (579) |
|  | _____ | _____ | _____ |
| Cash flows from financing activities:                        |       |       |       |
| Short-term debt, net issuances (repayments)                  | 44    | (93)  | (1)   |
| Loans  |       |       |       |
| Related parties  |       |       |       |
| Additions  | 21    |       | 24    |
| Repayments   | (55)  | (16)  | (2)   |
| Issuances of long-term debt                                  |       |       |       |
| Related parties  |       | 2     | 12    |
| Others   | 665   | 177   | 29    |
| Repayments of long-term debt                                 |       |       |       |
| Related parties  |       |       |       |
| Others   | (451) | (101) | (351) |
| Interest attributed to stockholders                          |       |       | (427) |
|  | _____ | _____ | _____ |
| Net cash used in financing activities                        | 224   | (31)  | (716) |
|  | _____ | _____ | _____ |
| Increase (decrease) in cash and cash equivalents             | 419   | 137   | (781) |
| Effect of exchange rate changes on cash and cash equivalents | (3)   | 56    | 26    |
| Cash and cash equivalents, beginning of period               | 585   | 1,091 | 1,340 |
|  | _____ | _____ | _____ |
| Cash and cash equivalents, end of period                     | 1,001 | 1,284 | 585   |
|  | _____ | _____ | _____ |
| Cash paid during the period for:                             |       |       |       |
| Interest on short-term debt                                  | (2)   | (6)   |       |
| Interest on long-term debt                                   | (75)  | (53)  | (38)  |
| Income tax   |       | (6)   | (16)  |
| Non-cash transactions  |       |       |       |
| Conversion of loans receivable to investments                |       | (11)  | (91)  |

*See notes to condensed consolidated financial information.*

Table of Contents

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

|   | <b>Three months ended</b> |                           |                              |
|---|---------------------------|---------------------------|------------------------------|
|   | <b>March<br/>31, 2004</b> | <b>March<br/>31, 2003</b> | <b>December<br/>31, 2003</b> |
| Preferred class A stock (including one special share) | _____                     | _____                     | _____                        |
| End of the period                                     | <b>1,055</b>              | <b>904</b>                | <b>1,055</b>                 |
| Common stock  | _____                     | _____                     | _____                        |
| End of the period                                     | <b>1,902</b>              | <b>1,630</b>              | <b>1,902</b>                 |
| Treasury stock  | _____                     | _____                     | _____                        |
| End of the period                                     | <b>(88)</b>               | <b>(88)</b>               | <b>(88)</b>                  |
| Additional paid-in capital                            | _____                     | _____                     | _____                        |
| End of the period                                     | <b>498</b>                | <b>498</b>                | <b>498</b>                   |
| Other cumulative comprehensive income                 | _____                     | _____                     | _____                        |
| Cumulative translation adjustments                    | _____                     | _____                     | _____                        |
| Beginning of the period                               | (4,449)                   | (5,185)                   | (4,473)                      |
| Change in the period                                  | (31)                      | 186                       | 24                           |
| End of the period                                     | <b>(4,480)</b>            | <b>(4,999)</b>            | <b>(4,449)</b>               |
| Unrealized gain on available-for-sale securities      | _____                     | _____                     | _____                        |
| Beginning of the period                               | 74                        | _____                     | 14                           |
| Change in the period                                  | 3                         | 13                        | 60                           |
| End of the period                                     | <b>77</b>                 | <b>13</b>                 | <b>74</b>                    |

|   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Adjustments relating to investments in affiliates       |                    |                    |                    |
| Beginning of the period                                 |                    | 10                 | 10                 |
| Transfer to retained earnings                           |                    |                    | (10)               |
| End of the period                                       |                    | <b>10</b>          |                    |
| Total other cumulative comprehensive income             | <b>(4,403)</b>     | <b>(4,976)</b>     | <b>(4,375)</b>     |
| Appropriated retained earnings                          |                    |                    |                    |
| Beginning of the period                                 | 3,035              | 2,230              | 2,251              |
| Transfer (to) from retained earnings                    | (19)               | 121                | 784                |
| End of the period                                       | <b>3,016</b>       | <b>2,351</b>       | <b>3,035</b>       |
| Retained earnings                                       |                    |                    |                    |
| Beginning of the period                                 | 2,857              | 3,288              | 3,472              |
| Net income  | 405                | 354                | 270                |
| Interest attributed to stockholders                     |                    |                    |                    |
| Preferred class A stock                                 | (58)               | (72)               | (40)               |
| Common stock  | (104)              | (128)              | (71)               |
| Appropriation (to) from reserves                        | 19                 | (121)              | (774)              |
| End of the period                                       | <b>3,119</b>       | <b>3,321</b>       | <b>2,857</b>       |
| Total stockholders' equity                              | <b>5,099</b>       | <b>3,640</b>       | <b>4,884</b>       |
| Comprehensive income is comprised as follows:           |                    |                    |                    |
| Net income  | 405                | 354                | 270                |
| Cumulative translation adjustments                      | (31)               | 186                | 24                 |
| Unrealized gain (loss) on available-for-sale securities | 3                  | 13                 | 60                 |
| Total comprehensive income                              | <b>377</b>         | <b>553</b>         | <b>354</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> |



|  |                             |                             |                             |
|--|-----------------------------|-----------------------------|-----------------------------|
| Common stock   | <u>249,983,143</u>          | <u>249,983,143</u>          | <u>249,983,143</u>          |
| Treasury stock (1)                                     |                             |                             |                             |
| Beginning of the period                                | (4,719,353)                 | (4,719,651)                 | (4,719,353)                 |
| Sales  |                             | 16                          |                             |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| End of the period                                      | <u>(4,719,353)</u>          | <u>(4,719,635)</u>          | <u>(4,719,353)</u>          |
|  | <u>383,839,703</u>          | <u>383,839,421</u>          | <u>383,839,703</u>          |
| <b>Interest attributed to stockholders (per share)</b> |                             |                             |                             |
| Preferred class A stock (including one special share)  | 0.42                        | 0.52                        | 0.29                        |
| Common stock   | 0.42                        | 0.52                        | 0.29                        |

(1) As of March 31, 2004, 4,715,170 common shares and 4,183 preferred shares were held in treasury in the amount of \$ 88. The 4,715,170 common shares guarantee a loan of to our subsidiary Alunorte.

**See notes to condensed consolidated financial information.**

**Table of Contents****Notes to the Condensed Consolidated Financial Information****Expressed in millions of United States dollars, unless otherwise stated (Unaudited)****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 8.

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)                               | 37             | Brazil                  | Kaolin                                 |
| CELMAR S.A. - Indústria de Celulose e Papel (3)  | 100            | Brazil                  | Forestry                               |
| CVRD Overseas Ltd.                               | 100            | Cayman<br>Island        | Trading                                |
| Ferrovia 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<br>Island        | Trading                                |
| Mineração Serra do Sossego S.A. (1) (5)          | 100            | Brazil                  | Copper                                 |
| Minerações Brasileiras Reunidas S.A. - MBR(4)(7) | 56             | Brazil                  | Iron ore                               |
| Navegação Vale do Rio Doce S.A. - DOCENAVE       | 100            | Brazil                  | Shipping                               |
| Pará Pigmentos S.A.                              | 82             | Brazil                  | Kaolin                                 |
| Rio Doce International Finance Ltd. - RDIF       | 100            | Bahamas                 | International finance                  |
| Rio Doce Manganèse 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<br>Ferroalloys           |
| Urucum Mineração S.A.                            | 100            | Brazil                  | Iron ore, Ferroalloys<br>and Manganese |
| Vale do Rio Doce Alumínio S.A. - ALUVALE (5)     | 100            | Brazil                  | 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.

(7) Through Caemi Mineração e Metalurgia S.A. and Belém Administrações e Participações Ltda.

## **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 8).

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.

## **Table of Contents**

Investments in unincorporated joint ventures, formed for the purpose of investing in electrical energy projects, as proportionately consolidated.

### **3 Summary of significant accounting policies**

Our condensed consolidated interim financial information for the three-month periods ended March 31, 2004, December 31, 2003 and March 31, 2003 is unaudited. However, in our opinion, such condensed consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for interim periods. The results of operations for the three month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2004.

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.

### **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.

**Table of Contents**

The adoption of FIN 46R did not result in consolidation of any additional entities nor any non SPE entities.

**6 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.

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

|   | <b>Three months ended</b>     |                           |                              |
|---|-------------------------------|---------------------------|------------------------------|
|   | <b>March<br/>31,<br/>2004</b> | <b>March<br/>31, 2003</b> | <b>December<br/>31, 2003</b> |
| Income before income taxes, equity results and minority interests                       | <b>392</b>                    | <b>359</b>                | <b>297</b>                   |
| Federal income tax and social contribution expense at statutory enacted rates           | (133)                         | (122)                     | (101)                        |
| Adjustments to derive effective tax rate:   |                               |                           |                              |
| Tax benefit on interest attributed to stockholders                                      | 55                            | 63                        | 42                           |
| Exempt foreign income (expenses)  | 14                            | (16)                      | (26)                         |
| Difference on tax basis of equity investees   | (14)                          |                           | (56)                         |
| Tax incentives  | 9                             |                           | 12                           |
| Valuation allowance reversal (provision)  |                               | 9                         | 40                           |
| Other non-taxable gains (losses)  | 16                            | (5)                       | 23                           |
| Federal income tax and social contribution expense in consolidated statements of income | <b>(53)</b>                   | <b>(71)</b>               | <b>(66)</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.

**7 Inventories**

|                   | <b>March<br/>31,<br/>2004</b> | <b>December<br/>31,<br/>2003</b> |
|-------------------|-------------------------------|----------------------------------|
| Finished products |                               |                                  |

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|                                      |            |            |
|--------------------------------------|------------|------------|
| Iron ore and pellets                 | 144        | 146        |
| Manganese and ferroalloys            | 80         | 78         |
| Alumina                              | 16         | 20         |
| Kaolin                               | 17         | 16         |
| Others                               | 6          | 8          |
| Spare parts and maintenance supplies | 239        | 237        |
|                                      | <u>502</u> | <u>505</u> |

**F - 10**

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**Table of Contents****8 Investments in affiliated companies and joint ventures**

|   | March 31, 2004               |       |            |                           | Investments    |                   |
|---|------------------------------|-------|------------|---------------------------|----------------|-------------------|
|   | Participation in capital (%) |       | Net equity | Net income for the period | March 31, 2004 | December 31, 2003 |
|   | voting                       | total |            |                           |                |                   |
| <b>Steel</b>  |                              |       |            |                           |                |                   |
| Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS                                     | 22.99                        | 11.46 | 319        | 157                       | 37             | 31                |
| Companhia Siderúrgica de Tubarão - CST (1)  | 26.93                        | 28.79 | 364        | 62                        | 102            | 86                |
| California Steel Industries Inc. - CSI  | 50.00                        | 50.00 | 205        | (1)                       | 103            | 103               |
| SIDERAR (costs \$15) - available for sale investments                                   | 4.85                         | 4.85  |            |                           | 93             | 89                |
|   |                              |       |            |                           | <b>335</b>     | <b>309</b>        |
| <b>Aluminum and bauxite</b>   |                              |       |            |                           |                |                   |
| Mineração Rio do Norte S.A. - MRN   | 40.00                        | 40.00 | 394        | 26                        | 157            | 168               |
| Valesul Alumínio S.A. - VALESUL   | 54.51                        | 54.51 | 92         | 6                         | 50             | 49                |
| Alumínio Brasileiro S.A. - ALBRAS   | 51.00                        | 51.00 | 226        | 7                         | 115            | 112               |
| Alumínio Brasileiro S.A. - ALBRAS - change in provision for losses                      |                              |       |            |                           |                |                   |
|   |                              |       |            |                           | <b>322</b>     | <b>329</b>        |
| <b>Ferrous</b>  |                              |       |            |                           |                |                   |
| Caemi Mineração e Metalurgia S.A. (3)   | 100.00                       | 60.23 |            |                           |                |                   |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO                                     | 51.11                        | 51.00 | 40         | 5                         | 20             | 18                |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS                               | 51.00                        | 50.89 | 33         | 1                         | 17             | 17                |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO                                  | 50.00                        | 50.00 | 4          | 3                         | 2              | 1                 |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO - change in provision for losses |                              |       |            |                           |                |                   |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO                                   | 51.00                        | 50.90 | 23         | 1                         | 12             | 11                |
| Gulf Industrial Investment Company - GIIC   | 50.00                        | 50.00 | 76         | 8                         | 38             | 40                |
| SAMARCO Mineração S.A. - SAMARCO (4)  | 50.00                        | 50.00 | 379        | 51                        | 226            | 221               |
| Minas da Serra Geral S.A. - MSG   | 50.00                        | 50.00 | 36         |                           | 18             | 15                |
| Others  |                              |       |            |                           | 20             | 21                |
|   |                              |       |            |                           | <b>353</b>     | <b>344</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                   | 1                   |
| Ferrovia Centro-Atlântica S.A. - FCA - change in provision for losses (3)    |                     |                     |
| MRS Logística S.A  | 45                  | 39                  |
| MRS Logística S.A. - change in provision for losses                          |                     |                     |
| Sepeitba Tecon S.A. - change in provision for losses                         |                     |                     |
| Others   | 5                   | 4                   |
|  | <u>51</u>           | <u>44</u>           |
| <b>Other affiliates and joint ventures</b>                                   |                     |                     |
| Fertilizantes Fosfatados S.A. - FOSFERTIL (2)                                |                     |                     |
| Others   | 8                   | 8                   |
|  | <u>8</u>            | <u>8</u>            |
|  | <b>1,069</b>        | <b>1,034</b>        |
|  | <u><b>1,069</b></u> | <u><b>1,034</b></u> |

[Additional columns below]

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

|   | Equity Adjustments |                |                   | Dividends received |                |                   | Quoted market |
|---|--------------------|----------------|-------------------|--------------------|----------------|-------------------|---------------|
|   | Three months ended |                |                   | Three months ended |                |                   |               |
|   | March 31, 2004     | March 31, 2003 | December 31, 2003 | March 31, 2004     | March 31, 2003 | December 31, 2003 |               |
| <b>Steel</b>  |                    |                |                   |                    |                |                   |               |
| Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS   | 18                 | 10             |                   | 13                 |                |                   | 248           |
| Companhia Siderúrgica de Tubarão - CST (1)            | 17                 | 6              | 19                |                    | 5              | 17                | 484           |
| California Steel Industries Inc. - CSI                | (1)                | 3              | 2                 |                    |                |                   |               |
| SIDERAR (costs \$15) - available for sale investments |                    |                |                   |                    |                |                   | 93            |
|   | <u>34</u>          | <u>19</u>      | <u>21</u>         | <u>13</u>          | <u>5</u>       | <u>17</u>         | <u>825</u>    |



**Aluminum and bauxite**

|  |           |           |           |           |          |           |
|--|-----------|-----------|-----------|-----------|----------|-----------|
| Mineração Rio do Norte S.A. - MRN                                  | 11        | 4         | 12        | 21        | 5        | 11        |
| Valesul Alumínio S.A. - VALESUL                                    | 3         | 4         | 2         | 2         |          | 6         |
| Alumínio Brasileiro S.A. - ALBRAS                                  | 4         | 39        | 10        |           |          |           |
| Alumínio Brasileiro S.A. - ALBRAS - change in provision for losses |           | 1         |           |           |          |           |
|  | <u>18</u> | <u>48</u> | <u>24</u> | <u>23</u> | <u>5</u> | <u>17</u> |

**Ferrous**

|   |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Caemi Mineração e Metalurgia S.A. (3)   |           | 5         |           |           |           |           |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO                                     | 2         | 1         |           |           |           |           |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS                               | 1         | 1         |           |           | 2         |           |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO                                  | 1         |           | 1         |           |           |           |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO - change in provision for losses |           | 3         | 8         |           |           |           |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO                                   | 1         |           |           |           |           |           |
| Gulf Industrial Investment Company - GIIC   | 4         | 2         | 3         | 6         | 5         |           |
| SAMARCO Mineração S.A. - SAMARCO (4)  | 25        | 19        | 12        | 19        | 14        | 25        |
| Minas da Serra Geral S.A. - MSG   |           | 1         |           |           |           |           |
| Others  | (1)       | 2         | (1)       |           |           |           |
|   | <u>33</u> | <u>34</u> | <u>23</u> | <u>25</u> | <u>21</u> | <u>25</u> |

**Logistics**

|  |          |             |           |  |  |  |
|--|----------|-------------|-----------|--|--|--|
| Companhia Ferroviária do Nordeste - CFN - change in provision for losses (2) |          | 1           |           |  |  |  |
| Ferrobán - Ferrovias Bandeirantes S.A. - change in provision for losses      |          |             |           |  |  |  |
| Ferrovia Centro-Atlântica S.A. - FCA - change in provision for losses (3)    |          | (11)        |           |  |  |  |
| MRS Logística S.A.   | 6        |             | 37        |  |  |  |
| MRS Logística S.A. - change in provision for losses                          |          | 1           |           |  |  |  |
| SePETIBA Tecon S.A. - change in provision for losses                         |          | (1)         | (1)       |  |  |  |
| Others   |          |             |           |  |  |  |
|  | <u>6</u> | <u>(10)</u> | <u>36</u> |  |  |  |

**Other affiliates and joint ventures**

|   |            |          |             |  |          |  |
|---|------------|----------|-------------|--|----------|--|
| Fertilizantes Fosfatados S.A. - FOSFERTIL (2) |            | 3        | (9)         |  | 5        |  |
| Others  | (1)        |          | (7)         |  |          |  |
|   | <u>(1)</u> | <u>3</u> | <u>(16)</u> |  | <u>5</u> |  |

|              |           |           |           |           |           |           |            |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
|              | —         | —         | —         | —         | —         | —         | —          |
| <b>Total</b> | <b>90</b> | <b>94</b> | <b>88</b> | <b>61</b> | <b>36</b> | <b>59</b> | <b>825</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, 2003, after acquisition of control;

(4) Investment includes goodwill of \$37 in 2004 and 2003.

**F - 11**

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**Table of Contents****9 Pension plans**

|  | <b>Three months ended</b>     |                               |                              |
|--|-------------------------------|-------------------------------|------------------------------|
|  | <b>March<br/>31,<br/>2004</b> | <b>March<br/>31,<br/>2003</b> | <b>December<br/>31, 2003</b> |
| Service cost - benefits earned during the period | 1                             |                               | 1                            |
| Interest cost on projected benefit obligation    | 38                            | 31                            | 32                           |
| Actual return on assets                          | (44)                          | (31)                          | (190)                        |
| Amortization of initial transitory obligation    | 2                             | 2                             | 2                            |
| Net deferral                                     | 6                             | 1                             | 159                          |
|  | <u>          </u>             | <u>          </u>             | <u>          </u>            |
| Net periodic pension cost                        | <b>3</b>                      | <b>3</b>                      | <b>4</b>                     |
|  | <u>          </u>             | <u>          </u>             | <u>          </u>            |

**Employer contributions**

We previously disclosed in our consolidated financial statements for the year ended December 31, 2003, that it expected to contribute \$14 to our pension plan in 2004. As of March 31, 2004, \$3 of contributions have been made. We do not expect any change in our previous estimate.

**10 Commitments and contingencies**

(a) At March 31, 2004, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of \$260, of which \$221 is denominated in United States dollars and the remaining \$39 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                            | 213                                | US\$                            | Debt guarantee | 2007                      | None                          |
|                                   | 38                                 | R\$                             | Debt guarantee | 2010                      | None                          |
| SAMARCO                           | 7                                  | US\$                            | Debt guarantee | 2008                      | None                          |
| VALESUL                           | 1                                  | R\$                             | Debt guarantee | 2007                      | None                          |
| NIBRASCO                          | 1                                  | US\$                            | Debt guarantee | 2004                      | Collateral<br>Pledge          |
|                                   | <u>          </u>                  |                                 |                |                           |                               |
|                                   | <b>260</b>                         |                                 |                |                           |                               |
|                                   | <u>          </u>                  |                                 |                |                           |                               |

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 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others .

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

**F - 12**

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**Table of Contents**

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

|                       | <u>March 31, 2004</u>                      |                              | <u>December 31, 2003</u>                   |                              |
|-----------------------|--|------------------------------|--|------------------------------|
|                       | <u>Provision<br/>for<br/>contingencies</u> | <u>Judicial<br/>deposits</u> | <u>Provision<br/>for<br/>contingencies</u> | <u>Judicial<br/>deposits</u> |
| Labor claims          | 178  | 80                           | 177  | 66                           |
| Civil claims          | 137  | 55                           | 167  | 54                           |
| Tax - related actions | 313  | 284                          | 285  | 279                          |
| Others                | 5  | 5                            | 6  | 8                            |
|                       | <u>633</u>                                 | <u>424</u>                   | <u>635</u>                                 | <u>407</u>                   |

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 \$5 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 the three-month period ended March 31, 2004, and 2003 and December 31, 2003 aggregated \$23, \$21 and \$19, respectively, and additional provisions aggregated \$11, \$30 and \$73, respectively.

In addition to the contingencies for which we have made provisions we have possible losses in connection with tax contingencies totaling \$309 and \$214 at March 31, 2004 and 2003, 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 226,950 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 \$1,642.71 per metric ton, at March 31, 2004, represents an annual

commitment of \$373. Actual take from Albras was \$65, \$65 and \$81 during three-month period ended March 31, 2004, and 2003 and December 31, 2003, 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

**F - 13**

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**Table of Contents**

development of such resources. Iron ore and manganese deposits already identified and subject to development are specifically excluded from the Mineral Risk Contract.

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide \$ 205 million, which represents half of the \$ 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 had already been extended for an additional period of two years and on April 28, 2004 was extended again for another 5 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 March 31, 2004, the remaining contributions towards exploration and development activities totaled US\$ 77 million. In the event that either of us wishes to conduct further exploration and development after having spent such \$ 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. On March 26, 2004 as a result of exploiting our mineral resources we declared a distribution of these debentures in the amount of \$ 2, payable as from April 1, 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:

|                                       |           |
|---------------------------------------|-----------|
| <b>Balance as of January 31, 2004</b> | 81        |
| Increase due to new subsidiaries      |           |
| Accretion expense                     | 2         |
| Revisions to estimated cash flows     |           |
| Cumulative translation adjustment     | (1)       |
|                                       | <hr/>     |
| <b>Balance as of March 31, 2004</b>   | <b>82</b> |
|                                       | <hr/>     |

**Table of Contents**

**11 Segment and geographical information**

In 1999 we adopted SFAS 131 Disclosures about Segments of an Enterprise and Related Information with respect to the information we present about our operating segments. SFAS 131 introduced a management approach concept for reporting segment information, whereby such information is required to be reported on the basis that the chief decision-maker uses internally for evaluating segment performance and deciding how to allocate resources to segments. Our business segments are currently organized as follows:

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

Non-ferrous products - comprises the production of non-ferrous minerals.

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

Holdings - divided into the following sub-groups:

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

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

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

Information presented to 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.



**Table of Contents**

Consolidated net income and principal assets are reconciled as follows:

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

As of and for the three months ended

|  | March 31, 2004  |                        |                  |                 |               |                    |                     |
|--|-----------------|------------------------|------------------|-----------------|---------------|--------------------|---------------------|
|  | <u>Holdings</u> |                        |                  |                 |               |                    |                     |
|  | <u>Ferrous</u>  | <u>Non<br/>ferrous</u> | <u>Logistics</u> | <u>Aluminum</u> | <u>Others</u> | <u>Elimination</u> | <u>Consolidated</u> |
| Gross revenues - Export  | 1,562           | 34                     | 19               | 221             |               | (670)              | 1,166               |
| Gross revenues - Domestic  | 287             | 28                     | 184              | 48              |               | (28)               | 519                 |
| Cost and expenses  | (1,366)         | (53)                   | (128)            | (209)           |               | 698                | (1,058)             |
| Depreciation, depletion and amortization   | (78)            | (6)                    | (7)              | (4)             |               |                    | (95)                |
| Pension plan   | (3)             |                        |                  |                 |               |                    | (3)                 |
| <b>Operating (loss) income</b>   | <b>402</b>      | <b>3</b>               | <b>68</b>        | <b>56</b>       |               |                    | <b>529</b>          |
| Financial income   | 44              |                        | 4                | (18)            | 1             | (20)               | 11                  |
| Financial expenses   | (116)           | (1)                    | (4)              | (8)             |               | 20                 | (109)               |
| Foreign exchange and monetary gains<br>(losses), net   | (32)            |                        | (5)              | (3)             | 1             |                    | (39)                |
| Gain on sale of investments  |                 |                        |                  |                 |               |                    |                     |
| Equity in results of affiliates and joint<br>ventures and change in provision for<br>losses on equity investment | 33              |                        | 6                | 18              | 33            |                    | 90                  |
| Income taxes   | (54)            |                        | (2)              | 3               |               |                    | (53)                |
| Minority interests   | (14)            | (1)                    |                  | (9)             |               |                    | (24)                |
| <b>Income from continuing operations</b>   | <b>263</b>      | <b>1</b>               | <b>67</b>        | <b>39</b>       | <b>35</b>     |                    | <b>405</b>          |
| Change in accounting practice for asset<br>retirement obligations (note 4)                                       |                 |                        |                  |                 |               |                    |                     |
| <b>Net income</b>  | <b>263</b>      | <b>1</b>               | <b>67</b>        | <b>39</b>       | <b>35</b>     |                    | <b>405</b>          |
| Sales classified by geographic<br>destination:   |                 |                        |                  |                 |               |                    |                     |
| Export market  |                 |                        |                  |                 |               |                    |                     |
| America, except United States  | 158             |                        | 15               | 70              |               | (103)              | 140                 |
| United States  | 107             |                        |                  | 25              |               | (53)               | 79                  |
| Europe   | 659             | 22                     | 4                | 99              |               | (262)              | 522                 |

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|  |              |            |            |            |              |              |
|--|--------------|------------|------------|------------|--------------|--------------|
| Middle East/Africa/Oceania   | 89           |            |            |            | (26)         | 63           |
| Japan  | 150          | 8          |            | 1          | (65)         | 94           |
| China  | 238          | 4          |            | 26         | (97)         | 171          |
| Asia, other than Japan and China   | 161          |            |            |            | (64)         | 97           |
|  | <u>1,562</u> | <u>34</u>  | <u>19</u>  | <u>221</u> | <u>(670)</u> | <u>1,166</u> |
| Domestic market  | 287          | 28         | 184        | 48         | (28)         | 519          |
|  | <u>1,849</u> | <u>62</u>  | <u>203</u> | <u>269</u> | <u>(698)</u> | <u>1,685</u> |
| Assets:  |              |            |            |            |              |              |
| Property, plant and equipment, net   | 4,646        | 1,060      | 455        | 565        | 1            | 6,727        |
| Additions to Property, plant and equipment   | 156          | 71         | 132        | 20         |              | 379          |
| Investments in affiliated companies and joint ventures and other investments, net of provision | 353          |            | 51         | 322        | 343          | 1,069        |
|  | <u>4,316</u> | <u>245</u> | <u>404</u> | <u>506</u> | <u>28</u>    | <u>5,499</u> |

[Additional columns below]

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

|   | March 31, 2003 |             |           |           |            |             |              |
|---|----------------|-------------|-----------|-----------|------------|-------------|--------------|
|   | Holdings       |             |           |           |            |             |              |
|   | Ferrous        | Non ferrous | Logistics | Aluminum  | Others     | Elimination | Consolidated |
| Gross revenues - Export                           | 1,080          | 23          | 21        | 149       |            | (476)       | 797          |
| Gross revenues - Domestic                         | 258            | 24          | 78        | 37        |            | (41)        | 356          |
| Cost and expenses                                 | (1,001)        | (38)        | (61)      | (159)     | (2)        | 517         | (744)        |
| Depreciation, depletion and amortization          | (36)           | (3)         | (2)       | (2)       |            |             | (43)         |
| Pension plan                                      | (3)            |             |           |           |            |             | (3)          |
| <b>Operating (loss) income</b>                    | <b>298</b>     | <b>6</b>    | <b>36</b> | <b>25</b> | <b>(2)</b> |             | <b>363</b>   |
| Financial income                                  | 45             | 1           | 3         | 3         | 1          | (25)        | 28           |
| Financial expenses                                | (96)           | (2)         | (1)       | (5)       | (3)        | 25          | (82)         |
| Foreign exchange and monetary gains (losses), net | 25             | 5           | (3)       | 23        |            |             | 50           |

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|  |                   |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Gain on sale of investments  |                   |                   |                   |                   |                   |                   |                   |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investment | <b>34</b>         |                   | (10)              | <b>48</b>         | <b>22</b>         |                   | <b>94</b>         |
| Income taxes   | (66)              | (1)               | (1)               | (2)               | (1)               |                   | (71)              |
| Minority interests   |                   | (2)               |                   | (16)              |                   |                   | (18)              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income from continuing operations  | <b>240</b>        | <b>7</b>          | <b>24</b>         | <b>76</b>         | <b>17</b>         |                   | <b>364</b>        |
| Change in accounting practice for asset retirement obligations (note 4)                                    | (10)              |                   |                   |                   |                   |                   | (10)              |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income   | <b>230</b>        | <b>7</b>          | <b>24</b>         | <b>76</b>         | <b>17</b>         |                   | <b>354</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  | 116               |                   | 14                | 31                |                   | (72)              | 89                |
| United States  | 101               | 4                 |                   | 2                 |                   | (50)              | 57                |
| Europe   | 440               | 17                | 4                 | 87                |                   | (170)             | 378               |
| Middle East/Africa/Oceania   | 51                |                   | 3                 |                   |                   | (16)              | 38                |
| Japan  | 111               | 1                 |                   | 23                |                   | (49)              | 86                |
| China  | 184               | 1                 |                   | 6                 |                   | (84)              | 107               |
| Asia, other than Japan and China   | 77                |                   |                   |                   |                   | (35)              | 42                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|  | <b>1,080</b>      | <b>23</b>         | <b>21</b>         | <b>149</b>        |                   | (476)             | <b>797</b>        |
| Domestic market  | 258               | 24                | 78                | 37                |                   | (41)              | 356               |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|  | <b>1,338</b>      | <b>47</b>         | <b>99</b>         | <b>186</b>        |                   | (517)             | <b>1,153</b>      |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Assets:  |                   |                   |                   |                   |                   |                   |                   |
| Property, plant and equipment, net   | 2,563             | 464               | 162               | 430               | 27                |                   | 3,646             |
| Additions to Property, plant and equipment   | 91                | 51                | 32                | 23                | 1                 |                   | 198               |
| Investments in affiliated companies and joint ventures and other investments, net of provision             | 423               |                   | (7)               | 247               | 176               |                   | 839               |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Capital employed   | <b>2,521</b>      | <b>138</b>        | <b>188</b>        | <b>405</b>        | <b>32</b>         |                   | <b>3,284</b>      |

[Additional columns below]

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

December 31, 2003

|  | Holdings     |             |            |            |            | Elimination | Consolidated |
|--|--------------|-------------|------------|------------|------------|-------------|--------------|
|  | Ferrous      | Non ferrous | Logistics  | Aluminum   | Others     |             |              |
| Gross revenues - Export  | <b>1,650</b> | <b>36</b>   | <b>22</b>  | <b>233</b> |            | (732)       | <b>1,209</b> |
| Gross revenues - Domestic  | <b>296</b>   | <b>30</b>   | <b>156</b> | <b>41</b>  |            | (42)        | <b>481</b>   |
| Cost and expenses  | (1,549)      | (76)        | (146)      | (216)      | (3)        | <b>774</b>  | (1,216)      |
| Depreciation, depletion and amortization   | (60)         | (7)         | (6)        | (5)        |            |             | (78)         |
| Pension plan   | (3)          |             | (1)        |            |            |             | (4)          |
| <b>Operating (loss) income</b>   | <b>334</b>   | (17)        | <b>25</b>  | <b>53</b>  | (3)        |             | <b>392</b>   |
| Financial income   | 50           |             | 3          | 2          |            | (37)        | <b>18</b>    |
| Financial expenses   | (136)        |             | (4)        | (19)       |            | <b>37</b>   | (122)        |
| Foreign exchange and monetary gains (losses), net  | (12)         | 1           | (2)        | 6          | (1)        |             | (8)          |
| Gain on sale of investments  | 17           |             |            |            |            |             | <b>17</b>    |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investment | <b>23</b>    |             | <b>36</b>  | <b>24</b>  | <b>5</b>   |             | <b>88</b>    |
| Income taxes   | (60)         | (3)         | (1)        |            | (2)        |             | (66)         |
| Minority interests   | (39)         | 1           |            | (11)       |            |             | (49)         |
| Income from continuing operations  | <b>177</b>   | (18)        | <b>57</b>  | <b>55</b>  | (1)        |             | <b>270</b>   |
| Change in accounting practice for asset retirement obligations (note 4)                                    |              |             |            |            |            |             |              |
| Net income   | <b>177</b>   | <b>(18)</b> | <b>57</b>  | <b>55</b>  | <b>(1)</b> |             | <b>270</b>   |
| 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  | 290          | 5           |            | 12         |            | (117)       | 190          |
| Asia, other than Japan and China   | 135          | 1           | 2          | 19         |            | (71)        | 86           |
| Domestic market  | <b>1,650</b> | 36          | 22         | <b>233</b> |            | (732)       | <b>1,209</b> |
|  | 296          | 30          | 156        | 41         |            | (42)        | 481          |

|  |              |            |            |            |           |              |              |
|--|--------------|------------|------------|------------|-----------|--------------|--------------|
|  | <u>1,946</u> | <u>66</u>  | <u>178</u> | <u>274</u> | <u>—</u>  | <u>(774)</u> | <u>1,690</u> |
| 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 | 344          |            | 44         | 329        | 317       |              | 1,034        |
|  | <u>4,137</u> | <u>266</u> | <u>429</u> | <u>498</u> | <u>20</u> |              | <u>5,350</u> |

Table of Contents

## Operating income by product after eliminations (unaudited)

As of and for the three months ended

March 31, 2004

|                    | 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>and<br>equipment | Depreciation,<br>depletion<br>and<br>amortization | Operating<br>income |
|--------------------|------------|------------|--------------|-----------------------|-----------------|-------------------------|---|---|---------------------|
|                    | Export     | Domestic   | Total        |                       |                 |                         |   |   |                     |
| <b>Ferrous</b>     |            |            |              |                       |                 |                         |   |   |                     |
| Iron ore           | 652        | 174        | 826          | (23)                  | 803             | (402)                   | 401   | (53)  | 348                 |
| Pellets            | 183        | 52         | 235          | (8)                   | 227             | (172)                   | 55  | (3)   | 52                  |
| Manganes           | 6          | 3          | 9            | (1)                   | 8               | (7)                     | 1   |   | 1                   |
| Ferroalloys        | 91         | 31         | 122          | (8)                   | 114             | (86)                    | 28  | (4)   | 24                  |
|                    | <u>932</u> | <u>260</u> | <u>1,192</u> | <u>(40)</u>           | <u>1,152</u>    | <u>(667)</u>            | <u>485</u>  | <u>(60)</u>                                       | <u>425</u>          |
| <b>Non ferrous</b> |            |            |              |                       |                 |                         |   |   |                     |
| Gold               |            |            |              |                       |                 |                         |   |   |                     |
| Potash             |            | 23         | 23           | (3)                   | 20              | (9)                     | 11  | (2)   | 9                   |
| Kaolin             | 34         | 5          | 39           | (2)                   | 37              | (22)                    | 15  | (3)   | 12                  |
|                    | <u>34</u>  | <u>28</u>  | <u>62</u>    | <u>(5)</u>            | <u>57</u>       | <u>(31)</u>             | <u>26</u>   | <u>(5)</u>  | <u>21</u>           |
| <b>Aluminum</b>    |            |            |              |                       |                 |                         |   |   |                     |
| Alumina            | 98         | 48         | 146          | (5)                   | 141             | (90)                    | 51  | (4)   | 47                  |
| Aluminum           | 73         |            | 73           |                       | 73              | (66)                    | 7   |   | 7                   |
| Bauxite            | 15         |            | 15           |                       | 15              | (13)                    | 2   |   | 2                   |
|                    | <u>186</u> | <u>48</u>  | <u>234</u>   | <u>(5)</u>            | <u>229</u>      | <u>(169)</u>            | <u>60</u>   | <u>(4)</u>  | <u>56</u>           |
| <b>Logistics</b>   |            |            |              |                       |                 |                         |   |   |                     |
| Railroads          |            | 133        | 133          | (19)                  | 114             | (51)                    | 63  | (23)  | 40                  |
| Ports              |            | 38         | 38           | (3)                   | 35              | (21)                    | 14  | (3)   | 11                  |
| Ships              | 11         | 9          | 20           | (3)                   | 17              | (27)                    | (10)  |   | (10)                |
|                    | <u>11</u>  | <u>180</u> | <u>191</u>   | <u>(25)</u>           | <u>166</u>      | <u>(99)</u>             | <u>67</u>   | <u>(26)</u>                                       | <u>41</u>           |
| Others             | 3          | 3          | 6            |                       | 6               | (20)                    | (14)  |   | (14)                |

|       |     |       |      |       |       |     |  |      |     |
|-------|-----|-------|------|-------|-------|-----|--|------|-----|
| 1,166 | 519 | 1,685 | (75) | 1,610 | (986) | 624 |  | (95) | 529 |
|-------|-----|-------|------|-------|-------|-----|--|------|-----|

[Additional columns below]

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

## March 31, 2003

|                    | Revenues |          |       | Value<br>added<br>tax | Net<br>revenues | Cost<br>and<br>expenses | Net | Impairment/<br>Gain<br>on sale<br>of<br>property<br>and<br>equipment | Depreciation,<br>depletion<br>and<br>mortization | Operating<br>income |
|--------------------|----------|----------|-------|-----------------------|-----------------|-------------------------|-----|--|--|---------------------|
|                    | Export   | Domestic | Total |                       |                 |                         |     |  |  |                     |
| <b>Ferrous</b>     |          |          |       |                       |                 |                         |     |  |  |                     |
| Iron ore           | 421      | 126      | 547   | (18)                  | 529             | (249)                   | 280 |  | (18)   | 262                 |
| Pellets            | 152      | 47       | 199   | (5)                   | 194             | (163)                   | 31  |  | (3)  | 28                  |
| Manganes           | 9        | 2        | 11    | (1)                   | 10              | (4)                     | 6   |  |  | 6                   |
| Ferroalloys        | 47       | 17       | 64    | (4)                   | 60              | (50)                    | 10  |  | (2)  | 8                   |
|                    | 629      | 192      | 821   | (28)                  | 793             | (466)                   | 327 |  | (23)   | 304                 |
| <b>Non ferrous</b> |          |          |       |                       |                 |                         |     |  |  |                     |
| Gold               | 9        |          | 9     |                       | 9               | (8)                     | 1   |  |  | 1                   |
| Potash             |          | 21       | 21    | (3)                   | 18              | (9)                     | 9   |  | (1)  | 8                   |
| Kaolin             | 13       | 3        | 16    |                       | 16              | (10)                    | 6   |  | (1)  | 5                   |
|                    | 22       | 24       | 46    | (3)                   | 43              | (27)                    | 16  |  | (2)  | 14                  |
| <b>Aluminum</b>    |          |          |       |                       |                 |                         |     |  |  |                     |
| Alumina            | 59       | 34       | 93    | (2)                   | 91              | (71)                    | 20  |  | (2)  | 18                  |
| Aluminum           | 70       |          | 70    |                       | 70              | (66)                    | 4   |  |  | 4                   |
| Bauxite            | 4        |          | 4     |                       | 4               | (4)                     |     |  |  |                     |
|                    | 133      | 34       | 167   | (2)                   | 165             | (141)                   | 24  |  | (2)  | 22                  |
| <b>Logistics</b>   |          |          |       |                       |                 |                         |     |  |  |                     |
| Railroads          |          | 66       | 66    | (7)                   | 59              | (15)                    | 44  |  | (14)   | 30                  |
| Ports              |          | 28       | 28    | (1)                   | 27              | (8)                     | 19  |  | (2)  | 17                  |

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|        |     |     |       |      |       |       |      |  |      |      |
|--------|-----|-----|-------|------|-------|-------|------|--|------|------|
| Ships  | 13  | 8   | 21    | (2)  | 19    | (37)  | (18) |  |      | (18) |
| Others | 13  | 102 | 115   | (10) | 105   | (60)  | 45   |  | (16) | 29   |
|        |     | 4   | 4     |      | 4     | (10)  | (6)  |  |      | (6)  |
|        | 797 | 356 | 1,153 | (43) | 1,110 | (704) | 406  |  | (43) | 363  |

[Additional columns below]

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

As of and for the three months ended

December 31, 2003

|                    | Revenues |          |       | Value<br>added<br>tax | Net<br>revenues | Cost and<br>expenses | Net | Impairment/<br>Gain on<br>sale<br>of<br>property<br>and<br>equipment | Depreciation,<br>depletion<br>and<br>mortization | 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                  |
| Manganes           | 8        | 3        | 11    | (2)                   | 9               | (15)                 | (6) |  | (1)  | (7)                 |
| Ferroalloys        | 62       | 31       | 93    | (6)                   | 87              | (76)                 | 11  | (17)   | (3)  | (9)                 |
|                    | 943      | 236      | 1,179 | (21)                  | 1,158           | (712)                | 446 | (27)   | (42)   | 377                 |
| <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)                 |
|                    | 36       | 29       | 65    | (5)                   | 60              | (36)                 | 24  | (12)   | (7)  | 5                   |
| <b>Aluminum</b>    |          |          |       |                       |                 |                      |     |  |  |                     |
| Alumina            | 111      | 38       | 149   | (1)                   | 148             | (107)                | 41  |  | (5)  | 36                  |
| Aluminum           | 91       |          | 91    |                       | 91              | (88)                 | 3   |  |  | 3                   |



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|                  |            |          |           |            |            |             |             |          |          |             |
|------------------|------------|----------|-----------|------------|------------|-------------|-------------|----------|----------|-------------|
| Bauxite          | <u>12</u>  | <u>2</u> | <u>14</u> | <u>(1)</u> | <u>13</u>  | <u>(12)</u> | <u>1</u>    | <u>—</u> | <u>—</u> | <u>1</u>    |
|                  | 214        | 40       | 254       | (2)        | 252        | (207)       | 45          |          | (5)      | 40          |
| <b>Logistics</b> |            |          |           |            |            |             |             |          |          |             |
| Railroads        |            | 127      | 127       | (14)       | 113        | (84)        | 29          |          | (23)     | 6           |
| Ports            |            | 38       | 38        | (5)        | 33         | (21)        | 12          |          | (3)      | 9           |
| Ships            | <u>18</u>  | <u>9</u> | <u>27</u> | <u>—</u>   | <u>27</u>  | <u>(36)</u> | <u>(9)</u>  | <u>—</u> | <u>—</u> | <u>(9)</u>  |
|                  | 18         | 174      | 192       | (19)       | 173        | (141)       | 32          |          | (26)     | 6           |
| Others           | <u>(2)</u> | <u>2</u> | <u>—</u>  | <u>(5)</u> | <u>(5)</u> | <u>(33)</u> | <u>(38)</u> | <u>—</u> | <u>2</u> | <u>(36)</u> |
|                  | 1,209      | 481      | 1,690     | (52)       | 1,638      | (1,129)     | 509         | (39)     | (78)     | 392         |

F - 17

**Table of Contents****12 Derivative financial instruments**

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

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

The asset (liability) balances and the movement in fair value of derivative financial instruments 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 January 1, 2004          | (32)        | (46)                                  | 5                 | (18)           | (91)         |
| Financial settlement                                  |             | 3                                     | (2)               |                | 1            |
| Unrealized gains (losses) in the period               | (5)         | (6)                                   | (2)               | (18)           | (31)         |
| Effect of exchange rate changes                       |             | 1                                     |                   |                | 1            |
|   | —           | —                                     | —                 | —              | —            |
| <b>Unrealized gains (losses) at March 31, 2004</b>    | <b>(37)</b> | <b>(48)</b>                           | <b>1</b>          | <b>(36)</b>    | <b>(120)</b> |
| Unrealized gains (losses) at January 1, 2003          | (15)        | (60)                                  | (1)               | 3              | (73)         |
| Financial settlement                                  |             | 4                                     |                   |                | 4            |
| Unrealized gains (losses) in the period               | 5           | (8)                                   |                   |                | (3)          |
| Effect of exchange rate changes                       |             | (4)                                   |                   |                | (4)          |
|   | —           | —                                     | —                 | —              | —            |
| <b>Unrealized gains (losses) at March 31, 2003</b>    | <b>(10)</b> | <b>(68)</b>                           | <b>(1)</b>        | <b>3</b>       | <b>(76)</b>  |
| Unrealized gains (losses) at October 1, 2003          | (22)        | (60)                                  | 2                 | (5)            | (85)         |
| Financial settlement                                  | 3           | 12                                    |                   |                | 15           |
| Unrealized gains (losses) in the period               | (12)        | 2                                     | 3                 | (13)           | (20)         |
| Effect of exchange rate changes                       | (1)         |                                       |                   |                | (1)          |
|   | —           | —                                     | —                 | —              | —            |
| <b>Unrealized gains (losses) at December 31, 2003</b> | <b>(32)</b> | <b>(46)</b>                           | <b>5</b>          | <b>(18)</b>    | <b>(91)</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 2008 |
| Interest rates (LIBOR) | Oct 2007 |
| Currencies             | Dec 2011 |
| Alumina                | Dec 2008 |

F - 18

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**Table of Contents**

**(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.

**13 Subsequents Events**

On April 1, 2004, we obtained a syndicated loan in the amount of \$ 300 million. The loan has a term of seven years and bears interest at 6-month LIBOR plus 0.7% per annum.

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F - 19

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**Table of Contents**

**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.

Date: May 14, 2004

COMPANHIA VALE DO RIO DOCE  
(Registrant)

By: /s/ Fabio de Oliveira Barbosa

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Fabio de Oliveira Barbosa  
Chief Financial Officer