As filed with the Securities and Exchange Commission on February 5, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Companhia Vale Do Rio Doce

(Exact name of Registrant as specified in its charter)

Valley of the Rio Doce Company

(Translation of Registrant's name into English)

Federative Republic of Brazil	1011	None
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

Avenida Graça Aranha, No. 26
20005-900 Rio de Janeiro, RJ, Brazil
(55-21) 3814-4540

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Rio Doce America Inc.
114 West 47th Street
New York, New York 10036
(212) 626-9800

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joseph A. Hall	Andrew B. Jánszky	Whitney Debevoise
Davis Polk & Wardwell	Shearman & Sterling	Arnold & Porter
450 Lexington Avenue	599 Lexington Avenue	555 12th Street N.W.
New York, New York 10017	New York, New York 10022	Washington, D.C. 20004
(212) 450-4000	(212) 848-4000	(202) 942-5000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), please check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Shares, no par value per share(3)	49,088,317	$22.39	$1,099,099,912	$101,118

(1) Includes 33,570,471 shares to be offered and sold in the United States, 5,241,172 shares to be offered and sold elsewhere outside the United States but that may be sold or resold in the United States as part of the distribution covered hereby and 10,276,674 shares subject to the underwriters' overallotment option. Offers and sales of shares outside the United States are being made pursuant to Regulation S under the Securities Act and are not covered by this Registration Statement. A portion of the shares will be represented by American depositary shares.

(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457 under the Securities Act, based on a closing price of R$54.30 per common share on the São Paulo Stock Exchange on January 28, 2002 and an exchange rate of R$2.425 – $1.00 the commercial market exchange rate on January 28, 2002.

(3) A Registration Statement for the registration of American depositary shares evidenced by American depositary receipts issuable upon deposit of the common shares registered hereby is being filed separately.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated February 5, 2002

PROSPECTUS

American Depositary Shares

Companhia Vale do Rio Doce

(Valley of the Rio Doce Company)

Each American Depositary Share Represents One Common Share

The Federative Republic of Brazil and *Banco Nacional de Desenvolvimento Econômico e Social*-BNDES, the selling shareholders, are each selling 34,255,582 common shares, for a total of 68,511,164 common shares, in a global offering. BNDES is Brazil's national bank for economic and social development. A portion of these shares will be in the form of American depositary shares, each representing one common share. The offered shares represent 27.4% of our voting capital and 17.6% of our total capital. We will not receive any proceeds from this offering.

The underwriters are offering American depositary shares initially in the United States, Canada, the United Kingdom and certain other jurisdictions. At the same time, the selling shareholders are conducting an offering common shares to retail and institutional investors in Brazil.

The principal trading market for the common shares is the São Paulo stock exchange, known as BOVESPA. The common shares trade on BOVESPA under the symbol "VALE3." On January 31, 2002, the closing sale price for the common shares on BOVESPA was R$51.20, or US$22.30 per common share. We have applied to list the American depositary shares on the New York Stock Exchange under the symbol "RIO."

Investing in American depositary shares or common shares involves risks that are described in the "Risk Factors" section beginning on page 10 of this prospectus.

	Per American Depositary Share	Total
Public offering price	U.S.$	U.S.$
Underwriting discount	U.S.$	U.S.$
Proceeds, before expenses, to the selling shareholders	U.S.$	U.S.$

The underwriters may also purchase up to an additional 10,276,674 shares in the form of American depositary shares from the selling shareholders on a pro rata basis at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The American depositary shares will be ready for delivery on or about , 2002.

Joint Global Coordinators

Merrill Lynch & Co.
Sole Book-Running Manager

ABN AMRO Rothschild

Merrill Lynch & Co.

ABN AMRO Rothschild LLC

The date of this prospectus is , 2002.

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You should rely only on the information contained or incorporated by reference in this prospectus. We and the selling shareholders have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling shareholders are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

No offer or sale of American depositary shares may be made to the public in Brazil.

CERTAIN TERMS AND CONVENTIONS

As used in this prospectus,

- *"real," "reais"* or "R$" refer to Brazilian *reais* (plural) and to the Brazilian *real* (singular), the official currency of Brazil.
- "U.S. dollars," "dollars" or "US$" refer to United States dollars.
- units refer to units in the metric system, *e.g.*, tons refer to metric tons.

When we use "CVRD Group," or personal pronouns such as "we" "us" or "our," we mean Companhia Vale do Rio Doce, its consolidated subsidiaries and its joint ventures and other affiliated companies. References to "affiliated companies" are to companies in which Companhia Vale do Rio Doce has a minority investment, and exclude controlled affiliates that are consolidated for financial reporting purposes.

PRESENTATION OF FINANCIAL INFORMATION

We have prepared our financial statements appearing in this prospectus in accordance with generally accepted accounting principles in the United States (U.S. GAAP), which differ in certain respects from accounting principles in Brazil (Brazilian GAAP). Brazilian GAAP is determined by the requirements of Law No. 6,404, dated December 15, 1976, as amended (the Brazilian Corporation Law), and the rules and regulations of the *Comissão de Valores Mobiliários*, or CVM, the Brazilian Securities Commission. We publish financial statements in Brazil, known as the Brazilian Corporation Law financial statements, and prepare them in accordance with Brazilian GAAP. We use our Brazilian Corporation Law financial statements for:

- reports to Brazilian shareholders,
- filings with the CVM,
- determination of dividend payments, and
- determination of tax liability.

Our financial statements and the other financial information appearing in this prospectus have been remeasured (translated) from Brazilian *reais* to U.S. dollars on the basis explained in note 2(a) to our financial statements unless we indicate otherwise.

Some of the figures included in this prospectus have been rounded.

PRESENTATION OF INFORMATION CONCERNING RESERVES

The estimates of proven and probable reserves at mines within the CVRD Group and the estimates of mine life, at December 31, 2000, included in this prospectus have been calculated according to the technical definitions required by the U.S. Securities and Exchange Commission, as described in "Mining Terms." We have derived estimates of mine life described in this prospectus from those reserve estimates.

The National Mineral Research Department, *Departamento Nacional de Pesquisa Mineral*, or DNPM, compiles domestic and foreign mining reserve estimates using criteria which may differ from technical definitions required by the Commission. We have adjusted ore reserve estimates for extraction losses and metallurgical recoveries during extraction.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our American depositary shares. You should read this entire prospectus carefully, especially the risks of investing in our American depositary shares discussed under "Risk Factors" and the consolidated financial statements and related notes beginning on page F-1, before making an investment decision.

Our Company

We are one of the world's largest producers and exporters of iron ore. We are the largest diversified mining company in the Americas by market capitalization and one of the largest companies in Brazil. We hold exploration claims that cover 7.0 million hectares (17.3 million acres). We operate two large railway systems that are integrated with our mining operations and that, taken together, transported approximately 58.5% of the rail tonnage shipped in Brazil in the first nine months of 2001. Through joint ventures, we have major investments in the production of aluminum.

For the nine months ended September 30, 2001, we had consolidated gross operating revenues of US$3,132 million, 61.8% of which were attributable to sales of iron ore and pellets, 15.9% of which were attributable to third-party transportation, 7.2% of which were attributable to sales of aluminum sector products and 3.2% of which were attributable to sales of gold. For the nine months ended September 30, 2001, we recorded consolidated operating income of US$716 million and consolidated net income of US$597 million. Our equity in results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled a loss of US$44 million over that period.

For the year ended December 31, 2000, we had consolidated gross operating revenues of US$4,069 million, 53.5% of which were attributable to sales of iron ore and pellets, 18.7% of which were attributable to third-party transportation, 8.9% of which were attributable to sales of aluminum sector products and 3.8% of which were attributable to sales of gold. For the year ended December 31, 2000, we recorded consolidated operating income of US$944 million and consolidated net income of US$1,100 million. Our equity in results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled US$329 million over that period.

Our main lines of business are mining, logistics and energy and are generally grouped according to the business segments below:

- *ferrous minerals:* comprised of iron ore, pellets as well as manganese and ferro alloys businesses,
- *non-ferrous minerals:* comprised of gold, kaolin, potash and copper businesses,
- *logistics:* comprised of railroads, ports and terminals and shipping businesses,
- *energy:* comprised of power generation businesses, and
- *holdings:* comprised of aluminum, steel, fertilizers and e-commerce businesses.

Mining. Our primary mining activities involve iron ore. We operate two world-class integrated systems in Brazil for producing and distributing iron ore, each consisting of mines, railroads and port and terminal facilities. The Southern System, based in the states of Minas Gerais and Espírito Santo, contains aggregate estimated proven and probable iron ore reserves of approximately 2.3 billion tons. The Northern System, based in the states of Pará and Maranhão, contains aggregate estimated proven and probable iron ore reserves of approximately 1.2 billion tons. We also operate nine pellet producing facilities, six of which are joint ventures with international partners. We have a 50% stake in Samarco Mineração S.A., in Ponta do Ubu, which owns and operates two pelletizing plants.

Exploration Assets. As part of our mineral prospecting and development activities in Brazil, we have acquired extensive experience in exploration techniques and processes specifically designed for use in tropical areas of the world. Our current mineral exploration efforts are mainly in Brazil and focus on

copper, gold, nickel, manganese, and kaolin. Expenditures for our mineral exploration program were US$31 million in the first nine months of 2001 and US$34 million in the first nine months of 2000. We currently hold claims to explore approximately 7.0 million hectares (17.3 million acres).

Logistics. In our logistics business, we provide our clients with various forms of transportation and related support services, such as warehouse, port and terminal services. We are a leading competitor in the Brazilian transportation industry. Each of our iron ore complexes incorporates an integrated railroad network linked to automated port and terminal facilities, and is designed to provide iron ore, freight and passenger rail transportation, bulk terminal storage and ship loading services to us and third parties. For the nine months ended September 30, 2001, our railroads transported approximately 58.5% of the total freight tonnage transported by Brazilian railroads, or approximately 125.9 million tons of cargo, of which 100.4 million tons were our iron ore and pellets. Of the total amount transported, 48% was for third parties and 52% was for ourselves. Our two wholly-owned railroads, the Vitória-Minas railroad and the Carajás railroad, serve primarily to transport our iron ore products from interior mines to coastal port and terminal facilities. In addition, the Vitória-Minas railroad carries significant amounts of third party cargo as well as passengers.

Energy. In 2001, energy became one of our core businesses. We currently hold stakes in nine hydroelectric power plants (Igarapava, Porto Estrela, Funil, Candonga, Aimorés, Capim Branco I, Capim Branco II, Foz do Chapecó and Santa Isabel), which have a total installed capacity of 3,364 MW. The Igarapava and the Porto Estrela power plants started operations in September 1999 and September 2001, respectively. Our remaining power generation projects are scheduled to start operations within the next six years, except for Santa Isabel, which does not have a scheduled date to start operations yet. Depending on market conditions, the power generated by these plants will be sold in the market and/or used for our own operations.

Aluminum Operations. Through joint ventures, our wholly owned subsidiary, Aluvale, conducts major operations in the production of aluminum. They include bauxite mining, alumina refining and aluminum metal smelting and trading. Aluvale conducts its bauxite mining interests through its 40.0% interest in MRN, which holds substantial bauxite reserves with a low strip ratio and high recovery rate. MRN, one of the largest bauxite producers in the world, produced 11.2 million tons of bauxite in 2000 and 7.9 million tons of bauxite in the first nine months of 2001. Aluvale currently holds a 50.3% voting interest in our alumina refining joint venture, Alunorte, which has a nominal production capacity of 1.5 million tons of alumina per year and produced 1.2 million tons in the first nine months of 2001. Aluvale participates in two aluminum smelting joint ventures, Albras, in which it has a 51.0% interest, and Valesul, in which it has a 54.5% interest. These joint ventures have a combined production capacity of 500,000 tons of aluminum per year, and produced a total of 322,000 tons of aluminum in the first nine months of 2001. Our integrated aluminum operations rank among the largest in Latin America in terms of production volume.

Our Strengths

World-Class Iron Ore Operations. We are a leading producer and supplier of iron ore to the world market and benefit from the following strengths in our operations:

- large resource base,
- high quality iron ore deposits,
- ability to produce a broad range of iron ore products,
- production cost advantages, and
- reliable delivery and customer service.

Well-Positioned to Meet Demand in a Changing Steel Industry. Ongoing structural changes in the production of iron and steel have stimulated increased demand for pellets as a proportion of the global iron

ore and pellet market. We have developed substantial pellet production capacity because we believe that the increase in pellet demand is a trend which will continue.

Pipeline of Copper Development Projects. We own 100% of the Sossego mine, which is located in Carajás, and has a production capacity of 140,000 tons of copper per year. In addition, we have joint venture interests in four Brazilian copper development projects containing approximately 1.7 billion tons of mineral deposits with a weighted average grade of 1.02%. We believe these projects provide a strong foundation for our strategy of seeking a significant position in the growing world copper market.

Low-Cost Integrated Aluminum Activities. We operate integrated aluminum operations primarily through joint ventures, involving bauxite mining, alumina refining and the production of primary aluminum. We have lower cash costs in the production of primary aluminum than many of our competitors.

Strong Position in Manganese Ore and Ferro-Alloys. We are the world's second leading producer of manganese ore and third leading producer of manganese ferro-alloys. We believe that our main manganese mine, Igarapé do Azul, is the world's lowest cash cost producer, and that we have lower cash costs in our manganese mining operations than many of our competitors.

Integrated Logistics Business. We have extensive experience managing complex logistics operations. We believe our transportation expertise should improve the profitability and efficiency of the four railroads in which we acquired ownership interests after our privatization, especially Centro-Atlântica, which interconnects with our Vitória-Minas railroad.

Financial Resources. Our balance sheet and strong cash flows provide us with the financial wherewithal to pursue growth and development opportunities.

Energy. We believe that we can successfully compete in the Brazilian energy market, mainly because of our successful track record in implementing and managing large projects and dealing with environmental protection issues. In addition, the balance between supply and demand and the prospect of deregulation of the Brazilian electricity industry starting as early as 2003 lead us to believe that there is significant growth potential in this market.

Our Strategy

Since the first step of our privatization in 1997, we have become a more efficient, diversified mining, logistics and energy company and are in the process of divesting non-core assets that no longer have strategic importance for us. Through organic, disciplined growth and selective acquisitions, we will continually seek to develop our mining, logistics and energy capabilities and increase scale while working to reduce costs. We aim to achieve earnings growth and increase cash generation, while maximizing our return on capital employed and the total return to our shareholders. We are focusing on our core businesses of mining, logistics and energy to achieve these goals, by:

Maintaining Our Leadership Position in the World Iron Ore Market. In 2000, we produced 15% of the world's iron ore, more than any other producer. In 2001, we acquired Ferteco, which accounted for 3% of world iron ore production in 2000, and we acquired one half of Caemi, which accounted for 4% of world iron ore production in 2000. We are committed to maintaining our position in the world iron ore market by keeping close contact with our customers, focusing our product line to capture industry trends and controlling costs. We believe that our strong relationships with major customers, tailored product line and logistical advantages will enable us to achieve this goal.

Expanding Our Pelletizing Facilities to Accommodate Current Market Demands. We believe that the growth in global demand for pellets will continue to increase, at a rate faster than the growth rate of the overall iron ore markets, and therefore we plan to continue investing in the development of this dynamic segment of the iron ore market.

Growing Our Logistics Business. We plan to focus on the physical and commercial integration of our transportation assets, and also to take advantage of new e-business technology. We believe that the quality

of our railway assets and our many years of experience as a railroad and port operator position us to take advantage of this market and establish ourselves as a leading Brazilian logistics company serving both domestic and export markets.

Developing Our Copper Resources. Global demand for copper has been growing rapidly since the early 1990s and is expected to continue to grow, primarily driven by the spending in the automotive, computer, telecommunications and electrical appliance sectors of the world economy. We believe that our copper projects can be among the most competitive in the world in terms of investment cost per ton of ore.

Increasing Our Aluminum Activities. We believe that global demand for aluminum will continue to grow during the next decade, driven mainly by the transportation and packaging industries. We therefore plan to develop and increase production capacity in our integrated aluminum operations.

Developing Power Generation Projects. In 2000 and 2001, we consumed 12.47 TWh and 13.75 TWh of electricity, respectively. Energy management and supply has become a priority for us, driven both by the Brazilian government's privatization program of the industry and by the risk of rising electricity prices and electricity rationing due to energy shortages, such as the one Brazil experienced in mid-2001. We currently perceive favorable investment opportunities in the Brazilian electricity sector and are taking advantage of them to invest in hydroelectric power generation projects. These projects will sell their production to third parties in the power market, and, as a result, our energy department will be engaged in wholesale marketing activities. Our energy business is comprised of the sale but not the delivery of electricity. We may use some of the electricity from these projects for our internal needs. As we are a large consumer of electricity, we expect that investing in the energy business will help protect us against electricity price volatility.

Restructuring Our Portfolio of Joint Ventures and Minority Investments. In line with our focus on mining, logistics and energy, we have moved to reduce our holdings of non-strategic assets. We are pursuing the disposition of our pulp and paper business, our dry bulk cargo shipping assets and some of our steel producing assets.

Our principal executive offices are located at Avenida Graça Aranha, No. 26, 20005-900, Rio de Janeiro, RJ, Brazil, and our telephone number is (011) 55-21-3814-4540. We maintain a website at www.cvrd.com.br. Information contained in our website does not constitute a part of this prospectus.

The Offering

Securities offered by the selling shareholders	The Federative Republic of Brazil and BNDES are each selling 34,255,582 shares, respectively, in the form of common shares or American depositary shares, in a global offering.
Offering outside of Brazil	American depositary shares are being offered initially through the underwriters in the United States, Canada, the United Kingdom and certain other jurisdictions. Each American depositary share represents one common share held by Banco Bradesco S.A., as custodian for JPMorgan Chase Bank as depositary. The American depositary shares will be represented by American depositary receipts. The underwriters may also purchase up to an additional 10,276,674 shares (in the form of American depositary shares) from the selling shareholders on a pro rata basis.
Brazilian offering	The selling shareholders are conducting a concurrent offering of of our common shares in Brazil. For a discussion of the terms of the offering in Brazil. See "Underwriting — Brazilian Offering."
Shares outstanding before and after the offering	245,267,973 common shares 138,570,922 preferred shares 1 golden share 383,838,896 shares Each common share represents the same economic interest as each preferred share.
Use of proceeds	We will not receive any proceeds from this offering.
Voting rights	One vote per common share, or one vote per American depositary share.
Dividend policy	Since our privatization in 1997, and following a recommendation from Valepar, our principal shareholder, we have distributed a dividend equal to at least 50% of the amount of profits available for distribution with respect to each fiscal year. For a discussion of our dividend distribution policy, see "Dividend Policy."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our American depositary shares.
New York Stock Exchange symbol for the American depositary shares offered hereby	"RIO"
BOVESPA trading symbol for the common shares	"VALE3"

Timetable for the Offering

Commencement of marketing of the offering	, 2002
Announcement of offer price	, 2002
Allocation of American depositary shares and common shares	, 2002
Listing of the American depositary shares on the New York Stock Exchange	, 2002
Settlement and delivery of American depositary shares and common shares	, 2002

Depending on market conditions, this expected timetable may be modified.

You may contact the representatives of the underwriters at the addresses set forth below for information on how to purchase American depositary shares in this offering. You may contact Merrill Lynch, Pierce, Fenner & Smith Incorporated at 4 World Financial Center, 250 Vesey Street, New York, New York, 10080 and ABN AMRO Rothschild LLC at 55 East 52nd Street, New York, New York, 10055.

Summary Consolidated Financial and Operating Data

The tables below present summary consolidated financial and operating data at and for the periods indicated. The data at and for the five years ended December 31, 2000 has been derived from our consolidated financial statements, which were audited by PricewaterhouseCoopers Auditores Independentes. The data at and for the nine months ended September 30, 2000 and 2001 has been derived from our unaudited interim financial statements, which, in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for the nine months ended September 30, 2001 are not necessarily indicative of the operating results to be expected for the entire year ended December 31, 2001. You should read the information below in conjunction with our audited and unaudited consolidated financial statements and notes thereto included elsewhere in this prospectus, as well as "Presentation of Financial Information," "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions of US$)						
Statement of Income Data							
Net operating revenues	US$ 3,585	US$ 3,748	US$ 3,553	US$ 3,076	US$ 3,935	US$ 2,996	US$ 3,030
Cost of products and services	(2,724)	(2,653)	(2,272)	(1,806)	(2,429)	(1,865)	(1,748)
Selling, general and administrative expenses	(245)	(207)	(171)	(138)	(225)	(140)	(188)
Research and development	(59)	(51)	(48)	(27)	(48)	(34)	(31)
Employee profit sharing plan	(51)	(46)	(29)	(24)	(29)	(31)	(21)
Restructuring costs	—	(87)	(9)	—	—	—	—
Other (expenses)	40	(67)	(170)	(161)	(206)	(223)	(326)
Operating income	546	637	854	920	998	703	716
Non-operating income (expenses):							
Financial income (expenses)	(63)	(3)	151	(33)	(107)	(68)	(160)
Foreign exchange and monetary gain/Translation gain (loss)	14	7	(108)	(213)	(142)	(10)	(700)
Gain on sale of investments	—	—	—	—	—	54	784
Other	(56)	(12)	(5)	(4)	(4)	(11)	(43)
	(105)	(8)	38	(250)	(253)	(35)	(119)
Income before income taxes, equity results, minority interests and extraordinary items	441	629	892	670	745	668	597
Income taxes benefit (charge)	3	(52)	(96)	(33)	25	(3)	37
Equity in results of affiliates and joint ventures	115	155	80	41	267	191	1
Change in provision for losses on equity investments	3	(8)	21	(268)	62	53	(45)
Minority interests	(4)	(2)	(1)	2	1	—	7
Extraordinary items (net of taxes) (1)	—	(372)	—	—	—	—	—
Net income	US$ 558	US$ 350	US$ 896	US$ 412	US$ 1,100	US$ 909	US$ 597
Total cash distributions	US$ 146	US$ 302	US$ 607	US$ 452	US$ 246	US$ 246	US$ 639

(1) Extraordinary items in 1997 relate to transactions in connection with the first step of our privatization.

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in US$ except recorded dividends and interest on shareholders' equity per share and share numbers)						
Per Share Data							
Basic earnings per common and preferred share(2):							
Income before extraordinary items	US$1.44	US$1.86	US$2.31	US$1.07	US$2.86	US$2.36	US$1.55
Extraordinary items	—	(0.96)	—	—	—	—	—
Net income	US$1.44	US$0.90	US$2.31	US$1.07	US$2.86	US$2.36	US$1.55
Recorded dividends and interest on shareholders' equity per share in US$(3)	US$0.64	US$1.20	US$1.58	US$1.28	US$1.70	US$1.11	US$1.72
Recorded dividends and interest on shareholders' equity per share in Brazilian *reais*(3)	R$0.67	R$1.33	R$1.86	R$2.28	R$3.33	R$2.04	R$4.61
Weighted average number of shares outstanding:							
Common shares (in thousands)	249,983	249,983	249,983	249,983	249,983	249,983	249,864
Preferred shares(2) (in thousands)	138,576	138,563	137,965	134,917	134,917	134,917	135,042
Total	388,559	388,546	387,948	384,900	384,900	384,900	384,906

	At December 31,					At September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions of US$)						
Balance Sheet Data							
Cash and cash equivalents	US$ 666	US$ 1,108	US$ 1,189	US$1,453	US$ 1,211	US$1,055	US$1,708
Total assets	11,304	11,689	11,310	8,961	10,077	9,857	8,914
Current liabilities	1,846	2,053	2,057	2,038	2,124	2,127	2,160
Long-term debt(4)	1,256	1,389	1,306	1,290	1,965	1,495	2,064
Total shareholders' equity	7,032	7,027	6,715	5,032	4,922	5,238	3,928

(2) Each American depositary share represents one common share and each preferred American depositary share represents one preferred share.

(3) Since 1997, all distributions have been in the form of interest on shareholders' equity.

(4) Excludes current portion. At December 31, 2000, we had extended guarantees for borrowings of joint ventures and affiliated companies in an aggregate amount of US$833 million. These contingent liabilities do not appear on the face of our consolidated balance sheets, but appear in note 15(a) to our consolidated financial statements.

Summary Reserve and Production Data

Reserves			Production				
At December 31, 2000			For the Year Ended December 31,			For the Nine Months Ended September 30,	
Mineral	Proven and Probable Reserves	Average Ore Grade(1)	1998	1999	2000	2000	2001
	(millions of tons)		(in millions of tons except gold production figures)				
Iron Ore							
Southern System	2,337.0	55.0%	53.3	49.9	75.9	56.6	53.8
Northern System	1,167.4	65.4%	45.8	44.0	47.6	33.7	38.8
Total	3,504.4	58.5%	99.1	93.9	123.5	90.3	92.6
Gold	15.0	2.83	582.4(2)	552.1(2)	535.1(2)	400.2(2)	376.2(2)
Manganese	39.4	46.2%	1.6	1.1	1.7	1.4	1.3
Bauxite	166.8	50.5%	10.1	11.0	11.2	8.2	7.9

(1) Iron ore grade is expressed in terms of percentage of iron; gold ore grade is expressed as the average of ore grade and metallurgical recovery rate, and is expressed in grams per ton (one ton equals 32,150 troy ounces); manganese ore grade is expressed in terms of percentage of manganese; and bauxite ore grade is expressed in terms of percentage of aluminum oxide.

(2) In thousands of troy ounces. One troy ounce equals 31.103 grams.

RISK FACTORS

You should carefully consider the risks described below, as well as the other information contained in this prospectus, in evaluating an investment in our American depositary shares. The risks described below are not the only ones facing our company. Additional risks may impair our business operations. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the American depositary shares could decline and you could lose a substantial portion of your investment.

We have included information in these risk factors concerning Brazil to the extent that information is publicly available to us. We believe this information is reliable, but we cannot guarantee that it is accurate.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business and the market price of our securities.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes drastic changes in policy. The Brazilian government's actions to control inflation and effect other policies have often involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. Our business, financial condition and results of operations may be adversely affected by changes in policy involving tariffs, exchange controls and other matters, as well as other factors outside of our control such as:

- currency fluctuations,
- inflation,
- monetary policy and interest rates,
- fiscal policy,
- energy shortages, and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Inflation and certain government measures to curb inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of our securities.

Brazil has historically experienced extremely high rates of inflation. Since the introduction of the *real* in July 1994 under the *Real* Plan, Brazil's inflation rate has been substantially lower than in previous periods. Inflation, as measured by the *Indice Geral de Preços — Mercado,* the general market price index in Brazil, or IGP-M, fell to 1.8% in 1998 before increasing to 20.1% in 1999 as a result of the devaluation of the *real* beginning in January 1999, and decreasing again to 10.4% in 2001. We cannot assure you that recent lower levels of inflation will continue. Future governmental actions, including actions to adjust the value of the *real,* may trigger increases in inflation. If Brazil experiences substantial inflation again in the future, our operating expenses and borrowing costs may increase, our operating and net margins may decrease and, if investor confidence decreases, the price of our securities may fall. For a more detailed discussion about inflation, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Inflation."

Inflation itself and governmental measures to combat inflation have had significant negative effects on the Brazilian economy. Since 1999, governmental actions to curb inflation have included interest rate increases and intervention in the foreign exchange market through the sale of U.S. dollars and government bonds linked to the U.S. dollar. These actions may adversely affect the market value of our securities.

Fluctuations in the value of the real against the value of the U.S. dollar may result in uncertainty in the Brazilian economy and the Brazilian securities market and could lower the market value of our securities.

The Brazilian currency has historically suffered frequent devaluations. In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods devaluations of the Brazilian currency generally have correlated with the rate of inflation in Brazil, devaluations over shorter periods have resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

In 1999, the *real* devaluated 48% against the U.S. dollar, and in 2000 it devaluated 9%. During 2001, the *real* experienced a period of significant devaluation, in part due to the economic uncertainties in Argentina, the global economic slowdown and the energy crisis in Brazil. The *real* depreciated 18.7% against the U.S. dollar during 2001. There are no guarantees that the exchange rate between the *real* and the U.S. dollar will stabilize at current levels or that the *real* will appreciate against the U.S. dollar.

Devaluations of the *real* relative to the U.S. dollar would reduce the U.S. dollar value of distributions and dividends on the American depositary shares and may also reduce the market value of our securities. Devaluations also create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. For a more detailed discussion about the floating exchange rate and Brazilian government measures aimed at stabilizing the *real,* see "Exchange Rates."

Developments in other emerging market countries may affect the Brazilian securities markets.

International investors generally consider Brazil to be an emerging market. As a result, economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Brazilian companies. Since the fourth quarter of 1997, the international financial markets have experienced significant volatility, and a large number of market indices, including those in Brazil, have declined significantly. For example, the Brazilian financial markets were adversely affected by the Asian financial crisis at the end of 1997 and the Russian financial crisis in 1998. After prolonged periods of recession, followed by political instability, Argentina in 2001 announced that it would not service its public sector debt. In order to address the worsening economic and social crisis, the Argentine government abandoned its decade-old fixed dollar-peso exchange rate and created a dual exchange rate regime in January 2002, with the official exchange rate reserved mainly for trade related operations at a fixed exchanged rate and a floating rate market for all other transactions. It is too early to predict whether this approach will be successful, but many commentators believe that a surge in the spread between the official rate and the floating rate is likely, which would reduce the supply of foreign exchange in the official market, leading to the need to further devaluate the currency and implement more restrictions on imports. Since Argentina is an important trade partner of Brazil, the continuation of the Argentine crisis could affect the revenues and profitability of Brazilian companies with important ties to Argentina.

The Argentine crisis may also affect the perception of risk in Brazil by foreign investors. The expectation of many that similar problems would follow in Brazil, which did increase volatility in the market prices for Brazilian securities in early 2001, has not materialized. Nonetheless, if events in Argentina continue to deteriorate, they may adversely affect our ability to borrow funds at an acceptable interest rate and raise equity capital when needed. Since approximately 65.6% of our long-term debt at September 30, 2001 is scheduled to mature in 2003 and 2004, these events could cause us to delay our capital expenditure plans and adversely affect the price of our securities.

The Brazilian government's energy rationing program could adversely affect us.

We are a significant consumer of Brazil's electricity production, and accounted for 4.5% of total consumption in Brazil in 2000. Brazil faced a shortage of energy during the second half of 2001 as a result of increased demand due to economic growth, inadequate expansion of generation in past years and unfavorable hydrological conditions. In response, the Brazilian government imposed an energy rationing program to alleviate the energy shortage, which aimed to decrease energy consumption by at least 20%. This program had a negative impact upon the country's economic performance and inflation levels. The required percentage of energy reduction, however, could be higher than 20% depending on the type of activity. Aluminum and ferro-alloy activities were categorized as electric-intensive activities and were required to decrease their energy consumption by 25%. As a result of this program, we had a temporary reduction of our aluminum and ferro-alloy production. By the end of 2001, climate conditions improved, reducing the immediate risk of energy shortages. Therefore, the Brazilian government has partially reduced the restrictions on the use of energy and may eventually eliminate them. However, there currently remain forecasted shortfalls in generation capacity.

We are unable to assess the impact that the government rationing program will have on our operations.

Risks Relating to the Mining Industry

Due to our dependence on the global steel industry, any fluctuations in the demand for steel could adversely affect our business.

Sales prices and volumes in the worldwide iron ore mining industry depend on the prevailing and expected level of demand for iron ore in the world steel industry. The world steel industry is cyclical. A number of factors, the most significant of these being the prevailing level of worldwide demand for steel products, influence the world steel industry. During periods of sluggish or declining regional or world economic growth, demand for steel products generally decreases and leads to corresponding reductions in demand for iron ore. Global steel output in 2001 decreased by 0.68% to 823,937 tons from 829,609 tons produced during 2000. This may lead to decreases in the level of demand in the iron ore market and have an adverse effect on world contract prices and sales volumes for iron ore. Prolonged reductions or declines in world contract prices or sales volumes for iron ore would have a material adverse effect on our revenues.

We are in an intensely competitive industry, and we cannot assure our ability to continue to compete effectively with other mining companies in the future.

Intense competition characterizes the worldwide iron ore industry. We compete with a number of large mining companies, including international mining companies. Some of these competitors possess substantial iron ore mineral deposits at locations closer to our principal Asian and European customers and it is possible that competition from foreign or Brazilian iron ore producers in the future will result in our losing market share and revenues. Our gold, aluminum, manganese and other activities are also subject to intense competition.

We are subject to cyclicality and price volatility for iron ore, aluminum and other minerals.

Cyclical and other uncontrollable changes in world market prices affect our iron ore, aluminum, gold and other mining activities. In particular, aluminum and gold are sold in an active world market and traded on exchanges, such as the London Metals Exchange and the Commodity Exchange, Inc. Therefore, the prices for these metals are more volatile than iron and pellet prices, as they respond to daily changes in supply and demand. Prolonged declines in world market prices, in nominal and real terms, for our products would have a material adverse effect on our revenues.

Our mining activities depend on authorizations of regulatory agencies. Changes in regulations could have an adverse effect on our business.

Our mining activities in Brazil depend on authorizations and concessions by regulatory agencies of the Brazilian government. Our exploration, mining and mineral processing activities are also subject to Brazilian laws and regulations which change from time to time. If these laws and regulations change in the future, modifications to our technologies and operations could be required, and we may be required to make unbudgeted capital expenditures which could lead to an increase in our borrowing costs. For a more detailed discussion about the authorizations and concessions by regulatory agencies of the Brazilian government upon which our mining activities depend, see "Business — Regulatory Matters."

Our operations are also regulated by Brazilian environmental laws. Changes to these laws in the future may adversely affect our mining activities.

Our operations often involve using, handling, disposing and discharging hazardous materials into the environment, and are therefore subject to the environmental laws and regulations of Brazil. Environmental regulation in Brazil has become stricter in recent years, and it is possible that more regulation or more aggressive enforcement of existing regulations will adversely affect us through imposing restrictions on our activities, raising our costs, or requiring us to engage in expensive reclamation efforts. We are currently a defendant in two separate actions brought by the municipality of Itabira, which is in the state of Minas Gerais, on the basis of environmental laws. If we do not prevail in each of these lawsuits, we could incur a substantial expense. For more information on the legal challenges we face, see "Business — Legal Proceedings."

Our reserve estimates may be materially different from mineral quantities that we may actually recover and market price fluctuations and changes in operating and capital costs may render certain ore reserves or mineral deposits uneconomical to mine.

Our reported ore reserves and mineral deposits are estimated quantities of ore and minerals that under present and anticipated conditions have the potential to be economically mined and processed by the extraction of their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including many factors beyond our control. In addition, reserve engineering is a subjective process of estimating underground deposits of minerals that cannot be measured in an exact manner and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Estimates of different engineers may vary and results of our mining and production subsequent to the date of an estimate may justify revision of estimates. Reserve estimates may require revision based on actual production experience and other factors. For example, fluctuations in the market price of metals, reduced recovery rates or increased production costs due to inflation or other factors may render proven and probable reserves containing relatively lower grades of mineralization uneconomic to exploit and may ultimately result in a restatement of reserves.

We face a number of risks which could lead to economically harmful consequences to us.

Our businesses are generally subject to a number of risks and hazards, including:

- industrial accidents,
- labor disputes,
- unexpected geological conditions,
- slope failures,
- environmental hazards,

- electricity stoppages,
- equipment or vessel failures, and
- weather and other natural phenomena.

These occurrences could result in damage to, or destruction of, mineral properties, production facilities, transportation facilities, equipment or vessels. They could also result in personal injury or death, environmental damage, waste of resources or intermediate products, delays or interruption in mining, production or transportation activities, monetary losses and possible legal liability. The insurance we maintain against these risks may not provide adequate coverage. Insurance against some risks (including liabilities for environmental pollution or certain hazards or interruption of certain business activities) may not be available at a reasonable cost or at all. Therefore, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

Our mineral exploration efforts may not lead to a replenishment of our gold reserves, which could adversely affect our mining prospects.

We engage in mineral exploration, principally related to copper and gold. Mineral exploration is highly speculative in nature, involves many risks and frequently is nonproductive. With respect to our gold operations, it is possible that our exploration programs will not result in the expansion or replacement of reserves depleted by current production. If we do not develop new reserves, we may not be able to sustain our current level of production beyond the remaining life of existing mines.

Even if we discover minerals, we remain subject to drilling and production risks, which could adversely affect the mining process.

Once we discover mineralization, it may take us a number of years from the initial phases of drilling until production is possible, during which the economic feasibility of production may change. It takes substantial time and expenditures to:

- establish ore reserves through drilling,
- determine appropriate metallurgical processes for optimizing the recovery of metal contained in ore,
- obtain the ore or extract the metals from the ore, and
- construct mining and processing facilities for greenfield properties.

It is possible that a project will prove uneconomical by the time we are able to exploit it, in which case we may incur substantial write-offs.

We face rising extraction costs as our deposits decrease.

Ore reserves gradually decrease in the ordinary course of a given mining operation. As reserves decrease, it becomes necessary for mining companies to use more expensive processes to extract remaining ore. As a result, mining companies, over time, usually experience rising unit extraction costs with respect to a particular mine. Several of our mines have operated for long periods, and we will likely experience rising extraction costs per unit in the future at these operations.

Risks Relating to the CVRD Group

Some of our operations depend on joint ventures and could be adversely affected if our joint venture partners do not observe their commitments.

We currently operate important parts of our pelletizing, copper exploration, logistics, energy, and aluminum businesses through joint ventures with other companies. Our forecasts and plans for these joint ventures assume that our joint venture partners will fulfill their obligations to contribute capital, purchase

products and, in some cases, provide managerial talent. If any of our joint venture partners does not observe their commitments, it is possible that the affected joint venture would not be able to operate in accordance with its business plans or that we would have to increase the level of our investment to give effect to these plans. For more information on our joint ventures, see "Business — Our Lines of Business — Ferrous Minerals — Pellets," "Business — Our Lines of Business — Current Copper Prospects," "Business — Our Lines of Business — Logistics" and "Business — Our Lines of Business — Holdings — Aluminum Business."

Our Albras joint venture is subject to substantial electricity cost increases.

Electricity costs are a significant component of the cost of producing aluminum. Our aluminum plant, Albras — Alumínio Brasileiro S.A., or Albras, obtains electric power at competitive rates from Eletronorte, a state-owned electric power utility. The contract through which Albras purchases electricity from this utility expires in 2004. It is not likely that Albras will continue to benefit from below-market electricity costs following expiration of the contract. Albras is currently trying to negotiate a new contract and is examining other alternatives. We cannot predict the impact that this will have on Albras's cost structure.

An electricity stoppage that affects our aluminum operations could cause substantial damage.

A single 300-kilometer power line supplies electricity to Albras. Any interruption in the supply of electrical power to Albras lasting longer than six hours can cause substantial damage to cells at the Albras facility. Cells are equipment used in the process of transforming alumina into aluminum. Cells will cool off if they are deprived of energy for six consecutive hours and may experience serious damage as a result of the cooling off process. Albras experienced an outage of four hours and several outages of less than one hour in 1996 because of a faulty Tucuruí substation, which has since been repaired. Interruptions in the supply of electricity to Albras lasting more than six hours may occur in the future.

We are vulnerable to adverse developments affecting other economies.

In the first nine months of 2001, 9.6% of our consolidated gross operating revenues were attributable to sales to Japanese customers, 14.0% were attributable to sales to other Asian customers and 25.6% were attributable to sales to European customers. A number of important Asian economies, including Japan and South Korea, have experienced difficulties in recent periods. Continuing economic difficulties in the Asian market could reduce local demand for iron ore and pellets, which, in turn, could have a material adverse effect on us. Asian economies could be harmed by a weakening U.S. economy, and a slow U.S. economy could have an adverse effect on the European economy. A weakened economy in Asia or Europe could reduce demand for our products in our primary markets.

Our principal shareholder and the Brazilian government could have a great deal of influence on our company.

Valepar, our principal shareholder, currently owns 42% of our common stock and 27% of our total capital. For a description of our principal shareholder, see "Major and Selling Shareholders." As a result of its stock ownership, Valepar has significant influence in determining the outcome of any action requiring shareholder approval, such as the election of our directors. BNDESPAR, a wholly-owned subsidiary of BNDES, has a golden share in Valepar, giving the Brazilian government special voting rights over certain actions of Valepar. Further, the Brazilian government, in addition to its ownership stake in us, owns a golden share in us, which gives it veto powers over certain actions that we could propose to take. For a detailed description of the veto powers granted to the Brazilian government by virtue of its ownership of this golden share, see "Description of Capital Stock — General."

We face a number of legal challenges to our privatization.

Numerous lawsuits challenging the legality of our privatization are pending, including a number of class-action lawsuits. If a substantial number of claims were to be decided against us, these

unfavorable decisions could, in the aggregate, adversely affect the course of our privatization process and have a material adverse effect on investors in our securities. For more information on the legal challenges facing our privatization, see "Business — Legal Proceedings."

Our risk management strategy may not be effective.

We are exposed to fluctuations in interest rates, foreign currency exchange rates, and commodity prices relating to our iron ore, aluminum and gold production. In order to partially protect ourselves against unusual market volatility, we periodically enter into hedging transactions to manage these risks. We do not hedge risks relating to iron ore price fluctuations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk." However, our hedging strategy may not be successful in minimizing our exposure to these fluctuations. In addition, to the extent we hedge our commodity price exposure, we forego the benefits we would otherwise experience if commodity prices were to increase.

Risks Relating to the American Depositary Shares

Restrictions on the movement of capital out of Brazil may hinder your ability to receive dividends and distributions on American depositary shares, and the proceeds from any sale of American depositary shares.

From time to time the Brazilian government may impose restrictions on capital outflow that would hinder or prevent the custodian who acts on behalf of the depositary for the American depositary shares from converting proceeds from the common shares underlying the American depositary shares into U.S. dollars and remitting those proceeds abroad. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1989 and early 1990. If enacted, similar restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of common shares from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. In such a case, the custodian, acting on behalf of the depositary, will hold the *reais* it cannot convert for the account of the holders of American depositary receipts who have not been paid. The depositary will not invest the *reais* and will not be liable for interest on those amounts. Furthermore, any *reais* so held will be subject to devaluation risk.

If you exchange our American depositary shares for common shares, you risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the common shares will obtain a certificate of registration from the Central Bank of Brazil to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to the common shares or upon the disposition of the common shares. If you decide to exchange your American depositary shares for the underlying common shares, you will be entitled to continue to rely, for five business days from the date of exchange, on the custodian's certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of, or distributions relating to, the common shares unless you obtain your own certificate of registration by registering your investment in the common shares under Law No. 4,131 or Resolution No. 2,689 of the National Monetary Council, which entitles foreign investors to buy and sell securities on the São Paulo stock exchange. For more information regarding these exchange controls, see "Market Information — Exchange Controls." If you attempt to obtain your own certificate of registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to the common shares or the return of your capital in a timely manner. We cannot assure you that the custodian's certificate of registration or any certificate of foreign capital registration obtained by you will not be affected by future legislative changes, or that additional restrictions applicable to you, the disposition of the underlying common shares or the repatriation of the proceeds from disposition will not be imposed in the future.

Because we are not obligated to file a registration statement with respect to preemptive rights relating to our common shares, you might be unable to exercise those preemptive rights.

Holders of American depositary receipts that are residents of the United States may not be able to exercise preemptive rights, or exercise other types of rights, with respect to the common shares. Your ability to exercise preemptive rights is not assured unless a registration statement is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to the common shares and we cannot assure you that we will file any registration statement. If a registration statement is not filed and an exemption from registration does not exist, JP Morgan Chase Bank, as depositary, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the common shares, see "Description of Capital Stock — Preemptive Rights."

Holders of our American depositary receipts may encounter difficulties in the exercise of voting rights.

You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold our American depositary shares rather than common shares. For example, under some circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary on how to vote for you. For a detailed description of your rights as an American depositary receipt holder, see "Description of American Depositary Shares."

FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and in other sections of this prospectus that are forward-looking statements. These statements appear in a number of places in this prospectus and include statements regarding our intent, belief or current expectations with respect to:

- our direction and future operations,
- the implementation of our principal operating strategies, including our potential participation in privatization, acquisition or joint venture transactions or other investment opportunities,
- our divestiture plans,
- the implementation of our financing strategy and capital expenditure plans,
- the exploration of mineral reserves and development of mining facilities,
- depletion and exhaustion of mines and mineral reserves,
- the declaration or payment of dividends,
- other factors or trends affecting our financial condition or results of operations, and
- the factors discussed under "Risk Factors" beginning on page 10.

We caution that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors, including competition in the iron ore industry, the cyclicality and price volatility of our business, the instability of the *real* and global economic conditions. The information in this prospectus identifies important factors that could cause these differences.

USE OF PROCEEDS

We will not receive any proceeds from the sale of American depositary shares or common shares offered by the selling shareholders in this offering.

MARKET INFORMATION

General

Our publicly traded share capital consists of common shares and preferred shares, each without par value. Our common shares and our preferred shares are publicly traded in Brazil on the São Paulo stock exchange, known as BOVESPA, under the ticker symbols VALE3, and VALE5, respectively. Our preferred shares also trade on the LATIBEX, under the ticker symbol XVALP. The LATIBEX is an electronic market created in 1999 by the Madrid stock exchange in order to enable trading of Latin American equity securities in euro denomination.

We have applied to list the American depositary shares (each representing one common share) offered in this offering on the New York Stock Exchange under the symbol "RIO."

Our preferred American depositary shares, each representing one preferred share, have traded on the New York Stock Exchange since June 2000, under the ticker symbol RIOPR. Prior to June 20, 2000, the preferred American depositary shares traded in the over-the-counter market. JP Morgan Chase serves as the depositary for the preferred American depositary shares. At December 31, 2001, there were 57,754,261 preferred American depositary shares outstanding, representing 41.7% of our preferred shares or 14.9% of our total share capital.

The table below shows the geographic distribution of our share ownership based on information available to us at December 31, 2001.

	Common Shares	Preferred Shares	Voting Interest	Economic Interest
Brazilian residents	244,517,906	43,847,940	97.8%	31.6%
U.S. residents(1)	2,918,053	79,979,085	1.2	57.7
Other	2,547,184	14,748,888	1.0	10.6
Total	249,983,143	138,575,913	100%	100%

(1) Includes the depositary for our preferred American depositary shares.

Market Price Information

The table below sets forth trading information for our preferred American depositary shares, as reported by the New York Stock Exchange (and for periods prior to June 2000, reported by the National Quotations Bureau, Inc.), and for our preferred shares and our common shares, as reported by BOVESPA, for the periods indicated.

	Reais per Common Share		*Reais* per Preferred Class A Share		U.S. Dollars per Preferred American Depositary Share	
	High	Low	High	Low	High	Low
1997	R$33.00	R$17.00	R$31.50	R$18.40	US$28.51	US$16.87
1998	27.00	10.00	29.10	13.00	25.13	11.38
1999	42.00	9.80	50.00	13.80	26.50	10.87
2000	52.40	33.00	59.00	38.82	33.13	19.75

	Reais per Common Share		*Reais* per Preferred Class A Share		U.S. Dollars per Preferred American Depositary Share	
	High	Low	High	Low	High	Low
2001	55.00	42.70	58.70	44.00	26.98	18.65
1Q00	52.40	33.00	59.00	42.00	33.13	22.75
2Q00	46.00	35.00	53.50	40.01	29.00	22.62
3Q00	49.00	41.21	54.00	44.97	29.75	24.44
4Q00	46.50	37.00	47.80	38.82	25.56	19.75
1Q01	51.00	42.70	53.60	44.00	26.98	23.05
2Q01	54.00	46.50	58.60	49.05	25.70	22.05
3Q01	55.00	46.40	55.00	45.50	23.15	18.65
4Q01	54.00	47.00	58.70	49.60	23.61	19.00
August 2001	53.99	50.80	52.88	51.01	21.25	20.11
September 2001	52.50	46.40	53.79	45.50	20.11	18.65
October 2001	54.00	50.60	56.40	51.40	20.92	19.00
November 2001	53.60	47.00	58.70	49.60	22.65	20.20
December 2001	53.40	48.00	55.00	51.48	23.61	21.35
January 2002	55.40	50.00	56.50	50.70	23.45	21.52

Regulation of the Brazilian Securities Markets

The Brazilian securities markets are regulated by *Comissão de Valores Mobiliários*, or CVM, the Brazilian securities commission, which has regulatory authority over stock exchanges and securities markets generally, and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

Under the Brazilian Corporation Law, a company is either public, a *companhia aberta*, or private, a *companhia fechada*. All public companies, including us, are registered with the CVM and are subject to reporting requirements. Our shares are listed and traded on BOVESPA and may be traded privately subject to limitations.

We have the option to ask that trading in our securities on BOVESPA be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of BOVESPA or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries of the CVM or the BOVESPA.

The Brazilian securities laws and the Brazilian Corporation Law provide for, among other things, disclosure requirements, restrictions on insider trading and price manipulation and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in other jurisdictions.

Exchange Controls and Other Limitations Affecting Security Holders

There are no restrictions on ownership of our capital stock by individuals or legal entities domiciled outside Brazil. Foreign investors may register their investment under Law No. 4,131 of September 3, 1962 or Resolution No. 2,689 of January 26, 2000 of the National Monetary Council. Registration under Law No. 4,131 or under Resolution No. 2,689 generally enables foreign investors to convert into foreign currency dividends, other distributions and sales proceeds received in connection with registered investments and to remit such amounts abroad. Resolution No. 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven jurisdiction as defined by Brazilian tax laws (i.e., a country that does not impose taxes or where the maximum income tax rate is lower than 20%).

Under Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under Resolution No. 2,689, a foreign investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment,
- appoint an authorized custodian in Brazil for its investment,
- register as a foreign investor with the CVM, and
- register its foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition securities trading is restricted to transactions carried out on the São Paulo stock exchange or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Resolution No. 1,927 of the National Monetary Council, which is the restated and amended Annex V to Resolution No. 1,289, or the Annex V Regulations, provides for the issuance of depositary shares in foreign markets in respect of shares of Brazilian issuers. The proceeds from the sale of American depositary shares by holders of American depositary receipts outside Brazil are free of Brazilian foreign investment controls and holders of the American depositary receipts who are not resident in a tax haven jurisdiction will be entitled to favorable tax treatment.

The right to convert dividend payments and proceeds from the sale of our capital stock into foreign currency and to remit these amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent the custodian for the common shares represented by American depositary shares, or holders who have exchanged American depositary shares for common shares from converting dividends, distributions or the proceeds from any sale of common shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Delays in, or refusal to grant any required government approval for conversions of Brazilian currency payments and remittances abroad of amounts owed to holders of American depositary shares could adversely affect holders of American depositary receipts.

The custodian will obtain a certificate of registration in the name of JPMorgan Chase Bank, the depositary. Pursuant to the certificate, the custodian and the depositary are able to convert dividends and other distributions with respect to the common shares represented by American depositary shares into foreign currency and to remit the proceeds outside Brazil. In the event that a holder exchanges American depositary shares for common shares, the holder will be entitled to rely on the custodian's certificate of registration for five business days after the exchange. After that, the holder must seek to obtain its own certificate of registration by registering its investment directly with the Central Bank under Law No. 4,131 or Resolution No. 2,689. Thereafter, unless the holder has registered its investment with the Central Bank, the holder may not convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the common shares. The holder generally will be subject to less favorable Brazilian tax treatment than a holder of American depositary shares. For a more detailed description of Brazilian tax treatment of holders of American depositary receipts as compared to holders of our common shares, see "Taxation — Brazilian Tax Considerations."

DIVIDEND POLICY

Under the Brazilian Corporation Law, shareholders are generally entitled to receive an annual mandatory dividend set forth in the company's by-laws, which may not be lower than 25% of adjusted net income for the relevant year, calculated in accordance with the Brazilian Corporation Law. Accordingly, our by-laws prescribe that we must distribute to our shareholders an amount equal to not less than 25% of the amount of profits available for distribution with respect to each fiscal year, unless the board of directors advises our shareholders at the general shareholders' meeting that payment of the required distributions for the preceding fiscal year is inadvisable in light of our financial condition. The audit committee must review any such determination and report to the shareholders and to the CVM. The shareholders must also approve the recommendation of the board of directors with respect to any required distributions. To date, our board of directors has never determined that a payment of the required distribution amount was inadvisable.

In addition to any required distributions, the board of directors may recommend to the shareholders the payment of distributions from other funds that are legally available.

Since our privatization in 1997, and following a recommendation from Valepar, our principal shareholder, we have distributed a dividend equal to at least 50% of the amount of profits available for distribution with respect to each fiscal year.

Holders of preferred class A shares and the golden share are entitled to receive an amount equal to 6% of their pro rata share of our paid-in capital prior to any distribution to holders of preferred class B shares, if any are issued, or to holders of common shares. Holders of preferred class B shares, if any are issued, are entitled to receive an amount equal to 6% of their pro rata share of our paid-in capital prior to any distribution to holders of common shares and to any additional distribution to holders of preferred class A shares and the golden share. After holders of common shares receive distributions per share in an amount equal to the preferential dividend of holders of preferred shares, all holders of shares receive the same additional distribution amount per share.

According to Law No. 10,303, the recently enacted law that amended the Brazilian Corporation Law, in order to be listed and traded on stock exchanges, preferred shares must entitle their holders to at least one of the following rights:

(i) a non-cumulative preferential dividend equal to at least 3% of the book value per share and the right to receive the same additional dividend amounts as are paid to holders of common shares, after holders of common shares have received distributions equivalent, on a per share basis, to the preferential dividends;

(ii) a preferential dividend 10% higher, on a per share basis, than the dividends and other distributions received by holders of common shares; or

(iii) rights to join in any sale of control by our controlling shareholder at a price per share at least equal to the price paid for common shares.

According to Law No. 10,303, we must amend our by-laws to conform to the new requirements for listing and trading on a stock exchange by March 1, 2003. These amendments to our by-laws will not give rise to redemption rights if made prior to December 31, 2002. Since our privatization, we have had sufficient distributable amounts to be able to distribute equal amounts to both common and preferred shareholders. For a discussion on our preferred class A and preferred class B shares, see "Description of Capital Stock."

We may make distributions either in the form of dividends or in the form of interest on shareholders' equity. Dividends with respect to the American depositary shares, and to non-resident holders of common shares, will not be subject to Brazilian withholding tax, except for dividends declared based on profits generated prior to December 31, 1995. These dividends will be subject to a 15% Brazilian withholding tax.

Distributions of interest on shareholders' equity to shareholders, including holders of American depositary receipts, are currently subject to Brazilian withholding tax of 15%. We pay distributions in Brazilian currency.

We are required to hold a general shareholders' meeting by April 30 of each year at which an annual dividend may be declared. Additionally, our board of directors may declare interim dividends. Under the Brazilian Corporation Law, dividends are generally required to be paid to the holder of record on a dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which the dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends (or payments of interest on shareholders' equity) in respect of its shares, after which we will have no liability for such payments. Since 1997, all cash distributions we have made have been in the form of interest on shareholders' equity.

We will make cash distributions on common shares underlying the American depositary shares in Brazilian currency to the custodian on behalf of the depositary. The custodian will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary for distribution to holders of American depositary receipts. Under current Brazilian law, dividends paid to shareholders who are not Brazilian residents, including holders of the American depositary receipts, will not be subject to Brazilian withholding tax. For more information on Brazilian tax policies regarding dividend distributions, see "Taxation — Brazilian Tax Considerations."

The table below sets forth the dollar equivalent of cash distributions we paid to holders of common shares and preferred shares for the periods indicated. For your convenience, we have calculated U.S. dollar conversions using both the commercial market rate in effect on the date of payment and the exchange rate at January 25, 2002 of R$2.4064 per US$1.00. We stated amounts gross of any applicable withholding tax.

Year	Payment Date	U.S. Dollars per Share at Payment Date	U.S. Dollars per Share at January 25, 2002
1997	May 30	0.48	0.20
	September 2	0.30	0.13
1998	May 8	0.88	0.42
	August 31	0.64	0.31
1999	January 15	0.44	0.27
	March 31	0.29	2.10
	August 20	0.57	0.46
2000	March 1	0.66	0.49
2001	February 20	1.66	1.38
2001	December 10	0.98	0.96

EXCHANGE RATES

There are two principal foreign exchange markets in Brazil:

- the commercial rate exchange market, and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions are carried out on the commercial rate exchange market. These transactions include the purchase or sale of shares or the payment of dividends or interest with respect to shares. Foreign currencies may only be purchased through a Brazilian bank authorized to operate in these markets. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention. In 1999, the Central Bank unified the exchange positions of the Brazilian banks in the floating rate exchange market and commercial exchange market, which led to a convergence in the pricing and liquidity of both markets. Since February 1, 1999, the floating market rate has been the same as the commercial market rate. However, there is no guarantee that the rates will continue to be the same in the future. Despite the convergence in the pricing and liquidity of both markets, each market continues to be regulated differently.

From its introduction on July 1, 1994 through March 1995, the *real* appreciated against the U.S. dollar. In 1995, the Central Bank announced that it would intervene in the market and buy or sell U.S. dollars, establishing a band in which the exchange rate between the *real* and the U.S. dollar could fluctuate. This policy resulted in a gradual devaluation of the *real* relative to the U.S. dollar. On January 13, 1999, the band was set between R$1.20 and R$1.32 per US$1.00. Two days later, on January 15, 1999, due to market pressures, the Central Bank abolished the band system and allowed the *real*/U.S. dollar exchange rate to float freely. As a result, the exchange rate dropped to R$2.1647 per US$1.00 on March 3, 1999. Since then, the *real*/U.S. dollar exchange rate has been established by the interbank market, and has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. It is not possible to predict whether the Central Bank will continue to let the *real* float freely or whether the *real* will remain at its present level. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. The Brazilian government could impose a band system in the future or the *real* could devalue or appreciate substantially. For more information on these risks, see "Risk Factors — Risks Relating to Brazil."

The following table sets forth the commercial selling rate, expressed in *reais* per U.S. dollar (R$/US$) for the periods indicated.

	Period-end	Average for Period	Low	High
Year ended				
December 31, 1997	1.116	1.088(1)	1.040	1.116
December 31, 1998	1.209	1.168(1)	1.117	1.209
December 31, 1999	1.789	1.851(1)	1.208	2.165
December 31, 2000	1.955	1.835(1)	1.723	1.985
December 31, 2001	2.320	2.353(1)	1.936	2.801
Month ended				
August 31, 2001	2.552	2.502(2)	2.446	2.559
September 30, 2001	2.671	2.678(2)	2.559	2.801
October 31, 2001	2.707	2.735(2)	2.687	2.783
November 30, 2001	2.529	2.571(2)	2.460	2.682
December 31, 2001	2.320	2.380(2)	2.293	2.467
January 31, 2002	2.418	2.366(2)	2.293	2.438

(1) Average of the rates on the last day of each month in the period.

(2) Average of the high and low exchange rates for each month.

Source: Central Bank.

On February 1, 2002, the commercial selling rate was R$2.4153 per US $1.00.

CAPITALIZATION

The table below sets forth our current liabilities and capitalization at September 30, 2001. You should read the table together with our consolidated financial statements and the notes thereto appearing elsewhere in this prospectus. The sale of common shares, either directly or in the form of American depositary shares, in this offering by the selling shareholders will not change our capitalization.

	At September 30, 2001 (in millions of US$)
Current liabilities:	
Current portion of long-term debt	US$ 260
Short-term debt	643
Other	1,257
Total current liabilities	2,160
Long-term liabilities:	
Long-term debt:	
Secured	495
Unsecured	1,569
Total long-term debt	2,064
Loans from related parties	4
Other	753
Total long-term liabilities	2,821
Minority interest	5
Shareholders' equity:	
Preferred shares — 600,000,000 shares authorized and 138,575,913 issued	820
Common shares — 300,000,000 shares authorized and 249,983,143 issued	1,479
Treasury shares — 4,249,970 common and 91 preferred shares	(79)
Additional paid-in capital	498
Retained earnings	5,139
Appropriated	2,321
Unappropriated	2,818
Other cumulative comprehensive income	(3,929)
Total shareholders' equity	3,928
Total capitalization	US$8,914

SELECTED CONSOLIDATED FINANCIAL DATA

The tables below present selected consolidated financial data at and for the periods indicated. The data at and for the five years ended December 31, 2000 has been derived from our consolidated financial statements, which were audited by PricewaterhouseCoopers Auditores Independentes. The data at and for the nine months ended September 30, 2000 and 2001 has been derived from our unaudited interim financial statements, included elsewhere in this prospectus, which, in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for the nine months ended September 30, 2001 are not necessarily indicative of the operating results to be expected for the entire year ended December 31, 2001. You should read the information below in conjunction with our audited and unaudited consolidated financial statements and notes thereto included elsewhere in this prospectus, as well as "Presentation of Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions of US$)						
Statement of Income Data							
Net operating revenues	US$ 3,585	US$ 3,748	US$ 3,553	US$ 3,076	US$ 3,935	US$ 2,996	US$ 3,030
Cost of products and services	(2,724)	(2,653)	(2,272)	(1,806)	(2,429)	(1,865)	(1,748)
Selling, general and administrative expenses	(245)	(207)	(171)	(138)	(225)	(140)	(188)
Research and development	(59)	(51)	(48)	(27)	(48)	(34)	(31)
Employee profit sharing plan	(51)	(46)	(29)	(24)	(29)	(31)	(21)
Banco Nacional de Desenvolvimento Econômico e Social (BNDES) — cost reimbursement under Mineral Risk Contract	—	37	—	—	—	—	—
Restructuring costs	—	(87)	(9)	—	—	—	—
Other (expenses)	40	(104)	(170)	(161)	(206)	(223)	(326)
Operating income	546	637	854	920	998	703	716
Non-operating income (expenses):							
Financial income	167	235	394	200	208	136	80
Financial expenses	(230)	(238)	(243)	(233)	(315)	(204)	(240)
Foreign exchange and monetary gain (loss)	15	15	(108)	(213)	(142)	(10)	(700)
Gain on sale of investments	—	—	—	—	—	54	784
Translation gain (loss)	(1)	(8)	—	—	—	—	—
Other	(56)	(12)	(5)	(4)	(4)	(11)	(43)
	(105)	(8)	38	(250)	(253)	(35)	(119)
Income before income taxes, equity results, minority interests and extraordinary items	441	629	892	670	745	668	597
Income taxes benefit (charge)	3	(52)	(96)	(33)	25	(3)	37
Equity in results of affiliates and joint ventures	115	155	80	41	267	191	1
Change in provision for losses on equity investments	3	(8)	21	(268)	62	53	(45)
Minority interests	(4)	(2)	(1)	2	1	—	7
Income before extraordinary items	558	722	896	412	1,100	909	597
Extraordinary items (net of taxes) (1)	—	(372)	—	—	—	—	—
Net income	US$ 558	US$ 350	US$ 896	US$ 412	US$ 1,100	US$ 909	US$ 597
Total cash distributions	US$ 146	US$ 302	US$ 607	US$ 452	US$ 246	US$ 246	US$ 639

(1) Extraordinary items in 1997 relate to transactions in connection with the first step of our privatization.

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in US$ except recorded dividends and interest on shareholders' equity per share and share numbers)						
Per Share Data							
Basic earnings per common and preferred share(2):							
Income before extraordinary items	US$ 1.44	US$ 1.86	US$ 2.31	US$ 1.07	US$ 2.86	US$ 2.36	US$ 1.55
Extraordinary items . . .	—	(0.96)	—	—	—	—	—
Net income	US$ 1.44	US$ 0.90	US$ 2.31	US$ 1.07	US$ 2.86	US$ 2.36	US$ 1.55
Recorded dividends and interest on shareholders' equity per share in US$(3) . .	US$ 0.64	US$ 1.20	US$ 1.58	US$ 1.28	US$ 1.70	US$ 1.11	US$ 1.72
Recorded dividends and interest on shareholders' equity per share in Brazilian *reais*(3)	R$ 0.67	R$ 1.33	R$ 1.86	R$ 2.28	R$ 3.33	R$ 2.04	R$ 4.61
Weighted average number of shares outstanding (in thousands):							
Common shares	249,983	249,983	249,983	249,983	249,983	249,983	249,864
Preferred shares(2) . . .	138,576	138,563	137,965	134,917	134,917	134,917	135,042
Total	388,559	388,546	387,948	384,900	384,900	384,900	384,906

(2) Each American depositary share represents one common share and each preferred American depositary share represents one preferred share.

(3) Since 1997, all distributions have been in the form of interest on shareholders' equity.

	At December 31,					At September 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions of US$)						
Balance Sheet Data							
Current assets	US$ 2,469	US$ 2,599	US$ 2,856	US$2,498	US$ 2,515	US$2,327	US$3,011
Property, plant and equipment, net	5,451	5,482	5,161	3,848	3,850	3,916	3,239
Investments in affiliated companies and joint ventures and other investments, net of provision for losses	1,844	1,877	2,059	1,639	2,223	2,152	1,189
Other assets	1,540	1,731	1,234	976	1,489	1,462	1,475
Total assets	US$11,304	US$11,689	US$11,310	US$8,961	US$10,077	US$9,857	US$8,914
Current liabilities	US$ 1,846	US$ 2,053	US$ 2,057	US$2,038	US$ 2,124	US$2,127	US$2,160
Long-term liabilities (excluding long-term debt)	1,099	1,157	1,169	601	1,061	975	757
Long-term debt(4)	US$ 1,256	US$ 1,389	US$ 1,306	US$1,290	US$ 1,965	US$1,495	US$2,064
Minority interest	71	63	63	—	5	22	5
Total liabilities	US$ 4,272	US$ 4,662	US$ 4,595	US$3,929	US$ 5,155	US$4,619	US$4,986
Shareholders' equity Outstanding capital stock	1,313	1,288	1,740	1,927	1,927	1,927	2,220
Additional paid-in capital	180	498	498	498	498	498	498
Reserves and retained earnings	5,539	5,241	4,477	2,607	2,497	2,813	1,210
Total shareholders' equity	US$ 7,032	US$ 7,027	US$ 6,715	US$5,032	US$ 4,922	US$5,238	US$3,928
Total liabilities and shareholders' equity	US$11,304	US$11,689	US$11,310	US$8,961	US$10,077	US$9,857	US$8,914

(4) Excludes current portion. At December 31, 2000, we had extended guarantees for borrowings of joint ventures and affiliated companies in an aggregate amount of US$833 million. These contingent liabilities do not appear on the face of our consolidated balance sheets, but appear in note 15(a) to our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on and should be read in conjunction with our consolidated financial statements and notes thereto and other financial information included elsewhere in this prospectus.

Overview

Several factors will affect our results of operations, liquidity and capital resources, including, but not limited to:

- contract prices for iron ore and pellets and world market prices for aluminum and gold,
- the level of demand for our iron ore and pellets,
- the level of demand for our third-party transportation services,
- the relationship between the *real* and the U.S. dollar, in which most of our sales are denominated,
- the results of operations of joint ventures and affiliated companies (in particular our aluminum operations and pellet joint ventures) recorded under the equity method in our financial statements,
- Brazil's electricity shortage, and
- Brazilian tax legislation.

Prices

The prices for our core mineral products fluctuate, although iron ore and pellet prices are less volatile than those of aluminum and gold. We expect these fluctuations to continue.

The table below sets forth our quarterly sinter feed reference prices in U.S. dollars for iron ore and pellet export sales and world quarterly market prices for gold and aluminum for the periods indicated.

	Iron Ore				
	Asian Market(1)	European Market(1)(2)	Pellets(3)	Gold	Aluminum
		(per ton)		(per troy ounce)(4)	(per pound)(5)
1Q98	US$15.82	US$19.21	US$34.66	US$301	US$0.66
2Q98	15.78	19.21	34.66	296	0.60
3Q98	15.78	19.21	34.66	294	0.61
4Q98	15.78	19.21	34.66	288	0.57
1Q99	15.78	17.10	30.07	279	0.62
2Q99	14.48	17.10	30.07	261	0.60
3Q99	14.48	17.10	30.07	299	0.68
4Q99	14.48	17.10	30.07	290	0.71
1Q00	14.48	17.82	31.87	277	0.75
2Q00	15.35	17.82	31.87	288	0.68
3Q00	15.35	17.82	31.87	274	0.72
4Q00	15.35	17.82	31.87	274	0.67
1Q01	15.35	18.68	32.46	258	0.69
2Q01	16.01	18.68	32.46	269	0.67
3Q01	16.01	18.68	32.46	293	0.62
4Q01	16.01	18.68	32.46	278	0.61

(1) Represents our quarterly standard sinter feed reference prices for export sales for periods indicated (FOB Tubarão — Asian market and FOB São Luís — European market) and not actual prices realized on sales.

(2) Brazilian iron ore prices are generally based on the European market reference price.

(3) Represents our quarterly standard pellet reference prices for export sales for period indicated (FOB Tubarão) and not actual prices realized on sales.

(4) Represents London Gold Market prices.

(5) Represents London Metals Exchange prices (cash/three-month average quotations).

Iron Ore. Our iron ore export sales are generally made pursuant to long-term supply contracts which provide for annual price adjustments. Cyclical changes in the world demand for steel products affect sales prices and volumes in the world iron ore market. Different factors, such as the iron content of specific ore deposits, the various beneficiation and purifying processes required to produce the desired final product, particle size, moisture content, and the type and concentration of contaminants (such as phosphorus, alumina and manganese) in the ore, influence contract prices for iron ore. Contract prices also depend on transportation costs. Fines, lump ore and pellets typically command different prices. We generally conduct annual price negotiations from November to February of each year, with separate prices established for the Asian and European iron ore markets. In the Asian market, the renegotiated prices are effective from April of the current year until March of the following year. In the European market, the renegotiated prices are effective for the calendar year. Because of the wide variety of iron ore and pellet quality and physical characteristics, iron ore and pellets are less commodity-like than other minerals. This factor combined with the structure of the market has prevented the development of an iron ore futures market. We do not hedge our exposure to iron ore price volatility.

Gold. We sell gold in an active world market in which prices respond to daily changes in supply and demand. We generally seek to manage the risks associated with changes in gold prices through hedging. For more information about our gold hedging activities, see "— Market Risk."

Aluminum. We sell our aluminum in an active world market where prices are determined by reference to prices prevailing on terminal markets, such as the London Metals Exchange and the Commodity Exchange, Inc., or COMEX, at the time of delivery. We sell aluminum purchased from the Albras aluminum joint venture pursuant to a take-or-pay commitment for 51% (representing our proportional ownership interest) of the joint venture's annual aluminum production. Although our annual purchase commitment can be substantial, approximately US$241 million in the first nine months of 2001 and US$280 million in 2000, prevailing world market prices for aluminum (subject to discount in accordance with the terms of our joint venture agreements) determine our aluminum purchase prices. Albras seeks to manage the risks associated with changes in aluminum prices by hedging. For more information about aluminum hedging, see "— Market Risk."

Demand

Demand for our iron ore products is a function of worldwide demand for steel, which is, in turn, heavily influenced by worldwide economic activity. Worldwide demand for steel has had a downward trend in 2001 from 2000. A slowdown in economic activity in Europe or Asia will directly affect demand for our iron ore products, although there will typically be a lag effect. Demand for our other mineral products is also influenced to varying degrees by worldwide economic activity.

Demand for our third party transportation services is influenced by Brazilian economic growth as well as by Brazilian exports and imports of goods.

Inflation

The following table sets forth the Brazilian inflation rate as measured by the IGP-M Index, published by the *Fundação Getúlio Vargas*.

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	1997	1998	1999	2000	2001	2000	2001
				(percent)			
Brazilian inflation rate	7.7	1.8	20.1	9.9	10.4	8.2	7.8

Before July 1, 1997, Brazil was considered to have a highly inflationary economy. For periods before July 1, 1997, we remeasured (translated) our financial statements into U.S. dollars from financial statements presented in *reais,* in accordance with the provisions of Statement of Financial Accounting Standards 52 — Foreign Currency Translation, or SFAS 52. Under the financial statement remeasurement procedures we adopted, we translated non-monetary items (inventories, property, plant and equipment and accumulated depreciation and depletion, as well as shareholders' equity accounts) at historical exchange rates. We translated monetary assets and liabilities denominated in Brazilian currency at period-end exchange rates. We included the translation gain or loss resulting from this restatement process in the then-current statements of operations.

At July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary for purposes of SFAS 52 and changed our functional currency from the reporting currency, U.S. dollars, to the local currency, Brazilian *reais*. Therefore, on July 1, 1997, we translated the U.S. dollar amounts of non-monetary assets and liabilities into *reais* at the then-current exchange rate. These translated amounts became the new accounting bases for such assets and liabilities. At each period ended after July 1, 1997, we have remeasured all assets and liabilities into U.S. dollars at the then-current exchange rate and all accounts in the statements of operations and cash flows at the average rates prevailing during the applicable period. We included the translation gain or loss resulting from this translation process in the cumulative translation adjustments component of shareholders' equity.

Currency Fluctuations

Most of our sales will continue to be U.S. dollar-denominated while most of our costs, other than debt expenses, will continue to be denominated in Brazilian currency. As a result, when the *real* is relatively strong against the U.S. dollar, this tends to have a negative effect on our reported financial results from operations, and vice versa. On the other hand, because most of our debt, and debt at the joint venture and affiliate level, is U.S. dollar-denominated, a relatively weak *real* causes us to record monetary and foreign-exchange losses.

Effects of Certain Equity Method Affiliates and Investments Carried at Cost

The financial condition and results of operations of our joint ventures, affiliated companies and investments have had a significant effect on our results of operations and financial condition in the past. Our steel and pulp and paper divestitures should limit this effect in future periods, although the activities of our aluminum and pellet joint ventures will remain important. See note 10 to our consolidated financial statements for information on these effects.

Rising Unit Extraction Costs

Several of our mines, such as Cauê, Conceição and Capanema, have operated for long periods and may experience rising extraction costs per unit as more expensive processes become necessary to extract remaining ore in these mines. Increases in extraction costs at each of theses mines did not materially affect our results of operations during the historical periods discussed under "— Results of Operations" as such increases were offset by productivity gains and by the favorable foreign exchange effects on these costs.

Electricity Costs

Electricity costs are a significant component of the cost of producing aluminum. Our aluminum plant, Albras, entered into a 20-year contract with Eletronorte, a state-owned power utility, pursuant to which Albras purchases electricity at rates which are lower than the prevailing market rates in the region. For the first nine months of 2001 and for the years ended December 31, 2000, 1999 and 1998, the prevailing market rate was US$22.99, US$24.48, US$23.36 and US$36.06 per MWh, respectively. The average price paid by Albras for the same periods was US$11.51, US$11.93, US$10.56 and US$11.39 per MWh, respectively. The Eletronorte contract is scheduled to expire in May 2004.

Effects of the Energy Shortage in Brazil

On June 1, 2001, the Brazilian government, as part of its energy rationing program, required energy consumption to decrease by at least 20% relative to average consumption for May, June and July 2000. Aluminum and ferro-alloy activities were categorized as electricity-intensive activities and energy consumption relating to these activities was required to decrease by 25% relative to average consumption for May, June and July 2000. Our total expected energy consumption for 2001 was 14.5 TWh. However, due to this rationing program, our actual energy consumption for 2001 was 12.47 TWh. In 2000, our total energy consumption was 13.75 TWh. As a result, we reduced our ferro-alloy production in the six-month period ending November 30, 2001 by 46,000 tons, from the previously planned 220,000 tons to 174,000 tons. We also reduced 2001 aluminum production at Albras by 46,000 tons to 333,000 tons from the previously planned 379,000 tons, and at Valesul by 13,000 tons to 80,000 tons from the previously planned 93,000 tons. By the end of 2001, climate conditions in Brazil improved, reducing the immediate risk of energy shortages. Therefore, in January 2002, the Brazilian government eliminated the restrictions on the use of energy in the north region of Brazil, where most of our aluminum production is located. For a discussion about the possible consequences and risks associated with energy shortages, see "Risk Factors — Risks Relating to Brazil — The Brazilian government's energy rationing program could adversely affect us" and "Business — Our Lines of Business — Holdings — Aluminum Business — Aluminum."

Divestitures

In line with our focus on mining, logistics and energy, we have moved to pare down our holdings of non-strategic assets. We are pursuing the disposition of our pulp and paper assets and are also disposing of assets in the steel and transportation sectors that are not strategically connected to our core businesses.

In the pulp and paper industry, in March 2001, we concluded the sale of our interest in Bahia Sul Celulose S.A., known as Bahia Sul, for approximately US$320 million. In September 2001, we concluded the sale of our stake in Celulose Nipo Brasileira, S.A., known as Cenibra to our former partner for US$670.5 million.

In the steel industry, we disposed of our 2.3% stake in Açominas in December 2000 for US$10 million worth of preferred shares of Gerdau S.A., a publicly listed steel company which we intend to sell in the future. In addition, in March 2001, we disposed of our 10.3% stake in Companhia Siderúrgica Nacional or CSN. We transferred our interest in CSN, valued at US$249 million to Fundação Vale do Rio Doce de Seguridade Social, known as VALIA, our employee pension fund, in order to satisfy a funding obligation that we owed VALIA. For more information on this contribution to VALIA see "Business — Employees." We continue to explore the divestiture of Celmar S.A. and of our forestry subsidiary, Florestas Rio Doce S.A. See "Business — Lines of Business — Pulp and Paper Division." Finally, we have begun the process of divesting our dry bulk cargo shipping assets. In September 2001, we reached an agreement to sell six of Docenave's carrier vessels, with a total capacity of 592,240 DWT, to Empresa Naviera Elcano, S.A., a Spanish company, for US$53 million. This transaction is expected to close in February 2002. We intend to sell Docenave's remaining dry-bulk assets in the future, but have reached no agreement regarding this sale to date.

Past divestitures include Bahia Sul (pulp and paper), Cenibra (pulp and paper), Açominas (steel), and CSN (steel). Divestitures currently in progress include our dry bulk cargo business and our forestry activities. The following table shows the effects of both past divestitures and those currently in progress on our gross revenues, net income and total assets:

	For the Year Ended December 31,			For the Nine Months Ended September 30,
	2000	1999	1998	2001
Decrease in gross revenues	6.3%	4.9%	5.6%	5.1%
Increase (reduction) in net income	(7.4)	6.8	(1.3)	10.9
Decrease in total assets	7.4	7.8	—	1.6

Unwinding of Our Cross-Holding Relationships with CSN

We acquired a stake in CSN, during its privatization process in 1993. CSN, in turn, acquired a 6.8% stake in us during the first step of our privatization process in 1997, through its indirect participation in Valepar, our principal shareholder. In line with our strategy to consolidate and focus on mining, logistics and energy, in the first quarter of 2001, we and CSN implemented a program to unwind our cross-holding relationships.

In March 2001, CSN concluded the sale of its shares in Valepar to Litel Participações S.A., Bradesplan Participações S.A. and Bradespar S.A. Bradesplan and Bradespar subsequently transferred their shares in Valepar to Babié Participações, S.A. Babié is a holding company owned by Bradesplan and Bradespar.

In March 2001, we transferred our 10.3% stake in CSN, valued at US$249 million, to VALIA, our employee pension fund. For more information on this contribution to VALIA, see "Business — Employees."

As part of the unwinding transaction, CSN granted us the following rights of first refusal relating to CSN's Casa de Pedra mine, each of which lasts for a period of 30 years:

- the right to purchase any iron ore produced by the mine beyond CSN's internal requirements,
- the right to purchase or to rent the mine should CSN decide to sell or lease it, and
- the right to become a joint venture partner should CSN decide to form a pelletizing joint venture with a third party with iron ore produced by the mine.

In return, we have granted CSN a right of first refusal to participate with us in the construction of any new steel producing facilities that we undertake in the next five years.

This transaction, as a whole, is subject to review by the Brazilian antitrust authorities.

We do not expect the unwinding of our cross-holding relationships with CSN to have any significant impact on our operations and financial results.

Brazilian Taxes

We are subject to a number of Brazilian taxes in addition to corporate income tax. Brazilian tax legislation changes, which are frequent, can have an impact on our results of operations. Some Brazilian taxes are described below.

Value-Added Tax. Our revenues consist of total revenues from sales, net of discounts, returns and allowances, together with amounts we collect in respect of value-added tax. Net operating revenues represent revenues less value-added tax, which we collect on behalf of, and must remit to, state taxing authorities. Export sales are currently exempt from value-added tax.

Social Contribution on Profits. Social contribution on profits is a federal income tax. The rate has fluctuated in the past three years from 8% to 12% and is currently at 9%. Before 1997, this tax was deductible for income tax purposes; beginning in 1997, the tax is no longer deductible. After December 2002, the applicable rate is scheduled to be 8%.

Social Integration Program and Social Contribution on Gross Sales. The Social Integration Program, or PIS, aims to finance special social programs through the collection of a 0.65% revenues tax. Social contribution on gross sales, or COFINS, finances special social programs through the collection of a 3% revenues tax. Export sales are currently exempt from both of these taxes.

Provisional Tax on Financial Transactions. The provisional tax on financial transactions applies to every debit or withdrawal of money from a bank account. The rate has fluctuated from 0.2% to 0.38% since its creation in 1997. For the period between March 18, 2001 and June 16, 2002, the rate is 0.38%.

Financial Compensation for the Exploration of Mineral Resources. We owe a government royalty on net revenues derived from the production and sale of mineral resources. The annual rates on our products are:

- iron ore, 2%,
- bauxite, manganese and potash, 3%, and
- gold, 1%.

Federal Tax on Industrialized Products. Manufacturers pay this federal tax on behalf of their customers at the time of sale, either to another manufacturer to further the manufacturing process or to the retailer of the ultimate customer. Export operations are currently excluded. The tax on our aluminum production is at the rate of 4%.

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2001 Compared to the Nine Months Ended September 30, 2000

Revenues

Net operating revenues increased 1.1% to US$3,030 million in the nine months ended September 30, 2001 from US$2,996 million in the same period of 2000, reflecting a strong increase in our iron ore and pellets revenues partially offset by decreases in revenues in other lines of business.

Revenues from iron ore and pellets increased 18.5% to US$1,937 million in the nine months ended September 30, 2001 from US$1,635 million in the same period of 2000, reflecting a 13.6% increase in volume sold to 110.8 million tons in 2001 from 97.5 million tons in 2000, a 4.4% increase in average selling prices and a 0.5% increase due to changes in product mix. In 2001, there was an increase in demand from the growing market in China, and therefore our exports to this country increased to 11.5 million tons in the nine months ended September 30, 2001 compared to 6.6 million tons in the same period of 2000. Our acquisition of Ferteco in April 2001 added US$157 million to our revenues in the nine months ended September 30, 2001, representing 8.5 million tons.

Revenues from gold sales decreased 11.5% to US$100 million in the nine months ended September 30, 2001 from US$113 million in the same period of 2000, representing a 8.8% decrease in volume sold and a 2.7% decrease in average selling prices. The reduction in volume sold was due to the closure of our Almas and Caeté mines at the end of 2000 and operational problems at two other mines during the first quarter of 2001, which have now been resolved.

Revenues from other mining products decreased 11.0% to US$291 million in the nine months ended September 30, 2001 from US$327 million in the same period of 2000. This decrease is mainly due to a reduction in sales of our ferro-alloys subsidiary Sibra to US$100 million in the nine months ended September 30, 2001 from US$112 million in the same period of 2000, reflecting a decrease in average prices. Potash and kaolin sales also decreased as a result of lower demand.

Revenues from transportation services decreased 13.9% to US$497 million in the nine months ended September 30, 2001 from US$577 million in the same period of 2000. The reduction partly reflects services billed to Ferteco and Samitri in 2000, which as a result of our acquisition of these companies, are now eliminated in our consolidated financial statements. Such services included in revenues for the nine months ended September 30, 2000 (prior to our acquisition of Samitri) totaled US$68 million and in the nine months ended September 30, 2001 (prior to our acquisition of Ferteco) totaled US$22 million. Volumes in our other transportation activities were stable during the two periods compared, while prices of domestic transport declined some 12.4% as a result of the devaluation of the *real* in 2001. We intend to sell 15 ships in the period between 2001 and 2002. These ships generated revenues of US$160 million in the nine months ended September 30, 2001.

Revenues from aluminum products (bauxite, alumina and aluminum) decreased 20.0% to US$224 million in the nine months ended September 30, 2001 from US$280 million in the same period of 2000. The total decrease of US$56 million comprises US$35 million related to a reduction of 15.0% in aluminum sales and US$21 million related to lower resales of alumina as a result of higher direct sales to other shareholders in our alumina affiliate, Alunorte.

Revenues from other products and services decreased 48.1% to US$83 million in the nine months ended September 30, 2001 from US$160 million in the same period of 2000, primarily representing decreases in sales volumes of pulp and paper products following the divestment of our investment in Cenibra and the consequent termination of our purchases from this former affiliate.

Operating Costs and Expenses

Overall costs and expenses increased 0.9% to US$2,314 million in the nine months ended September 30, 2001 from US$2,293 million in the same period of 2000. This increase includes US$109 million, or 4.8%, in 2001 relating to Ferteco. If the effect of the Ferteco acquisition had not been taken into account, our costs would have been reduced by US$88 million.

In the nine months ended September 30, 2001 our costs and expenses, as expressed in U.S. dollars, were favorably affected by the significant devaluation of the *real* against the U.S. dollar during the period (from R$1.9554 to US$1.00 at December 31, 2000 to R$2.6713 to US$1.00 at September 30, 2001, or 36.6%), because the majority of these costs and expenses are denominated in *reais*. In terms of comparison between the first nine months of 2001 and 2000, the average rate of exchange was R$2.2854 to US$1.00 in the 2001 period and R$1.7975 to US$1.00 in the 2000 period, or an increase of 27.1%.

Cost of ores and metal sold increased 4.3% to US$1,155 million in the nine months ended September 30, 2001 from US$1,107 million in the same period of 2000, including US$85 million relating to costs of Ferteco. The favorable impact of exchange rate movements between the two periods compared is estimated at US$90 million.

Cost of transportation services decreased 15.1% to US$303 million in the nine months ended September 30, 2001 from US$357 million in the same period of 2000, in line with the decrease in revenue.

Cost of aluminum products decreased 17.4% to US$214 million in the nine months ended September 30, 2001 from US$259 million in the same period of 2000 as a result of lower levels of activity. The favorable effect of exchange rate movements on the cost of aluminum products is small, since they are primarily determined by the international market.

Cost of other products and services decreased 46.5% to US$76 million in the nine months ended September 30, 2001 from US$142 million in the same period of 2000, reflecting principally the decreases in volumes of pulp and paper purchases.

Selling, general and administrative expenses increased 34.3% to US$188 million in the nine months ended September 30, 2001 from US$140 million in the same period of 2000. Ferteco added US$24 million or 17.1% to these expenses in 2001. Excluding this effect, expenses increased by 17.2% due to increased business activity and an increase of the value of services from third-parties, partially offset by the effects of exchange rate movements.

Research and development, employee profit sharing and other costs and expenses increased 31.2% to US$378 million in the nine months ended September 30, 2001 from US$288 million in the same period of 2000. This increase is mainly attributable to asset impairment provisions made in 2001, including losses on the sale of ships expected to take place in 2002 (US$25 million) and the amortization of remaining goodwill relative to our affiliates Centro-Atlântica and GIIC (US$42 million), the calculation of which was based on our revised profit expectations and other economic factors.

Non-Operating Income (Expenses)

Net non-operating expenses were US$119 million in the nine months ended September 30, 2001 compared to US$35 million in the same period of 2000. The aggregate unfavorable change of US$84 million includes US$92 million of additional net financial expenses in 2001 resulting from increased average net debt balances during the period because of our acquisitions, capital expenditures and payment of interest (dividends) to our shareholders. In addition the change includes the negative effect of exchange rate movements (US$690 million) on our U.S. dollar denominated liabilities, mainly short and long-term debt, and gains on sales of investments (US$730 million) upon divestment of our interests in Bahia Sul, CSN and Cenibra in 2001. In September 2000, the gain on sale of investments was reclassified to non-operating income for comparative purposes.

Income Taxes

In the nine months ended September 30, 2001 we have estimated that we will record a tax benefit for the calendar year and this has been proportionally reflected in the interim financial statements. The final determination of the tax benefit depends on the amount of tax-deductible dividends that we pay in the form of interest on shareholders' equity, and the tax savings obtained under our Carajás tax exemption (a tax incentive relative to our iron ore and manganese operations in Carajás), among other factors.

Affiliates and Joint Ventures

Our equity in the results of affiliates and joint ventures and provision for losses on equity investments in aggregate totaled a loss of US$44 million in the nine months ended September 30, 2001 compared to a gain of US$244 million in the same period of 2000.

In 2001, our affiliates in the aluminum sector recorded losses due to the effects of the devaluation of the *real* on their foreign currency denominated debt. Albras reported a loss for the nine months ended September 30, 2001 of US$72 million, of which we recognized our portion of US$37 million though the provision for losses on equity investments and Alunorte reported a loss of US$79 million, of which we recognized our portion of US$37 million though equity accounting. In the same period of 2000, our portion of gains reported by Albras and Alunorte were US$55 million and US$8 million, respectively.

In addition to exchange rate effects, the operating results of our major aluminum sector affiliates and joint ventures in the nine months ended September 30, 2001 compared to the same period of 2000, were influenced by the following factors:

Albras — Aluminum sales volume decreased 5.1% to 262,000 tons in 2001 from 276,000 tons in 2000 and average sales prices decreased 3.2% to US$1,468.08 per ton in 2001 from US$1,516.41 per ton in 2000.

Alunorte — Alumina sales volume increased 0.3% to 1,180,000 tons in 2001 from 1,177,000 tons in 2000 and the average sales prices decreased by 1.9% US$192.04 per ton in 2001 as compared to US$195.84 per ton in 2000.

MRN — Bauxite sales volume decreased 7.6% to 7,777,000 tons in 2001 from 8,416,000 tons in 2000 and average sales prices decreased 1.3% to US$20.95 per ton in 2001 from US$21.23 per ton in 2000.

Also in 2001, we sold our interest in Bahia Sul and Cenibra, which had contributed US$34 million and US$50 million, respectively, to our consolidated net income in the nine months ended September 30,

2000. In 2001, the equity in results of these affiliates until the date of their respective sale totaled the aggregate amount of only US$11 million. However, the sale of Bahia Sul and Cenibra resulted in one-time gains of US$170 million and US$507 million, respectively, which are included in non-operating income (expenses).

Our steel sector affiliates were affected by a weaker market for steel products which resulted in decreased average sales prices and volumes in 2001. Our U.S. affiliate, CSI, was also affected by higher costs resulting from the energy crisis in California and earnings of our Brazilian affiliate CST were reduced by the impact of the devaluation of the *real*. In the nine months ended September 30, 2001 we recorded a gain of US$19 million in respect of these affiliates against a gain of US$44 million in the same period of 2000.

Our 45.65% owned railroad affiliate, Centro-Atlântica, performed very poorly in the nine months ended September 30, 2001 and we recorded an equity loss of US$28 million against a loss of US$14 million in the same period of 2000. We and the other shareholders of Centro-Atlântica are currently implementing various plans to recover the potential of this business.

In 2001, the results of our other equity investments were generally lower than in 2000 due to the effects of the devaluation of the *real* and difficult trading conditions.

Results of Operations for the Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues

Net operating revenues increased 27.9% to US$3,935 million in 2000 from US$3,076 million in 1999, reflecting improvements in most areas of our business, as discussed below.

Revenues from iron ore and pellets increased 28.5% to US$2,177 million in 2000 from US$1,694 million in 1999, representing an increase in volume sold of 29.3% to 124.5 million tons in 2000 from 96.3 million tons in 1999, partially offset by changes in product mix. Our acquisitions of Samitri and Mineração Socoimex S.A., known as Socoimex, in May 2000 added US$101 million to our revenues in the period, representing increased volume of 7.4 million tons. Demand was strong in all of our major markets, notably Europe, Asia and Brazil. A portion of increased revenues is due to the termination of tolling arrangements with our pelletizing joint ventures. Currently, we sell ore to these joint ventures and buy pellets back from them. As a result, both revenues and costs of ores and metals sold have increased.

Revenues from gold sales increased 0.6% to US$156 million in 2000 from US$155 million in 1999, reflecting a 1.2% increase in volume sold, offset by a 0.6% decrease in average prices.

Revenues from other mining products, such as kaolin, manganese and potash, increased 135.4% to US$412 million in 2000 from US$175 million in 1999. This increase includes US$207 million due to the consolidation in 2000 of our ferro-alloy and kaolin subsidiaries upon acquiring control from our former partners in these enterprises, but volumes and average prices also improved in our manganese business.

Revenues from transportation services increased 18.4% to US$760 million in 2000 from US$642 million in 1999, mainly due to a 67.3% increase in the revenues of our shipping subsidiary to US$271 million in 2000 from US$162 million in 1999, reflecting a 37.2% increase in average prices and a 23.2% increase in tonnage carried.

Revenues from aluminum products (bauxite, alumina and aluminum) remained virtually unchanged at US$362 million in 2000 and US$363 million in 1999. Aluminum sales volumes decreased 21% in 2000 as compared to 1999, primarily due to the termination of our tolling arrangement with Valesul, which is an unconsolidated subsidiary, whereby that company now sells its production directly into the market rather than through our wholly-owned subsidiary Aluvale, offset by increases in average prices and increased alumina sales.

Revenues from other products and services increased 57.8% to US$202 million in 2000 from US$128 million in 1999, primarily resulting from increases in the international prices for pulp and paper products. We are currently in the process of divesting our pulp and paper business.

Operating Costs and Expenses

Overall costs and expenses increased 36.2% to US$2,937 million in 2000 from US$2,156 million in 1999. This increase includes US$234 million or 10.9% in 2000, relating to newly acquired subsidiaries which in total generated US$308 million of additional consolidated revenues (US$101 million relating to the acquisition of Samitri and Socoimex and US$207 million relating to the consolidation of ferro-alloy and kaolin subsidiaries).

Cost of ores and metal sold increased 42.9% to US$1,423 million in 2000 from US$996 million in 1999, or 7.3% more than the increase in revenues. This mainly reflects increased costs of acquiring pellets due to the termination of tolling arrangements with affiliates and increased fuel costs.

Cost of transportation services sales increased 30.7% to US$481 million in 2000 from US$368 million in 1999 or 12.3% more than the increase in revenues. The most important factors in this increase were the continuing upward trend in fuel costs (primarily determined by the international market) and the increase in volumes, partially offset in terms of revenues by lower prices in transportation services other than shipping.

Cost of aluminum products sold increased 3.4% to US$334 million in 2000 from US$323 million in 1999, reflecting increases in the purchase price of these products, substantially offset by decreases in volumes purchased.

Cost of other products sold increased 60.5% to US$191 million in 2000 from US$119 million in 1999, primarily due to increases in the prices for pulp and paper products.

Selling, general and administrative expenses increased 63.0% to US$225 million in 2000 from US$138 million in 1999. Newly acquired subsidiaries added US$36 million to these costs, or 26.1%, in 2000. General and administrative costs further increased by US$28 million in 2000 compared to 1999 as a result of transferring various accounting, control, legal and information technology functions from the operating divisions to the corporate center and outsourcing data processing activities. The remaining increase of US$23 million is attributable to the effect of increased business activity on selling and general expenses.

Research and development, employee profit sharing and other costs and expenses increased 33.5% to US$283 million in 2000 from US$212 million in 1999 mainly due to increased geological research activity targeting copper deposits, and to provisions for labor-related and tax contingencies, which were US$24 million higher in 2000 than in 1999.

Non-Operating Income (Expenses)

Net non-operating expenses increased to US$253 million in 2000 from US$250 million in 1999. Although the rate of devaluation of the *real* against the U.S. dollar in 2000 was lower than in 1999, thereby reducing our net foreign exchange and monetary loss (mainly on our foreign currency debt) by US$71 million, this positive impact was offset by an increase in financial expenses of US$82 million, most of which was related to increased borrowing (US$53 million) and to taxes on financial transactions (US$25 million).

Income Taxes

In 2000, we obtained approval for certain tax incentives relative to our iron ore and manganese operations in Carajás, which resulted in a tax saving of US$31 million. As a result, our income tax benefit was US$25 million in 2000 compared to an expense of US$33 million in 1999. We also continue to pay tax-deductible dividends in the form of interest on shareholders' equity, which reduced our taxes payable by US$222 million in 2000 compared to US$181 million in 1999.

Affiliates and Joint Ventures

Our equity in the results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled a gain of US$329 million in 2000 as compared to a loss of US$227 million in 1999.

In 1999, most of our affiliates and joint ventures in Brazil recorded losses due to the effects of the devaluation of the *real* on their foreign currency debt. Our affiliates in the aluminum sector were especially affected. Albras reported a loss of US$203 million, of which we recognized US$104 million through equity accounting. Alunorte reported a loss of US$137 million, of which we recognized US$89 million through equity accounting. In 2000, with a more stable exchange rate and price improvements, all our affiliates and joint ventures recorded positive results except for Centro-Atlântica and CFN, our railroad investments.

The operating results of our major affiliates and joint ventures in 2000 as compared with 1999 were influenced by the following major factors:

Albras — Albras contributed US$66 million to our net income in 2000. Aluminum sales volume increased 2.8% to 366,000 tons in 2000 from 356,000 tons in 1999 and average prices increased 16.0% to US$1,508.42 per ton in 2000 from US$1,300.35 per ton in 1999.

Alunorte — Alunorte contributed US$11 million to our net income in 2000. Alumina sales volume rose 14.8% to 1,628,000 tons in 2000 from 1,418,000 tons in 1999 and average prices increased 16.9% to US$196.63 per ton in 2000 from US$168.17 per ton in 1999.

MRN — MRN contributed US$36 million to our net income in 2000. Bauxite sales volume increased 3.3% to 11,242,000 tons in 2000 from 10,884,000 tons in 1999 and average prices increased 3.2% to US$21.18 per ton in 2000 from US$20.53 per ton in 1999.

Bahia Sul — Bahia Sul contributed US$42 million to our net income in 2000, compared to US$13 million in 1999. Pulp sales volume decreased 8.7% to 367,000 tons in 2000 from 402,000 tons in 1999 and average pulp prices increased 31.5% to US$618 per ton in 2000 from US$470 per ton in 1999. Paper sales volume decreased 2.3% to 211,000 tons in 2000 from 216,000 tons in 1999 and average paper prices increased 28.8% to US$824 per ton in 2000 from US$640 per ton in 1999. In the first half of 2001, we sold our interest in Bahia Sul for approximately US$320 million, US$2.4 million of which corresponded to unpaid dividends relating to 2000.

Cenibra — Cenibra contributed US$66 million to our net income in 2000. Pulp sales volume decreased 2.5% to 789,000 tons in 2000 from 809,000 tons in 1999 and average prices increased 38.0% to US$587.54 per ton in 2000 from US$425.79 per ton in 1999. On July 6, 2001, our former partner in Cenibra agreed to buy our stake in Cenibra for US$670.5 million. The closing of this transaction took place in September 2001.

Steel sector affiliates — Increases in volumes and prices, plus productivity gains, produced a contribution of US$59 million to our net income in 2000. Of this total, US$13 million relates to investments that we disposed of in 2000 or 2001. We are pursuing the sale of most of our remaining steel interests. In 1999, the devaluation of the *real* substantially affected the results of these affiliates, producing a contribution of only US$7 million to our consolidated earnings in that year.

Results of Operations for the Year Ended December 31, 1999 Compared to the Year Ended December 31, 1998

Revenues

Net operating revenues decreased 13.4% to US$3,076 million in 1999 from US$3,553 million in 1998, reflecting decreases in substantially all of our major products and services.

Revenues from iron ore and pellets decreased 12.2% to US$1,694 million in 1999 from US$1,930 million in 1998, representing a decrease in volume sold of 3.3% to 96.3 million tons in 1999 from 99.6 million tons in 1998 and a decrease in the average selling prices of 11.7%, partially offset by a change in the mix of the products sold. Our iron ore and pellet prices are 96% linked to the U.S. dollar.

The decrease in average selling prices was due to a less favorable scenario for steel production at the time of the 1999 price negotiations and consequent unfavorable results for iron ore producers. In terms of our two major markets, sales volume increased in Asia (including Japan) by 7.1% whereas in Europe sales volume decreased by 17.2% due to the decrease in steel production. Average selling prices in both markets fell 11% in 1999 compared to 1998.

Revenues from gold sales decreased 7.7% to US$155 million in 1999 from US$168 million in 1998, due to a decrease in quantity sold of 2.8% and a 5.1% decline in average selling prices in 1999 compared to 1998. International market prices quoted in U.S. dollars declined on average 5.4% in the period.

Revenues from other mining products (manganese, potash and ferro-alloys), decreased 12.5% to US$175 million in 1999 from US$200 million in 1998. Reductions in sales volumes and average selling prices on both manganese and potash, caused by reduction in demand and market inventory levels, as well as competition with imports in the case of potash strongly influenced these revenue decreases. Improved ferro-alloy volumes and prices partially offset these declines.

Revenues from transportation services decreased 24.3% to US$642 million in 1999 from US$848 million in 1998. The volume of general cargo handled on our transportation system (railroads, ports and ships) decreased on average 7.6% in 1999 compared to 1998, due mainly to a drop in industrial production in Brazil. Average selling prices decreased 18.1% in 1999 compared to 1998. The devaluation of the *real* significantly affected these average selling price decreases since 32% of prices in the transportation services area are not linked to the U.S. dollar. We estimate that the weakening of the *real* resulted in an overall reduction in average selling prices, when expressed in U.S. dollars, of 12%, and the remaining 6.1% substantially relates to reductions in international freight prices.

Revenues from aluminum products decreased 10.8% to US$363 million in 1999 from US$407 million in 1998. Average selling prices remained stable in 1999 as compared to 1998 and the decrease in revenues of US$44 million resulted from the cession of a portion of our take from Alunorte and Albras which would otherwise have been sold to third parties.

Revenues from other products and services increased 21.9% to US$128 million in 1999 from US$105 million in 1998 primarily because of increased sales of pulp.

Operating Costs and Expenses

Overall costs and expenses decreased 20.1% to US$2,156 million in 1999 from US$2,699 million in 1998. The most significant factor contributing to this decrease was the devaluation of the *real* beginning in mid-January 1999, because, other than for imported materials and services, we primarily incur our costs and expenses in *reais*. Local currency operating costs and expenses (when expressed in U.S. dollars) decrease when the rate of devaluation of the *real* against the U.S. dollar exceeds the rate of inflation, as occurred in 1999. The weighted average of devaluation in 1999 as compared with 1998 was 36.0% and the weighted average of inflation was 10.9% compared with the same period.

Cost of ores and metal sold decreased 26.1% to US$996 million in 1999 from US$1,348 million in 1998, since we incur 71.1% of our costs in *reais*. The level of costs in *reais* remained stable in 1999 as compared to 1998 following the major cost reduction and productivity programs implemented subsequent to our privatization.

Cost of transportation services sales decreased 16.4% to US$368 million in 1999 from US$440 million in 1998. This decrease was less than the decrease in overall cost and expenses due mainly to increased fuel costs reflecting international trends in 1999.

Cost of aluminum products sold decreased 16.5% to US$323 million in 1999 from US$387 million in 1998, primarily due to a decrease of 15.7% in quantities sold. Translation effects arising from costs denominated in *reais* caused the higher decrease in cost.

Selling, general and administrative expenses decreased 19.3% to US$138 million in 1999 from US$171 million in 1998 in line with the decrease in overall costs and expenses.

Other operating costs and expenses decreased 10.1% to US$161 million in 1999 from US$179 million in 1998, which was lower than the decrease in overall costs and expenses due primarily to additional charges in 1999 arising from ongoing reviews of estimates relative to provisions for contingencies.

Non-Operating Income (Expenses)

Net non-operating expenses in 1999 totaled US$250 million as compared to net non-operating income in 1998 of US$38 million. Non-operating expenses in 1999 included exchange losses of US$774 million on debt denominated in U.S. dollars, compared with US$188 million in 1998. The major portion of the exchange losses in 1999 does not represent a short-term cash outflow since it relates to medium and long-term debt. Exchange gains on cash equivalents denominated in U.S. dollars totaled US$285 million in 1999, compared with US$21 million in 1998.

From September 1998 through December 1999, we concentrated our short-term financial holdings in U.S. dollar-denominated instruments which resulted in a reduction of interest income as compared with the previous policy of investing in high interest bearing Brazilian instruments. This policy, however, resulted in increased exchange gains upon the devaluation of the *real* in 1999.

Income Taxes

Income tax expense decreased by US$63 million to US$33 million in 1999 from US$96 million in 1998, mainly due to the reduction in net income in 1999 as compared to 1998, and the use of tax credits. In 1999, we continued the practice of paying tax-deductible dividends to our shareholders in the form of interest on shareholders' equity, thereby reducing our effective tax rate. For more information on our income taxes, see note 3 to our consolidated financial statements.

Affiliates and Joint Ventures

Our equity in results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled a loss of US$227 million in 1999 as compared to a gain of US$101 million in 1998.

The losses recorded in 1999 relate mainly to the effects of exchange losses in Albras, Alunorte and Bahia Sul, all of whose affiliates and joint ventures have significant U.S. dollar denominated debt, as well as operating losses in the joint venture Vale Usiminas Participações S.A., or VUPSA. In 1999, Bahia Sul recorded a US$93 million tax valuation allowance reversal.

The following table provides a comparison of the pre-tax results of the major affiliates as adjusted for the effects of exchange losses.

	For the Year Ended December 31,					
	1999			1998		
	(in millions of US$)					
	Pre-tax income before exchange losses	Pre-tax loss	Exchange losses	Pre-tax income (loss) before exchange losses	Pre-tax loss	Exchange losses
Albras	US$82	US$296	US$378	US$19	US$83	US$102
Alunorte	20	193	213	18	18	36
Bahia Sul	56	71	127	(58)	92	34

The improved results of Albras reflect the increase of 6% in quantity of aluminum sold reaching 356,013 tons, of which 346,630 tons went to the foreign market.

Alunorte achieved a result in 1999 similar to that reported in 1998. Although alumina production increased by 5.8% to 1.5 million tons in 1999, a decrease in average selling prices largely offset this improvement.

The improved results of Bahia Sul reflect a 20.0% increase in sales volume to 402,000 tons of pulp and 216,000 tons of paper together with a strong increase in international prices for its products.

Production and sales of our steel affiliates in 1999 were higher than 1998 levels. However, the devaluation of the *real* substantially affected our affiliates in Brazil. Therefore, this sector contributed only US$7 million to our consolidated earnings in 1999 as compared to US$82 million in 1998.

In December 1999, we purchased the remaining 50% of VUPSA. We have consolidated VUPSA at December 31, 1999.

Liquidity and Capital Resources

Liquidity

Our principal sources of liquidity have consisted of cash generated from operations and short-term and long-term secured and unsecured borrowings. We believe these sources will continue to be adequate to meet our currently anticipated uses of funds, which include working capital, investment capital, capital expenditures, debt repayment and dividend payments.

From time to time, we review acquisition and investment opportunities and will, if a suitable opportunity arises, make an investment. We can make any future investments either directly or through subsidiaries, joint ventures or affiliated companies, and we may fund these investments through internally generated funds, the issuance of debt or equity or a combination of these methods.

As a result of our acquisitions in 2000, we generated a net decrease in cash and cash equivalents of US$242 million compared to net increases of US$264 million in 1999 and US$81 million in 1998. At September 30, 2001, we had cash and cash equivalents of US$1,708 million.

Sources of Funds

Operating activities provided net cash flows of US$1,090 million in the nine months ended September 30, 2001 compared to US$967 million in the nine months ended September 30, 2000, and net cash flows of US$1,424 million in 2000, compared to US$1,336 million in 1999 and US$1,372 million in 1998.

Financing activities (before distributions to shareholders), which include short-term and long-term secured and unsecured borrowings and debt repayments, provided net cash flows of US$161 million in the nine months ended September 30, 2001 compared to net cash flows of US$66 million in the nine months ended September 30, 2000, and provided net cash flows of US$176 million in 2000 compared to using net cash flows of US$41 million in 1999 and providing net cash flows of US$32 million in 1998. In 2000, our principal source of borrowed funds was a US$300 million asset securitization.

At September 30, 2001, our aggregate outstanding debt was US$3,092 million, consisting of short-term debt of US$1,024 million, including US$121 million in loans from joint ventures and affiliated companies in connection with our cash management system, and long-term debt (excluding current portion) of US$2,068 million, including US$4 million in loans from related parties. Our short-term debt consists primarily of U.S. dollar-denominated trade financing, documented mainly in the form of export prepayments and export sales advances with Brazilian and foreign financial institutions.

Uses of Funds

Investing activities before proceeds from total of investments, primarily including acquisitions, other capital expenditures and investments in and loans to joint ventures and affiliated companies, consumed net cash flows of US$955 million in the nine months ended September 30, 2001 compared to US$1,179 million in the nine months ended September 30, 2000, and net cash flows of US$1,533 million in 2000, compared to US$469 million in 1999.

Other significant uses of cash included:

- repayment of debt, which consumed US$353 million, US$353 million, US$444 million, US$347 million and US$326 million for the nine months ended September 30, 2001 and 2000 and for the years ended December 31, 2000, 1999 and 1998, respectively.
- payment of dividends and interest on shareholders' equity, which consumed US$639 million, US$251 million, US$246 million, US$452 million and US$607 million for the nine months ended September 30, 2001 and 2000 and for the years ended December 31, 2000, 1999 and 1998, respectively.

Debt

Our long-term debt consists principally of U.S. dollar-denominated notes and borrowings. At September 30, 2001, approximately US$495 million of our debt was secured by liens on some of our assets.

All of our currently outstanding long-term debt is likely to mature by 2011 in accordance with the schedule below:

Through September 30,	(in millions of US$) (1)
2002	US$ 55
2003	642
2004	713
2005	192
2006	129
2007 and thereafter	277
No due date (perpetual notes)	56
Total	US$2,064

(1) Excludes US$4 million in loans from related parties.

We often use joint venture and affiliated company ownership structures with domestic and foreign partners to finance our large-scale projects. On occasion, we provide guarantees to support the debt of these joint ventures and affiliated companies. At September 30, 2001, we had extended guarantees for borrowings of joint ventures and affiliated companies in an aggregate amount of US$843 million, of which US$645 million was denominated in U.S. dollars and the remaining US$198 million was denominated in Brazilian currency. These guarantees do not appear in the table above.

At September 30, 2001, US$308 million of our total long-term debt was guaranteed by non-CVRD Group entities pursuant to a transaction which arose out of our privatization.

We use derivative instruments to manage our exposure to interest rate fluctuations. For a detailed description on these derivative instruments, see "— Market Risk." Giving effect to these instruments, at September 30, 2001, our weighted average effective interest rate on long-term debt was 7.43%.

Some of our long-term debt instruments contain restrictive financial covenants. We believe that we will be able to operate within the terms of these financial covenants for the foreseeable future. None of these covenants restrains our ability to pay dividends on equity securities at the parent company level.

We intend to raise approximately $300 million in debt during 2002, with an expected maturity in 2007. We will use the proceeds for general corporate purposes.

Capital Expenditures

The table below sets forth our capital expenditures by business area for the periods indicated. Our capital expenditures have historically been more intensive in the second half of the year.

Business Area	For the Year Ended December 31, 1998	1999	2000	For the Nine Months Ended September 30, 2000	2001
	(in millions of US$)				
Ferrous	US$346	US$183	US$354	US$157	US$310
Non-ferrous	32	56	50	29	36
Logistics	1	4	14	12	17
Energy	20	18	19	11	72
Corporate center	13	4	10	5	9
Total	US$412	US$265	US$447	US$214	US$444

For the nine months ended September 2001, capital expenditures for the maintenance of ferrous products were US$129 million. At September 2001, capital expenditures relating to ferrous product projects were US$139 million. This was due to the investment in the construction of the São Luís pelletizing plant (US$66 million), the infrastructure for the São Luís pelletizing plant (US$40 million), the acquisition of locomotives and wagons (US$21 million), and the construction of a new stockyard and pier at the Ponta da Madeira marine terminal (US$5 million).

For the nine months ended September 2001, capital expenditures for the maintenance of non-ferrous products were US$21 million, and capital expenditures for non-ferrous projects were US$3 million due to the increase in the capacity of potash production.

For the nine months ended September 2001, capital expenditures for the maintenance of logistics was US$5 million, and capital expenditures for logistics projects were US$14 million. The main projects were the enlargement of the Praia Mole marine terminal (US$2 million) and the acquisition of locomotives and wagons (US$8 million).

For the nine months ended September 2001, capital expenditures for energy were US$72 million due to investments in the construction of hydroelectric power plants. Our actual expenditures for that period exceeded our budgeted capital expenditure for energy by US$5 million, which were financed with operating cash flow.

The table below sets forth our capital expenditures budget for 2001.

By Business Area	Budgeted Expenditures for 2001	
	(in millions of US$ except percentage amounts)	
Ferrous	US$514	71.7%
Non-ferrous	55	7.7
Logistics	58	8.1
Energy	67	9.3
Corporate center	23	3.2
Total	US$717	100%

Structural changes in the production of iron ore and steel have been generating a growing global demand for pellets and smoothing the volatility of the pellet market. See "Business — Our Strengths — Well-Positioned to Meet Demand in a Changing Steel Industry." In the belief that this trend will continue over the next few years, we have been investing heavily in our pellet operations. At September 30, 2001, we had invested US$66 million in the São Luís pelletizing plant construction project. Completion is expected in the first quarter of 2002. The plant is designed to have an annual production capacity of 6 million tons. We estimate the total investment cost for the São Luís plant at US$181 million, the equivalent of US$39 per annual ton of pellet production capacity.

Similarly, we and our partners in the Tubarão pelletizing complex have approved a capacity expansion from a current 25 million tons to 28.2 million tons of pellets per year. Completion is scheduled for 2003. The total cost is estimated at US$81 million, or US$25.3 per ton, which is lower than the figure for the São Luís plant. Our expenditure on this project for the first nine months of 2001 was US$1 million.

The demand pressures and low investment in power generation over the last decade indicate a trend of rising electricity prices in Brazil. Investment in energy is therefore expected to become a powerful tool in controlling and reducing costs. This amount will be absorbed by the ongoing hydro-electric projects at Aimorés, Porto Estrela, Candonga and Funil.

Most of the capital expenditures budget relating to replacement and improvement is expected to be allocated toward the Southern System, to be spent mainly on modernization and increasing the capacity of the mines and the Vitória Minas railroad. We will modernize control and maintenance systems for the railroad and will replace a number of processing systems in the mines.

Research and Development, Patents and Licenses, Etc.

Our mineral exploration activities are currently focused on identifying copper and gold deposits for future exploitation. We incurred geological exploration expenses of US$31 million in the nine months ended September 30, 2001 compared to US$34 million in the nine months ended September 30, 2000, and US$48 million, US$27 million and US$48 million in 2000, 1999 and 1998, respectively.

Market Risk

The principal market risks we face are interest rate risk, exchange rate risk and commodity price risk. We manage some of these risks through the use of derivative instruments. Our policy has been to settle all contracts in cash, without physical delivery of product.

Our risk management activities follow policies and guidelines that our board of directors reviewed and approved. These policies and guidelines generally prohibit speculative trading and short selling and require diversification of transactions and counter-parties. We monitor and evaluate our overall position daily in order to evaluate financial results and impact on our cash flow. We also periodically review the credit limits and creditworthiness of our hedging counter-parties. We report the results of our hedging activities to senior management on a monthly basis.

Interest Rate and Exchange Rate Risk

The table below sets forth our floating and fixed rate long-term debt, categorized by local and foreign currency, and as a percentage of our total long-term debt portfolio at the dates indicated including loans from both related and unrelated parties, as reflected in our consolidated financial statements.

	At December 31,				At September 30,	
	1999		2000		2001	
	(in millions of US$, except percentages)					
Floating rate debt						
Real-denominated	US$ 165	12.8%	US$ 137	7.0%	US$ 12	0.7%
Foreign currency denominated	537	41.6	1,045	53.1	1,072	52.8
Fixed rate debt						
Real-denominated			—	—	116	5.7%
Foreign currency denominated	588	45.6	785	39.9	830	40.8
Total	US$1,290	100%	US$1,967	100%	US$2,030	100%

The table below provides information about our debt obligations at December 31, 2000, which are sensitive to changes in interest rates and exchange rates. The table presents the principal cash flows and related weighted-average interest rates of these obligations by expected maturity date. Weighted-average variable interest rates are based on the applicable reference rate (LIBOR or TJLP) at December 31, 2000. The debt obligations' actual cash flows are denominated in U.S. dollars or Brazilian *reais,* as indicated.

		For the Year Ended December 31,							Fair Value Cash Flow at September 30, 2001	Fair Value Accounting at September 30, 2001
		2002	2003	2004	2005	2006	2007 to 2012	Total	(1)	(2)
		(in thousands of U.S. dollars)								
U.S. dollar-denominated										
Fixed rate										
Bonds	9.375%	US$ 0	US$201	US$ 0	US$ 0	US$ 0	US$ 0	US$ 201	US$ 201	US$ 201
Bonds	10.000%	0	0	301	0	0	0	301	301	301
Loans	up to 7.000%	0	0	1	2	1	1	5	5	4
Loans	over 7.000%	15	26	44	63	64	132	321	321	323
		US$15	US$227	US$346	US$ 66	US$ 41	US$133	US$ 828	US$ 828	US$ 829
Floating rate										
Loans	up to 7.000%	45	375	281	111	60	191	1,065	1,065	1,017
Loans	over 7.000%	0	16	10	11	10	17	64	64	55
		45	394	290	122	70	208	1,129	1,129	1,072
		US$60	US$621	US$636	US$187	US$188	US$341	US$1,957	US$1,957	US$1,901
Real-denominated										
Fixed rate										
Loans	up to 7.000%	US$15	US$ 13	US$ 12	US$ 16	US$ 15	US$ 3	US$ 74	US$ 74	US$ 75
Loans	over 7.000%	5	18	15	7	2	0	47	47	41
		US$20	US$ 31	US$ 27	US$ 23	US$ 17	US$ 3	US$ 121	US$ 121	US$ 116
Floating rate										
Loans	over 7.000%	0	1	11	0	0	0	12	12	12
		—	1	11	—	—	—	12	12	12
		US$20	US$ 32	US$ 38	US$ 23	US$ 17	US$ 3	US$ 133	US$ 133	US$ 128
Total		US$80	US$653	US$674	US$209	US$128	US$344	US$2,090	US$2,090	US$2,029

(1) Includes future payments of interest.

(2) Based on the values recorded in our consolidated financial statements, which include prorated interest up to September 30, 2001.

Interest Rate Risk

We are exposed to interest rate risk in our floating-rate debt. Our long-term floating-rate debt consists principally of U.S. dollar denominated notes and borrowings which we have incurred primarily in connection with capital expenditures, and investments in and loans to joint ventures and affiliated companies. Our short-term floating-rate debt consists principally of U.S. dollar denominated trade financing. In general, our foreign currency floating rate debt is principally subject to changes in the London Interbank Offered Rate, or LIBOR. Our floating rate debt denominated in *reais* is principally subject to changes in the TJLP (Long Term Interest Rate), as fixed by the Central Bank.

Our interest rate derivatives portfolio generally consists of option trades which aim to cap our exposure to interest rate fluctuations. A cap is the maximum rate we will be required to pay on the notional amount of the debt. Conversely, a floor is the minimum rate we will be required to pay on the

notional amount of the debt. Certain caps are subject to knock-out provisions which, if triggered, eliminate the protection provided by the cap.

The table below sets forth certain information with respect to our interest rate derivatives portfolio at September 30, 2001 and 2000:

	At September 30, 2001			At September 30, 2000			
Type	Notional Value	Rate Range	Unrealized gain (loss)	Notional value	Rate Range	Unrealized gain (loss)	Final maturity
			(in millions of US$, except rate ranges)				
Cap	US$1,375	5-8%	US$ 1.80	US$1,200	5-8%	US$7.26	11/2006
Floor	1,000	5-6.5	(31)	850	5-6.5%	(3)	11/2006
Swap	125	5.5-7.5	12	—	—	—	10/2007
			US$(41.29)			US$3.83	

The table below sets forth certain information with respect to our interest rate derivatives portfolio at December 31, 2000 and 1999.

	At December 31, 2000			At December 31, 1999			
Type	Notional Value	Rate Range	Unrealized gain (loss)	Notional value	Rate Range	Unrealized gain (loss)	Final maturity
			(in millions of US$, except rate ranges)				
Cap	US$1,200	5-8%	US$ 3	US$1,200	5-8%	US$10	12/2004
Floor	850	5-6.5	(7)	850	5-6.5%	(4)	12/2004
Swap	125	5.5-7.5	(4)	—	—	—	10/2007
			US$(8)			US$ 6	

The unrealized losses and gains represent the amounts payable or receivable if the transactions had been settled on the dates indicated.

Exchange Rate Risk

Our long-term debt is primarily denominated in foreign currencies, principally the U.S. dollar. Because our revenues are primarily dollar-denominated, we do not believe that the high incidence of dollar-denominated debt in our long-term debt portfolio exposes us to an undue amount of exchange rate risk.

However, a portion of our indebtedness is also denominated in euros and in Japanese yen, and we use derivatives instruments to protect ourselves against specific risks associated with exchange rate movements in these foreign currencies.

The table below sets forth certain information with respect to our exchange rate derivatives portfolio at September 30, 2001 and 2000:

	At September 30, 2001			At September 30, 2000			
Type	Notional Value	Price Range	Unrealized gain (loss)	Notional value	Price Range	Unrealized gain (loss)	Final maturity
			(in millions of US$, except rate ranges)				
Yen Purchased	US$31.44	¥70-110 per US$	US$(0.88)	US$17.37	¥70-110 per US$	US$ 0.2	4/2005
Euro Purchased	12.35	€1.10-1.30 per	(3.34)	13.29	€1.10-1.30	(2.70)	4/2005
Euro Sold	4.07	€0.90-1.2 per US$	0.83	—	—	—	10/2001
BRL Sold			0	120.00		1.01	11/2000
			US$(3.19)			US$(1.52)	

The table below sets forth certain information with respect to our exchange rate derivatives portfolio at December 31, 2000 and 1999. These derivatives are structured forwards that we have purchased, which will require us to purchase foreign currencies as specified below:

	At December 31, 2000			At December 31, 1999			
Type	Notional Value	Price Range	Unrealized gain (loss)	Notional value	Price Range	Unrealized gain (loss)	Final maturity
			(in millions of US$, except price ranges)				
Yen	US$15	¥90-100 per US$	US$(2)	US$8	¥90-100 per US$	US$0.6	4/2005
Euro	12	US$0.9-1.2 per €	(2)	13.3	US$0.9-1.2 per €	US$(1.1)	4/2005
			US$(4)			US$(0.5)	

The unrealized losses and gains represent the amounts payable or receivable if the transactions had been settled on the dates indicated.

Commodity Price Risk

We are also exposed to various market risks relating to the volatility of world market prices for:

- iron ore, which represented 53.5% of our 2000 consolidated revenues,
- aluminum, which represented 8.9% of our 2000 consolidated revenues, and
- gold, which represented 3.8% of our 2000 consolidated revenues.

We do not enter into derivatives transactions to hedge our iron ore exposure. For information on how our iron ore export sales are priced, see "Management's Discussion and Analysis of Financial Condition and Results of Operation — Overview — Prices."

To manage the risk associated with fluctuations in aluminum prices, our affiliates Albras and Alunorte engage in hedging transactions involving put and call options, as well as forward contracts. These derivative instruments allow Albras and Alunorte to establish minimum average profits for their future aluminum production in excess of their expected production costs and therefore ensure stable cash generation. However, they also have the effect of reducing potential gains from price increases in the spot market for aluminum.

We have a 51% voting capital interest and a 51% total capital interest in Albras. The table below sets forth certain information with respect to Albras's derivatives portfolio at September 30, 2001 and 2000:

	At September 30, 2001			At September 30, 2000			
Type	Notional Value	Price Range	Unrealized gain (loss)	Notional value	Price Range	Unrealized gain (loss)	Final maturity
	(tons of aluminum)	(US$ per ton)	(in millions of US$)	(tons of aluminum)	(US$ per ton)	(in millions of US$)	
Puts purchased	67,500	1,400-1,600	US$10.1	45,000	1,400-1,500	US$ 2.5	12/2003
Forwards sold	54,750	1,400-1,600	9.6	39,750	1,500-1,700	(0.7)	12/2006
Calls sold	54,750	1,500-1,800	(0.3)	101,250	1,500-1,700	(7.2)	6/2004
Hybrid Instruments(1)	108,187		(1.4)	97,455		(5.4)	6/2004
			US$18.0			US$(10.8)	

(1) The payoff of these instruments depends, at least partly, on the manner in which the price of the underlying asset behaves during the life of the transaction.

The table below sets forth certain information with respect to Albras's derivatives portfolio at December 31, 2000 and 1999:

	At December 31, 2000			At December 31, 1999			
Type	Notional Value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Notional value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Final maturity
Puts purchased	42,000	1,450-1,650	US$ 2.0	39,000	1,450-1650	US$ (5.3)	12/2001
Forwards sold	85,189	1,500-1,700	(1.4)	168,000	1,500-1700	(20)	12/2006
Calls sold	105,000	1,500-1,700	(5.5)	90,000	1,500-1700	(13.8)	12/2003
			US$(4.9)			US$(39.1)	

We have a 50.3% voting capital interest and a 49.3% total capital interest in Alunorte. The table below sets forth certain information with respect to Alunorte's derivatives portfolio at September 30, 2001 and 2000:

	At September 30, 2001			At September 30, 2000			
Type	Notional Value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Notional value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Final maturity
Puts purchased	26,250	1,400-1,600	US$ 4.6	42,000	1,400-1,600	US$ 4.1	12/2002
Forwards sold	30,500	1,400-1,600	3.2	5,250	1,600-1,800	0.3	3/2003
Calls sold	38,000	1,600-1,800	(0.1)	43,500	1,600-1,800	(2.4)	12/2003
Hybrid Instruments(2)	272,000		0.5	162,000		(2.9)	12/2003
			US$ 8.2			US$ (0.9)	

(2) The payoff of these instruments depends, at least partly, on the manner in which the price of the underlying asset behaves during the life of the transaction.

The table below sets forth certain information with respect to Alunorte's derivatives portfolio at December 31, 2000 and 1999:

	At December 31, 2000			At December 31, 1999			
Type	Notional Value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Notional value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Final maturity
Puts purchased	60,000	1,450-1,650	US$ 3.8			US$ —	12/2002
Forwards sold	24,000	1,500-1,700	(0.3)	15,000	1,500-1,700	0.8	12/2002
Calls sold	163,500	1,500-1,700	(5.1)	60,000	1,500-1,700	2.9	12/2002
Collars conditional	36,000	1,450-1,550 (puts purchased) 1,550-1,750 (calls sold)	0.2				12/2003
			US$(1.4)			US$ 3.7	

To manage the risk associated with fluctuations in gold prices, we enter into derivative instruments which allow us to establish a minimum profit level for future gold production. However, they may also have the effect of eliminating potential gains on certain price increases in the spot market for gold.

The table below sets forth certain information with respect to our gold derivatives portfolio at September 30, 2001 and 2000:

	At September 30, 2001			At September 30, 2000			
Type	Notional Value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Notional value (tons of aluminum)	Price Range (US$ per ton)	Unrealized gain (loss) (in millions of US$)	Final maturity
Puts purchased	479,500	270-340	US$10.79	552,000	302-372	US$13.42	12/2005
Calls sold	545,500	305-580	(4.79)	1,224,800	305-366	(7.11)	12/2005
Hybrid Instruments(3)	25,000		0.10				12/2005
			US$ 6.10			US$ 6.31	

(3) The payoff of these instruments depends, at least partly, on the manner in which the price of the underlying asset behaves during the life of the transaction.

The table below sets forth certain information with respect to our gold derivatives portfolio at December 31, 2000.

	December 31, 2000			
Type	Quantity (oz.)	Price Range (US$ per oz.)	Unrealized gain (loss) (in millions of US$)	Final maturity
Puts purchased	479,500	300-345	US$13	12/2004
Calls sold	999,800	330-390	(5)	12/2004
Collars conditional	15,000	300-315 (puts purchased) 330-350 (calls sold)	1	11/2002
			US$ 9	

The unrealized gain in the amount of US$9 million represents the amount receivable if all transactions had been settled on December 31, 2000.

The table below sets forth certain information with respect to our gold derivatives portfolio at December 31, 1999.

	December 31, 1999		
Type	Quantity (oz.)	Unrealized gain (in millions of US$)	Final maturity
Forwards sold	20,000	US$ —	12/2000
Puts purchased	374,500	7	12/2004
Calls sold	1,446,000	(17)	12/2004
		US$(10)	

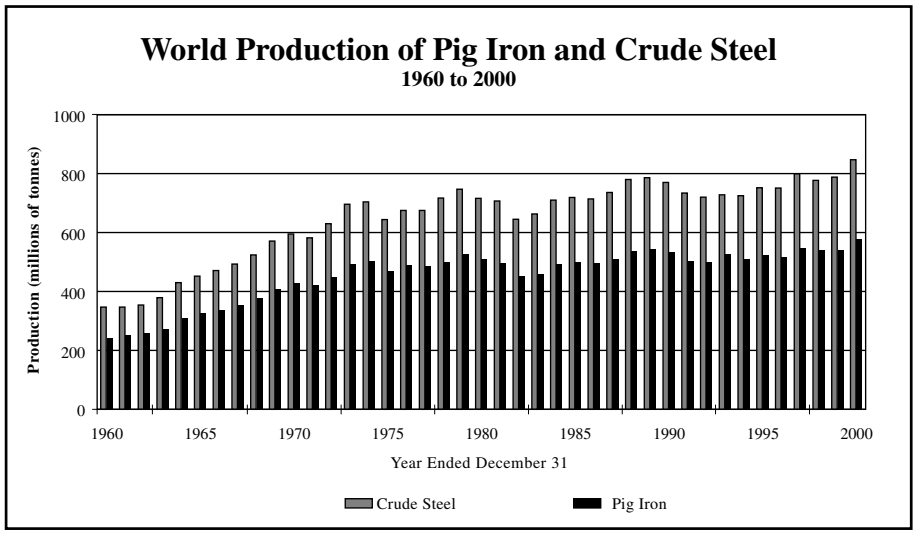
IRON INDUSTRY OVERVIEW

Iron Ore Industry

Introduction

Iron ore is the primary component of the world's production of iron and steel with essentially all iron ore produced worldwide consumed in steelmaking. Iron ore demand, and therefore pricing, depend on the global steel industry. Conditions in the steel industry generally reflect global economic conditions, but, since demand for steel is driven by basic components of industrial and economic growth (e.g., heavy construction and automotive industries), from time to time regional differences exist in steel and, therefore, in iron ore demand.

Since 1960, world pig iron production has grown at an average rate of 2.2% per year to 576 million tonnes in 2000. Pig iron is a high carbon primary iron made by smelting iron ore in blast furnaces using carbonaceous materials. Production and growth trends in pig iron are representative of trends in iron ore. This growth is consistent with the growth in global steel production over the same period, with both largely influenced by economic development in the East Asia and Southeast Asian regions. Iron ore production is expected to grow at an average rate of 1.2% per year over the next five years according to Grant Samuel Independent Valuation of North Limited.



Source: Australian Bureau of Agricultural and Resource Economics — ABARE.

Worldwide, iron ore is mined in about 50 countries, with the seven largest of these producing countries — Brazil, Australia, former USSR republics, China, India, the United States and South Africa — accounting for approximately three-quarters of total world production.

While most of the seven major iron ore production countries are also major steel producers, nearly half of estimated world iron ore production in 2000 (between 490 million and 495 million tonnes) changed hands via seaborne export-import trade. Brazil and Australia together dominate the world's seaborne trade in iron ore exports, with a 39% and 33% share of seaborne tonnage, respectively, according to ABN AMRO research.

The following table presents iron ore production for 1985, 1990 and the 1998-2000 period in millions of tonnes by the seven largest producers worldwide, and the percentage change for the 1999-2000 and 1990-2000 periods.

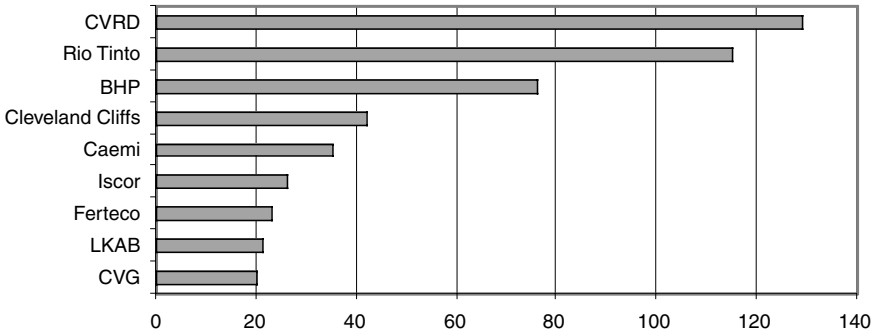
World Iron Production by Country

	2000	1999	1998	1990	1985	2000/99	2000/90
	(in millions of tonnes)					(in percentages)	
Country							
Brazil	200.4	188.7	183.1	152.3	128.2	6.2%	31.6%
Australia	171.3	153.0	163.3	113.5	96.2	12.0	50.9
Former Soviet Union	157.0	138.1	132.1	236.2	247.6	13.7	(33.5)
China	99.9	92.2	97.1	80.0	62.1	8.4	24.9
India	75.4	70.2	71.7	53.7	44.2	7.4	40.4
USA	63.0	57.8	62.9	56.4	49.5	9.0	11.7
Canada	35.9	34.0	38.7	36.7	40.4	5.6	(2.2)
Others	134.4	124.7	131.2	156.2	172.0	7.8	(14.0)
World	937.3	858.7	880.1	885.0	840.2	9.2%	5.9%
As a percentage of world production:							
Top two	39.7%	39.8%	39.4%	30.0%	26.7%		
Top four	67.1	66.6	65.4	65.8	63.6		

Source: Iron Ore Manual, 2001-2002.

Globally, the iron ore industry is currently undergoing a period of consolidation, reflecting a tendency by iron ore producers toward economies of scale to accelerate efficiency improvements and improve earnings. Following the latest round of consolidation in 2000 and 2001, the three primary companies in the global iron ore industry are CVRD, Rio Tinto and BHP. During this period, CVRD's acquisitions of Socoimex, Samitri, Ferteco and Caemi have sustained its leading position in the iron ore market place, even as Rio Tinto's acquisition of North Limited in 2000 moved Rio Tinto ahead of BHP into second place in terms of annual production. Global producer rankings are presented in the following chart:

Managed Iron Ore Production by Company (2000)



Production (millions of tonnes)

Source: Iron Ore 2002, AME Mineral Economics.

Notes:

- CVRD includes = CVRD + Samitri + Socoimex + GIIC (100%) + Samarco (100%)
- BHP = BHP + Samarco (100%)
- CAEMI = MBR + QCM
- RIO TINTO = Hameraley − Robe River + IOC + Corumbense

Iron Ore Markets

Geographically, the primary iron ore import markets can be broadly divided into three regions: Asia, Europe and North America. The competition among producers and exporters to supply steel mill customers in these regions is primarily dictated by freight costs. A secondary competitive factor is the demand for particular iron ore products, which also tends to vary along regional lines. For example, steel mills in North America generally are configured to process predominantly iron pellets, while blast furnace steel makers in Asia are configured to process predominantly sinter fines and lump ore. However, the ability to provide iron ore products tailored to individual customers' specifications, such as high-grade, low-impurity blending ores, pellets, etc., and/or the metallurgical properties of particular ores permit producers to increase their presence in more distant markets.

The following table illustrates the distribution of world import demand for 1985, 1990 and the 1998-2000 period in millions of tonnes for the seven largest importers of iron ore worldwide, and the percentage change for the 1999-2000 and 1990-2000 periods.

World Imports by Country

	2000	1999	1998	1990	1985	2000/99	2000/90
	(in millions of tonnes)					(in percentages)	
Country							
Japan	131.7	120.1	120.8	125.3	124.5	9.7%	5.1%
China	70.0	55.3	51.8	14.3	10.0	26.6	389.5
Germany	47.6	39.2	46.8	43.7	45.1	21.4	8.9
South Korea	39.0	35.5	33.6	22.6	13.2	9.9	72.6
France	19.7	20.2	19.8	18.8	16.2	(2.5)	4.8
Italy	17.6	15.6	15.7	17.2	—	12.8	2.3
United Kingdom	16.7	17.0	20.8	17.6	15.4	(1.8)	(5.1)
Others	142.7	130.6	142.5	140.6	—	9.3	1.5
World	485.0	433.5	451.8	400.1	377.5	11.9%	21.2%
As a percentage of world imports:							
Top two	41.6%	40.5%	38.2%	34.9%	35.6%		
Top four	59.4	57.7	56.0	51.5	51.1		

Source: Iron Ore Manual, 2001-2002.

Steel Industry

Demand for iron ore is dictated by the global steel industry, which consumes substantially all (98%) of the iron ore produced worldwide. Demand for crude steel is correlated primarily to the automotive and construction industries, both of which are affected by the general state of the world economy. Therefore, demand for iron ore depends ultimately on global economic conditions.

The steel industry worldwide produced over 800 million tonnes of crude steel in 2000. The largest producing countries are China, Japan and the United States, each of which produces approximately 100 million tonnes annually. Germany and Korea follow, each of which produces approximately 40-50 million tonnes annually.

World crude steel production has grown by an average of 2.3% per year since 1960. Over the next five years, global production is forecasted to grow at a rate of 1.6% per year. Regional growth rates are expected to vary in line with regional economic growth. Steel consumption in North America is expected to grow at about 0.5% per year while developing countries are expected to achieve growth in excess of 2% per year, according to Grant Samuel Independent Valuation of North Limited. In particular, steel

consumption in Asia is expected to grow at a higher rate as a result of high rates of investment in industry, transportation, infrastructure, construction and an overall improvement in standards of living.

Steel Manufacturing Processes

There are two basic manufacturing processes that account for the vast majority of modern steelmaking:

Integrated Process — The integrated process is the blast furnace/basic oxygen furnace process, which currently accounts for approximately 60% of world steel production. Lump ore and processed fines are fed directly into a coke-fired blast furnace, together with coke and limestone, to produce pig iron. Pig iron, together with some scrap steel, is then integrated with oxygen in a basic oxygen furnace to produce crude steel.

EAF Process — According to the Institute for Steel and Iron, the electric arc furnace, or EAF process, currently accounts for approximately 34% of world steel production. Scrap steel is melted in an electric arc furnace and then alloyed in a ladle furnace to produce crude steel. EAF and "mini-mills" (steel making plants that consume primarily scrap metal and use single-stage, continuous casting technology to produce end-user ready steel products) have gained popularity over the last decade as a result of their lower capital cost and reduced environmental impact.

According to CRU International the proportion of world steel production using the EAF process is expected to grow from 34% to 40% over the next few years, increasing demand for direct reduced iron, or DRI, a clean iron feed material produced by a high-temperature, solid-state process that removes oxygen from iron ore. High-quality, low-impurity iron ore can be processed to produce DRI, which can, in turn, be further treated to make hot briquetted iron, or HBI, essentially DRI compacted at high temperature into briquettes. Each of these higher value-added, intermediate iron products benefits from significantly lower transportation and re-handling costs per delivered tonne of iron content compared to unprocessed iron ore. DRI and HBI are mainly used to supplement steel scrap in electric arc furnaces where low levels of metallic impurities are required. The increasing demand for DRI is expected to result in greater demand for direct reduction grade pellets. However, the blast furnace segment of the market currently remains the most important consumer of iron ore products.

Iron Ore Products

Demand for pellet feed is steadily increasing, due to a combination of customer specification and environmental preference for the pelletizing process versus the sintering process. Sinter feed products have become less desirable due to the amount of greenhouse gases emitted during the sintering process. Demand for pellet feed is correlated to pellet demand. According to our estimates, demand for pellets in the seaborne market has increased by 59% from 1990 to 2000 and 28% from 1995 to 2000.

In addition, significant worldwide reserves of iron ore fines suitable for pelletizing exist, which provide producers with the ability to convert an increasing volume of production into pellets. As a result, global trade in pellets is expected to grow at a rate higher than that of other iron ore products. The principal constraint on growth of the pellet market is the installed base of world pellet production capacity, which is currently approximately 319 million tonnes per year, according to the U.S. Geological Survey Minerals Yearbook for 1999.

Iron Ore Prices

The majority of the international iron ore trade is conducted pursuant to frame-type contract arrangements, in which annual tonnages are specified for the term of the contract, but prices are negotiated annually. Contract prices for iron ore are influenced by a range of factors, including iron content of specific ore deposits, the various beneficiation processes required to produce the desired final product, particle size, moisture content, type and concentration of contaminants in the ore, and other metallurgical properties. Contract prices also depend on the geographic location of the relevant ore deposit. Fines, lump

ore and pellets each typically command different prices. Iron ore prices are specified in U.S. dollars per metallic unit in dry metric tonnes (tonnes) or dry long tonnes. The base price quoted for a particular tonne of ore depends principally on its iron content (grade) and moisture content.

Lump ore has historically traded at a higher price than that of sinter fines, reflecting its use as a direct feed to blast furnaces. Iron concentrates typically trade at a level similar to that of sinter fines. Pellets trade at a significant premium to that of both lump ore and sinter fines.

Iron ore price negotiations for 2001 were settled at higher prices than those of the previous year. The table below sets forth the percentage change in the prices of our non-ore products sold to Europe and Japan over the 2000-2001 period.

Percentage Change in Iron Ore Prices for 2000-2001

	Europe(1)	Japan(2)
	(in percentages)	
Fines:		
Southern System Standard Sinter Feed	4.52%	4.30%
Carajás Sinter Feed	4.31	4.21
Lumps:		
New Tubarão A	—	3.23
Special Lump Rio Doce	—	3.23
Pellets:		
Blast Furnace Pellets	1.75	—

Source: CVRD.

(1) Percentage change of prices for Europe is based on prices valid on a calendar year basis (January to December 2001). The prices were based on the U.S. dollar price per dry metric tonne.

(2) Percentage change of prices for Japan is based on prices valid on a fiscal year basis (April 2001 to March 2002). The prices were based on the U.S. dollar price per dry long tonne.

Copper Industry

Refined copper is a primary material used in a range of industries, including automotive and other durable consumer goods (e.g., fine wire, magnet wire and certain specialty brass mill products), as well as construction (e.g., tubing), electrical products and transmission (e.g., wire), and general industrial (e.g., wire rod and other milled brass). Copper demand is cyclical, generally varying in line with changes in global and regional economic conditions. The industrial sectors consuming copper, however, can follow divergent cycles in some regions during certain periods, including where demand for consumer durables slows but basic infrastructure construction, such as electricity transmission, is ongoing. Copper products are priced by reference to benchmark spot and futures prices on the London Metals Exchange, or LME (or other major commodities exchanges). Spot and future prices in turn are influenced by both the general level and trend of end-user demand and the level of LME or other exchange physical inventories of refined copper metal.

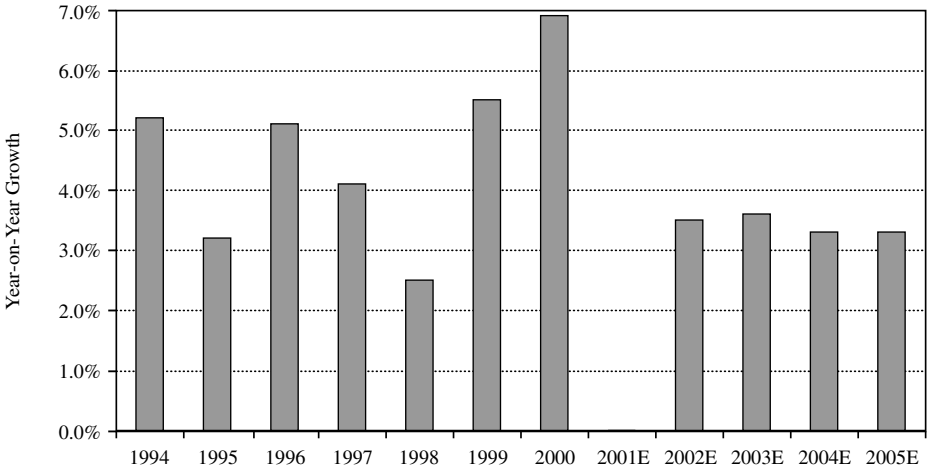
The international trade in copper involves products in various stages of refinement:

- *Copper concentrates* — An intermediate mine product, where ore mined is processed to create a bulk concentrate with copper content (grade) typically ranging between 30% and 35% by volume; sold to smelters which further process and refine the material into blister or cathode;
- *Blister/anode copper* — Depending upon the smelter technology employed, blister or anode copper may be the final smelter product, requiring an additional stage of refining to produce copper cathode; and

- *Copper cathode* — Cathode is copper metal refined to 99.9% purity, the copper product quoted by the LME and other major commodities exchanges generally acceptable to manufacturers; it is sold directly to mills or foundries or delivered to the warehouses of the LME or other major commodities exchanges.

While the growth in worldwide demand for copper has varied in recent years, ranging between 2.5% and 6.4% in the period from 1997 through 2000, the long-term world demand growth trend has ranged from 2.5% to 3.5% per year.

World Copper Consumption Growth Rates
(1994 to 2005E)



Source: CRU International Ltd. — July 2001.

The current economic slowdown in the U.S., Europe and, to a lesser extent, Asia, was expected to result in effectively zero copper demand positive growth for 2001, with a return to a positive growth trend in the 2003-2005 period, according to CRU in July 2001.

The supply side of the copper market is affected by developments in two segments of the supply chain. First, mine production tends to be added in significant increments as a result of the scale required to generate economic returns on the large capital investment required by new mine construction or the expansion of existing mines. Moreover, cyclical highs in the copper price, such as those in the late 1980s and early 1990s, tend to lead to new mine developments. In addition to conventional concentrate-producing mines, the advent of copper leaching — SX/EW technology, where copper is leached from ore using solvents and then electrolytically recovered from the resulting solution as cathode, bypassing the concentrate stage, has rendered the exploitation of lower grade orebodies economic, adding to the volume of copper mine production brought to market. These two developments converged during the 1995-2000 period, when the annual rate of mine production grew by more than three million tonnes of contained copper according to the International Copper Study Group of the American Bureau of Metals Statistics. Low levels of growth in mine production were expected in 2001, substantially all coming from leaching — SX/EW operations, while smelter capacity expands by more than 6.0%, to continue catching up with the new mine developments and expansions of the 1990s.

Thereafter, during the 2001 through 2005 period, mine production and smelter capacity are expected to continue to seek equilibrium as the most recent mine capacity additions work their way into the market. In 2001, refined production was projected to grow by 4.6%, and thereafter grow by an average of 3.2% annually through 2005, roughly in line with the trend growth rate of world copper consumption according to CRU in July 2001.

Copper Prices

Most international trade in copper concentrates occurs under long-term contracts, with annual tonnages specified for the term of the contract, but price and treatment and refining charges, or TC/RCs, determined annually by quoted benchmark prices such as the LME spot or forward price.

The miner typically sells copper concentrates FOB "net smelter return" and the title passes to the smelter. Some concentrates, however, are smelted and refined on a "tolling" basis, where title remains with the miner; the smelter receives only the TC/RC and some metal deduction as compensation for processing the miner's concentrates.

Blister or anode copper is sold to or toll-refined by refiners on behalf of the blister or anode producer, with prices and refining charges set by prevailing copper prices. Market prices for refined copper are set by the bid and ask for metal of certain specification (e.g., LME Grade A copper) on major commodities exchanges.

Producers of finished metal sell their product either through direct transactions with consumers (e.g., rod, wire or brass mills) or on the open market through the LME.

Copper Price History
January 6, 1995 to January 25, 2002 (weekly)

Source: LME spot prices.

Since 1995, copper prices have generally had a downward trend, from highs in the range of US$1.35/lb to the current price level, which is at or below US$0.70/lb. This trend reflects both the bulge in new mine supply developed in the 1990s and the demand interruptions caused by the Asian and Russian economic crises of the late 1990s.

The long term supply/demand balance outlook, with deficits in 2002-2003 followed by long-term demand growth outstripping supply, is expected by most analysts to stimulate a recovery in copper prices in 2002-2003, and result in long-term copper prices in the range of US$0.90/lb to US$1.00/lb.

Aluminum Industry

Refined aluminum is a primary material used in a range of industries, including containers and packaging, transportation (e.g., aircraft, railroad cars, automobiles), building and construction, and

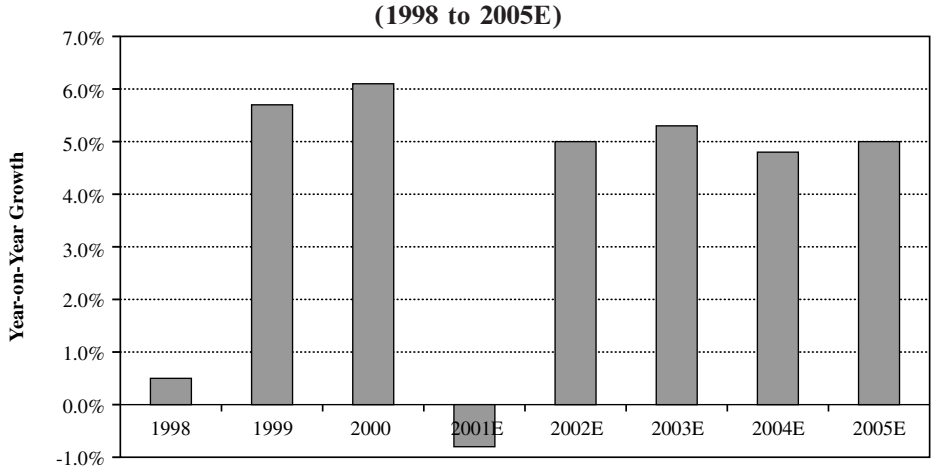
electrical equipment that make use of aluminum's light weight, high strength-to-weight ratio and/or high conductivity (e.g., long-distance power transmission). In addition, a wide variety of coating alloys and wrought alloys are produced to improve the structural strength of lightweight aluminum and/or take advantage of its corrosion-resistant properties. Aluminum demand is cyclical, generally varying in line with global and regional economic conditions. The industrial and consumer products sectors which consume aluminum, however, can follow divergent cycles in given regions during certain periods, for example, where demand for consumer goods lags behind other segments of the economy. The amenability of aluminum to recycling has enabled primary producers to incorporate scrap as an important element of their feed stock chain, substantially reducing their overall cost of producing refined aluminum. Aluminum produced from recycled scrap saves approximately 95% of the energy costs incurred in producing aluminum from bauxite. Aluminum products are priced by reference to benchmark spot and futures prices on the LME or other major commodities exchanges.

The international trade in aluminum principally involves products in two stages of refinement:

- *Alumina* — Bauxite ore is aluminum's principal raw material, and is refined by chemical and electrolytic processes into alumina or aluminum oxide and sold to smelters which further process and refine the material into refined aluminum metal. Most primary aluminum producers control their own reserves of bauxite and alumina refining capacity.
- *Aluminum* — Primary aluminum producers smelt and refine alumina and/or recycle scrap aluminum to 99.9% purity, the aluminum product quoted by the LME and other major commodities exchanges generally acceptable to manufacturers. Most of the major primary aluminum producers are vertically integrated and produce some range of semi-finished aluminum products for sale to industrial customers, which may include flat-rolled products (e.g., rigid container sheet and foil for packaging, sheet and plate mill products for transportation and construction), engineered products (extrusions, aluminum and alloy forgings and castings, and fasteners), or finished packaging products for sale to beverage or food manufacturers.

Annual growth in the worldwide demand for aluminum has historically varied widely from year to year. However, the compound annual growth rate (CAGR) in demand for the 15-year period ending in the year 2000 was 3.0%. During the initial five-year period (1985-1990) and the final five-year period (1995-2000), the CAGR accelerated to 3.9%. The rate slowed 1.3% in the middle five-year period (1990-1995), due to the adverse impact of the U.S. recession in early 1991 according to World Metals Statistics, WMS. Merrill Lynch Research has estimated the long-term annual rate of consumption growth to be 3.25%, resulting from increasing intensity of use in the automotive segment, as well as organic growth in world industrial output.

World Aluminum Consumption Growth Rates
(1998 to 2005E)



Source: CRU — July 2001.

World aluminum consumption was expected to have increased by 1.1% during 2001, with continued strength in China offsetting weakness in the United States, Europe, and Japan. Western world demand was expected to have decreased by as much as 1% during 2001. In the United States, the manufacturing recession has led to an inventory correction, with a similar pattern having emerged in Europe. However, a recovery is forecasted in 2002, with world growth increasing approximately 3.5%, in line with the current GDP forecast of Merrill Lynch economists.

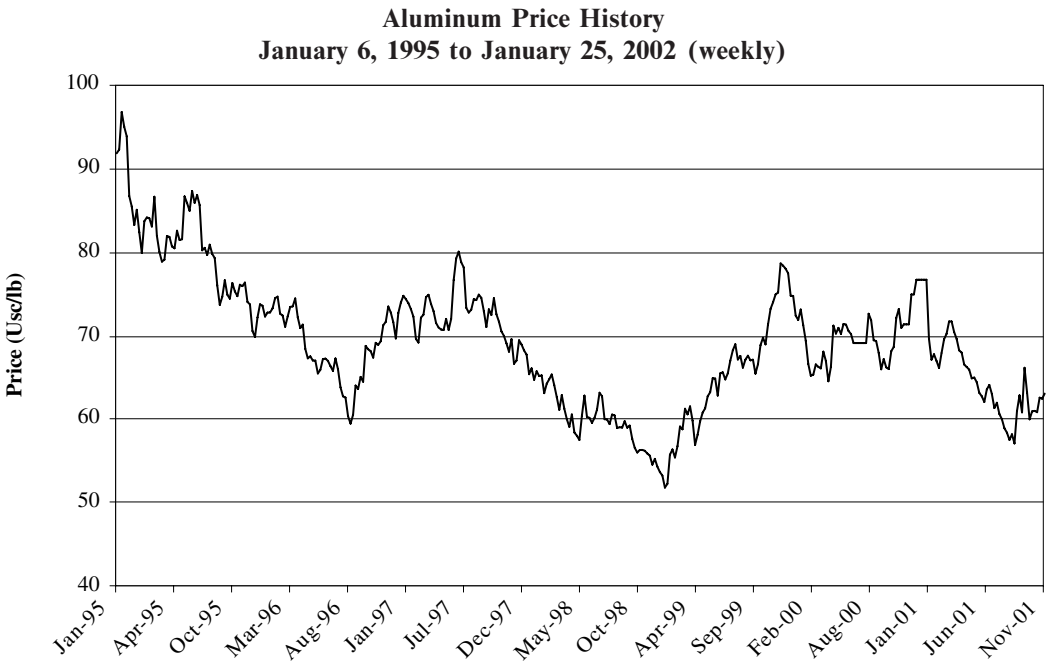
The supply of aluminum over the past ten years has adjusted to the influx of material after the fall of the Soviet Union in 1991. As a result of the ensuing period of strong economic growth, aluminum demand in the Western World has increased to where it is now dependent on Russia's imports. China has also emerged as a sizeable producer of aluminum, more than tripling its production during 2000 from a level of 850,000 mt in 1990. However, because China's consumption has more than quadrupled over the same time period, it remains a net importer of alumina and aluminum. Depending upon its short-term needs, China has entered the market as a seller, as well as buyer of these materials.

A wave of consolidation among aluminum suppliers followed the Asian economic crisis in 1998, prompted by low prices and rising inventories, with some rationalization of aluminum production. The more recent period has seen considerable supply curtailments related mainly to rising power costs and/or a lack of power availability in the United States, Pacific Northwest, Western Canada, and Brazil. Approximately 1.8 million tonnes have been curtailed (7% of world production), with continued high power prices and lower aluminum prices (US$0.62/lb as of the second quarter of 2001) providing a disincentive for any near-term restarts of significance. As of the second quarter of 2001, CRU estimated that idle world capacity totaled 2.15 million annual tonnes, with further power-related shutdowns possible elsewhere in the world (e.g., Brazil) in 2001. Over the next few years, world capacity growth and higher utilization rates are expected to increase world aluminum production to over 29 million tonnes per year by 2005 according to CRU for July 2001.

Aluminum Prices

As shown in the chart below, since 1995 the aluminum price has generally had a downward trend, from highs in the range of US$0.90/lb to the current price level, at or around US$0.55/lb. This trend reflects primarily the change in Russian production from internal consumption to export markets, with the trend exacerbated by the Asian economic crisis beginning in 1998.

Forecast supply/demand balances in 2002-2003, followed by a long-term supply picture better-managed by a consolidated primary producer industry, is expected by most analysts to stimulate a recovery in the aluminum price in 2002-2003, and result in long-term aluminum prices of greater than US$0.70/lb.



Source: LME spot prices.

BUSINESS

Overview

We are one of the world's largest producers and exporters of iron ore. We are the largest diversified mining company in the Americas by market capitalization and one of the largest companies in Brazil. We hold exploration claims that cover 7.0 million hectares (17.3 million acres). We operate two large railway systems that are integrated with our mining operations and that, taken together, transported approximately 58.5% of the rail tonnage shipped in Brazil in for the first nine months of 2001. Through joint ventures, we have major investments in the production of aluminum.

For the nine months ended September 30, 2001, we had consolidated gross operating revenues of US$3,132 million, 61.8% of which were attributable to sales of iron ore and pellets, 15.9% of which were attributable to third-party transportation, 7.2% of which were attributable to sales of aluminum sector products and 3.2% of which were attributable to sales of gold. For the nine months ended September 30, 2001, we recorded consolidated operating income of US$716 million and consolidated net income of US$597 million. Our equity in results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled a loss of US$44 million over that period.

For the year ended December 31, 2000, we had consolidated gross operating revenues of US$4,069 million, 53.5% of which were attributable to sales of iron ore and pellets, 18.7% of which were attributable to third-party transportation, 8.9% of which were attributable to sales of aluminum sector products and 3.8% of which were attributable to sales of gold. For the year ended December 31, 2000, we recorded consolidated operating income of US$944 million and consolidated net income of US$1,100 million. Our equity in results of affiliates and joint ventures and provisions for losses on equity investments in aggregate totaled US$329 million over that period.

Our main lines of business are mining, logistics and energy and are generally grouped according to the business segments below:

- *ferrous minerals*: comprised of iron ore, pellets as well as manganese and ferro alloys businesses,
- *non-ferrous minerals*: comprised of gold, kaolin, potash and copper businesses,
- *logistics*: comprised of railroads, ports and terminals and shipping businesses,
- *energy*: comprised of power generation businesses, and
- *holdings*: comprised of aluminum, steel, fertilizers and e-commerce businesses.

Mining. Our primary mining activities involve iron ore. We operate two world-class integrated systems in Brazil for producing and distributing iron ore, each consisting of mines, railroads and port and terminal facilities. The Southern System, based in the states of Minas Gerais and Espírito Santo, contains aggregate estimated proven and probable iron ore reserves of approximately 2.3 billion tons. The Northern System, based in the states of Pará and Maranhão, contains aggregate estimated proven and probable iron ore reserves of approximately 1.2 billion tons. We also operate nine pellet producing facilities, six of which are joint ventures with international partners. We have a 50% stake in Samarco Mineração S.A., in Ponta do Ubu, which owns and operates two pelletizing plants.

Exploration Assets. As part of our mineral prospecting and development activities in Brazil, we have acquired extensive experience in exploration techniques and processes specifically designed for use in tropical areas of the world. Our current mineral exploration efforts are mainly in Brazil and focus on copper, gold, nickel, manganese, and kaolin. Expenditures for our mineral exploration program were US$31 million in the first nine months of 2001 and US$34 million in the first nine months of 2000. We currently hold claims to explore approximately 7.0 million hectares (17.3 million acres).

Logistics. In our logistics business, we provide our clients with various forms of transportation and related support services, such as warehouse, port and terminal services. We are a leading competitor in the Brazilian transportation industry. Each of our iron ore complexes incorporates an integrated railroad

network linked to automated port and terminal facilities, and is designed to provide iron ore, freight and passenger rail transportation, bulk terminal storage and ship loading services to us and third parties. For the nine months ended September 30, 2001, our railroads transported approximately 58.5% of the total freight tonnage transported by Brazilian railroads, or approximately 125.9 million tons of cargo, of which 100.4 million tons were our iron ore and pellets. Of the total amount transported, 48% was for third parties and 52% was for ourselves. Our two wholly-owned railroads, the Vitória-Minas railroad and the Carajás railroad, serve primarily to transport our iron ore products from interior mines to coastal port and terminal facilities. In addition, the Vitória-Minas railroad carries significant amounts of third party cargo as well as passengers.

Energy. In 2001, energy became one of our core businesses. We currently hold stakes in nine hydroelectric power plants (Igarapava, Porto Estrela, Funil, Candonga, Aimorés, Capim Branco I, Capim Branco II, Fóz do Chapecó and Santa Isabel) which have a total installed capacity of 3,364 MW. The Igarapava and the Porto Estrela power plants started operations in September 1999 and September 2001, respectively. Our remaining power generation projects are scheduled to start operations within the next six years, except for Santa Isabel, which does not have a scheduled date to start operations yet. Depending on market conditions, the power generated by these plants will be sold in the market and/or used for our own operations.

Aluminum Operations. Through joint ventures, our wholly owned subsidiary, Aluvale, conducts major operations in the production of aluminum. They include bauxite mining, alumina refining and aluminum metal smelting and trading. Aluvale conducts its bauxite mining activities through its 40.0% interest in MRN, which holds substantial bauxite reserves with a low strip ratio and high recovery rate. MRN, one of the largest bauxite producers in the world, produced 11.2 million tons of bauxite in 2000 and 7.9 million tons in the first nine months of 2001. Aluvale currently holds a 50.3% voting interest in our alumina refining joint venture, Alunorte, which has a nominal production capacity of 1.5 million tons of alumina per year and produced 1.2 million tons in the first nine months of 2001. Aluvale participates in two aluminum smelting joint ventures, Albras, in which it has a 51.0% interest, and Valesul, in which it has a 54.5% interest. These joint ventures have a combined production capacity of 500,000 tons of aluminum per year, and produced a total of 322,000 tons of aluminum in the first nine months of 2001. Our integrated aluminum operations rank among the largest in Latin America in terms of production volume.

Our Strengths

World-Class Iron Ore Operations

We are a leading producer and supplier of iron ore to the world market. Our iron ore operations are the foundation for our skill in prospecting and exploring mineral deposits, developing and operating large-scale mines and industrial facilities, managing complex logistics systems and marketing minerals and metals. We benefit from the following strengths in our iron ore operations:

- *Large resource base.* We hold large iron ore resources in our principal mining sites, the Northern System (Carajás) and the Southern System. Based on 2000 production levels, we have approximately 20 years of proven and probable iron ore reserves, and more than 300 years of additional mineral resources.

- *High quality iron ore deposits.* Our iron ore deposits have high metal content compared to those of many of our competitors. Our Northern System reserves average 65.4% iron content and our Southern System reserves average 55.0% iron content. Our ores also have low impurity levels and good metallurgical characteristics, which yield high levels of productivity in our customers' furnaces.

- *Ability to produce a broad range of iron ore products.* Our mines offer varying types of ore characteristics, which allow us to produce a broad range of iron ore products. Our ability to reconcile large-scale production with the capacity to produce specialized, high quality ore products,

which have high iron content, low impurity levels and complement the needs of our customers' furnaces, has allowed us to become a major supplier to significant Asian customers, despite their greater proximity to some of our competitors.

- *Production cost advantages.* We have competitive production and delivery cost advantages in our iron ore business. We have the ability to transport iron ore to our customers efficiently and reliably at low costs through our own mine-to-port systems. We operate an integrated railroad and marine terminal network in both the Southern System and the Northern System. These networks transport our iron ore from interior mining locations to the port terminals and to our domestic clients. In addition, the high iron content in the Northern System eliminates the need to operate a concentration plant at Carajás.
- *Reliable delivery and customer service.* We believe our dependable mine-to-port system and emphasis on customer service have earned us a reputation for reliability. Through our sales support offices in Rio de Janeiro, New York, Brussels, Tokyo and Shanghai, we stay in close contact with our customers, monitor their requirements and our contract performance, and ensure that our customers receive deliveries on schedule.

Well-Positioned to Meet Demand in a Changing Steel Industry

Ongoing structural changes in the production of iron and steel have stimulated increased demand for pellets as a proportion of the global iron ore and pellet market. These changes are driven by tightening environmental restrictions that have led to the closing of sintering machines, the construction of new blast furnaces without sintering machines and the more extensive use of pulverized coal injection, each of which increases the need for high quality ore in the form of pellets. We believe these industry changes will also reduce the volatility of the demand for pellets, which has decreased by as much as 2% and increased by as much as 17% on a year-over-year basis since 1996.

We have developed substantial pellet production capacity because we believe that the increase in pellet demand is a trend which will continue. Our six pelletizing joint ventures have a combined annual production capacity of 35.8 million tons (of which 17.9 million tons constitute the production capacity attributable to our equity ownership in the pelletizing joint ventures). Our wholly-owned pelletizing operations, including our Ferteco plant, have an additional combined annual production capacity of 9.2 million tons. For information on our ownership percentages in these pelletizing joint ventures, see "— Our Lines of Business — Pellets."

Pipeline of Copper Development Projects

We own 100% of the Sossego mine, which is located in Carajás and has a production capacity of 140,000 tons of copper per year. In addition, we have joint venture interests in four Brazilian copper development projects containing approximately 1.7 billion tons of mineral deposits with a weighted average grade of 1.02%. An independent study indicates that these are among the most competitive development-stage copper projects in the world in terms of investment cost per ton of ore, in part because of the existence of a gold byproduct and open pit mines. Each project is located in Carajás and will therefore benefit from efficiencies provided by our existing mine-to-port system. We believe these projects provide a strong foundation for our strategy of seeking a significant position in the growing world copper market.

Low-Cost Integrated Aluminum Activities

We operate integrated aluminum operations primarily through joint ventures, involving bauxite mining, alumina refining and the production of primary aluminum. Our bauxite joint venture owns 166.8 million tons of proven and probable bauxite reserves and 626.4 million tons of other mineral deposits. Our alumina refinery is modern and is directly adjacent to one of our aluminum smelting facilities. An independent study indicates that Albras is among the top 5% lowest cash cost producers of primary aluminum in the industry. As a result, we have lower cash costs in the production of primary aluminum than many of our competitors.

Strong Position in Manganese Ore and Ferro-Alloys

We are the world's second leading producer of manganese ore and third leading producer of manganese ferro-alloys. We believe that our main manganese mine, Igarapé do Azul, is the world's lowest cash cost producer, and that we have lower cash costs in our manganese mining operations than many of our competitors. We continue to consolidate our position as an integrated manganese ore and ferro-alloy producer. Having recently acquired our former partner's interests in CPFL and SIBRA, both leading producers of ferro-alloys, we now have 450,000 tons of attributable annual production capacity. We are self-sufficient in manganese ore to supply this production capacity. At December 31, 2000, we had 39.4 million tons of proven and probable manganese reserves, or more than 20 years of supply at 2000 production rates.

Integrated Logistics Business

We have extensive experience managing complex logistics operations. Built originally to serve our iron ore business, our logistics system includes our 898 km Vitória-Minas railroad and Tubarão and Praia Mole ports in the Southern System, and our 892 km Carajás railroad and Ponta da Madeira marine terminal in the Northern System. In addition, in the last five years we have acquired stakes in four privatized railroads, including Centro-Atlântica, which interconnects with the Vitória-Minas railroad using the same track gauge, and therefore increases its available transportation volume. We made these investments to further expand our cargo business. We believe our extensive transportation expertise should improve their profitability and efficiency.

Financial Resources

Our balance sheet and strong cash flows provide us with the financial wherewithal to pursue growth and development opportunities. We generated operating cash flows of US$1,090 million in the first nine months of 2001 on operating revenues of US$3,030 million. The ratio of our long-term debt to shareholders' equity at September 30, 2001 was 0.53:1, and we therefore believe that we have additional debt capacity. Substantially all of our iron ore sales are made under long-term contracts, a factor that minimizes our exposure to year-to-year volume fluctuations. We hedge a major part of aluminum and gold production against price volatility in order to avoid volatility in our cash flow.

Energy

We believe that we can successfully compete in the Brazilian energy market, mainly because of our successful track record in implementing and managing large projects and dealing with environmental protection issues. In addition, the balance between supply and demand and the prospect of deregulation of the Brazilian electricity industry starting as early as 2003 lead us to believe that there is significant growth potential in this market.

Our Strategy

Before 1997, CVRD was a traditional state-owned conglomerate with the aim of promoting national economic development, sometimes through investments in economic sectors that had no clear synergies with our main business. Since our privatization in 1997, we have become a more efficient, diversified mining, logistics and energy company and are in the process of divesting non-core assets that no longer have strategic importance for us. Through organic, disciplined growth and selective acquisitions, we will continually seek to develop our mining, logistics and energy capabilities and increase scale while working to reduce costs. We aim to achieve earnings growth and increase cash generation, while maximizing our return on capital employed and the total return to our shareholders. We are focusing on our core businesses of mining, logistics and energy to achieve these goals, by:

- maintaining our leadership position in the world iron ore market,
- expanding our pelletizing facilities to accommodate current market demands,

- growing our logistics business,
- developing our copper resources,
- increasing our aluminum activities,
- developing power generation projects, and
- restructuring our portfolio of joint ventures and minority investments.

Maintaining Our Leadership Position in the World Iron Ore Market

In 2000, we produced 15% of the world's iron ore, more than any other producer. In 2001, we acquired Ferteco, which accounted for 3% of world iron ore production in 2000, and we acquired one half of Caemi, which accounted for 4% of world iron ore production in 2000. We are committed to maintaining our position in the world iron ore market by keeping close contact with our customers, focusing our product line to capture industry trends and controlling costs. We believe that our strong relationships with major customers, tailored product line and logistical advantages will enable us to achieve this goal.

Expanding Our Pelletizing Facilities to Accommodate Current Market Demands

We believe that the growth in global demand for pellets will continue to increase at a rate faster than the growth rate of the overall iron ore markets, and therefore we plan to continue investing in the development of this dynamic segment of the iron ore market. We are investing US$240 million to construct a new pelletizing plant at São Luís and are expanding production capacity at our Tubarão and Samarco pellet operations. When these investments are completed, we will have an additional 11.2 million tons of annual production capacity, and a total of 56.2 million tons of annual production capacity.

Growing Our Logistics Business

The privatization and deregulation of transportation facilities has revitalized the Brazilian logistics market. We believe there is potential for growth in the near term from the conversion of existing truck haulage to rail, and in the longer term from increased bulk cargo resulting from economic growth in Brazil. We believe that the quality of our railway assets and our many years of experience as a railroad and port operator position us to take advantage of this market and establish ourselves as a leading Brazilian logistics company serving both domestic and export markets. We plan to focus on the physical and commercial integration of our transportation assets, and also to take advantage of new e-business technology. Our subsidiary Valepontocom has launched two Internet portals, Solostrata and Multistrata, to help the sale of logistics services.

Developing Our Copper Resources

Global demand for copper has been growing rapidly since the early 1990s. From 1993 to 2001, global consumption of copper increased from 10,967,000 tons to 15,281,000 tons per year. We expect this trend to continue over the next decade, driven by the spending in the automotive, computer, telecommunications and electrical appliance sectors of the world economy. We believe that our copper projects, which are all situated in the Carajás region, can be among the most competitive in the world in terms of investment cost per ton of ore. When our copper mines enter production, they will benefit from our transportation facilities serving the Northern System. Additionally, in March 1997, we and BNDES, a selling shareholder, entered into a Mineral Risk Contract providing for the joint development of certain unexplored mineral resources in approximately two million identified hectares of land in the Carajás region, as well as proportional participation in any financial benefits earned from the development of those resources. For more detailed information on the Mineral Risk Contract, see "— Our Lines of Business — Ferrous Minerals — Exploration — Mineral Risk Contract."

Increasing Our Aluminum Activities

We believe that global demand for aluminum will continue to grow during the next decade, driven mainly by the transportation and packaging industries. We therefore plan to develop and increase production capacity in our integrated aluminum operations. Our bauxite joint venture, MRN, is increasing annual production capacity from 11.0 to 16.3 million tons by 2003. Our alumina joint venture, Alunorte, is increasing annual production capacity from 1.5 to 2.3 million tons per year by 2002. Our aluminum joint venture, Albras, increased its production capacity by 40,000 tons in 2001. In addition, we own large unexplored deposits of high quality bauxite in the states of Pará and Maranhão that will allow us to pursue further growth opportunities in the aluminum sector.

Developing Power Generation Projects

In 2000 and 2001, we consumed 12.47 TWh and 13.75 TWh of electricity, respectively. Energy management and supply has become a priority for us, driven both by the Brazilian government's privatization program of the industry, and by the risk of rising electricity prices and electricity rationing due to energy shortages, such as the one Brazil experienced in mid-2001. We currently perceive favorable investment opportunities in the Brazilian electricity sector and are taking advantage of them to invest in hydroelectric power generation projects. These projects will sell their production to third parties in the power market, and, as a result, our energy department will be engaged in wholesale marketing activities. Our energy business is comprised of the sale but not the delivery of electricity. We may use some of the electricity from these projects for our internal needs. As we are a large consumer of electricity, we expect that investing in the energy business will help protect us against electricity price volatility.

In the first nine months of 2001, we spent US$72 million on investments in power projects. We currently hold stakes in two hydroelectric power plants (Igarapava and Porto Estrela), which have already started operations. Both are located in the state of Minas Gerais. We are also investing in the construction of five hydroelectric power plants and developing the economical and environmental feasibility studies for two other hydroelectric projects for which we and our joint venture partners have obtained a concession. When completed, these projects will provide us with the equivalent of approximately half of our 2000 electricity consumption (approximately 14 TWh, which represented 4.5% of Brazil's electricity consumption). We are also analyzing other hydroelectric power plant projects that will require additional investments.

Restructuring Our Portfolio of Joint Ventures and Minority Investments

In line with our focus on mining, logistics and energy, we have moved to reduce our holdings of non-strategic assets. We are pursuing the disposition of our pulp and paper assets and are also disposing of assets in the steel and transportation sectors that are not strategically connected to our core business. In March 2001, we concluded the sale of our interest in the pulp and paper producer Bahia Sul for approximately US$320 million. In September 2001, we concluded the sale of our stake in Cenibra to our former partner for US$670.5 million. In the steel industry, we disposed of our 2.3% stake in Açominas in December 2000 and, in March 2001, we disposed of our 10.3% stake in CSN. Finally, we have begun the process of divesting our dry bulk cargo shipping assets.

Our Lines of Business

Our principal lines of business consist of mining, logistics and energy. For internal management purposes, we group our aluminum operations together with our other significant equity participations in steel and pulp and paper. We are in the process of divesting our pulp and paper activities and have divested some of our steel assets. For information about this divestiture process, see "— Holdings."

Ferrous Minerals

Our ferrous minerals business segment is comprised of iron ore mining and pellet production, as well as transportation facilities in the Northern and Southern Systems (including railroads, ports and terminals)

as they relate to mining operations. Manganese mining and ferro-alloys are also part of our ferrous minerals business.

The table below sets forth our ferrous minerals revenues by geographic market and by category for the periods indicated as reflected in our consolidated financial statements.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
	(in millions of US$)				
Revenues classified by geographic destination					
Export sales:					
Latin America	US$177	US$149	US$224	US$161	US$194
United States	185	147	252	169	154
Europe	751	621	969	660	1,015
Middle East	135	146	209	135	149
Japan	299	351	544	409	191
Asia, other than Japan	456	575	651	446	867
Other	1	—	—	—	—
	2,004	1,989	2,849	1,980	2,570
Domestic sales	776	639	1,000	748	805
Total	US$2,780	US$2,628	US$3,849	US$2,728	US$3,375
Revenues classified by category					
Iron ore	US$1,970	US$1,859	US$2,710	US$1,904	US$2,468
Pellets	683	632	769	557	637
Manganese and ferro-alloys	127	137	370	267	270
Total	US$2,780	US$2,628	US$3,849	US$2,728	US$3,375

Iron Ore

We conduct our iron ore business primarily at the parent company level.

System Structure

The table below sets forth information regarding our proven and probable iron ore reserves as of December 31, 2000. The estimates of mineral reserves have been audited and verified by Mineral Resources Development, Inc., or MRDI, experts in geology, mining and ore reserve determination.

Mine	Proven and Probable Reserves	
	Ore Tonnage (millions of tons)	Grade(1) (% Fe)
Southern System		
Itabira District		
Cauê	25.0	51.3%
Conceição	338.8	56.7
Dois Córregos(2)	423.9	59.4
Total Itabira District	787.7	58.0
Timbopeba(3)	78.2	53.2
Gongo Soco Complex(4)	494.4	54.9
Capanema/Ouro Fino	29.7	59.5
Fazendão	238.2	50.7
Samitri		
Alegria Complex(5)	631.6	54.0
Água Limpa Complex(6)	68.8	45.5
Córrego do Meio Complex(7)	8.4	60.3
Total Samitri	708.8	53.2
Subtotal	2,337.0	55.0
Northern System		
Carajás(8)	1,167.4	65.4
Total CVRD Group	3,504.4	58.5%

(1) The subtotal and total figures include weighted-average ore grades.

(2) Dois Córregos consists of several mines.

(3) Reserves are based on 1997 model. A new model is in progress to support a feasibility study for expansion of the project.

(4) The Gongo Soco Complex consists of the Gongo Soco, Brucutu, Baú and Gralhos deposits.

(5) The Alegria Complex consists of the Alegria, Fábrica Nova and Morro da Mina deposits.

(6) The Água Limpa Complex consists of the Água Limpa and Cururu deposits.

(7) The Córrego do Meio Complex consists of the Córrego do Meio and Segredo deposits.

(8) Includes four active mines.

In May 2000, we acquired 100% of Mineração Socoimex S.A., known as Socoimex, a mining company located in Minas Gerais, for approximately US$55 million. Socoimex's main activity is the production and sale of iron ore extracted from Gongo Soco mine, with proven and probable reserves of

approximately 106 million tons and a capacity to produce 7 million tons per year. We began operating the Gongo Soco mine in August 2000. In August 2000, we merged Socoimex into CVRD.

In May 2000, we acquired a controlling interest in Samitri for approximately US$520 million. In September 2000, through a public tender, we acquired additional shares to bring our ownership to 99.3% of the voting capital and 99.2% of the total capital of Samitri. In February 2001, we increased our ownership interest in Samitri to 100% by exchanging 140,023 of our preferred class A shares for the shares in Samitri that we did not already own. In October 2001, we merged Samitri into the CVRD Group. The total cost of the Samitri acquisition was US$710.5 million, which we principally financed with operating cash flow. Samitri operates the Alegria, Água Limpa and Córrego do Meio iron ore mining complexes in the state of Minas Gerais, and is one of Brazil's largest producers of iron ore. Its production capacity is 17.5 million tons per year, and it has proven and probable reserves of 709 million tons of high grade hematite and other mineral deposits of 11.6 billion tons of itabirites. The Samitri acquisition allowed us to acquire a 50% interest in the pelletizing operations of Samarco Mineração S.A.

In April 2001, we acquired 100% of Ferteco Mineração S.A. from Thyssen Krupp Stahl AG, for approximately US$523 million. Ferteco is one of the largest producers of iron ore in Brazil, with a production capacity of 15 million tons per year. It has other mineral deposits of 263 million tons of hematite and itabirite ores, with a quality similar to our Southern System reserves. It operates two open pit iron ore mines, Fábrica and Feijão, and a pellet plant in the Iron Quadrangle region in the state of Minas Gerais which has a production capacity of 4 million tons per year.

In August 2001, we agreed to supply Shanghai Baosteel Group Corporation, a steel company located in the People's Republic of China, with approximately 6 million tons of iron ore annually for a 20-year term. In addition, we and Baosteel agreed to form a joint venture, Baovale Mineração S.A. In October 2001, we ceded our mining rights in the Agua Limpa mining complex located in the Southern System to Baovale, which resulted in a decrease of 68.8 million of tons in our proven and probable reserves. In return, Baosteel paid us US$18.9 million for its 50% interest in Baovale's total capital. In exchange for a monthly fee, Baovale leases us its rights in the mining deposit which we continue to operate. We expect that this transaction will increase our presence in the Asian market.

In September 2001 we acquired a 99.99% stake in Belem Administrações e Participações Ltda., from Bethlehem Steel Corporation and Bethlehem Steel International Corporation, for approximately US$25 million. Belem is a holding company which owns 9.9% of Empreendimentos Brasileiros de Mineração S.A., a privately held company controlled by Caemi Mineração e Metalurgia S.A., a Brazilian producer of iron ore and pellets, as well as kaolin and refractory bauxite.

In December 2001, we acquired 50% of Caemi's voting shares for approximately US$278 million. We completed the acquisition after receiving the approval of the European Commission, which required as a condition that Caemi sell its 50% interest in Quebec Cartier Mining Company, known as QCM, a Canadian iron ore and pellets producer. Caemi has been following all the procedures required by the European Commission and is in the process of disposing of its stake in QCM but has not entered into a definitive agreement to do so. We currently own 50% of the voting capital and 17% of the total capital of Caemi. Mitsui & Co., Ltd. holds the remaining 50% of Caemi's voting capital.

The table below sets forth information regarding our mines. The projected exhaustion dates are based on 2000 production levels.

Mine	Commencement of Operations	Projected Exhaustion Date	Our Ownership Interest	Production				
				For the Year Ended December 31,			For the Nine Months Ended September 30,	
				1998	1999	2000	2000	2001
			(percent)	(in millions of tons)				
Southern System								
Itabira District								
Cauê	1942	2014	100%	19.9	17.8	20.1	14.9	15.2
Conceição	1957	2014	100	19.3	18.8	19.8	14.8	14.6
Dois Córregos	—	—	—	—	—	—	—	—
Total Itabira District	—	—	—	39.2	36.6	39.9	29.7	29.8
Timbopeba	1984	2006	100	7.5	7.4	7.6	5.7	4.1
Gongo Soco Complex(1)	2000	2010	100	0.2	0.7	6.6	4.5	5.2
Capanema/Ouro Fino	1982	2003	51	4.6	3.7	5.3	4.1	3.1
Fazendão	1997	– (7)	100	1.1	0.9	1.2	0.9	0.9
Samitri								
Alegria Complex(2)	2000	2040	100	—	—	9.4	7.1	7.7
Água Limpa Complex(3)	2000	2009	100	—	—	3.7	2.9	1.6
Córrego do Meio Complex(4)	2000	2006	100	—	—	1.5	1.2	1.0
Total Samitri	—	—	—	—	—	14.6	11.2	10.3
Urucum(5)	1993	—	100	0.7	0.6	0.7	0.5	0.4
Total Southern System	—	—	—	53.3	49.9	75.9	56.6	53.8
Northern System								
Carajás(6)	1986	2021	100	45.8	44.0	47.6	33.7	38.8
Total CVRD Group				99.1	93.9	123.5	90.3	92.6

(1) The Gongo Soco Complex consists of the Gongo Soco, Brucutu, Baú and Gralhos deposits.

(2) The Alegria Complex consists of the Alegria, Fábrica Nova and Morro da Mina deposits.

(3) The Água Limpa Complex consists of the Água Limpa and Cururu deposits.

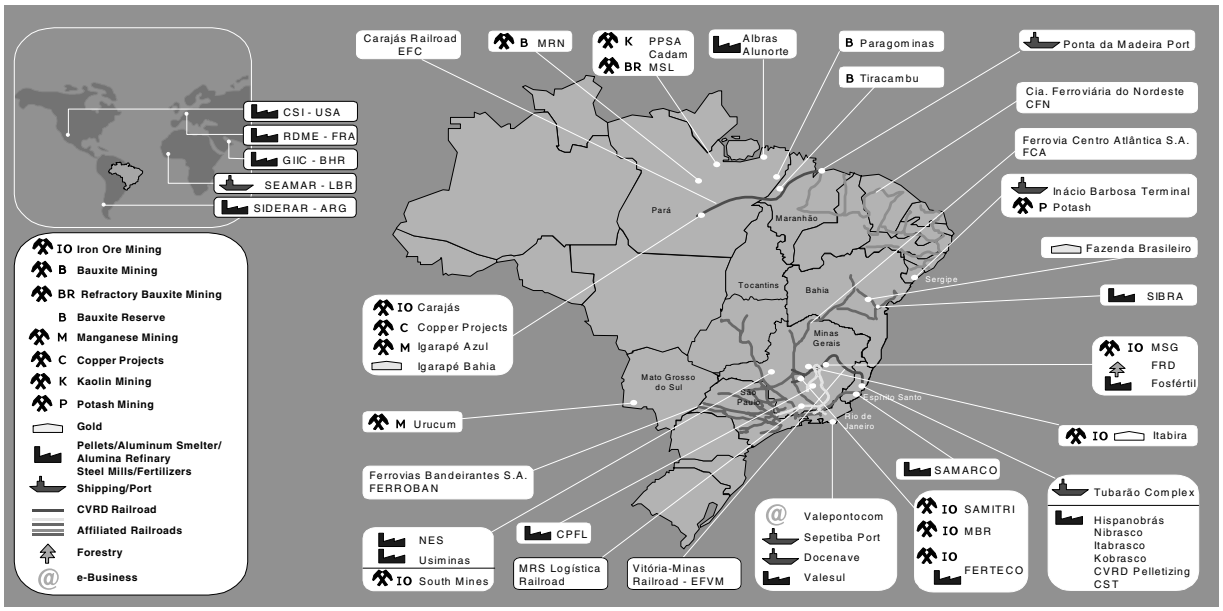
(4) The Córrego do Meio Complex consists of the Córrego do Meio and Segredo deposits.

(5) There are no proven and probable reserves at Urucum.

(6) Includes four active mines.

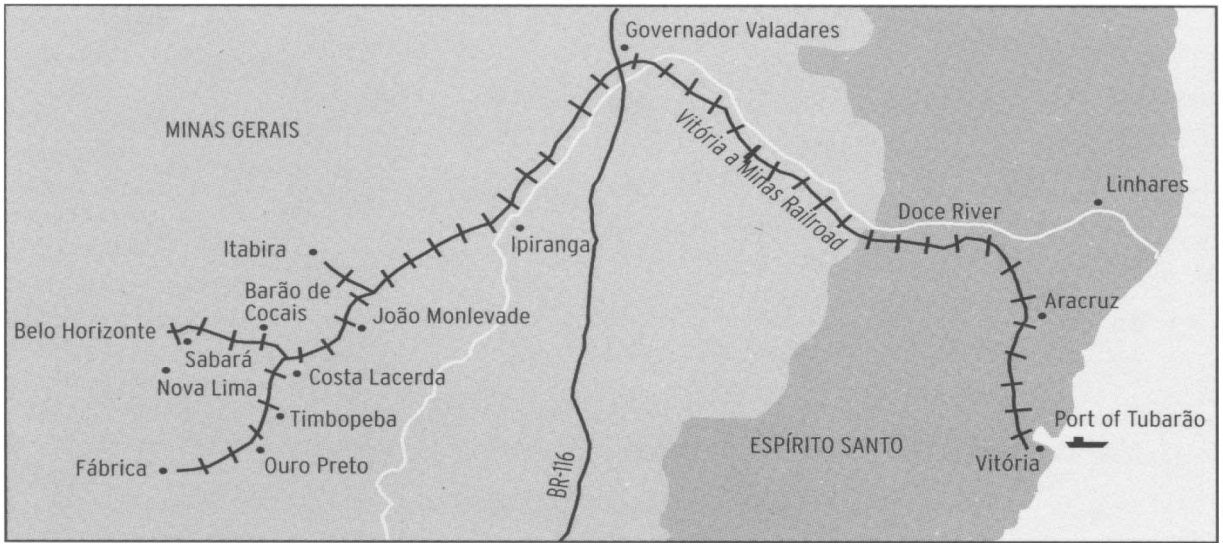
(7) Certain investments would be required to maintain or increase production from 2000 levels.

Integrated Systems



Our iron ore mining and related operations are concentrated in two regions in Brazil, the Southern System and the Northern System. The Southern System is located in the states of Minas Gerais and Espírito Santo, and the Northern System is located in the states of Pará and Maranhão. Each system includes iron ore reserves and other mineral deposits, mines, ore processing facilities and integrated railroad and terminal transportation facilities. Our railroads connect the systems and bring products from the mines to our marine terminals, located at Tubarão and Praia Mole in the Southern System, and São Luís in the Northern System. The operation of two separate systems, each with transportation capability under our control, enhances reliability and consistency of service to our customers.

Southern System



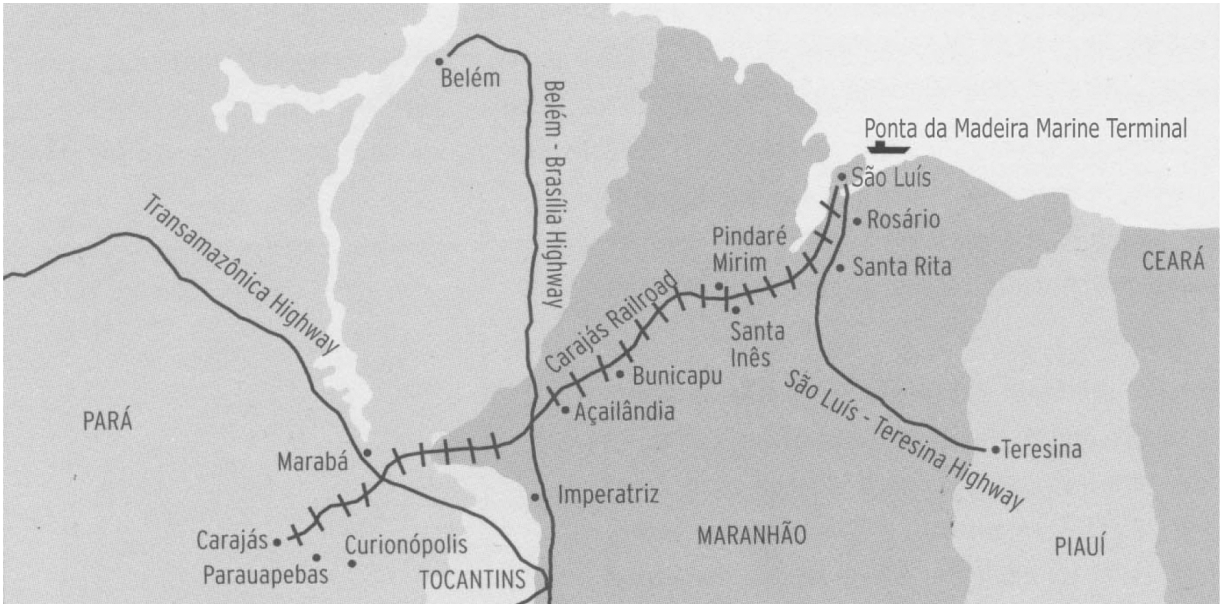
The Southern System is an integrated system consisting of iron ore mines, the Vitória-Minas railroad, and the ports of Tubarão and Praia Mole (located in Vitória, in the state of Espírito Santo). The iron ore mines of the Southern System are located in a region called the Iron Quadrangle in the state of Minas

Gerais, in the southeast of Brazil. Nine mining complexes compose this system: Cauê and Conceição in the Itabira District, Timbopeba, Gongo Soco Complex, Alegria Complex, Água Limpa Complex, Córrego do Meio Complex, Capanema and Fazendão. The Southern System is accessible by road or by spur tracks of the Vitória-Minas railroad, which transports iron ore concentrate, lump, and natural pellet ore to the Tubarão marine terminal (located approximately 600 kilometers away) and domestic steelmakers, as well as third party general cargo.

Iron ore in the Southern System is mined by open pit methods. These ore reserves have high ratios of itabirite ore relative to hematite ore. Itabirite is a quartz-hematite rock with an average iron content ranging from 35% to 60%, requiring concentration to achieve shipping grade, which is above a 64% average iron content. Mines in the Southern System generally process their run-of-mine by means of standard crushing, classification and concentration steps, producing sinter feed, lump ore and pellet feed.

Our Vitória-Minas railroad transports Southern System iron ore to the Tubarão marine terminal located at Vitória in the state of Espírito Santo. The Southern System has train-loading facilities with a daily carrying capacity of 300,000 tons of iron ore. A train composed of two diesel-electrical locomotives and up to 240 gondola ore-cars makes a roundtrip to the marine terminal every 43 hours. The Tubarão/Praia Mole marine terminal complex has a storage capacity of 4.5 million tons of iron ore and pellets. The storage capacity in connection with the complex's two piers, which are 25 meters deep and 600 meters wide, ensures access for ships of up to 365,000 DWT. Our loading system consists of a bucket-wheel reclaimer, conveyor belts and a ship-loader for each pier, which represents a total loading capacity of 32,000 tons per hour to the terminal.

Northern System



The Northern System is an integrated mine, railroad and port system, including open pit mines and an ore processing complex. The Northern System is located in the Carajás region, in the states of Pará and Maranhão in the north of Brazil (in the Amazon River basin), on public lands for which we hold mining concessions. The Northern System's reserves are among the largest iron ore deposits in the world, with a life of more than 21 years at 2000 output levels. These reserves are divided into two main ranges (north and south), situated approximately 35 kilometers apart. Iron ore mining activities in the Northern System are currently being conducted in the north range, which is divided into four main mining bodies (N4E, N4WC, N4WN and N5).

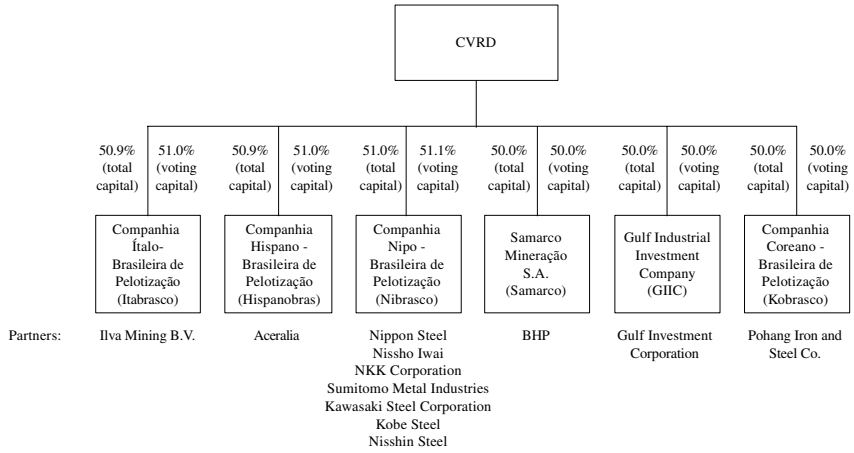
The N4E deposit is the largest operational pit in the Northern Region. Industrial scale mining operations began at this mine in 1985. We selected the N4E mine as the first iron body to be developed in the Northern System because development of the N4E would facilitate access to the N4W and N5 deposits, which could share the N4E beneficiation complex and train loading terminal. We began mining operations at N4W in 1994, opening two pits (N4WC and N4WN). We completed the construction of two in-pit crushing systems located at N4E and N4WN mines in late December 1998. The N4E and N4W mines use conventional open pit benching, with drilling and blasting to open a free face followed by shovel loading. During 1998, we also started operations in the N5 mines (N5W and N5E).

Because of the high iron content (65.4% on average) in the Northern System, we do not have to operate a concentration plant at Carajás. The beneficiation process for creating marketable sinter feed, pellet feed, special fines for direct reduction processes and lump ore consists simply of sizing operations, including screening, hydrocycloning, crushing and filtration. We can therefore produce marketable iron ore in the Northern System at a lower cost than in the Southern System. Output from the beneficiation process consists of sinter feed, pellet feed, special fines for direct reduction processes and lump ore, which is sampled regularly before storage at the Carajás stockyard by automatic sampling systems that conform to ISO 9002 standards. After the beneficiation process, our Carajás railroad transports Northern System iron ore to the Ponta da Madeira marine terminal located at São Luís in the state of Maranhão, on the Atlantic Ocean. The Northern System has train-loading facilities with an aggregate nominal loading capacity of 14,000 tons per hour. A train composed of three diesel-electrical locomotives and up to 206 gondola ore-cars, each car having a net capacity of 105 tons, makes each 54.5-hour round-trip to the marine terminal. At the Ponta da Madeira marine terminal, a 100 kilometer long natural channel (at least 23 meters deep and 500 meters wide) ensures access for ships of up to 420,000 DWT. With a storage capacity of 3.5 million tons, a loading system consisting of bucket-wheel reclaimers, conveyor belts and single boom ship-loaders at two piers, the marine terminal can handle vessels from 20,000 to 420,000 DWT with no repositioning.

Our complex in Carajás is accessible by road, air and rail. It obtains electrical power at market rates from regional utilities. To support our Carajás operations and to reduce turnover of mining personnel, we provide housing and other facilities for our workers in a nearby township.

Pellets

We conduct our pellet business as follows:



The table below sets forth information regarding attributable pellet production capacity by us and our joint ventures for the periods indicated.

Pellet Producer	For the Year Ended December 31, 1998	1999	2000	For the Nine Months Ended September 30, 2000	2001
	(millions of tons)				
CVRD	4.7	4.8	5.0	3.9	3.7
Itabrasco	3.4	3.4	3.3	2.6	2.4
Hispanobras	3.9	3.6	3.8	2.8	2.7
Nibrasco	7.5	6.1	8.5	6.4	5.8
Kobrasco	0.4	3.8	4.4	3.2	3.2
Samarco	—	—	12.7	9.5	8.2
GIIC	—	—	3.6	2.9	2.1
Total	19.9	21.7	41.3	31.3	28.1
Percentage DR pellets	29.1%	25.9%	23.5%	25%	25%

Except for GIIC, which is located in Bahrain, and Samarco, which is in Ponta do Ubu, all of our pelletizing operations are in the Southern System at our Tubarão complex. We acquired Samarco in May 2000, and GIIC in October 2000.

In April 2001, we acquired an additional 4 million tons of annual production capacity of pellets through our acquisition of Ferteco Mineração S.A., known as Ferteco.

We have completed the first phase of the construction of our new São Luís pelletizing plant, and we expect to complete the plant by March 2002. At September 30, 2001, we had invested approximately US$120 million in the São Luís plant and expect to spend an additional US$61 million through March 2002. The plant will be located in our Northern System.

Our pellet activities increase our market for fine and ultrafine iron ore products. We sell pellet feed to our pellet joint ventures at market-based prices. Historically, we have supplied all of the iron ore requirements of our joint ventures located in the Southern System.

The table below sets forth information regarding iron ore shipments to our pellet joint ventures for the periods indicated.

Joint Venture	For the Year Ended December 31, 1998(1)	1999(1)	2000(1)	For the Nine Months Ended September 30, 2000	2001
	(millions of tons)				
Kobrasco	0.4	4.1	4.7	4.4	4.4
Itabrasco	3.6	3.6	3.6	3.5	3.5
Hispanobras	4.3	4.0	4.1	4.0	3.7
Nibrasco	8.2	6.6	9.3	8.8	7.6
Samarco	—	—	1.9	1.4	1.6
GIIC	—	—	2.0	1.5	1.4
Total	16.5	18.3	25.6	23.6	22.2

(1) Shipments in 1999 and 1998 represent iron ore sold and iron ore delivered to the joint ventures on a tolling basis. Shipments in 2000 represent iron ore sold to the joint ventures.

Customers, Sales and Marketing (Iron Ore and Pellets)

We use all of our iron ore and pellets (including our share of joint-venture pellet production) to supply the steelmaking industry. Prevailing and expected levels of demand for steel products affect demand for our iron ore and pellets. Demand for steel products is influenced by many factors, such as expected rates of economic growth.

Historically, we have exported more than two-thirds of our iron ore shipments. We export iron ore products primarily to Asia and Europe, with customers in Japan, China, South Korea and Germany accounting for approximately 54.8% of our total export shipments in the first nine months of 2001 and 52.6% in 2000. In the first nine months of 2001, our 10 largest customers collectively purchased 30.5 million tons of iron ore and pellets from us, representing 46.3% of our iron ore and pellet shipments and approximately 27.3% of our total revenues. No individual customer accounted for more than 7.0% of our sales of iron ore products for any of the three years ended December 31, 2000.

We strongly emphasize customer service in order to improve our competitiveness. We work with our customers to understand their principal objectives and then tailor our iron ore to meet specific customer needs. To provide a tailored product, we take advantage of our large number of iron ore mines in order to produce multiple iron ore products possessing different grades of iron, silica and alumina, and varying physical properties, including grain size. We believe that we offer our customers more variety than our competitors in Australia and Canada. This variety helps us offset any disadvantages in relation to competitors who may be more conveniently located geographically. In addition to offering technical assistance to our customers, we operate sales support offices in Tokyo, Brussels, New York and Shanghai. These offices allow us to stay in close contact with our customers, monitor their requirements and our contract performance, and ensure that our customers receive deliveries on schedule. Our central sales office in Rio de Janeiro coordinates the activities of these offices.

Distribution (Iron Ore and Pellets)

Our ownership and operation of transportation systems designed for the efficient transportation of iron ore products complements our iron ore mining business. We operate an integrated railroad and terminal network in each of our Northern and Southern Systems. This network transports our iron ore products from interior mining locations to the marine terminal and domestic customers. The Vitória-Minas railroad provides the rail link for the Southern System and has a daily carrying capacity of 300,000 tons of iron ore. The Carajás railroad provides the rail link for the Northern System and has a daily carrying capacity of 130,000 tons of iron ore.

Our port and terminal facilities in the Southern and Northern Systems receive iron ore and pellets from our railroads for dispatch onto ocean-going vessels. We shipped a total of 85.6 million tons of iron ore and pellets for the first nine months of 2001 and 117.2 million tons of iron ore and pellets in 2000. The Tubarão/Praia Mole marine terminal complex, located near the port of Vitória in the state of Espírito Santo, serves the Southern System. The Vitória-Minas railroad transports ore from iron ore mines in the Southern System directly to the Tubarão terminal and its ship-loading facilities. The Ponta da Madeira marine terminal complex, located near the port of São Luís in the state of Maranhão, serves the Northern System. The Carajás railroad transports iron ore from the Northern System mines directly to the Ponta da Madeira terminal and its ship-loading facilities.

We are currently seeking to divest our interests in our dry-bulk shipping business due to its overall lack of profitability and to the significant investment we would have to undertake to replace our existing dry-bulk shipping fleet in the future. See "— Logistics — Shipping."

Competition (Iron Ore and Pellets)

The international iron ore market is highly competitive. Several large producers dominate this market. The principal factors affecting competition are price, quality, range of products offered, reliability and

transportation costs. In 2000, the Asian market (primarily Japan, South Korea and China) and the European market were the primary markets for our iron ore.

Our biggest competitors in the Asian market are located in Australia and include affiliates of Broken Hill Proprietary Company Limited, or BHP, and The Rio Tinto Corporation Plc. Although the transportation costs of delivering iron ore from Australia to Asian customers are generally lower than ours as a result of Australia's geographical proximity, we believe we are able to remain competitive in the Asian market for two principal reasons. First, steel producers generally seek to obtain the types (or blends) of iron ore which can produce the intended final product in the most economic and efficient manner. Our iron ore has low impurity levels which generally lead to lower processing costs. For example, the alumina content of our iron ore is very low compared to Australian ore. Second, steel mills often develop sales relationships based on a reliable supply of a specific mix of iron ore. We have an aggressive marketing policy of meeting our clients' needs to the extent possible, including placing specialized personnel in direct contact with our clients to determine the blend that best suits each particular client. We sell our products FOB from our ports, which means that the invoice price includes delivery at our expense to our ports and no further. In general, our ownership of the process of producing and transporting iron ore to our ports helps ensure that our products get to our ports on schedule and at competitive costs. Consequently, we believe that the sale of our shipping dry-bulk assets will not affect our competitiveness as we have not subsidized shipping costs for those customers who have used our fleet. We believe that third party carriers are available to serve our customers.

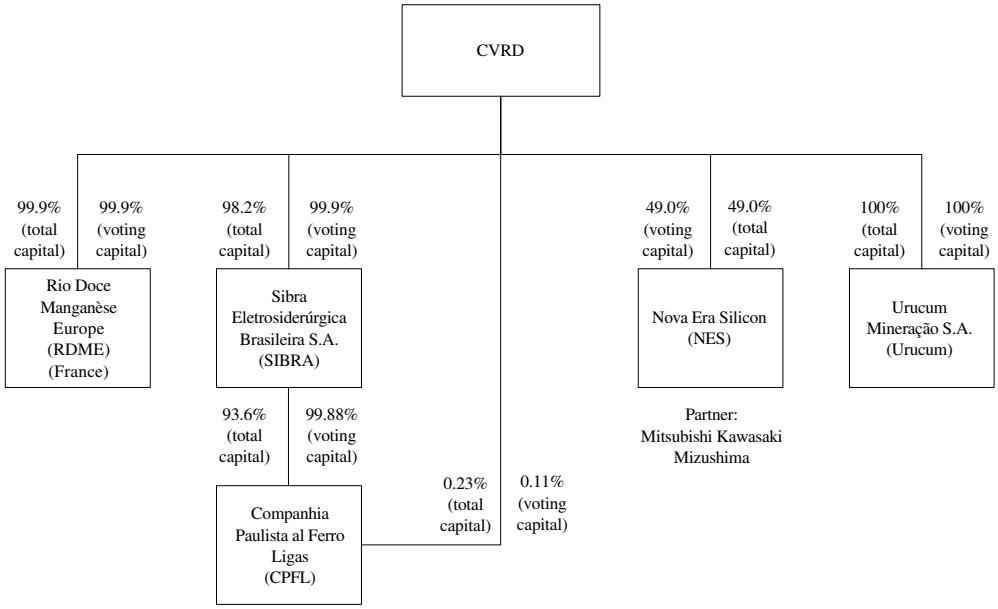
We are competitive in the European market for the reasons we described above, as well as the quality of our Carajás iron ore and the proximity of the Ponta da Madeira port facilities to European customers. Our principal competitors in Europe are:

- Iron Ore Co. (Canada),
- Quebec Cartier Mining Co. (Canada),
- Luossavaara Kiirunavaara AB (Sweden),
- Société Nationale Industrielle et Minière (Mauritania),
- Kumba Resources (South Africa),
- Minerações Brasileiras Reunidas S.A. (Brazil), and
- affiliates of BHP (Australia) and Rio Tinto (UK).

The Brazilian iron ore market is highly competitive with a wide range of smaller producers. Although pricing is a relevant factor, quality and reliability are important competitive factors as well. We believe that our integrated transportation systems, high-quality ore and technical services make us a strong competitor in domestic sales. Prevailing export market prices, with adjustments negotiated to compensate for lower transport costs to domestic customers, influence iron ore sales in the domestic market.

Manganese and Ferro-Alloys

We conduct our manganese and ferro-alloy business as follows:



We are the largest Brazilian manganese ore producer, with total production in the first nine months of 2001 of approximately 1.3 million tons. We had US$270 and US$267 million in gross revenues in the first nine months of 2001 and 2000, respectively, from manganese ore and ferro-alloy sales.

We produce manganese ore products from the Azul mine in the Carajás region in the state of Pará and from the Urucum mine in the Pantanal region in the state of Mato Grosso do Sul. We operate on-site beneficiation plants at both the Azul and Urucum mines. Both mines are accessible by road and obtain electrical power at market rates from regional electric utilities.

Our manganese mines produce three types of manganese products:

- metallurgical ore used primarily for the production of ferro-alloys,
- natural manganese dioxide suitable for the manufacture of electrolytic batteries, and
- chemical ore used in several industries for the production of fertilizer, pesticides and animal food and used as a pigment in the ceramics industry.

The production of ferro-alloys consumes significant amounts of electricity. On June 1, 2001, the Brazilian government, as part of its energy rationing program, required a decrease of energy consumption by 25% for ferro-alloy related activities. In response to these governmental measures, we immediately began a plan to reduce our ferro-alloy output in the six-month period ending November 30, 2001, by 46,000 tons, from the previously planned 220,000 tons to 174,000 tons. This reduction represents a revenue loss of US$26 million. We believe that the remaining production will be sufficient to supply our clients in Brazil and the rest of Latin America, our main ferro-alloys markets. Despite this mandatory temporary reduction, we continue to pursue our long-term plan to expand our ferro-alloy operations. For information on the risks associated with the Brazilian government's rationing program, see "Risk Factors — Risks Relating to Brazil — The Brazilian government's energy rationing program could adversely affect us."

The table below sets forth information regarding our manganese reserves at December 31, 2000. The estimates of mineral reserves have been audited and verified by MRDI.

Mine	Proven and Probable Reserves		
	Type	Ore Tonnage	Grade(3)
		(in millions of tons)	(% Mn)
Azul	Open pit(1)	22.1	44.6
	S/P(1)	0.8	47.3
		22.9	44.7
Urucum	Underground(2)	13.1	47.9
Total		36.0	45.9

(1) Reported as product wet tons (14.5% moisture content).

(2) Reported as product dry tons.

(3) Reported as recoverable product grade.

The table below sets forth information regarding our manganese mines and recent manganese ore production for the periods indicated. The projected exhaustion dates are based on 2000 production levels.

Mine	Commencement of Operations	Projected Exhaustion Date	Our Ownership Interest	Production				
				For the Year Ended December 31,			For the Nine Months Ended September 30,	
				1998	1999	2000	2000	2001
				(millions of tons)				
Azul	1986	2014	100%	1.3	0.9	1.4	1.2	1.1
Urucum	1976	2035	100%	0.3	0.2	0.3	0.2	0.2
Total				1.6	1.1	1.7	1.4	1.3

The table below sets forth information regarding our ferro-alloy production.

Plant	Production Capacity	Production in 2000
	(thousands of tons per year)	(thousands of tons)
RDME	140.0	119.7
CPFL/SIBRA	311.6	273.9
NES	45.0	37.5

Prior to December 1999, we owned 50% of Vale Usiminas Participacões, S.A., or VUPSA. In December 1999, we agreed to acquire, for a nominal sum, the 50% stake in VUPSA that we did not already own from our former partner, Usinas Siderúrgicas de Minas Gerais S.A., known as Usiminas. In exchange for our agreement to acquire the Usiminas interest in VUPSA, Usiminas was released from some of its obligations with respect to the debt of Companhia Paulista de Ferro Ligas, or CPFL, and Sibra Eletrosiderúrgica Brasileira S.A., or SIBRA, two leading Brazilian producers of ferro-alloys, which were owned by Ferro Ligas do Norte S.A., a subsidiary of VUPSA. This acquisition enables us to integrate our manganese mining operations with ferro-alloy producing plants. On December 31, 2000, after a corporate reorganization, we became the direct owner of SIBRA, which in turn owns CPFL.

Non-Ferrous Minerals

Our non-ferrous minerals business segment includes the production of gold and other non-ferrous minerals, such as kaolin and potash. We also include our copper exploration efforts in the non-ferrous category.

The table below sets forth information regarding our non-ferrous revenues and sales by geographic market for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
	(in millions of US$)				
Revenues classified by geographic destination					
Export sales:					
Latin America	US$ —	US$ —	US$ —	US$ —	US$ 4
United States	145	139	156	113	100
Europe	—	—	35	28	27
Japan	—	—	4	2	—
Asia, other than Japan	—	4	3	—	2
	145	143	198	143	133
Domestic sales	124	96	90	70	58
Total	US$269	US$239	US$288	US$213	US$191
Revenues classified by category					
Gold	US$168	US$155	US$156	US$113	US$100
Potash	101	84	85	66	58
Other minerals	—	—	47	34	33
Total	US$269	US$239	US$288	US$213	US$191

Gold

We conduct our gold business primarily at the parent company level and each of our gold mines is wholly owned.

We started gold operations in 1984 and currently operate three gold mines. We are one of the largest gold producers in Latin America, with a total gold production of 376,200 troy ounces of refined gold for the first nine months of 2001. We were responsible for approximately 32% of all gold produced on an industrial scale in Brazil during 2000. Gold sales generated US$100 million of gross operating revenues in the first nine months of 2001.

The table below sets forth information regarding estimated gold proven and probable reserves at December 31, 2000. The estimates of mineral reserves have been audited and verified by MRDI.

Mine(1)	Ore Type	Proven and Probable Reserves: Ore Tonnage (millions of tons)	Grade(3) (gram/ton)	Contained Gold (tons)	Metal Recovery(3) (percent)	Recoverable Gold (tons)	Recoverable Gold (millions of troy ounces)(4)
Igarapé Bahia(2)	CIP Ore	3.12	3.70	11.54	91%	10.51	0.338
	CIP Stock	0.23	2.96	0.68	91	0.62	0.020
	HL Ore	4.23	1.31	5.54	81	4.49	0.144
	HL Stock	3.07	1.09	3.35	81	2.71	0.087
Subtotal		10.65	1.98	21.11	87	18.32	0.589
Fazenda Brasileiro	Sulfide CIP	3.79	5.36	20.31	93	18.89	0.607
Itabira	CIL in situ	0.27	3.22	0.86	96	0.83	0.027
	S/P HL	0.26	0.60	0.15	60	0.09	0.003
Subtotal		0.53	1.90	1.01	91	0.92	0.030
Total		14.97	2.83	42.43	90	38.13	1.226

(1) The Almas and Caeté deposits listed with reserves at December 1999 were depleted in 2000.

(2) Igarapé Bahia includes the Acampamento Sul, Furo Trinta and Acampamento Norte deposits.

(3) The subtotal and total figures include weighted-average ore grades and metallurgical recovery rates.

(4) One troy ounce equals 31.103 grams.

The table below sets forth information regarding our gold mines and recent gold production. The projected exhaustion dates are based on 2000 production levels.

Mine	Commencement of Operations	Projected Exhaustion Date	Production: For the Year Ended December 31, 1998	1999	2000	For the Nine Months Ended September 30, 2000	2001
			(thousands of troy ounces)(2)				
Igarapé Bahia	1991	2003	359.4	357.5	333.9	243.5	241.4
Fazenda Brasileiro	1984	2009	170.4	141.2	154.6	122.0	119.5
Almas(1)	1985	2000	16.4	16.0	13.2	10.4	0.6
Caeté(1)	1996	2000	13.3	17.4	11.0	8.2	0.4
Itabira	1984	2002	22.9	20.0	22.4	16.1	14.3
Total			582.4	552.1	535.1	400.2	376.2
Average total cash cost of production (US$ per troy ounce)(2)			US$175	US$143	US$165	US$167	US$150

(1) Exhausted at December 31, 2000.

(2) One troy ounce equals 31.103 grams.

Our gold mines are located in the states of Minas Gerais, Bahia, and Pará. All gold mines are open-pit, except for Fazenda Brasileiro, which is underground. Each mine includes an on-site processing facility to produce *doré* bars from raw ore. We ship *doré* bars to a third party refinery for remelting and chemical treatment, which yields gold bars with a 99.99% purity degree. Our gold is insured from the time we place it in its mine vaults until it reaches the customer.

At December 31, 2000, our proven and probable gold reserves represented three years of production at 2000 output levels. We had expenditures of US$7.8 million for gold exploration and resource development for the first nine months of 2001 and expenditures of US$8.5 million for gold exploration and resource development in 2000, including US$1.6 million related to prospecting for new deposits and US$5.9 million directed to the extension of existing reserves. Of these expenses, US$0.8 million and US$1.0 million were reimbursed under the Mineral Risk Contract for the first nine months of 2001, and for 2000, respectively. For a further discussion about the Mineral Risk Contract, see "— Exploration — Mineral Risk Contract."

Drilling has indicated that our largest gold mine, Igarapé Bahia, has gold mineralization at three distinct levels. We expect that mineralization at the uppermost level, which consists primarily of oxidized gold ore, will be depleted by mid 2003. We are currently studying the commencement of mining in the second and third ore zones in which gold mineralization exists with ores of other metals, mainly copper. The second zone is a transition zone which changes from oxide-based ore to sulfide, and the third zone consists entirely of sulfide ore. Sulfide ore requires substantially more expensive processing technology than oxide ore, which may result in higher unit production costs for gold. As the mine transitions from predominantly oxide ore to sulfide ore, we will have to invest significant amounts of capital in equipment to process the refractory ore. We have not yet invested in such processing equipment, and if we decide not to undertake such investments, gold production at Igarapé Bahia will likely decline.

Kaolin

We conduct our kaolin business through our stake in Pará Pigmentos S.A., which began operations in August 1996. Our total and voting interests in Pará Pigmentos are 80.1% and 84.9%, respectively. Our partners in Pará Pigmentos are Mitsubishi Corporation and International Finance Corporation.

Kaolin is a fine white aluminum silicate clay used in the paper, ceramic and pharmaceutical industries as a coating agent and filler. In the first nine months of 2001, Pará Pigmentos reported revenues of US$33 million and a net loss of US$37 million. In 2000, Pará Pigmentos reported revenues of US$34 million and a net loss of US$9.0 million. At September 30, 2001, Pará Pigmentos had approximately US$61 million of long-term debt outstanding, of which we guarantee US$50 million. Pará Pigmentos is conducting a four phased investment program to increase production capacity in response to an expected increase in the demand for kaolin.

The table below sets forth the schedule for the investment program which Pará Pigmentos expects to carry out through 2007.

Investment Phase	Production	Total Investment	Expected Date of Completion
	kt/year	(in millions of US$)	
I	320	US$140.0	2000
II	600	29.0	2001
III	800	24.4	2003
IV	1,000	26.3	2007

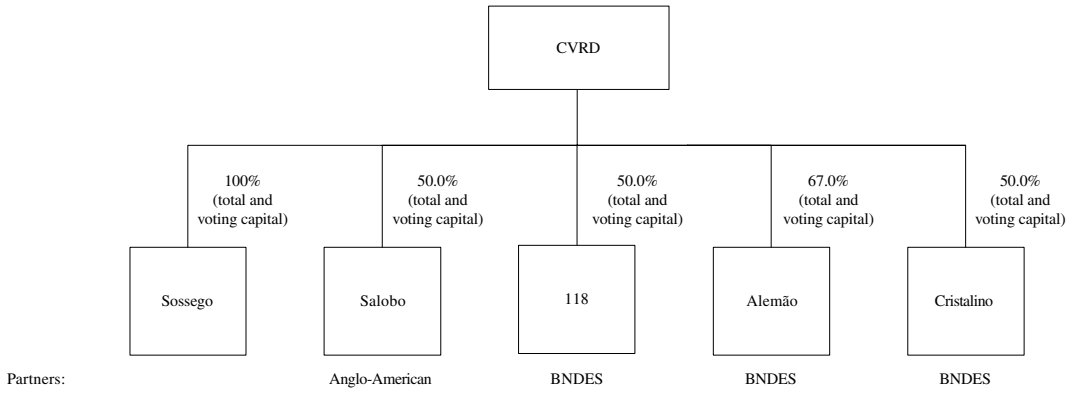
Phases I and II were completed as scheduled.

Potash

Potash is an important raw material used in the production of fertilizers. We lease a potash mine in the state of Sergipe from Petróleo Brasileiro S.A., the Brazilian oil company. It is the only mine of this type in Brazil and has a current capacity of 600,000 tons per year. We had gross revenues of US$58 million from potash sales in the first nine months of 2001 and US$84.9 million from potash sales in 2000.

Current Copper Prospects

We conduct our copper development and exploration projects as follows:



The table below sets forth information regarding the status and potential productivity of our copper (Cu) prospects, all but one of which features a gold (Au) byproduct.

Project	Status	Other Mineral Deposits (millions of tons)	Total Expected Capital Expenditures (in millions of US$)	Anticipated Start-up Date
Sossego	Feasibility concluded	313 at 1.02% Cu and 0.3 g/t Au	US$ 394	2004
Salobo	Pre-feasibility in progress	784 at 0.96% Cu and 0.6 g/t Au	1,005	2007
Project 118	Pre-feasibility in progress	100 at 0.80% Cu	140	2004
Alemão	Pre-feasibility in progress	170 at 1.60% Cu and 0.90 g/t Au	550	2006
Cristalino	Pre-feasibility in progress	300 at 0.90% Cu and 0.2 g/t Au	500	2006

In addition, we and BNDES are prospecting the Carajás region for new copper exploration projects. For more information on this joint venture, see "— Exploration — Mineral Risk Contract."

In October 2001, we acquired the 50% stake in the Sossego joint venture which we did not already own from our former partner, Phelps Dodge, for US$42.5 million.

In November 2001, we agreed to form a 50/50 joint venture to explore new opportunities to produce and process copper with Corporación Nacional del Cobre de Chile, or Codelco, the world's largest copper producer.

Exploration

As part of our mineral prospecting and development activities in Brazil, we have acquired extensive experience in exploration techniques and processes specifically designed for use in tropical areas of the world. Our current mineral exploration efforts are in Brazil and focus primarily on copper. Expenditures for our mineral exploration program in the first nine months of 2001 and 2000 were US$31 million and US$34 million, respectively.

Since 1998, we have focused our exploration efforts on areas where geological knowledge was more advanced, focusing primarily on gold and copper, and let lapse those claims we did not consider economically attractive. As a result, our undeveloped acreage claims decreased from approximately 31.2 million hectares at December 31, 1997, to approximately 7.0 million hectares at December 31, 2001.

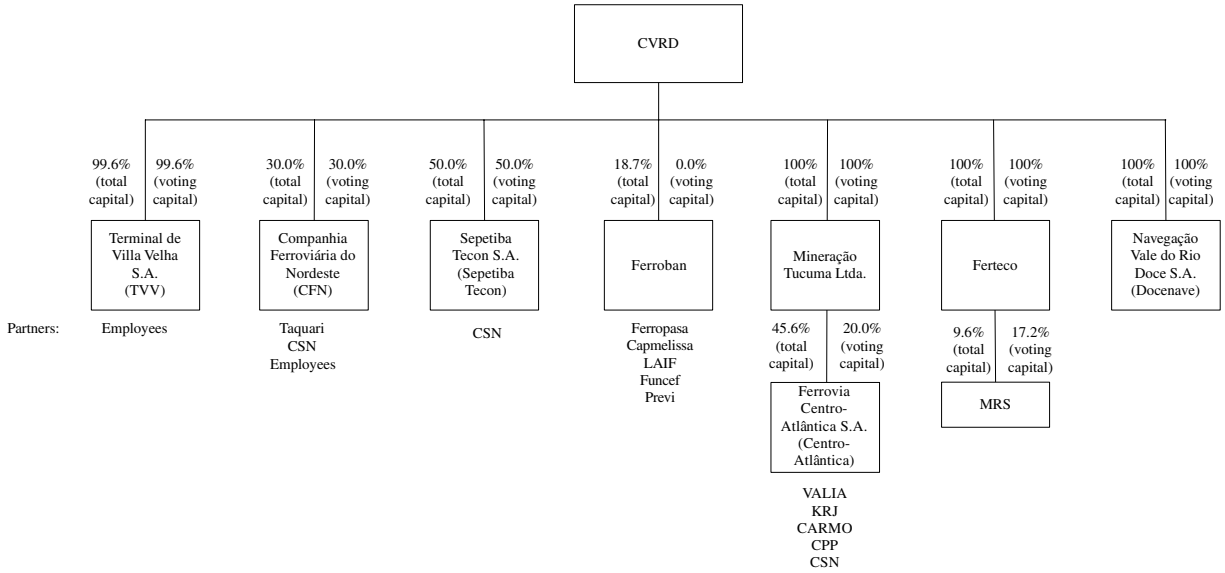
Mineral Risk Contract. We and BNDES entered into a Mineral Risk Contract in March 1997, relating to prospecting authorizations for mining regions where drilling and exploration are still in their early stages. The Mineral Risk Contract provides for the joint development of certain unexplored mineral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

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide US$205 million, which represents half of the US$410 million in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region over a period of five years. Under certain circumstances, this period may be extended for an additional two years. We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, at December 31, 2001, we and BNDES each had remaining commitments to contribute an additional US$77.5 million toward exploration and development activities. In the event that either one of us wishes to conduct further exploration and development after having spent such US$205 million, the contract provides that each party may either choose to match the other party's contributions, or may choose to have its financial interest proportionally diluted. If a party's participation in the project is diluted to an amount lower than 40% of the amount invested in connection with exploration and development projects, then the Mineral Risk Contract provides that the diluted party will lose (1) all the rights and benefits provided for in the Mineral Risk Contract and (2) any amount previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us for our contribution of existing development and ownership rights in the Carajás region through a finder's fee production royalty on 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.

Logistics

We conduct our logistics business, which comprises the transportation of third party products and passengers as follows:



The table below sets forth information regarding our third party logistics revenues and sales by geographic market for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
	(in millions of US$)				
Export market					
Latin America	US$ 5	US$ 13	US$ 30	US$ 16	US$ 52
United States	36	34	64	53	15
Europe	40	31	75	56	43
Middle East	2	3	6	3	3
Japan	31	9	15	8	9
Asia, other than Japan	15	9	5	7	3
Others	6	1	—	—	—
	135	100	195	143	125
Domestic sales	396	318	403	295	269
	US$531	US$418	US$598	US$438	US$394

Railroads

Vitória-Minas Railroad. The Vitória-Minas railroad, in the Southern System, originates near the city of Belo Horizonte and our Itabira mines in the state of Minas Gerais. We operate this railroad under a 30-year renewable concession granted by the Brazilian government in July 1997. This railroad extends 905 kilometers to our Tubarão marine terminal located near the port of Vitória in the state of Espírito Santo. The Vitória-Minas railroad consists of two lines of track extending for a distance of 601 kilometers to permit continuous railroad travel in opposite directions, and single-track branches of 304 kilometers.

Industrial manufacturers are located near this area and major agricultural regions are adjacent and accessible to the Vitória-Minas railroad. The Vitória-Minas rolling stock fleet consists of approximately 204 locomotives, 7,603 ore-cars, 5,879 cars for general cargo and 61 passenger cars. The Vitória-Minas railroad carried a total of 83.4 million tons of iron ore and other cargo in the first nine months of 2001 (of which 55.7 million tons consisted of cargo transported for third parties). The Vitória-Minas railroad also carried approximately 1.1 million passengers in the first nine months of 2001.

The principal cargo of the Vitória-Minas railroad consists of:

- iron ore, carried for us and other Brazilian mining companies,
- steel, coal and pig iron, carried for steel manufacturers located along the railroad, and
- limestone, carried for steel mills located in the states of Minas Gerais and Espírito Santo.

We charge market rates for third party freight, including pellets, aluminum and pulp and paper originating from joint ventures and other enterprises in which we do not own 100% of the equity interest. Market rates vary based upon the distance traveled, the kind of product and the weight of the freight in question.

The table below sets forth information regarding the cargo that the Vitória-Minas railroad transported for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Cargo	**1998**	**1999**	**2000**	**2000**	**2001**
			(thousands of tons)		
Third Party					
Iron ore and pellets	57,033	53,292	56,986	43,269	37,377
Steel	5,042	4,745	5,542	3,976	4,038
Coal	4,236	4,223	4,905	3,654	3,679
Pig iron	2,016	2,042	2,585	2,056	2,009
Limestone and dolomite	1,932	2,149	2,609	1,935	2,035
Grain	1,752	1,655	2,410	1,882	1,896
Coking coal	779	525	854	588	788
Oil	362	285	334	204	432
Other	3,523	4,143	4,284	3,114	3,456
Third party subtotal	76,675	73,059	80,509	60,678	55,710
CVRD Group					
Iron ore	26,473	26,322	29,338	21,944	26,250
Wood pulp	708	726	756	582	567
Other	925	722	1,281	994	844
CVRD Group subtotal	28,106	27,770	31,375	23,520	27,661
Total	104,781	100,829	111,884	84,198	83,371

Carajás Railroad. We operate the Carajás railroad under a 30-year renewable concession granted by the Brazilian government in June 1997. This railroad, located in the Northern System, starts at our Carajás iron ore mines in the state of Pará, and extends 892 kilometers to our Ponta da Madeira marine terminal facilities located near the port of São Luís in the state of Maranhão. The Carajás railroad consists of one line of track, with spur tracks and turn-outs to permit the passage of trains in opposite directions. The Carajás fleet consists of approximately 88 locomotives, 4,006 ore-cars, 745 cars for general cargo and 37 passenger cars. The Carajás railroad carried a total of 42.5 million tons of iron ore and other cargo in the first nine months of 2001 (of which 4.7 million tons, or 11.0%, consisted of cargo transported for third

parties). The Carajás railroad also carried approximately 326,000 passengers in the first nine months of 2001 and 475,000 passengers in 2000.

The table below sets forth information regarding the cargo the Carajás railroad transported for the periods indicated.

Cargo	For the Year Ended December 31, 1998	1999	2000	For the Nine Months Ended September 30, 2000	2001
	(thousands of tons)				
Iron ore					
CVRD Group	43,881	41,683	45,353	32,626	36,705
Third party	2,242	2,246	2,544	1,734	2,368
Manganese ore					
CVRD Group	898	807	1,339	975	1,097
Pig iron	1,243	1,321	1,526	1,027	1,303
Vehicles	306	120	142	103	75
Fuels	399	383	394	276	341
Soy beans	357	426	491	491	507
Other	120	114	127	79	119
Total	49,446	47,100	51,916	37,311	42,515

Other Investments. We hold a 20% interest in the voting capital of Centro-Atlântica, which operates the central east regional railway network of the Brazilian national railway system under a 30-year renewable concession granted by the government in August 1996. The central east network contains approximately 7,000 kilometers of track extending into the states of Sergipe, Bahia, Espírito Santo, Minas Gerais, Goiás, Rio de Janeiro and Distrito Federal. It connects with our Vitória-Minas railroad near the cities of Belo Horizonte and Vitória. Centro-Atlântica currently operates on the same track gauge as our Vitória-Minas railroad. Centro-Atlântica reported net revenues of US$81 million and a net loss of US$60 million in the first nine months of 2001 and net revenues of US$120 million and a net loss of US$40.7 million in 2000.

We also hold a 30% stake in the Malha Nordeste railroad through Companhia Ferroviária do Nordeste, known as CFN. The Malha Nordeste railroad operates under a 30-year concession granted by the Brazilian government in December 1997. Malha Nordeste is an existing rail line with 4,342 kilometers of track extending into the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas and Sergipe. The Malha Nordeste line comes close to our Carajás line in the Northern System but is built on a narrower gauge. The Malha Nordeste line requires significant modernization, and the owners are currently discussing the amount of investment required to effect the modernization. CFN reported net revenues of US$5 million and a net loss of US$10 million in the first nine months of 2001 and net revenues of US$9.8 million and a net loss of US$17.7 million in 2000.

We are part of a consortium which won the auction for a 30-year concession for the Malha Paulista railroad in November 1998. We currently hold 18.7% of the total capital in this consortium, which was incorporated as Ferrovias Bandeirantes S.A., or Ferroban. We entered into this concession for a price of US$205.7 million. Ferroban is a 4,236 kilometer railroad linking the states of São Paulo, Minas Gerais and Paraná. Ferroban reported net revenues of US$50 million and a net loss of US$34 million in the first nine months of 2001 and net revenues of US$65.7 million and a net loss of US$38.3 million in 2000.

In April 2001, we acquired 100% of Ferteco Mineração S.A. Ferteco owns 9.6% of the total capital and 17.2% of the voting capital of MRS Logística S.A. MRS is a 1,612 kilometer railroad which links the states of Rio de Janeiro, São Paulo and Minas Gerais, and has a capacity to transport 80 million tons per year. MRS operates under a 30-year renewable concession granted by the Brazilian government in November 1996.

The Brazilian government has the option to extend our railroad concessions when they expire. The table below sets forth the expiration date for each of our concessions:

Railroad	Concession Expiration Date
Centro-Atlântica	August 2026
MRS	December 2026
Vitória-Minas	June 2027
Carajás	June 2027
CFN	December 2027
Ferroban	December 2028

Ports and Terminals

We operate ports and terminals principally as a means to complete the distribution of our iron ore and pellets to ocean-going vessels serving the export market. For a detailed description of this distribution process, see "— Ferrous Minerals — Distribution." We also use our ports and terminals to handle third party cargo. In the first nine months of 2001, based on weight, 22% of the cargo handled by our ports and terminals represented cargo handled for third parties. In 2000, based on weight, 32% of the cargo handled by our ports and terminals represented cargo handled for third parties.

Tubarão/Praia Mole Marine Terminal. The Tubarão/Praia Mole marine terminal complex, which covers an area of approximately 18 square kilometers, is located near the port of Vitória in the state of Espírito Santo and has two piers. Pier I can accommodate two vessels at a time, one of up to 80,000 DWT on the southern side and one of up to 120,000 DWT on the northern side. Pier II can accommodate one vessel of up to 300,000 DWT at a time. In Pier I there are two shiploaders which can load up to a combined total of 14,000 tons per hour. In Pier II there are two shiploaders that work alternately and can each load up to 16,000 tons per hour. We operate a grain terminal, accessible by highway in the Tubarão area, with an annual capacity of 1.5 million tons and a maximum loading speed of 1,500 tons per hour. We also operate a bulk liquid terminal with a capacity of 2.0 million cubic meters. There are two berths in the Tubarão terminal: one is for transportation of grains, with a capacity of 3 million tons a year, and the other is for transportation of general cargo and fertilizers.

The table below sets forth information on cargo shipped through our Tubarão/Praia Mole marine terminal by tonnage for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Cargo	1998	1999	2000	2000	2001
	(thousands of tons)				
Iron ore and pellets					
CVRD Group	37,768	42,017	39,397	34,813	42,479
Third party	34,065	23,433	31,629	17,087	6,661
Coal	7,160	7,497	8,252	5,857	6,310
Grain	1,327	1,302	1,889	1,379	1,577
Cooking coal	973	603	999	627	835
Pig iron	1,774	1,867	2,081	1,662	1,433
Fertilizers	292	405	334	180	358
Other	1,339	3,023	4,770	4,485	3,858
Total	84,698	80,147	89,351	66,090	63,511

Ponta da Madeira Marine Terminal. The Ponta da Madeira marine terminal complex is located near the port of São Luís in the state of Maranhão. The Ponta da Madeira port facilities can accommodate two

vessels. Pier I can accommodate vessels displacing up to 420,000 DWT. Pier II can accommodate vessels of up to 155,000 DWT. The two berths have a maximum loading rate of 16,000 tons per hour at Pier I and 8,000 tons per hour at Pier II.

The table below sets forth information on cargo shipped through our Ponta da Madeira marine terminal by tonnage for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Cargo	1998	1999	2000	2000	2001
	(thousands of tons)				
CVRD Group					
Iron ore	42,921	41,531	46,178	34,068	36,420
Manganese ore	920	787	1,293	985	1,153
Third Party					
Pig iron	1,197	1,223	1,533	1,036	1,283
Soy beans	372	451	561	534	607
Total	45,410	43,992	49,565	36,623	39,463

Other Investments. In September 1994, we licensed the Inácio Barbosa marine terminal, located in the state of Sergipe, near our potash mine. Under the terms of the ten-year agreement we entered into with Sergiportos, a state-owned port company, we receive 40% of the net operating profit of the terminal and must manage the terminal.

In May 1998, we entered into a 25-year lease for the Capuaba marine terminal in Vitória, in the state of Espírito Santo. We shipped 789,000 tons of cargo during the first nine months of 2001 from Capuaba, and 1,833,000 tons of cargo during 2000.

In September 1998, we acquired a 50% indirect interest in the lease of the Sepetiba container terminal, operated by Sepetiba Tecon S.A. Companhia Siderúrgica Nacional, or CSN, holds the remaining 50% of Sepetiba Tecon. The lease has a term of 25 years and we can renew it for an additional period of 25 years. The price for the concession was approximately US$79 million, of which we have already paid US$33 million. The remainder is due in 276 monthly installments starting after the completion of certain investments by Companhia Docas do Rio de Janeiro required under the concession contract. We expect payments to start in January 2003.

Divestitures. In August 2001, we sold our 50% interest in the Rio Doce Pasha marine terminal, located in the port of Los Angeles in Los Angeles, California, to our partner in the joint venture, the Pasha Group, for approximately US$10 million. This marine terminal principally handles imports of steel slabs for California Steel Industries, Inc., or CSI, our steelmaking joint venture located approximately 60 miles inland from the terminal.

Shipping

Navegação Vale do Rio Doce S.A., known as Docenave, and its affiliated companies conduct our principal shipping activities. Founded in 1962 to support iron ore distribution, Docenave has since expanded its transportation capabilities to serve foreign and domestic third party customers.

We are currently seeking to divest our interests in our dry-bulk shipping business. In September 2001, we reached an agreement to sell six of Docenave's carrier vessels, with a total capacity of 592,240 DWT, to Empresa Naviera Elcano, S.A., a Spanish company, for US$53 million. This transaction is expected to close in February 2002. We intend to sell Docenave's remaining dry-bulk assets in the future, but have reached no agreement regarding this sale to date. Although Docenave's revenues increased by 67% in 2000 compared to 1999, this increase was largely offset by increased operating costs. Docenave reported an operating gain of US$18 million for the first nine months of 2001, and operating loss of US$18 million in 2000, compared to an operating loss of US$35 million in 1999. In addition to Docenave's overall lack of

profitability, our decision to sell our dry-bulk shipping fleet is also a result of the significant investment we would have to undertake to replace our existing fleet in the future. In addition to its dry-bulk activities, Docenave regularly operates charter vessels on short and medium-term charters, including an average of approximately 14 vessels in 2001.

The table below sets forth information on the cargo our shipping operations transported for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Cargo	**1998**	**1999**	**2000**	**2000**	**2001**
	(thousands of tons)				
Iron ore					
CVRD Group	3,317	1,328	3,058	6,296	5,575
Third party	13,780	12,514	15,608	7,203	6,865
Coal	7,986	6,541	7,452	5,117	3,729
Other	7,175	8,142	9,031	7,019	5,798
Total	32,258	28,525	35,149	25,635	21,967

Major customers of Docenave include steelmakers (iron ore exports), Alunorte (domestic bauxite purchases) and Brazilian steelmakers (coal imports).

Competition in the logistics industry

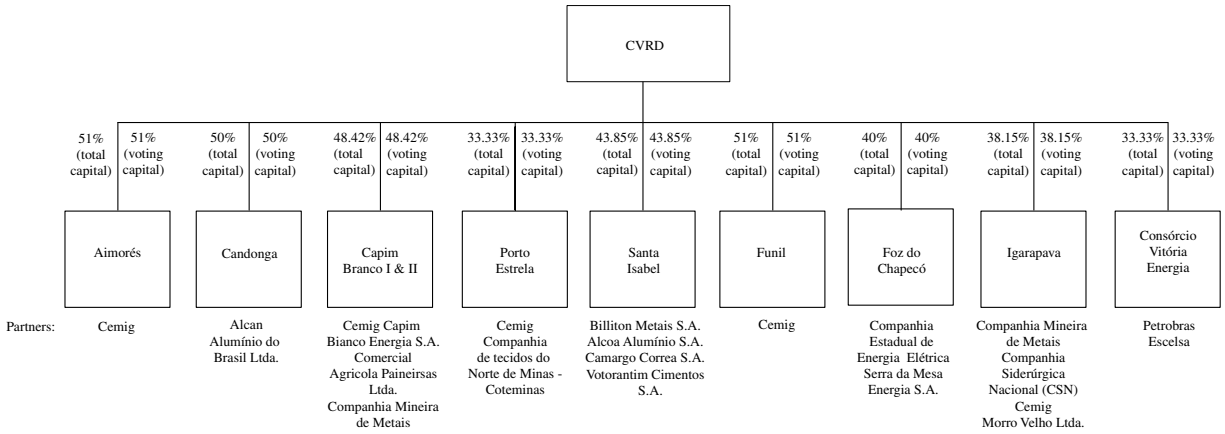
The lower costs of rail transport compared to road transport costs in the routes served by the Carajás railroad restrict the competition. Competition with the Vitória-Minas railroad is limited with respect to its principal minerals and bulk products cargo due to the comparative cost advantage of rail transport over road transport for the same routes. The local trucking industry provides competition for the Vitória-Minas railroad with respect to non-bulk cargo. The Centro-Atlântica railroad competes primarily with an established trucking industry to carry freight in the region it serves.

The Ponta da Madeira marine terminal does not face any significant competition due to its geographic distance from other comparable marine terminals and to its direct link with the Carajás railroad. The Tubarão/Praia Mole marine terminal faces limited competition for most types of cargo due to its direct link with the Vitória-Minas railroad. However, with respect to some types of cargo and origins, it encounters competition from the port of Rio de Janeiro and the port of Santos.

Our shipping services compete with a wide variety of international bulk shipping companies. Competition for tonnage can be quite intense. It depends principally on price, as well as the size, age, condition and acceptability of a vessel and its operator to the customer. Varying economic factors can cause wide swings in freight rates and sudden shifts in traffic patterns. Vessel redeployment and new vessel construction can also lead to an overcapacity of vessels offering the same service or operating in the same market.

Energy

We conduct our energy business as follows:



Among our partners in these investments, Companhia Energética de Minas Gerais, known as Cemig, Companhia Espírito Santo Centrais Eletricas, S.A., known as Escelsa, and Companhia Estadual de Energia Elétrica, known as CEEE, are state-government controlled companies. Cemig Capim Branco Energia S.A. is an affiliate of Cemig. Alcan Aluminio do Brasil Ltda. is an affiliate of Alcan Inc. Comercial e Agricola Paineiras Ltda. is an affiliate of Suzano Participações S.A. Petróleo Brasileiro S.A., known as Petrobrás, is controlled by the Brazilian government. Billiton Metais is a wholly-owned subsidiary of BHP Billiton. Serra de Mesa Energia S.A. is an affiliate of the VBC Group, which includes Votorantim Participações S.A., Banco Bradesco S.A. and Camargo Correa S.A. Companhia Mineira de Metais and Votorantim Cimentos are affiliates of Votorantim Participações S.A. Alcoa Aluminio S.A. is an affilate of Alcoa Inc. Mineração Morro Velho Ltda. is an affiliate of Anglo American Brasil Ltda., which in turn is affiliated with Anglo American PLC. Companhia de Tecidos do Norte de Minas, known as Coteminas, is affiliated with Coteminas International Ltd.

In 2000 and 2001, we consumed 12.47 TWh and 13.75 TWh of electricity, respectively. Energy management and supply has become a priority for us, driven both by the Brazilian government's privatization program of the industry, and by the risk of rising electricity prices and electricity rationing due to energy shortages, such as the one Brazil experienced in mid-2001. We currently perceive favorable investment opportunities in the Brazilian electricity sector and are taking advantage of them to invest in the hydroelectric power generation projects discussed below. These projects will sell their production to third parties in the power market, and, as a result, our energy department will be engaged in wholesale marketing activities. Our energy business is comprised of the sale but not the delivery of electricity. We may use some of the electricity from these projects for our internal needs. As we are a large consumer of electricity, we expect that investing in the energy business will help protect us against electricity price volatility.

We hold a 38.1% stake in the Igarapava hydroelectric power plant, which has an installed capacity of 210 MW and is located in Rio Grande, on the border between the states of São Paulo and Minas Gerais. The Igarapava plant started operations in September 1999. Our share of the power produced by the plant goes to the operational units in Itabira and Timbopeba, in Minas Gerais.

We hold a 33.3% stake in the Porto Estrela hydroelectric power plant, which has an installed capacity of 112 MW and is located on the Santo Antonio River, state of Minas Gerais. The electricity generated at the Porto Estrela plant is sold to the market, and we use a portion to support our operations at the Tubarão marine terminal.

The Aimorés plant is an ongoing hydroelectric generation project located in the Rio Doce basin in Minas Gerais. We expect the Aimorés plant to start operations in December 2003 with a projected installed capacity of 330 MW. We own a 51.0% stake in Aimorés, and our portion of the electricity generated from this plant will go to our industrial units located in the state of Minas Gerais.

In January 2000, we made the winning bid in an auction held by ANEEL, the Brazilian electricity regulatory agency, for the concession to build and operate the Candonga hydroelectric power plant, located on the Rio Doce, in the state of Minas Gerais. We have a 50.0% stake in the consortium which is to build a plant with an expected installed capacity of 140 MW, scheduled to start operations in November 2003.

In June 2000, we purchased a stake in the Funil hydroelectric power plant project, located in Rio Grande, in the state of Minas Gerais, which has an expected installed capacity of 180 MW. Plant construction began in October 2000, and the plant is scheduled to start operations in December 2002. We have a 51.0% stake in this project.

We have a 48.4% stake in the consortium that made the winning bid at the auction held by ANEEL in November 2000 for the Capim Branco I and II concessions (Capim Branco Energy Complex), located on the Rio Araguari, in the state of Minas Gerais. The plants have an expected installed capacity of 240 MW and 210 MW, respectively, and are due to be constructed consecutively. Capim Branco I and Capim Branco II are scheduled to start operations in 2004 and 2005, respectively.

We have a 40% stake in a consortium which won a 35-year public concession to build and explore the Foz do Chapecó hydroelectric power plant. The first unit of this power plant must be operational by July 2006. The concession was auctioned by ANEEL on June 28, 2001. The plant will be located on the Uruguai River, on the border of the states of Santa Catarina and Rio Grande do Sul, and has an expected capacity of 855 MW.

Our total investment in the hydroelectric projects at Igarapava, Porto Estrela, Funil, Candonga, Aimorés, Capim Branco I, Capim Branco II and Foz do Chapecó is estimated at US$504 million. We cannot assure you that the aggregate cost will not escalate or that the projects will be completed on schedule.

In February 2000, we signed an agreement with the Ministry of Mines and Energy for the development of the Vitória thermoelectric plant. We hold a 33.3% stake in a consortium that will build and operate the plant.

On November 30, 2001, we won a public concession to build and explore the Santa Isabel hydroelectric power plant, together with Billiton Metais S.A., Alcoa Alumínio S.A., Votorantim Cimentos S.A. and Camargo Corrêa S.A. We own 43.85% of the economic interest in this venture, which is a 35-year renewable concession. This plant must be operational within 84 months from the date of execution of the contract and is expected to have a capacity of 1,087 MW.

Due to the energy shortage, and in response to the Brazilian government's energy program, we temporarily reduced our aluminum and ferro-alloy production. For a description of these measures, see "Risk Factors — Risks Relating to Brazil — The Brazilian government's energy rationing program could adversely affect us," "Business — Our Lines of Business — Ferrous Minerals — Manganese and Ferro-Alloys," "— Our Lines of Business — Holdings — Aluminum Business — Albras" and "— Our Lines of Business — Holdings — Aluminum Business — Valesul."

Holdings

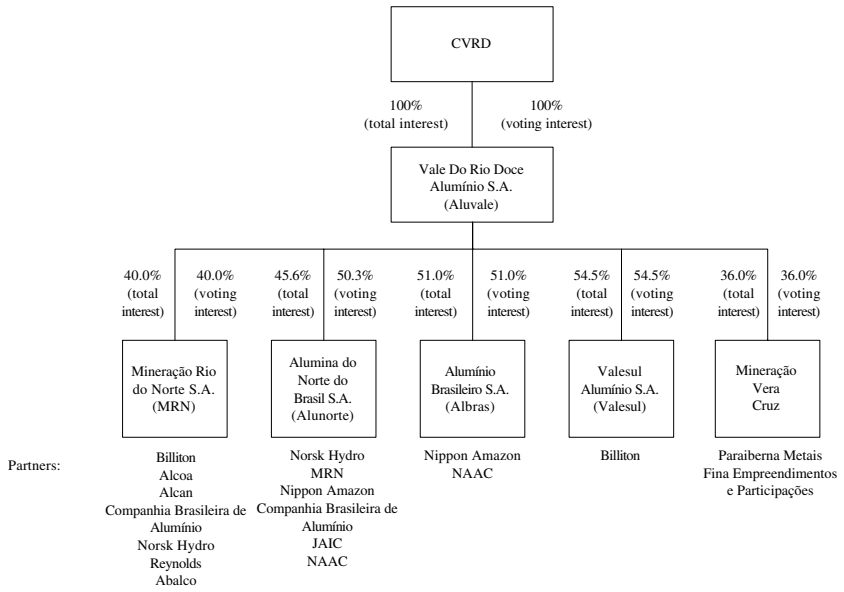
Our holdings are comprised primarily of our aluminum operations, our pulp and paper business and our interests in the steel industry. We are currently selling our pulp and paper business, as well as some of our interests in the steel industry.

The table below sets forth information regarding our holdings revenues and sales by geographic market for the periods indicated.

	For the Year Ended December 31,							For the Nine Months Ended September 30,					
	1998		1999		2000			2000			2001		
	Pulp & Paper	Aluminum	Pulp & Paper	Aluminum	Pulp & Paper	Aluminum	Steel	Pulp & Paper	Aluminum	Steel	Pulp & Paper	Aluminum	Steel
Export market													
Latin America	US$—	US$105	US$ —	US$ 5	US$ —	US$ 23	US$—	US$ —	US$ 17	US$—	US$—	US$ 8	US$—
Europe	43	269	39	146	48	237	—	—	172	—	7	161	—
Middle East ...	—	—	—	—	—	16	—	—	16	—	—	—	—
Japan	—	—	—	94	—	34	—	—	34	—	—	—	—
United States ..	37	44	62	23	73	39	—	114	34	—	42	33	—
Asia, other than Japan	—	—	—	50	—	2	—	—	1	—	—	23	—
Others	—	1	—	—	—	—	—	—	—	—	—	—	—
	80	419	101	318	121	351	—	114	274	—	49	225	—
Domestic sales ...	8	65	10	62	21	12	1	9	11	1	7	1	—
	US$88	US$484	US$111	US$380	US$142	US$363	US$ 1	US$123	US$285	US$ 1	US$56	US$226	US$—

Aluminum Business

We conduct our aluminum business as follows:



Our wholly-owned subsidiary, Aluvale, manages our aluminum operations through participation in joint ventures that engage in:

- mining bauxite,
- refining bauxite into alumina, and
- using alumina to produce primary aluminum and aluminum alloys.

Aluvale's principal operating activity consists of marketing the aluminum produced by Albras — Alumínio Brasileiro S.A., or Albras, and Valesul Alumínio S.A., or Valesul. Gross revenues from aluminum products totaled US$224 million in the first nine months of 2001, and US$363 million in 2000.

Bauxite

MRN, the largest bauxite producer in Latin America and one of the largest in the world, produces bauxite for sale to its joint venture partners. Excess production may be sold to third parties. MRN operates two open-pit bauxite mines which produce high quality bauxite. In addition, MRN controls substantial additional high quality bauxite resources which it believes can be produced economically in the future. MRN had net revenues of US$148 million and net income of US$53 million in the first nine months of 2001, and net revenues of US$217 million and net income of US$91 million in 2000.

MRN's mines are located in the northern region of the state of Pará. The table below sets forth information regarding MRN's bauxite reserves at December 31, 2000. The estimates of mineral reserves have been audited and verified by MRDI.

		Proven and Probable Reserves(1)	
Mine	**Type**	**Ore Tonnage (millions of tons)**	**Grade (% Al203)**
Mineração Rio do Norte(2)	Open pit	166.8	50.5

(1) Reported as recoverable product.

(2) Includes two active mines.

Operations at MRN's mines commenced in 1979 and are projected to exhaust in 2016 at 2000 production levels. For the first nine months of 2001 and 2000, and for the years 2000, 1999, and 1998, production equaled 7.9 million, 8.2 million, 11.2 million, 11.0 million, and 10.1 million tons, respectively.

MRN operates ore beneficiation facilities at its mines, which are connected by rail to a loading terminal and port facilities on the Trombetas River. The Trombetas River is a tributary of the Amazon River, and MRN's port facilities can handle vessels of up to 50,000 DWT. MRN owns and operates the rail and the port facilities serving its mines. The MRN bauxite mines are accessible by road from the port area and obtain electricity from their own thermoelectric power station.

MRN is undertaking an expansion of its capacity from 11.0 million tons to 16.3 million tons in 2003. The cost of this expansion is estimated at US$206 million.

Alumina

Alunorte began operations in July 1995 and produces alumina by refining bauxite which MRN supplies. The Alunorte plant has a production capacity of 1.5 million tons of alumina per year. In the first nine months of 2001 and in 2000, it produced 1.2 million and 1.6 million tons, respectively. Alunorte sells the major portion of its production to Albras, Valesul and Aluvale for the production of aluminum. The Alunorte plant is located near Belém in the state of Pará next to Albras's aluminum production facilities. This allows Alunorte and its principal customer to share infrastructure and other resources. Alunorte had net revenues of US$227 million and a net loss of US$79 million in the first nine months of 2001 and net revenues of US$322 million and net income of US$23 million in 2000.

With the exception of MRN, each Alunorte joint venture partner must purchase on a take-or-pay basis all alumina produced by Alunorte in proportion to its respective interest. MRN also has the right, but not the obligation, to purchase its share of Alunorte's production. The joint venturers each pay the same price, which is determined by a formula based on prevailing world market prices of alumina and aluminum. In the aggregate, we are committed to take-or-pay 465,816 metric tons per year of alumina

produced by Alunorte, which at a market price of US$194.17 per metric ton at September 30, 2001, represents an annual commitment of US$90 million.

In 2000, Alunorte's partners agreed to contribute an additional US$126 million in equity capital to expand Alunorte's capacity from 1.5 million tons of alumina per year to 2.3 million tons by 2002, a project which is expected to cost approximately US$280 million. Our share of this contribution is US$42 million to be paid over six installments. Due to this contribution, our equity interest in Alunorte will be diluted to 44.4% of the total capital by 2002, although our voting interest will remain unchanged at 50.3%.

Aluminum

Albras and Valesul each produce aluminum using alumina which Alunorte supplies. Alunorte has supplied all of Albras's alumina requirements since October 1995. Albras produces aluminum ingots and Valesul produces aluminum ingots, slabs, bars, billets and alloys. Aluminum is produced from alumina by means of a continuous electro-chemical process which requires substantial amounts of electricity.

Albras

The Albras plant is one of the largest aluminum plants in Latin America, with a capacity of approximately 406,000 tons per year. Albras started its operations in 1985 at a plant located near Belém in the state of Pará. Albras had net revenues of US$383 million and a net loss of US$72 million in the first nine months of 2001, and net revenues of US$551 million and net income of US$129 million in 2000.

The Albras joint venture partners must purchase on a take-or-pay basis all aluminum produced by Albras in proportion to their ownership interests which represents an annual commitment from us of US$275 million. See note 15(d) to our consolidated financial statements. We generally market our share of Albras's output in international export markets.

The table below sets forth information regarding Albras's recent aluminum production and our recent purchases from Albras.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Aluminum	**1998**	**1999**	**2000**	**2000**	**2001**
	(thousands of tons)				
Albras production	342.0	358.0	366.0	275	261
Our purchases from Albras	174.0	183.0	187.0	140	133

At September 30, 2001, Albras had US$583 million of long term outstanding debt, of which US$210 million was denominated in Japanese yen (approximately 57% of which was hedged into U.S. dollars). To reduce the impact of price fluctuations and to assure adequate cash flow, Albras engages in hedging activities from time to time, usually through one-year forward sales. For more information on these hedging activities, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Market Risk — Commodity Price Risk."

In 2001, Albras obtained a financing package with BNDES aimed at financing the expansion of the Albras plant from a capacity of approximately 366,000 tons per year to a capacity of approximately 406,000 tons per year. In 2001, Albras invested US$25.5 million in this expansion project, which was completed in the fourth quarter of 2001. The total cost of this project was US$55 million. Consequently, Albras' production capacity increased by 40,000 tons.

Electricity. The production of aluminum requires a continuous flow of substantial amounts of electricity. Albras purchases electrical power from Eletronorte, a state-owned electric power utility. Eletronorte generates electricity at the Tucuruí hydroelectric power plant located on the Tocantins river. This plant is the sole source of electrical power in the region in the quantities required for Albras's operations. Albras consumes approximately one-quarter of the constant (year round) output of the Eletronorte plant.

We currently benefit from a contract between Albras and Eletronorte pursuant to which Albras is able to purchase electricity at favorable rates. This contract is scheduled to expire in 2004. We cannot assure you that we will be able to renew this contract on the same or similarly favorable terms. We, together with other aluminum producers in the region, are currently investigating alternative electricity sources. For a detailed description of our investments in alternative electricity sources, see "— Our Lines of Business — Energy."

Due to the energy shortage and the Brazilian government's energy rationing program which required an energy consumption decrease of 25% for aluminum related activities, we reduced 2001 aluminum production at Albras by 46,000 tons to 333,000 tons from the previously planned 379,000 tons. Despite this mandatory temporary reduction, we continue to pursue our long-term plan to expand our aluminum operations. In January 2002, Albras began operating at full production capacity, which has increased to 406,000 tons following the completion of the Albras plant expansion project. For information on the risk associated with the Brazilian government's energy rationing program, see "Risk Factors — Risks relating to Brazil — The Brazilian government's energy rationing program could be adversely affect us."

Valesul

Valesul started its operations in 1982 and operates a plant located in the state of Rio de Janeiro. Valesul produces primary aluminum and aluminum alloys in the form of ingots, slabs, bars and billets. Valesul's aluminum is sold primarily in the domestic Brazilian market on a spot basis. Valesul had net revenues of US$103 million and a net income of US$15 million in the first nine months of 2001, and net revenues of US$148 million and net income of US$21 million in 2000.

The table below sets forth information regarding Valesul's primary aluminum production, third party scrap recycled by Valesul and our recent tolling acquisitions from Valesul.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
Aluminum	**1998**	**1999**	**2000**	**2000**	**2001**
	(thousands of tons)				
Valesul production	93.6	91.7	93.8	68.5	61.2
Third party scrap recycled	15.4	20.1	19.5	14.4	15.3
Our acquisitions from Valesul	59.8	50.7	—	—	—

At the end of 1999, Aluvale and Billiton, Valesul's shareholders, decided to terminate the tolling agreement in force since 1987. Consequently, since January 1, 2000, Valesul independently purchases its raw material requirements and operates as a company in its own right.

Electricity. Valesul currently obtains approximately 20% of its electrical energy requirements from four of our hydroelectric power plants located in the state of Minas Gerais and the remainder from a third party power company at market rates. The Brazilian federal power system uses a two-tiered (peak and off-peak) rate structure, with electricity during peak hours costing considerably more than off-peak electricity. Valesul has invested substantial amounts to reduce its electricity cost during peak hours. If its initiatives are successful, Valesul could realize substantial cost savings in producing aluminum. To address Valesul's need for reliable electrical power sources, we have built a ten megawatt hydroelectric power plant at Rio Preto in the state of Minas Gerais, which began operations in October 1997. Valesul is also a participant in another power plant, known as Machadinho, that will be operational in 2002 and will ensure a self-sufficient power supply in peak hours.

Due to the energy shortage and the Brazilian government's energy rationing program which required an energy consumption decrease of 25% for aluminum related activities, we reduced 2001 aluminum production at Valesul by 13,000 tons to 80,000 tons from the previously planned 93,000 tons. Valesul decreased the production of ingots, a commodity traded on the London Metal Exchange. Valesul did not alter the production of higher value added products, such as alloys and billets, that are sold under contracts with customers. Despite this mandatory temporary reduction, we continue to pursue our long-

term plan to expand our aluminum operations. For information on the risks associated with the Brazilian government's energy rationing program, see "Risk Factors — Risks Relating to Brazil — The Brazilian government's energy rationing program could adversely affect us."

Competition in the Aluminum Business

Competition in the bauxite export market is based primarily on two key factors: quality of bauxite and reliability of purchasers. We believe that MRN remains competitive in this market because of:

- the high quality of Brazilian bauxite, and
- our aluminum production system which ensures internal use of our bauxite production.

Quality, price and reliability of supply drive competition in the alumina market. We believe that Alunorte is competitive in the alumina market because of:

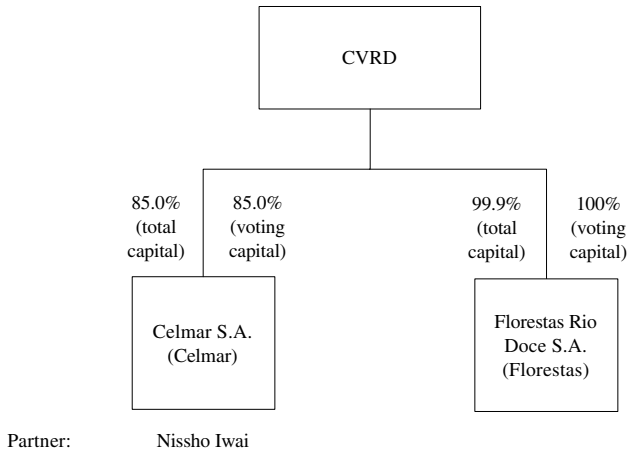
- its proximity to MRN's bauxite mines,
- its newly developed refinery facilities,
- its efficient port facilities, and
- the on-going support of its owners in committing to purchase a substantial portion of its annual production.

Aluminum is a commodity and competition is based primarily on the economics of transportation and the costs of production. We believe that Albras is competitive in the aluminum market because of:

- its relatively efficient and accessible port facilities, and
- its generally prevailing lower costs of production.

Pulp and Paper Division

We conduct our pulp and paper business as follows:



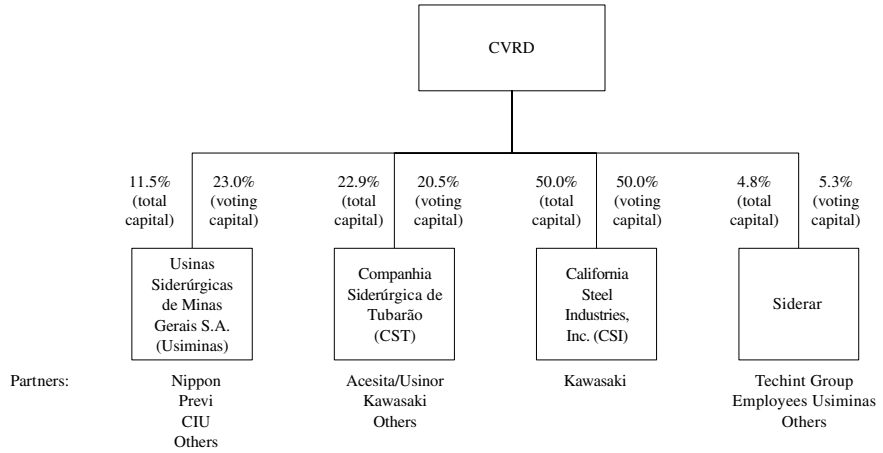
In the first half of 2001, we sold our 32% ownership interest in Bahia Sul Celulose S.A., known as Bahia Sul, to our joint venture partner Companhia Suzano de Papel e Celulose, or Suzano, for approximately US$320 million. Under the terms of the acquisition agreement, Suzano agreed to guarantee Bahia Sul's debt of US$116 million. Of this amount, US$70 million is guaranteed directly by Suzano and US$46 million is guaranteed by us. Suzano has agreed to indemnify us in case we must perform under the guarantee.

On September 14, 2001, we concluded the sale of our 51.5% stake in Celulose Nipo-Brasileira S.A., known as Cenibra, to the Japanese consortium which held the other 48.5% stake in Cenibra, for US$670.5 million.

Our remaining interests in the pulp and paper industry currently consist of our Celmar S.A. joint venture with Japanese partners, and our forestry subsidiary, Florestas Rio Doce S.A. We continue to explore the divestiture of these businesses in order to concentrate on our core mining, logistics and energy businesses.

Steel Business

We conduct our steel business as follows:



In line with our strategy to consolidate and focus on mining, logistics and energy, on December 31, 2000 we reached an agreement to unwind our cross holdings with CSN, which we completed in March 2001. Additionally, in December 2000 we exchanged our 2.28% interest in Aço Minas Gerais S.A., or Açominas, a privately held steel company for US$10 million worth of preferred shares of Gerdau S.A., a publicly listed steel holding company, which shares we intend to sell in the future. We might cease owning shares in Usiminas in the future, in which case, our steel investments will be in CST, Siderar, and one steelmaker in the United States, CSI. CSI is the principal purchaser of slabs from CST, with whom we have an exclusive supply contract for iron ore and pellets. In addition, our participation in CSI gives us access to and experience dealing with the U.S. market, where we currently have a very small market share. For these reasons, we intend to hold our investment in CSI.

The following table sets forth information on our continuing interests in makers of steel products.

Investment	Location	2000 Production (millions of tons) (1)	2000 Net Revenues (in millions of US$) (2)	Principal Products
CSI	United States	1.8	721	Hot-rolled steel; cold-rolled steel; galvanized steel; steel tubes
CST(3)	Brazil	4.9	1,008	Steel slabs
Usiminas	Brazil	4.5	1,224	Hot-rolled steel; cold-rolled steel; heavy steel plates; electro galvanized steel
Siderar	Argentina	2.3	928	Hot-rolled steel; cold-rolled steel; galvanized steel; tin plates

(1) Production in million of tons of crude steel for all steelmakers except CSI, and in millions of tons of finished products for CSI.

(2) Represents amounts translated from local financial statements and converted into U.S. dollars (where applicable) at prevailing year-end exchange rates.

(3) We are party to a shareholders' agreement which permits us to participate in a control group.

The market value of our investments in CST, Usiminas, and Siderar, all of which have publicly traded equity, was US$135 million at September 30, 2001. The aggregate net book value of our investments in steel producing companies was US$563 million at September 30, 2001. We earned US$27 million in dividends from these investments in 2000, and US$26 million in the first nine months of 2001.

Fertilizers

We conduct our fertilizer business primarily through our stake in Fertilizantes Fosfatados S.A., or Fosfértil, a company that produces and sells nitrate and phosphate based fertilizers. Our total and voting interest in Fosfértil is 11.0%. Our main partner in Fosfértil is Fertifós-Administração e Participações S.A.

E-Business

In 2000, we acquired an ownership interest in Quadrem International Holding Ltd., which operates a global procurement website (an "e-procurement portal") for the mining and metallurgical industries. Quadrem was launched in the last quarter of 2001.

The table below sets forth information regarding share ownership by each company owning more than 5% of the shares in Quadrem:

Name	Shares Owned	Percent of Company
Alcan Finances (Bda) Ltd.	118,782	9%
Anglo American Luxembourg S.A.	118,782	9
BHP Holdings (Resources) Inc.	118,782	9
Itabira Rio Doce Company Ltd.	118,782	9
Rio Tinto Overseas Holdings Limited	118,782	9
Alcoa International Holdings Company	79,188	6
Codelco International Limited	79,188	6
Compagnie Générale de Participation Industrielle et Financière	79,188	6
Phelps Dodge Corporation	79,188	6
WMC Resources International Pty Ltd. Corp.	79,188	6

Each of the remaining eleven companies that participate in Quadrem holds 3% or less of the total shares.

We have committed to provide US$9 million in funding for Quadrem. All of our partners have also committed to provide funds in proportional amounts relative to their share in Quadrem.

In September 2000, we incorporated Valepontocom S.A., a vehicle for development of and participation in e-business. With an initial investment of US$50 million to be made up to the end of 2001, Valepontocom plans to participate in portals, both vertical (industry-specific) and horizontal (goods and services common to all industries), in order to provide negotiation and delivery services to customers using our transportation assets and those of third-parties.

In February 2001, Valepontocom launched Solostrata (www.solostrata.com.br), a portal that provides a virtual marketplace in which farmers may buy and sell their products. Solostrata seeks to facilitate input and product transactions as well as logistics services. Presently, Solostrata is 100% owned by

Valepontocom, but, in the future, it may have additional shareholders. In 2001, we invested US$4.9 million in this new venture.

In April 2001, Valepontocom launched Multistrata. Multistrata was designed to create an electronic marketplace for logistics services, particularly railroads, in the Mercosur region. Multistrata operates a website (www.multistrata.com.br) which provides a link between providers of logistics services and their clients, and also provides consulting services relating to logistics. The Multistrata website also provides daily news on the logistics business. During its initial phase, Multistrata will be dealing with the following sectors: agriculture, mining, chemical, steel, cement, pulp and paper and containers logistics. In later stages, it intends to render services to the beverage, food, pharmaceutical and electronics sectors. In Brazil, the Internet industry is not subject to any specific regulation.

At September 30, 2001, we had invested US$23 million in our e-business ventures. All e-business related projects are still in the implementation phase and have not generated any revenue to date. Due to the evolving and uncertain nature of e-commerce, we are unable to predict if and when these operations will be profitable.

Regulatory Matters

Under the Brazilian Constitution, all mineral resources in Brazil belong to the Brazilian government. The Brazilian Constitution requires that mining companies incorporate in accordance with Brazilian law.

The Brazilian Constitution and Mining Code impose on mining companies various regulatory restrictions relating to, among other things:

- the manner in which mineral deposits are exploited,
- the health and safety of workers,
- the protection and restoration of the environment,
- the prevention of pollution, and
- the promotion of local communities where mines are located.

Mining companies in Brazil can only prospect and mine for mineral resources pursuant to prospecting authorizations or mining concessions granted by the National Mineral Production Department, *Departamento Nacional de Produção Mineral,* or DNPM, an agency of the Ministry of Mines and Energy of the Brazilian government. DNPM grants prospecting authorizations to a requesting party for an initial period of three years. These authorizations are renewable at DNPM's discretion for another period of one to three years, provided that the requesting party is able to show that the renewal is necessary for proper conclusion of prospecting activities. On-site prospecting activities must start within 60 days of official publication of the issuance of a prospecting authorization. Upon completion of prospecting activities and geological exploration at the site, the grantee must submit a final report to DNPM. If the geological exploration reveals the existence of a mineral deposit that is economically exploitable, the grantee will have one year (which DNPM may extend) from approval of the report by DNPM to apply for a mining concession or to transfer its right to apply for a mining concession to a third party. When a mining concession is granted, the holder of the concession must begin on-site mining activities within six months. DNPM grants mining concessions for an indeterminate period of time lasting until the exhaustion of the mineral deposit. Extracted minerals that are specified in the concession belong to the holder of the concession. With the prior approval of DNPM, the holder of a mining concession can transfer it to a third party that is qualified to own concessions. In some cases, mining concessions are challenged by third parties.

The Brazilian government taxes mining companies on the basis of minerals extracted. It also imposes other financial obligations. For example, mining companies must compensate both private property owners for damage and loss of income caused by use and occupation of land and state or municipal governments where the mine is located. In the case of mining on private lands, mining companies must share

production with landowners. A substantial majority of our mines and mining concessions are on lands owned by us or on public lands for which we hold mining concessions.

Environmental Matters

Federal, state and municipal legislation contain provisions for the control and protection of the environment in Brazil. These laws oversee the reclamation and restoration of mined areas, the control of atmospheric emissions, the treatment of industrial effluents, as well as the use, handling and final disposal of hazardous materials. It is possible that current environmental regulations will become more strict in the future. The strengthening of these laws may lead to greater costs for environmental compliance.

In order to conduct our mining and industrial activities, we must prepare environmental impact assessments and submit them to authorities who oversee the granting of environmental permits. We are committed to complying with all legal requirements and to achieving the best relationship with the interested parties, especially the communities located near its operational activities. The implementation of the environmental management system in all of our installations and operations provides a systematic approach for the improvement of the legal compliance and the environmental performance of our activities.

Patents and Trademarks

We hold a significant number of patents, registered with the U.S. Patent and Trademark Office, and with the Brazilian *Instituto Nacional de Propriedade Industrial,* or INPI, governmental agencies responsible for the granting and registration of patent and trademarks rights in the United States and in Brazil, respectively. The majority of our patents relate to proprietary ore dressing processes. One of our most successful patents relates to a concentration process for lower grade iron ore, generally known as itabirite, which is widely used by other iron ore mining companies around the world. We are currently conducting technological research to permit commercial exploitation of our deposits of hard itabirites.

We have registered the "CVRD" trademark and our proprietary logo with the INPI related to the following categories:

- minerals in general,
- geology, prospecting, topography, photogrammetry, oceanography and land survey services,
- processing, treatment and dressing services in general,
- cargo transport services,
- ancillary services to transportation and warehousing, and
- research and analysis services of material for industrial purposes.

We renew our trademark registrations with the INPI every ten years.

Insurance

We carry insurance covering various types of risks, such as general liability, liability of officers and directors, automotive vehicles, fire, operational risks, operational risks of marine terminals and transportation of precious minerals, as well as group life insurance policy, insuring our employees. The policies are currently in full force and the related premiums were duly paid. We believe that our insurance coverage is adequate for the scope of our operations.

Employees

The table below sets forth the number of our employees by category at the dates indicated.

	At December 31,		At September 30,
	1999	2000	2001
Mining (other than gold)	5,231	5,853	7,132
Transportation	3,862	2,177	4,030
Gold	587	555	528
Other operational(1)	553	2,241	645
Administrative	510	616	1,069
Total	10,743	11,442	13,404

(1) Does not include pelletizing, aluminum, or pulp and paper joint venture employees.

We establish our annual wage and benefits programs in July of each year following negotiations with our unions. In July 2001, our final proposals to our unions included a 6% salary increase, additions to the list of available medications, provisions for college materials for employees and annual bonus amounts. The provisions of our collective bargaining agreements with our unions also apply to our non-union employees. We have not suffered any material economic loss as a result of labor strikes or stoppages.

Since 1973 we have sponsored a defined benefit pension plan, known as the old plan, covering substantially all employees, with benefits based on years of service, salary and social security benefits. This plan is administered by VALIA, and is funded by monthly contributions we and our employees make, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new pension plan, which is primarily a defined contribution plan with a benefit feature relative to service prior to May 2000, known as the new plan, and offered our active employees opportunity to transfer to the new plan. Over 98% of our active employees opted to transfer to the new plan. The old plan will continue in existence, covering almost exclusively retired participants and their beneficiaries. In the first nine months of 2001 and 2000, we contributed approximately US$17 million and US$37 million, respectively, to VALIA to fund the new plan and the old plan. In addition, on March 9, 2001 we transferred our 10.3% interest in shares of Companhia Siderúrgica Nacional to the new plan, as a special contribution valued at US$249 million, equivalent to the value of such shares (determined based on their weighted average price in the last thirty trading sessions on the São Paulo Stock Exchange during the period ended on March 9, 2001). We also provide scholarships and apprenticeships at our corporate vocational centers. We believe our relations with our union employees and other employees are good.

Our employees have an equity stake in our business. On May 20, 1997, in connection with our ongoing privatization, the Brazilian government completed the sale of 11,120,919 common shares and 8,744,308 preferred shares to Investvale, an association of our current and retired employees and certain affiliates, at per share prices representing substantial discounts to prevailing market prices.

Legal Proceedings

We and our subsidiaries are defendants in numerous legal actions in the normal course of business, including civil, administrative, tax, social security and labor proceedings. We have set aside or deposited in court amounts to cover estimated contingency losses due to adverse legal judgments. Based on the advice of our legal counsel, we believe that the provision made against contingent losses is sufficient to cover probable losses in connection with such actions.

Conselho Administrativo de Defesa Econômica, known as CADE, the Brazilian antitrust regulator, has been conducting inquiries into our principal lines of business to determine whether undue concentration exists in our respective industries. One of such inquiries that CADE made was in the context of our

privatization and involved our railroad system. In November 2001, CADE issued a favorable opinion regarding this matter, on condition that we periodically provide certain financial information to CADE and to the Ministry of Transportation.

Numerous lawsuits challenging the legality of our privatization are pending, including a number of class-action lawsuits. None of these lawsuits has blocked the implementation of the privatization to date. We do not believe that, individually or in the aggregate, these actions will adversely affect the course of the privatization process or otherwise have a material adverse effect on us.

We are currently a defendant in two separate actions brought by the municipal government of Itabira, state of Minas Gerais. It alleges that our Itabira iron ore mining operations have caused environmental and social damages. In one action, the municipal government of Itabira is asking for land recovery and restoration of degraded land, a remedy that could involve substantial expenditures. In the other action, the municipal government is claiming the right to be reimbursed for expenses it has incurred in connection with public services rendered as a consequence of our mining activities. We are vigorously defending the pending actions. We believe they are without merit.

We have been subpoenaed as a defendant in a public civil action seeking to annul the concession agreement through which we and certain other defendants operate the Praia Mole port terminal. The case is in its initial stages and we believe that the claim is without merit.

MANAGEMENT

Executive Officers

The executive officers are our legal representatives and are responsible for our internal organization and day-to-day operations and the implementation of the general policies and guidelines set forth by the board of directors. Our by-laws provide for a minimum of three and a maximum of six executive officers. The board of directors appoints executive officers for three-year terms and may remove them at any time. According to the Brazilian Corporation Law and to our by-laws, executive officers must be Brazilian residents. The executive officers hold regularly scheduled meetings on a weekly basis and hold additional meetings when called by any executive officer.

We are in the process of revising our corporate governance model in order to, among other things, improve the efficiency of our decision-making process. We are also defining metrics of value creation, which will improve the transparency in our communications with our investors. On April 7, 1999, the general meeting approved an amendment to our by-laws to alter the structure of the executive officers' board. As a result, we now have one chief executive officer and up to five executive officers, each responsible for business areas that the board of directors assigns to them. On October 24, 2001, the board of directors approved a new management structure with the following areas:

- Ferrous Minerals,
- Non Ferrous,
- Holdings and Business Development (including energy),
- Logistics,
- Finance,
- Planning and Control and Investor Relations, and
- Human Resources and Corporate Services.

The table below lists our current executive officers.

Name	Year of Appointment	Position	Age
Roger Agnelli	2001	Chief Executive Officer	41
Armando de Oliveira Santos Neto	2001	Executive Officer (Ferrous Minerals)	51
Antônio Miguel Marques	2001	Executive Officer (Holdings and Business Development and Non-Ferrous)	44
Guilherme Rodolfo Laager	2001	Executive Officer (Logistics)	44
Gabriel Stoliar	2001	Executive Officer (Planning and Control, Finance and Investor Relations)	46
Carla Grasso	2001	Executive Officer (Human Resources and Corporate Services)	39

We have summarized below the experience, areas of expertise, and principal outside business interests of our current executive officers.

Roger Agnelli. Since July 2001, Mr. Agnelli has been our chief executive officer. He served as chairman of our board of directors from April 2000 to July 2001. He also served as a member of the board of directors of VBC Energia S.A., Companhia Paulista de Força e Luz, Companhia Siderurgica Nacional (CSN), Brasmotor S.A., Globo Cabo S.A. and Latas de Alumínio S.A. He also served as the chief executive officer of Bradespar S.A. from March 2000 to July 2001. Mr. Agnelli worked for 22 years with Banco Bradesco S.A., where he started his career as an investment analyst and served

as Executive Director from 1992 to 2000. Mr. Agnelli has a degree in Economics from Fundação Alvares Penteado.

Armando de Oliveira Santos Neto. Mr. Santos was appointed as an executive officer of our ferrous minerals area in October 2001. Since 1970, Mr. Santos has held many different positions within the CVRD Group, including trainee at the railway division, assistant to the chief executive officer and marketing manager at Rio Doce America, Inc., or RDA, sales manager of the Far East area, coordinator for planning and sales promotion, general manager and director of Rio Doce International S.A., or RDI, general sales manager and executive officer of the iron ore division, as well as commercial officer and executive officer of RDA. Mr. Santos has a degree in civil engineering from the Universidade Federal do Espírito Santo (UFES).

Antônio Miguel Marques. Mr. Marques was appointed as an executive officer of our holdings, business development and non-ferrous minerals area in October 2001. Prior to that, Mr. Marques has held various positions at Caraíba Metais S.A. Indústria e Comércio, DuPont do Brasil S.A., Billinton Metais S.A., Paranapanema Group and Votorantim Group. Mr. Marques has a degree in engineering from the Universidade Federal de Ouro Preto. He received his post-graduate degree in Mineral Treatment at the Universidade Federal de Minas Gerais (UFMG) and obtained an MBA from COPPEAD, at Universidade Federal do Rio de Janeiro (UFRJ).

Guilherme Rodolfo Laager. Mr. Laager was appointed as an executive officer of our logistics area in September 2001. Mr. Laager served as logistics, supplying and technological information director for AMBEV, Companhia de Bebidas das Américas from 1989 until August 2000. Mr. Laager has a degree in civil engineering from the Universidade Federal do Rio de Janeiro (UFRJ) and obtained an MBA in business administration from COPPEAD, also at UFRJ.

Gabriel Stoliar. Since April 14, 1999, Mr. Stoliar has served as our chief financial officer and as our chief accounting officer. In September 1997, he was appointed as an executive officer of the corporate center and investor relations area. In 1994, he was appointed director of BNDESPAR. In 1991, Mr. Stoliar assumed the position of superintendent of the operational division responsible for the areas of mining, metallurgy, chemicals, petrochemicals, pulp and paper. He was hired by BNDESPAR in 1988 as manager of operations in the area of capital, electronic and consumer goods. In 1982, he was promoted to manager of BNDES for the project area of FINSOCIAL. In 1978, he was hired by BNDES as an analyst in the area of pulp, paper and petrochemicals. Mr. Stoliar began his career as a business organization consultant at the Institute of Economic and Management Development of the Federation of Industries of Rio de Janeiro. Mr. Stoliar obtained an engineering degree from Universidade Federal do Rio de Janeiro, a post graduate degree in production engineering and an MBA from PDG/EXEC-SDE in Rio de Janeiro.

Carla Grasso. Mrs. Grasso was appointed as an executive officer of human resources and corporate services area in October 2001. Prior to joining us, Mrs. Grasso served as an economic assistant to the President of Brazil. She has also been deputy coordinator of fiscal policy at the Ministry of the Economy and has held a variety of positions at the Ministry of Social Security. In 1997, she was appointed as an executive officer of Fundação Vale de Rio Doce de Habitação e Desenvolvimento Social (FVRD). Mrs. Grasso has both a degree in Economics and a master in Economics from Universidade de Brasilia (UNB).

Board of Directors

The *conselho de administração,* the board of directors, is our decision-making body responsible for determining general guidelines and policies for our business, our wholly-owned subsidiaries and controlled companies, and for formulating and expressing our policies. The board of directors is responsible for supervising the executive officers. It also monitors the executive officers' implementation of the general guidelines and policies. The board of directors holds regularly scheduled meetings on a monthly basis and holds additional meetings when called by its chairman, vice-chairman or any two directors. Decisions of the board of directors require a quorum of a majority of the directors and are taken by majority vote.

Under the Brazilian Corporation Law, the board of directors must have at least three members. Each director and his or her respective alternate are elected at a general shareholders' meeting and are subject to removal at any time. Our by-laws state that the board of directors must consist of nine members. Clube de Investimentos dos Empregados da Vale, or Investvale, an association of our current and retired employees, has the right to appoint one member of the board of directors and an alternate. According to our by-laws, members of the board of directors must be Brazilian residents who are both shareholders of CVRD and have managerial experience. Members of the board of directors are elected for three-year terms and can be re-elected. Each alternate director serves on behalf of a specific board member. In the absence of the director for whom an alternate director is acting, that alternate director may attend and vote at meetings of the board of directors.

Four of our current directors and three of our current alternate directors were appointed to their positions directly by Valepar, our principal shareholder, pursuant to Valepar's shareholders' agreement. These appointments were approved at the general shareholders' meeting held in April 2001. For a description of Valepar's Shareholders' agreement, see "Major and Selling Shareholders — Major Shareholders — Principal Shareholder."

The table below lists the current members of the board of directors.

Name	Year of Appointment	Position	Age
Luiz Tarquínio Sardinha Ferro(1)	1999	Chairman of the Board	39
João Moisés de Oliveira(1)	2001	Board Member	55
Erik Persson(1)	2001	Board Member	47
José Marques de Lima(1)	2000	Board Member	42
Octávio Lopes Castello Branco Neto	2001	Board Member	43
Romeu do Nascimento Teixeira	2001	Board Member	68
Renato da Cruz Gomes	2001	Board Member	48
Fábio de Oliveira Barbosa	2000	Board Member	39
Francisco Valadares Póvoa(2)	1997	Board Member	51

(1) Appointed by Valepar.

(2) Appointed by Investvale.

The table below lists the alternate members of the board of directors. One additional alternate director is to be appointed by Valepar.

Name	Year of Appointment	Position	Age
José Ricardo do Carmo(1)	2000	Board Member	47
Ricardo Carvalho Giambroni(1)	2001	Board Member	44
Octávio Mauro Muniz Freire Alves(1)	2001	Board Member	40
Eleazar de Carvalho Filho	2001	Board Member	43
Antonio João Martins Torres	2001	Board Member	51
Rômulo de Mello Dias	2001	Board Member	39
Renato Augusto Zagallo Villela dos Santos	2001	Board Member	45
Otto de Souza Marques Júnior(2)	1997	Board Member	53

(1) Appointed by Valepar.

(2) Appointed by Investvale.

We have summarized below the business experience, areas of expertise, and principal outside business interests of our current directors:

Luiz Tarquínio Sardinha Ferro. Mr. Ferro was appointed chairman of our board of directors in July 2001. From May 1999 to July 2001, he served as vice-chairman of our board of directors. From 1996 to 1998, he was President of PREVI — Caixa de Previdência dos Funcionários do Banco do Brasil and executive superintendent of the financial department of Banco do Brasil S.A. In 1995, he was appointed general coordinator of the public accounts management unit, at the Secretariat of the National Treasury. From 1994 to 1995, he participated in an international management program of Banco do Brasil. From 1992 to 1994, Mr. Ferro worked at the Secretariat of the National Treasury.

João Moisés de Oliveira. Mr. Oliveira has served as a member of our board of directors since 2001. Mr. Oliveira has worked at Banco Bradesco S.A. since 1962. He also served as a director at BRADESPAR S.A., and has held a variety of positions with several companies in which Banco Bradesco S.A. has a direct or indirect ownership interest.

Erik Persson. Mr. Persson has served as a member of our board of directors since April 25, 2001. Since June 2000, he has been working as a planning director of PREVI. He has been at PREVI since 1977.

José Marques de Lima. Mr. Lima has served as a member of our board of directors since April 2000. In June 1999, he was appointed as an executive officer of PREVI. From 1984 to 1998, he worked for Banco do Brasil S.A. holding a variety of positions, including team work coordinator and executive manager of the investor relations department, manager of the market and shareholders division and manager of the financial analysis department.

Octávio Lopes Castello Branco Neto. Mr. Castello Branco was appointed as a member of our board of directors in April 2001. He is also a managing director of BNDES. In 1995, he joined J.P. Morgan as head of the investment banking group in Brazil. From 1990 to 1995, Mr. Castello Branco worked at Caemi as the chief financial officer and member of the executive committee. Mr. Castello Branco started his career at JP Morgan's São Paulo Office in 1983 and has developed an extensive experience in mergers and acquisitions, having managed projects across a number of sectors since the inception of J.P. Morgan's mergers and acquisitions group in Brazil.

Romeu do Nascimento Teixeira. Mr. Teixeira has served as a member of our board of directors since April 2001. Mr. Teixeira was also appointed as an executive officer of IESA, Internacional de Engenharia S.A., from 1986 to 1993. Since 1960, he has held many different positions within the CVRD Group. From 1958 to 1960 he worked as an engineer at DNER, Departamento Nacional de Estradas de Rodagem.

Renato da Cruz Gomes. Mr. Gomes joined our board of directors in April 2001. In 2000, he was appointed as an executive officer of Bradespar S.A. From 1976 through 2000, Mr. Gomes held a variety of positions within BNDES and participated on the boards of directors of many companies, namely Elebra Eletrônica, Light, Aracruz, Iochpe, Bahia Sul and Latasa. He is also a member of the consulting board of Factor Sinergia, a securities investment fund, and the investments committee of Bradesco Templeton Value and Liquidity Fund.

Fábio de Oliveira Barbosa. Mr. Barbosa has served as a member of our board of directors since April 2000. Prior to joining us, Mr. Barbosa served as an assistant secretary at the National Treasury Ministry and became secretary in July 1999. From 1992 to 1995, he served as an executive director at the World Bank. From 1990 to 1992, he was Deputy Coordinator of Fiscal Policy in the Ministry of the Economy, and, from 1989 to 1990, he was coordinator for economic analysis at SEPLAN-PR. From 1988 to 1989, he served as assistant to the chief planning minister to the President of Brazil. Prior to that time, Mr. Barbosa held a variety of positions at the Ministry of Industry and Commerce, the Paraná State Development Institute, the Ministry of Labor and the Institute for Applied Economic Research.

Francisco Valadares Póvoa. Mr. Póvoa has served as a member of our board of directors since May 1997. He also sits on the board of Valepar, Valepontocom, Rio Doce Manganese Europe, or RDME, Salobo Metais, CSI and Nova Era Silicon, or NES. Until March 2001, he was also a member of the board of directors of CSN and was previously an alternate member of the board of CSN. Mr. Póvoa joined us as a mining engineer in 1972 and has held a variety of positions within the CVRD Group.

Audit Committee

Under the Brazilian Corporation Law, we may appoint the *conselho fiscal,* an audit committee, as a corporate body independent of our management and external auditors. The primary responsibility of the audit committee is to review management's activities and the financial statements, and report its findings to the shareholders. We amended our by-laws on June 18, 1997 in order to provide for the establishment of a five-member permanent audit committee. On April 25, 2001, the shareholders appointed the current members and their respective alternates. Holders of preferred shares and the golden share together may elect one member of the audit committee and the respective alternate. Non-controlling holders of common shares comprising at least 10% of the common shares outstanding may also elect one member of the audit committee and the respective alternate. The terms of the members of the audit committee expire at the next general shareholders' meeting following their election.

The table below lists the current members of the audit committee.

Name	Year of Appointment
Luis Carlos Angelotti	2001
Ronaldo Camillo	2000
Marcos Fábio Coutinho	1999
Eliseu Martins	1997
Claudia Torres Teixeira	2000

The table below lists the alternate members of the audit committee.

Name	Year of Appointment
Antônio José da Barbara	2001
Vicente Barcelos	2001
Eduardo Coutinho Guerra	2001
Mércia Maria Nascimento Pimentel	2001
Luiz Otávio Nunes West	1998

Compensation

According to our by-laws, our shareholders are responsible for establishing the aggregate compensation we pay to the members of our board of directors and our executive officers. Our shareholders determine this aggregate compensation at the general shareholders' meeting each year. In order to establish aggregate director and officer compensation, we believe that our shareholders usually take into account various factors which range from age, experience and skills of our directors and officers to the recent performance of our operations. Once aggregate compensation is established, the members of our board of directors are then responsible for distributing such aggregate compensation individually in compliance with our by-laws. Our board of directors does not have a compensation committee.

In 2001 and in 2000, we paid approximately R$5.0, and R$4.5 million, respectively, in aggregate (including benefits in kind granted) to the members of our board of directors and to the executive officers for services in all capacities.

In 2001 and in 2000, the monthly amount we paid to the members of the audit committee was the higher of (1) R$4,200 or (2) the equivalent of 10% of the amount paid to a director, excluding benefits. In addition, the members of the audit committee receive refunds for expenses they incur in connection with transportation and accommodation, whenever such expenses are necessary for the performance of their functions. In 2000 and 2001, none of our board members and executive officers had any financial or other interests in transactions involving us which was not in the ordinary course of business.

MAJOR AND SELLING SHAREHOLDERS

Major Shareholders

The table below sets forth information regarding share ownership before and after this offering, by each person who we know to be the owner of more than 5% of any class of our outstanding capital stock, and by all directors and executive officers as a group.

	Before This Offering		After This Offering(1)	
	Shares Owned	Percent of Class	Shares Owned	Percent of Class
Common Shares				
Valepar S.A.(2)	105,443,070	42.2%	105,443,070	42.2%
Federative Republic of Brazil (National Treasury)	39,393,919	15.8%	—	—
BNDES	39,394,922	15.8%	1,003	—
BNDESPAR	11,672,271	4.7%	11,672,271	4.7%
Litel Participações S.A.	25,272,641	10.1%	25,272,641	10.1%
Directors and executive officers, as a group	17	—	17	—
Golden Share				
Federative Republic of Brazil	1	100.0%	1	100.0%

(1) Assumes full exercise of the underwriters' overallotment option.

(2) Certain shareholders of Valepar are legally required to transfer their CVRD common shares to Valepar. After this transfer, Valepar will hold 52.2% of our common shares.

The table below sets forth information regarding Valepar share ownership and Litel Participações S.A. share ownership. These amounts will not change by virtue of this offering.

	Shares Owned	Percent of Total Shares Owned
Valepar		
Litel Participações S.A.	43,985,949	42%
Babié(1)	15,019,621	14
Elétron(2)	21,875,000	21
Sweet River Investments Ltd.(3)	12,187,500	11
BNDESPAR	11,250,000	11
Investvale(4)	1,125,000	1
Total	105,443,070	100%
Litel(5) (6)		
BB Carteira Ativa O	129,528,472	52.41%
BB Carteira Ativa I	64,211,703	25.98
BB Carteira Ativa II	53,388,022	21.60
Previ	217	0.0001
Funcef	219	0.0001
Petros	219	0.0001
Cesp	219	0.0001
Icatu	1	—
Directors and Executive Officers, as a group	3	—
Total	247,129,075	100.00%

(1) Babié is a holding company owned by Bradesplan and Bradespar, which are affiliated with Banco Bradesco S.A., a Brazilian financial services company.

(2) Elétron is a company 86% of which is owned by Bradespar and approximately 14% of which is owned by Opportunity Amafi Participações S.A.

(3) Sweet River Investments Ltd. is an investment vehicle affiliated with Bank of America.

(4) Investvale is an investment club owned by our employees.

(5) Each of BB Carteira Ativa 0, BB Carteira Ativa I and BB Carteira Ativa II is a Brazilian investment fund. BB Carteira Ativa 0 and BB Carteira Ativa I are 100% owned by Previ. BB Carteira Ativa II is 59.36% owned by Funcef, 38.8% owned by Petros and 4.84% owned by Cesp.

(6) Each of Previ, Petros, Funcef and Fundação CESP is a Brazilian pension fund.

(7) Icatu is a financial institution.

The Privatization

In June 1995, the Brazilian government announced its intention to sell its common and preferred share ownership interests in us as part of the ongoing Brazilian privatization program. After a period of considerable governmental, judicial and public attention and debate, the Brazilian government started our privatization in May 1997.

In the first step of the privatization process, on May 6, 1997, the Federative Republic of Brazil and BNDES sold 99,999,203 common shares, representing approximately 40.0% of the outstanding common shares, for approximately US$3 billion to Valepar, a special-purpose company formed to hold a controlling interest in our outstanding voting capital. The initial principal investors in Valepar were a subsidiary of

CSN, a Brazilian steelmaker, various Brazilian pension funds, an affiliate of Bank of America, a U.S. bank, and certain foreign investment funds.

In the second step of the privatization process, on May 20, 1997, the Federative Republic of Brazil and BNDES sold 11,120,919 common shares, representing approximately 4.5% of the outstanding common shares, and 8,744,308 preferred shares, representing approximately 6.3% of the outstanding preferred shares, in an offering restricted to our current and retired employees. Substantially all of the shares sold in this step of the privatization were purchased through Investvale, an association of our current and retired employees. Employees were also granted the option, exercisable through Investvale, to obtain an interest in the controlling block held by Valepar by exchanging their common shares for equity in Valepar. The shares offered to employees were sold at substantial discounts to prevailing market prices. Common shares exchanged for equity in Valepar were sold at R$11.09 per share, representing a 58.4% discount from the then-current market price. Common shares not exchanged for equity in Valepar were sold at R$8.88 per share (representing a 66.7% discount from the then-current market price). Preferred shares were sold at R$8.88 per share (representing a 63.2% discount from the then-current market price). Investvale subsequently contributed 1,125,000 common shares to Valepar, in exchange for a 0.9% equity interest in Valepar. These discounts gave rise to a US$318 million extraordinary charge in 1997.

In the third step of the privatization process, the Federative Republic of Brazil and BNDES are each selling 34,255,582 shares (and an additional 5,138,337 shares each if the underwriters' overallotment option is exercised in full), in the form of common shares or American depositary shares, which together represent 27.4% of our outstanding common stock (31.5% if the underwriters' overallotment option is exercised in full). Following this offering, BNDESPAR, a wholly-owned subsidiary of BNDES, will own 11,672,271 common shares, representing approximately 4.7% of our outstanding common shares. In addition, assuming the exercise in full of the underwriters' overallotment option, the Federative Republic of Brazil will only continue to own a golden share in us, which gives it veto powers over certain actions that we could propose to take, and BNDES will own 1,003 of our common shares. For a detailed description of the veto powers granted to the Federative Republic of Brazil by virtue of its ownership of the golden share, see "Description of "Capital Stock — General."

Shareholder Debentures

At the time of the first step of our privatization in 1997, we issued debentures to our then-existing shareholders, including the Brazilian government. The terms of the debentures, which are described below, were set to ensure that our pre-privatization shareholders, including the Brazilian government, would participate alongside us in potential future financial benefits that we are able to derive from exploiting our mineral resources.

In preparation for the issuance of the debentures, we issued preferred class B shares on a one-for-one basis to all holders of our common shares and preferred class A shares. We then exchanged all of the preferred class B shares for the debentures. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. Currently, the debentures cannot be traded. Holders will be able to trade the debentures only after a three-month period that will commence upon completion of this offering, which will constitute the third step of our privatization. We will be required to register the debentures with the CVM in order to permit trading at that time.

Under Central Bank regulations, pre-privatization shareholders that held their shares through our American depositary receipt program were not permitted to receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank to distribute the debentures to the holders of American depositary receipts, but the Central Bank rejected our request. We intend to renew our request to the Central Bank, but we cannot assure you that we will succeed. If the Central Bank does not approve our request, the depositary will not be able to distribute the debentures to the holders of American depositary receipts and will not be able to sell the debentures. Therefore, unless the Central Bank approves our request, the debentures will not have any value for holders of American depositary receipts.

Under the terms of the debentures, holders will have the right to receive semi annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned at May 1997, to the extent that we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned at May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted. Based on current production levels, we would begin making payments related to copper in approximately 2004, payments related to iron ore resources in approximately 2012, and payments related to other mineral resources in later years.

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

Area	Mineral	Required Payments by CVRD
Southern System	Iron ore	1.8% of net revenue, after total production from May 1997 exceeds 1.7 billion tons
Northern System	Iron ore	1.8% of net revenue, after total production from May 1997 exceeds 1.2 billion tons
Pojuca, Andorinhas, Liberdade and Sossego	Gold and Copper	2.5% of net revenue from the beginning of commercial production
Igarapé Bahia and Alemão	Gold and Copper	2.5% of net revenue, after total production from the beginning of commercial production exceeds 70 tons of gold
Fazenda Brasileiro	Gold	2.5% of net revenue after total production from the beginning of commercial production exceeds 26 tons
Other areas, excluding Carajás/Serra Leste	Gold	2.5% of net revenue
Other areas owned at May 1997	Other minerals	1% of net revenue, 4 years after the beginning of commercial production
All areas	Sale of mineral rights owned at May 1997	1% of the sales price

Principal Shareholder

Through the Brazilian government's privatization program, the by-laws of Valepar restrict concentration of ownership of Valepar shares by particular types of investors for a period of five years through May 9, 2002. The by-laws of Valepar state that no single investor or group of affiliated investors may hold more than 45% of Valepar's outstanding capital stock. In addition, joint shareholdings in Valepar by any group of iron ore producers or any group of steel producers and iron ore trading companies combined, may not exceed 45% of Valepar's outstanding capital stock. Finally, shareholdings in Valepar by individual large iron ore producers, steel producers or iron ore trading companies may not exceed 10% of Valepar's outstanding capital stock.

The shareholders of Valepar have entered into a shareholders' agreement, ending in 2017. This agreement:

- gives rights of first refusal on any transfer of Valepar shares and preemptive rights on any new issue of Valepar shares,
- prohibits encumbrances on Valepar shares (other than in connection with financing our acquisition),
- requires each party generally to retain control of its special purpose company holding its interest in shares of Valepar,

- allocates Valepar's and our board seats, and
- establishes super-majority voting requirements for certain matters relating to Valepar or to us.

BNDESPAR has a golden share in Valepar giving it a veto right over:

- any change in Valepar's corporate purpose,
- the liquidation of Valepar,
- a change in ownership of Valepar's shares if such change would increase concentration of the ownership of Valepar over specified limits by participants in the iron ore, steel or iron ore trading businesses, and
- any transfer of Valepar's shares to anyone until May 2002 if the transfer would result in such person owning more than 45% of Valepar's shares.

Another agreement among Valepar's shareholders, ending in 2002, contains similar restrictions on transfers.

Continuing Relationship with the Federative Republic of Brazil and BNDES

From time to time, in the ordinary course of our business, we enter into transactions with other entities which the Federative Republic of Brazil owns or controls. The most significant of these transactions is with Eletronorte, a state-owned company. Pursuant to a contract between Albras and Eletronorte, Albras is able to purchase electricity at favorable rates. We are currently seeking to renegotiate this contract, which expires in May 2004. For more information on our Eletronorte contract, see "Business — Our Lines of Business — Holdings — Aluminum Business." No other entity controlled by the Federative Republic of Brazil, by itself or in the aggregate, accounted for a significant percentage of our consolidated revenues or purchases in 2000.

We have also entered into a Mineral Risk Contract with BNDES relating to prospecting authorizations for mining regions where drilling and exploration are still in their early stages. This contract provides for the joint development of certain unexplored mineral deposits in the Carajás region, which is part of the Northern System. BNDES is also our partner in Project 118, Alemão and Cristalino, which are joint ventures through which we conduct our copper mining exploration and development. For more information on these joint ventures see "Business — Our Lines of Business — Current Copper Prospects — Exploration."

As a result of the transfer of our voting control to Valepar, we are no longer subject to various regulatory requirements and operating restrictions applicable to Brazilian governmental entities. However, in connection with our privatization, the Federative Republic of Brazil retained special rights with respect to our and Valepar's future decisions and caused us to enter into certain agreements which may restrict our activities and results of operations in the future. We discuss these restrictions below.

Golden Share

The Federative Republic of Brazil holds one preferred golden share, which confers upon its holder veto rights over certain changes, including:

- our name,
- the headquarters of our head office,
- our corporate purpose as regards the working of mineral deposits, and
- our continued operation of integrated iron ore mining systems.

For a more detailed description of the golden share, see "Description of Capital Stock — General."

Since the privatization, the Federative Republic of Brazil has not exercised its veto rights and, consequently, has refrained from interfering in our decision-making process.

Selling Shareholders

All of the American depositary shares and common shares being offered in this offering are being sold by the Federative Republic of Brazil and by BNDES, Brazil's national bank for economic and social development, which is wholly owned by the Federative Republic of Brazil.

BNDES is selling 34,255,582 shares (and an additional 5,138,337 shares if the underwriters' overallotment option is exercised in full). The Federative Republic of Brazil is selling 34,255,582 shares (and an additional 5,138,337 shares if the underwriters' overallotment option is exercised in full) through BNDES which manages the *Programa Nacional de Desestatização*.

BNDES is the main vehicle for the execution of the Brazilian government's investment policy, providing support, either directly or indirectly, to programs, projects, works and services related to the economic and social development of Brazil. BNDES is the primary domestic source of long-term financing in the Brazilian economy, with special emphasis on private sector investment projects and public sector infrastructure projects. The legal domicile of BNDES is located at Av. República do Chile No. 100, 20139-900, Rio de Janeiro, State of Rio de Janeiro, Brazil.

Following this offering BNDESPAR, a wholly-owned subsidiary of BNDES, will own approximately 4.7% of our outstanding common shares. For information regarding our share ownership, see "— Major Shareholders."

RELATED PARTY TRANSACTIONS

At September 30, 2001, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of US$843 million, of which US$645 million is denominated in U.S. dollars and the remaining US$198 million is denominated in Brazilian *reais*.

For information regarding investments in affiliated companies and joint ventures and for information regarding transactions with major related parties, see notes 10 and 17 to our consolidated financial statements.

BNDES, in its role as an economic development bank, is involved with us as a lender, partner and/or co-investor in a number of projects, and will probably continue to do so in the future.

Current activities of BNDES related to us include:

- investments in a number of our joint ventures,
- entering into mineral risk contracts with us, and
- providing financing for our expansion.

Further, one of our directors is also a managing director of BNDES, one of our executive officers was a director of an affiliate of BNDES. BNDESPAR, an affiliate of BNDES, also owns a significant interest in our largest shareholder, Valepar.

DESCRIPTION OF CAPITAL STOCK

Set forth below is certain information concerning our authorized and issued capital stock and a brief summary of certain significant provisions of our by-laws and the Brazilian Corporation Law. This description does not purport to be complete and is qualified by reference to our by-laws (an English translation of which has been filed with the Commission) and to the Brazilian Corporation Law.

General

Our by-laws authorize the issuance of up to 300 million common shares and up to 600 million preferred class A shares or preferred class B shares, in each case based solely on the approval of the board of directors without any additional shareholder approval. There are currently no preferred class B shares outstanding. Under the Brazilian Corporation Law, the number of preferred non-voting or restricted voting shares outstanding, such as the preferred shares, may not exceed two-thirds of the total number of outstanding shares.

Each common share entitles the holder thereof to one vote at meetings of our shareholders. Holders of common shares are not entitled to any preference relating to our dividends or other distributions or any preference upon our liquidation.

Holders of preferred class A shares are generally entitled to the same voting rights as holders of common shares, except with respect to the election of members of the board of directors, and are entitled to a minimum annual non-cumulative preferential dividend of 6% of their pro rata share of our paid-in capital prior to any distribution to holders of common shares or to holders of preferred class B shares, if any. Holders of preferred class A shares and the golden share may also elect one member of the permanent audit committee and an alternate. Non-controlling holders of common shares comprising at least 10% of the common shares outstanding may also elect one member of the audit committee and an alternate. The preferred class A shares are not entitled to any preference in the case of our liquidation.

The golden share is a preferred share. It is required to be held by the Federative Republic of Brazil. The holder of the golden share is entitled to the same rights (including with respect to voting, dividend preference and liquidation preference) as holders of preferred class A shares. In addition, the holder of the golden share is entitled to veto any of our proposed action relating to the following matters:

- a change in our name,
- a change in the location of our head office,
- a change in our corporate purpose as regards the working of mineral deposits,
- any liquidation of our company,
- any disposal or winding up of activities of any one or more of the following stages of the integrated systems of our iron ore mining:
  - (i) mineral deposits, ore deposits, mines,
  - (ii) railways,
  - (iii) ports and marine terminals,
- any change in the by-laws relating to the rights accorded to the classes of capital stock issued by us, and
- any change in the by-laws relating to the rights accorded the golden share.

Calculation of Distributable Amount

At each general shareholders' meeting, the board of directors is required to recommend how to allocate our earnings for the preceding fiscal year. For purposes of the Brazilian Corporation Law, a company's net income after income taxes and social contribution taxes for such fiscal year, net of any

accumulated losses from prior fiscal years and amounts allocated to employees' and management's participation in earnings represents its "net profits" for such fiscal year. In accordance with the Brazilian Corporation Law, an amount equal to our "net profits," as further reduced by amounts allocated to the legal reserve, to the contingency reserve or the unrealized income reserve established by us in compliance with applicable law (as hereinafter discussed) and increased by reversions of reserves constituted in prior years, will be available for distribution to shareholders in any particular year. Such amount, the adjusted net profits, is herein referred to as the distributable amount. We may also establish discretionary reserves, reserves for investment projects and fiscal investment reserves, as discussed below.

Legal Reserve. Under the Brazilian Corporation Law, we are required to maintain a legal reserve to which we must allocate 5% of our "net profits" for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. Net losses, if any, may be charged against the legal reserve.

Discretionary Reserves. Under the Brazilian Corporation Law, a company may also provide for discretionary allocations of "net profits" to the extent set forth in its by-laws. Our by-laws provide for one discretionary depletion reserve which may be taken into account in calculating the distributable amount for any fiscal year. We currently maintain a fiscal incentive depletion reserve established in respect of certain mining operations. Appropriations to the fiscal incentive depletion reserve are deductible for tax purposes. The discretionary depletion reserve has not been used since 1996, when the related fiscal incentive expired. For more details, see note 13 to the consolidated financial statements. There are no limits on the size or amount of proceeds that may be retained by our board in the discretionary depletion reserve.

Contingency Reserve. Under the Brazilian Corporation Law, a portion of our "net profits" may also be discretionally allocated to a "contingency reserve" for an anticipated loss that is deemed probable in future years. Any amount so allocated in a prior year must be either reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur or charged off in the event that the anticipated loss occurs.

Reserve for Investment Projects. Under the Brazilian Corporation Law, we may allocate a portion of our "net profits" for discretionary appropriations for plant expansion and other capital investment projects, the amount of which is based on a capital budget previously presented by management and approved by shareholders. After completion of the relevant capital projects, we may retain the appropriation until shareholders vote to transfer all or a portion of the reserve to capital or retained earnings.

Unrealized Income Reserve. Under the Brazilian Corporation Law, if the amount of "unrealized income" for any particular year exceeds the sum allocated to the legal reserve, the discretionary reserves, the contingency reserve and the reserve for investment projects in such year, such excess may be allocated to an "unrealized income reserve." "Unrealized income" in any particular year represents the sum of price-level restatement of certain balance sheet accounts in such year in which the system of price-level restatement was applicable (up to December 31, 1995), the share of equity earnings of subsidiary and associated companies in such year and profits from installment sales to be received after the end of the next succeeding fiscal year.

Fiscal Incentive Investment Reserve. Under the Brazilian tax laws, a portion of "net profits" may also be allocated to a general "fiscal incentive investment reserve" in amounts corresponding to reductions in our income tax generated by credits for particular government-approved investments.

The Brazilian Corporation Law provides that all discretionary allocations of "net profits," including discretionary reserves, the contingency reserve, the unrealized income reserve and the reserve for investment projects, are subject to approval by the shareholders voting at the annual meeting and can be transferred to capital or used for the payment of dividends in subsequent years. The fiscal incentive investment reserve and legal reserve are also subject to approval by the shareholders voting at the annual meeting and may be transferred to capital but are not available for the payment of dividends in subsequent years.

Our calculation of "net profits" and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with the Brazilian Corporation Law. Our consolidated financial statements have been prepared in accordance with U.S. GAAP and, although our allocations to reserves and dividends will be reflected in these financial statements, investors will not be able to calculate such allocations or required dividend amounts from our consolidated financial statements.

Mandatory Dividend

Our by-laws prescribe that we must distribute to our shareholders in the form of dividends or interest on shareholders' equity an annual amount equal to not less than 25% of the distributable amount, referred to as the mandatory dividend, unless the board of directors advises our shareholders at the general shareholders' meeting that payment of the mandatory dividend for the preceding year is inadvisable in light of our financial condition. The audit committee must review any such determination and report it to the shareholders and the CVM. In addition to the mandatory dividend, our board of directors may recommend to the shareholders payment of dividends from other funds legally available therefor. Any payment of interim dividends will be netted against the amount of the mandatory dividend for that fiscal year. The shareholders must also approve the recommendation of the board of directors with respect to any required distribution. The mandatory dividend is subject to the size of the legal reserve, the contingency reserve, and the unrealized income reserve. The mandatory dividend is not subject to the size of the discretionary depletion reserve. For a description of the allocation of our earnings, see "— Calculation of Distributable Amount." To date, our board of directors has never determined that payment of the mandatory dividend was inadvisable.

Since our privatization in 1997, and following a recommendation from Valepar, our principal shareholder, we have distributed a dividend equal to at least 50% of the amount of profits available for distribution with respect to each fiscal year.

Dividend Preference of Preferred Shares

Subject to the calculation of the mandatory dividend for any particular year, pursuant to our by-laws, holders of preferred class A shares and the golden share are entitled to a minimum annual non-cumulative preferential dividend equal to 6% of their pro rata share of our paid-in capital ahead of dividends to holders of preferred class B shares and common shares. In addition, any future holders of our authorized but unissued preferred class B shares will be entitled to a minimum annual non-cumulative preferential dividend equal to 6% of their pro rata share of our paid-in capital ahead of dividends to holders of common shares. To the extent that dividends are declared by us in any particular year in amounts which exceed the preferential dividends on preferred shares, and after holders of common shares have received distributions equivalent, on a per share basis, to the preferential dividends on preferred shares, holders of common shares and preferred shares shall receive the same additional dividend amount per share. Since the first step of our privatization in 1997, we have had sufficient distributable amounts to be able to distribute equal amounts to both common and preferred shareholders.

Other Matters Relating to Preferred Shares

Our by-laws do not provide for the conversion of preferred shares into common shares. In addition, the preferred shares do not have any preference upon our liquidation and there are no redemption provisions associated with the preferred shares.

Payments on Shareholders' Equity

Pursuant to a change in Brazilian tax law effective January 1, 1996, Brazilian companies are permitted to pay limited additional amounts to holders of equity securities and treat such payments as an expense for Brazilian income tax purposes. The purpose of the tax law change is to encourage the use of equity investments as opposed to indebtedness to finance corporate activities. In accordance with Law No. 9,249 dated December 26, 1995, our by-laws provide for the distribution of interest on shareholders'

equity as an alternative form of payment to shareholders. The interest rate applied is generally limited to the Brazilian long-term interest rate, or TJLP, for the applicable period. The amount of interest paid cannot exceed the greater of (1) 50% of net income (before taking into account any such distribution and deductions relating thereto and before deductions for income tax and social contributions on net profits) for the period in respect of which the payment is made or (2) 50% of the sum of retained earnings and profit reserves. Any payment of interest on shareholders' equity to shareholders is subject to Brazilian withholding tax at the rate of 15%, except for interest due the Brazilian government which is exempt from withholding. Under our by-laws, the amount paid to shareholders as interest on shareholders' equity (net of any withholding tax) may be included as part of any mandatory dividend. Under the Brazilian Corporation Law, we are obligated to distribute to shareholders an amount sufficient to ensure that the net amount received, after payment by us of applicable Brazilian withholding taxes in respect of the distribution of interest on shareholders' equity, is at least equal to the mandatory dividend.

Voting Rights

Each common share entitles the holder thereof to one vote at meetings of our shareholders. Holders of preferred shares are entitled to the same voting rights as holders of common shares except that they may not vote on the election of members of the board of directors, except in the event of dividend arrearages, as described below. One of the members of the permanent audit committee and his or her alternate are elected by majority vote of the holders of preferred shares.

The golden share entitles the holder thereof to the same voting rights as holders of preferred shares. The golden share also confers certain other significant voting rights in respect of particular actions, as described under "— General."

The Brazilian Corporation Law provides that non-voting or restricted-voting shares, such as the preferred shares, acquire unrestricted voting rights beginning when a company has failed for three consecutive fiscal years (or for any shorter period set forth in a company's constituent documents) to pay any fixed or minimum dividend to which such shares are entitled and continuing until payment thereof is made. Our by-laws do not set forth any such shorter period.

Any change in the preferences or advantages of our preferred class A shares, or the creation of a class of shares having priority over the preferred class A shares, would require the approval of holders of a majority of the outstanding preferred class A shares, voting as a class at a special meeting.

Shareholders' Meetings

A general shareholders' meeting convenes each year to decide all matters relating to our corporate purposes and to pass such resolutions as they deem necessary for our corporate protection and well-being.

Pursuant to the Brazilian Corporation Law, shareholders voting at a shareholders' meeting have the power, among others, to:

- amend the by-laws;
- elect or dismiss members of the board of directors and members of the audit committee at any time;
- receive the annual reports by management and accept or reject management's financial statements, including the allocation of net profits and the distributable amount for payment of the mandatory dividend and allocation to the various reserve accounts;
- authorize the issuance of debentures;
- suspend the rights of a shareholder in default of obligations established by law or by the by-laws;
- accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock;

- authorize the issuance of founder's shares;
- pass resolutions to reorganize our legal form, to merge, consolidate or split us, to dissolve and liquidate us, to elect and dismiss our liquidators and to examine their accounts; and
- authorize management to file for bankruptcy or to request a *concordata,* a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code.

All shareholders' meetings, including the annual shareholders' meeting are convened by publishing, no fewer than 15 days prior to the scheduled meeting date and no fewer than three times, a notice in the *Diário Oficial do Estado do Rio de Janeiro* and in a newspaper with general circulation in the city where we have our registered office, which is Rio de Janeiro. Our shareholders have previously designated *Jornal do Commercio* for this purpose. Also, as our shares are traded on the São Paulo stock exchange, we must publish a notice in the São Paulo-based *Diário do Comércio da Indústria*. Such notice must contain the agenda for the meeting and, in the case of an amendment to our by-laws, an indication of the subject matter. In addition, under our by-laws, the holder of the golden share is entitled to a minimum of 15 days prior notice of any shareholders' meeting to consider any proposed action subject to the veto rights accorded to the golden share. For more information about the veto rights associated with the golden share, see "— General."

A shareholders' meeting may be held if shareholders representing at least one-quarter of the voting capital are present. If no such quorum is present, notice must again be given in the same manner as described above, and a meeting may then be convened without any specific quorum requirement, subject to the minimum quorum and voting requirements for certain matters, as discussed below. A shareholder without a right to vote may attend a shareholders' meeting and take part in the discussion of matters submitted for consideration.

Except as otherwise provided by law, resolutions of a shareholders' meeting are passed by a simple majority vote, abstentions not being taken into account. Under the Brazilian Corporation Law, the approval of shareholders representing at least one-half of the issued and outstanding voting shares is required for the types of action described below, as well as, in the case of clause (a) and clause (b), a majority of issued and outstanding shares of the affected class: (a) creating a new class of preferred shares or disproportionately increasing an existing class of preferred shares relative to the other classes of shares, other than to the extent permitted by the by-laws, which permit us to increase the number of preferred class B shares disproportionately in relation to the number of common and preferred shares; (b) changing a priority, preference, right, privilege or condition of redemption or amortization of any class of preferred shares or creating any class of non-voting preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of shares, such as the preferred shares; (c) creating founders' shares; (d) reducing the mandatory dividend; (e) changing the corporate purposes; (f) merging us with another company or consolidating or splitting us; (g) dissolving or liquidating us; (h) participating in a group of companies as defined under the Brazilian Corporation Law; and (i) canceling any ongoing liquidation of us.

Whenever the shares of any class of capital stock are entitled to vote, each share is entitled to one vote.

General shareholders' meetings must be held by April 30 of each year. Shareholders' meetings are called, convened and presided over by the President or by the Vice-President of our board of directors. A shareholder may be represented at a shareholders' meeting by an attorney-in-fact appointed not more than one year before the meeting, who must be a shareholder, a company officer or a lawyer. For a public company, such as us, the attorney-in-fact may also be a financial institution.

Redemption Rights

Our common shares and preferred shares are not redeemable, except that a dissenting, or, in certain cases, a non-voting shareholder is entitled under the Brazilian Corporation Law to obtain redemption upon a decision made at a shareholders' meeting by shareholders representing at least 50% of the voting shares:

(1) to create a new class of preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of shares (unless such actions are provided for or authorized by the by-laws);

(2) to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;

(3) to reduce the mandatory distribution of dividends;

(4) to change our corporate purposes;

(5) to merge us with another company or consolidate us;

(6) to transfer all of our shares to another company in order to make us a wholly-owned subsidiary of such company, an *incorporação de ações;*

(7) to approve the acquisition of control of another company at a price which exceeds certain limits set forth in the Brazilian Corporation Law;

(8) to approve our participation in a group of companies as defined under the Brazilian Corporation Law; or

(9) in the event that the entity resulting from (a) a merger, (b) an *incorporação de ações* as described in clause (6) above, or (c) a spin-off that we conduct fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken.

Only holders of shares adversely affected by the changes mentioned in items (1) and (2) above may redeem their shares. The right of redemption mentioned in items (5), (6) and (8) above may only be exercised if our shares do not satisfy certain tests of liquidity at the time of the shareholder resolution. The right of redemption lapses 30 days after publication of the minutes of the relevant shareholders' meeting, unless, in the case of item (2) above, the resolution is subject to confirmation by preferred shareholders (which must be made at a special meeting to be held within one year), in which case the 30-day term is counted from the publication of the minutes of the special meeting.

We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Law No. 9,457 dated May 5, 1997, which amended the Brazilian Corporation Law, contains provisions which, among other provisions, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. Our by-laws currently do not provide that our capital stock will be redeemable at its economic value and, consequently, any redemption pursuant to the Brazilian Corporation Law would be made at book value per share, determined on the basis of the last balance sheet approved by the shareholders; *provided* that if the general shareholders' meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such shareholders' meeting.

Preemptive Rights

Each of our shareholders has a general preemptive right to subscribe for shares in any capital increase, in proportion to his or her shareholding. A minimum period of 30 days following the publication of notice of a capital increase is allowed for the exercise of the right and the right is negotiable. Under our by-laws, our board of directors may decide not to extend preemptive rights to our shareholders with

respect to any issuance of shares, debentures convertible into shares and warrants in the context of a public offering, subject to the limit on the number of shares that may be issued with the approval of the board without any additional shareholder approval. In the event of a capital increase which would maintain or increase the proportion of capital represented by preferred shares, holders of preferred American depositary receipts will have preemptive rights to subscribe only to newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of preferred American depositary receipts will have preemptive rights to subscribe for preferred shares, in proportion to their shareholdings, and for common shares only to the extent necessary to prevent dilution of their overall interest in us. Holders of American depositary shares may not be able to exercise preemptive rights in respect of common shares.

New Provisions in the Brazilian Corporation Law

On October 31, 2001, Law 10,303, a legislative act modifying the Brazilian Corporation Law, was enacted. The main goal of Law 10,303 is to broaden the rights of minority shareholders.

Law 10,303 could have a material impact on the shares represented by American depositary shares because it will, as of March 1, 2002:

- obligate our controlling shareholder to make a tender offer for our shares if it increases its interest in our share capital to a level that materially and negatively affects the liquidity of our shares, as defined by the CVM.
- require any acquiror of control to make a tender offer for our common shares at a price equal to 80% of the per share price paid for the controlling block of shares.
- authorize us to redeem minority shareholders' shares if, after a tender offer, our controlling shareholder increases its participation in our total share capital to more than 95%.
- entitle dissenting or, in certain cases, non-voting shareholders, to obtain redemption upon a decision to conduct a spin-off that results in (a) change of our corporate purpose, (b) a reduction in the mandatory dividend or (c) any participation in a group of companies (as defined by the Brazilian Corporation Law).
- require that preferred shares have one of the following advantages: (i) priority in receipt of dividends corresponding to at least 3% of the book value per share (after this priority condition is met, equal conditions apply to common shares); or (ii) dividends 10% higher than those paid for common shares; or (iii) tag-along right at 80% of the price paid to the controlling shareholder in case of a transfer of control. We will be required to amend our bylaws to contemplate one or more of these advantages. No withdrawal rights will arise from such amendment if it is made before December 31, 2002.
- entitle each shareholder that is not a controlling shareholder but that holds

  (i) preferred shares representing at least 10% of our total share capital or

  (ii) common shares representing at least 15% of our voting capital;

  the right to appoint one member and an alternate to our board of directors. If no common or preferred shareholder meets the thresholds described above, shareholders holding preferred or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. Until 2005, these board members are to be chosen from a list of three names drawn up by the controlling shareholder. Any such members elected by the minority shareholders will have veto powers on the selection of our independent auditors.
- require controlling shareholders and shareholders that appoint members of our management, board of directors or board of executive officers to file immediately with the CVM and the stock

exchanges (or the over-the-counter markets on which our securities are traded) a statement of any change in their shareholders.

- require us to send copies of the documentation we submit to our shareholders in connection with shareholders meetings to the stock exchanges on which our shares are most actively traded.

We are required to adapt our by-laws to these provisions by March 1, 2003.

Form and Transfer

Our preferred shares and common shares are in registered form. The transfer of such shares is made under the Brazilian Corporation Law which provides that a transfer of shares is effected by a transfer recorded in our share transfer records upon presentation of valid share transfer instructions to us by a transferor or its representative. When preferred shares or common shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on our records by a representative of a brokerage firm or the stock exchange's clearing system. Transfers of shares by a foreign investor are made in the same way and are executed by the investor's local agent, who is also responsible for updating the information relating to the foreign investment furnished to the Central Bank.

The São Paulo stock exchange, known as BOVESPA, operates a central clearing system through *Companhia Brasileira de Liquidação e Custódia,* or CBLC. A holder of our shares may participate in this system and all shares elected to be put into the system will be deposited in custody with CBLC (through a Brazilian institution that is duly authorized to operate by the Central Bank and maintains a clearing account with CBLC). The fact that such shares are subject to custody with the relevant stock exchange will be reflected in our registry of shareholders. Each participating shareholder will, in turn, be registered in the register of our beneficial shareholders that is maintained by CBLC and will be treated in the same way as registered shareholders.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

General

JP Morgan Chase Bank has agreed to act as the depositary for the American depositary shares. The depositary's offices are located at 60 Wall Street, New York, New York 10260. American depositary shares represent ownership interests in securities that are on deposit with the depositary. American depositary shares are normally represented by certificates that are commonly known as American depositary receipts. The depositary has appointed a custodian to safekeep the securities on deposit. In this case, the custodian is Banco Bradesco, located at Departamento de Ações e Custódia-Cidade de Deus - Prédio Amarelo - 2º andar-CEP 06029-900 Osasco-SP-Brazil.

We appointed JPMorgan Chase Bank as depositary under the terms of a deposit agreement, dated , 2002. A copy of the deposit agreement is on file with the Securities and Exchange Commission under cover of a registration statement on Form F-6. You may obtain a copy of the deposit agreement from the Securities and Exchange Commission's Public Reference Room. For instructions on how you can obtain this information, see "Where You Can Find More Information." Please refer to Registration Number 333- when requesting your copy.

We are providing you with a summary description of the material terms of the American depositary shares and of your material rights as an owner of American depositary shares. Your rights and obligations as an owner of American depositary shares will be determined by reference to the terms of the deposit agreement and not by this summary. This summary is not intended as a substitute for the deposit agreement. We urge you to review the deposit agreement in its entirety.

Each American depositary share represents one of our common shares on deposit with the custodian. An American depositary share will also represent any other property received by the depositary or the custodian on behalf of the owner of the American depositary share but that has not been distributed to the owners of American depositary shares because of legal restrictions or practical considerations.

If you become an owner of American depositary shares, you will become a party to the deposit agreement and therefore will be bound by its terms and to the terms of the American depositary receipt that represents your American depositary shares. The deposit agreement and the American depositary receipt specify the rights and obligations of you, us and the depositary. As an American depositary share holder you have agreed to appoint the depositary to act on your behalf in certain circumstances. The deposit agreement and the American depositary receipts are governed by New York law. However, our obligations to the holders of the common shares will continue to be governed by the laws of Brazil, which may be different from the laws in the United States.

As an owner of American depositary shares, your American depositary shares may be represented either by an American depositary receipt registered in your name or through a brokerage or safekeeping account. If you decide to hold your American depositary receipts through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as an American depositary receipts owner. Please consult with your broker or bank to determine what those procedures are. This summary description assumes you have opted to own the American depositary shares directly by means of an American depositary receipt registered in your name and, as such, we will refer to you as the "holder." When we refer to "you," we assume the reader owns American depositary shares and will own American depositary shares at the relevant time.

Dividends and Distributions

As a holder, you will generally have the right to receive the distributions we make on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. You will receive distributions under the terms of the deposit agreement in proportion to the number of American depositary shares held as of a specified record date.

Distributions of Cash. Whenever we make a cash distribution for the securities on deposit with the custodian, we will notify the depositary. Upon receipt of that notice the depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to Brazilian laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The depositary will reduce the distribution of cash to holders by applicable fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Shares. Whenever we make a distribution consisting of a dividend and a free distribution of common shares on securities on deposit with the custodian, we will notify the depositary and deposit the applicable number of common shares with the custodian. Upon receipt of notice of such deposit, the depositary will either distribute to holders new American depositary shares representing the aggregate common shares deposited or modify the American depositary share to common share ratio, in which case each American depositary share you already hold will represent rights and interests in the additional common shares deposited. Only whole new American depositary shares will be distributed. Fractional entitlements will be sold and the proceeds of the sale will be distributed to holders as in the case of a cash distribution described above.

The distribution of new American depositary shares or the modification of the American depositary share-to-share ratio upon a distribution of common shares will be reduced by applicable fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay the taxes or governmental charges, the depositary may sell all or a portion of the new common shares so distributed.

No distribution of new American depositary shares as described above will be made if it would violate the U.S. securities laws, or any other law, or if it is not operationally practicable. If the depositary does not distribute new American depositary shares as described above, it will endeavor to sell the common shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distribution of Rights. If we distribute rights to subscribe for additional common shares, we will notify the depositary and we may assist the depositary in determining whether it is lawful and reasonably practicable to make these additional rights available to holders.

The depositary will establish procedures for the distribution of rights to purchase additional American depositary shares to holders and to enable holders to exercise rights when lawful and reasonably practicable. You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new American depositary shares upon the exercise of your rights. The depositary is not obligated to make available to holders of rights a method to exercise rights to subscribe to common shares directly rather than American depositary shares.

The depositary will not distribute rights to you if:

- we do not timely request that the rights be distributed to you or we request that the rights not be distributed to you;
- we fail to deliver satisfactory documents to the depositary; or
- it is not reasonably practicable to distribute the rights.

The depositary will sell rights that are not exercised or distributed if the sale is lawful and reasonably practicable. The proceeds of the sale will be distributed to holders as in the case of a cash distribution described above. If the depositary is unable to sell the rights, it will allow the rights to lapse.

Other Distributions. If we distribute property other than cash, common shares or rights to purchase additional common shares, we will notify the depositary in advance and will indicate whether we wish the

distribution to be made to you. If so, we will assist the depositary in determining whether the distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute the property to you and if we provide all of the documentation contemplated in the deposit agreement, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be reduced by any applicable fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay the taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will not distribute the property to you and will sell the property if:

- we do not request that the property be distributed to you or if we ask that the property not be distributed to you;
- we do not deliver satisfactory documents to the depositary; or
- the depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of the sale will be distributed to holders as in the case of a cash distribution as described above.

Changes Affecting the Common Shares

The common shares held on deposit for your American depositary shares may be affected by changes from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such common shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If a change were to occur, your American depositary shares would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depositary may in those circumstances deliver new American depositary shares to you or call for the exchange of your existing American depositary shares for new American depositary shares. If the depositary may not lawfully distribute such property to you, the depositary may sell the property and distribute the net proceeds to you as in the case of a cash distribution as described above.

Issuance of American Depositary Shares upon Deposit of Common Shares

The depositary may create American depositary shares on your behalf if you or your broker deposit common shares with the custodian. The depositary will deliver these American depositary shares to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the custodian. Your ability to deposit common shares and receive American depositary shares may be limited by U.S. and Brazilian legal considerations applicable at the time of deposit.

The issuance of American depositary shares may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depositary will only issue American depositary shares in whole numbers.

When you make a deposit of common shares, you will be responsible for transferring good and valid title to the depositary. As such, you will be deemed to represent and warrant that:

- the common shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- you are duly authorized to deposit the common shares.

If any of the representations or warranties are incorrect in any way, we and the depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Withdrawal of Shares upon Cancellation of American Depositary Shares

As a holder, you will be entitled to present your American depositary shares to the depositary, at the custodian's offices, for cancellation and receive the corresponding number of underlying common shares. Your ability to withdraw the common shares may be limited by U.S. and Brazilian law applicable at the time of withdrawal. In order to withdraw the common shares represented by your American depositary shares, you will be required to pay to the depositary the fees for cancellation of American depositary shares and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk of delivery of all funds and securities upon withdrawal. Once canceled, the American depositary shares will not have any rights under the deposit agreement.

If you hold an American depositary receipt registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your American depositary shares. The withdrawal of the common shares represented by your American depositary shares may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. The depositary will only accept American depositary shares for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your American depositary shares at any time unless any of these conditions exist:

- delays that may arise out of temporary closing of transfer books of the common shares or American depositary shares, or temporary suspension of transferability of common shares are immobilized due to a shareholders' meeting or a payment of dividends;
- unsatisfied obligations to pay fees, taxes and similar charges; or
- restrictions imposed by laws or regulations applicable to American depositary shares or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your American depositary shares except to comply with mandatory provisions of law.

Record Dates

The depositary may, after consulting with us, if practicable, fix a record date (which shall by as near as practicable to any corresponding date set by us) for the determination of the holders of American depositary shares who shall be entitled to receive any distribution on or in respect of the American depositary shares, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such holders shall be so entitled.

Voting Rights

As a holder, you will generally have the right under the deposit agreement to instruct the depositary to exercise the voting rights for the common shares represented by your American depositary shares. The voting rights of holders of common shares are described in "Description of Capital Stock — Voting Rights."

At our request, the depositary will distribute to you any notice of shareholders' meeting received from us, together with information explaining how to instruct the depositary to exercise your voting rights on the securities represented by American depositary shares.

If the depositary timely receives voting instructions from a holder of American depositary shares, it will endeavor to vote the securities represented by the holder's American depositary shares in accordance

with the voting instructions. If voting instructions are not timely received by the depositary, the holder will be deemed to have given a discretionary proxy to a person designated by us to vote your shares.

The ability of the depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner.

The depositary may fix record dates for the determination of the American depositary receipt holders who will be entitled:

- to receive a dividend, distribution or rights, or
- to give instructions for the exercise of voting rights at a meeting of holders of ordinary shares or other deposited securities,

all subject to the provisions of the deposit agreement.

Fees and Charges

As a holder, you will be required to pay the following service fees to the depositary:

Service Fees	Fees
Issuance of American depositary shares	Up to US$5.00 per 100 American depositary shares issued
Cancellation of American depositary shares	Up to US$5.00 per 100 American depositary shares canceled
Exercise of rights to purchase additional American depositary shares	Up to US$5.00 per 100 American depositary shares issued
Distribution of cash dividends	No fee (so long as prohibited by NYSE)
Distribution of American depositary shares in connection with stock dividends or other free stock distributions	No fee (so long as prohibited by NYSE)
Distribution of cash	Up to US$5.00 per 100 American depositary shares held (*i.e.*, upon sale of rights or other entitlements)

As a holder you will also be responsible for paying some of the fees and expenses incurred by the depositary and certain taxes and governmental charges, including:

- fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, American depositary shares and American depositary receipts;
- expenses incurred in converting foreign currency into U.S. dollars;
- cable, telex and fax transmissions and delivery expenses, as expressly provided for in the deposit agreement;
- taxes and duties upon the transfer of securities (*i.e.*, when common shares are deposited or withdrawn from deposit); and
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities.

We have agreed to pay certain other charges and expenses of the depositary, however, we will not pay or be liable for fees or related charges with respect to shares or American depositary shares. The fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of any changes in the amount you may be required to pay.

Amendments and Termination

We may agree with the depositary to modify the deposit agreement at any time without your consent. Any amendment which will increase any fees or charges or which will otherwise materially prejudice an existing right you may have will not become effective until 30 days after notice of the amendment is given to the holders. We will not deem any modifications or supplements that are reasonably necessary for the American depositary shares to be registered under the Securities Act or to be traded solely in electronic book-entry form, and which do not impose or increase the fees and charges you are required to pay, to be materially prejudicial to your substantive rights. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to comply with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your American depositary shares after the modifications to the deposit agreement become effective. Except as permitted by law, the deposit agreement cannot be amended so as to prevent you from withdrawing the common shares represented by your American depositary shares.

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may terminate the deposit agreement. In either case, the depositary must give notice to the holders at least 30 days before termination.

For a period of six months after termination of the deposit agreement, you will be able to request the cancellation of your American depositary shares and the withdrawal of the common shares represented by your American depositary shares and the delivery of all other property held by the depositary in respect of those common shares on the same terms as prior to the termination. During this six-month period, the depositary will continue to collect all distributions received on the common shares on deposit but will not distribute anything to you until you request the cancellation of your American depositary shares.

After the expiration of the six-month period, the depositary may sell the securities held on deposit. The depositary will hold the proceeds from the sale and any other cash then held for the holders of American depositary receipts in a non-interest bearing, segregated account. After making the sale, the depositary will have no further obligations to holders under the deposit agreement, other than to account for the net proceeds and other cash then held for the holders of American depositary receipts still outstanding.

Books of Depositary

The depositary will maintain American depositary share holder records at its depositary office. You may inspect these records at its office during regular business hours; provided, however, that the inspection will not be carried out for the purpose of communicating with holders of American depositary receipts in the interest of a business or object other than our business or other than a matter related to the deposit agreement or American depositary receipts.

The depositary will maintain an office and facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of American depositary receipts. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary's obligations to you as follows:

- we and the depositary are obligated to take only the actions specifically stated in the deposit agreement without gross negligence or bad faith;
- the depositary will not be liable for any failure to carry out voting instructions, for the manner in which any vote is cast or for the effect of any vote, provided that the depositary acts in good faith and in accordance with the terms of the deposit agreement;

- the depositary will not be liable for any failure by it to determine that any distribution or action may be reasonably practicable, for the content of any information submitted by us for distribution to holders (or for any translation of a distribution), for any investment risk associated with an investment in the common shares, for the validity of the common shares or from any tax consequences that result from ownership of the American depositary shares, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice;
- we and the depositary will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement;
- we and the depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our by-laws, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control;
- we and the depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion granted by the deposit agreement or in our charter or in any provisions of securities on deposit;
- we and the depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of American depositary shares or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information;
- we and the depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to you; and
- we and the depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

From time to time we may request you and other holders and beneficial owners of American depositary shares to provide information as to:

- the capacity in which you and other holders and beneficial owners own or owned American depositary shares;
- the identity of any other persons then or previously interested in such American depositary shares; and
- the nature of such interest and various other matters.

You agree to provide any information requested by us or the depositary pursuant to the deposit agreement. The depositary has agreed to use reasonable efforts to comply with written instructions received from us requesting that it forward any such requests to you and other holders and beneficial owners and to forward to us any responses to such requests to the extent permitted by applicable law.

Pre-Release Transactions

The depositary may, in some circumstances, issue American depositary shares before receiving a deposit of common shares referred to as a "pre-release transaction." The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on these types of transactions such as:

- the need to receive collateral;
- the type of collateral required;

- the need to receive written representations from recipients of pre-released American depositary shares that the recipient
  - owns the common shares that will be deposited;
  - assigns all beneficial right, title and interest in the common shares to the depositary;
  - holds the common shares for the account of the depositary; and
  - will deliver the common shares to the custodian as soon as practicable and promptly upon demand; and
- restrictions on the percentage of American depositary shares that can be pre-released American depositary shares.

The depositary may retain for its own account the compensation received from the pre-release transactions.

Taxes

You will be responsible for taxes and other governmental charges payable on the American depositary shares and the securities represented by the American depositary shares. We, the depositary, and the custodian may deduct the taxes and governmental charges payable by holders from any distribution and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary may refuse to issue American depositary shares, to deliver, transfer, split and combine American depositary receipts or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and other information as the depositary and the custodian may require to fulfill their legal obligations. Under the deposit agreement, you will be required to indemnify us, the depositary, and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The depositary will arrange for the conversion of all foreign currency received into U.S. dollars if the conversion can be performed on a practicable basis or by sale, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay any fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary may take the following actions in its discretion:

- convert (or cause the custodian to convert) the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical;
- distribute the foreign currency to holders for whom the distribution is lawful and practical; or
- hold the foreign currency (without liability for interest) for the accounts of the holders entitled to receive the foreign currency.

TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the ownership and disposition of common shares or American depositary shares. You should know that it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a holder of common shares or American depositary shares.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may result in such a treaty. We cannot predict whether or when such a treaty will enter into force or how it will affect the U.S. holders, as defined below, of common shares or American depositary receipts. Holders of common shares or American depositary receipts should discuss with their own tax advisors the tax consequences of the acquisition, ownership and disposition of the common shares or American depositary shares in their particular circumstances, including, in particular, the effect of any state, local or other national tax laws.

Brazilian Tax Considerations

The following discussion of the material Brazilian tax consequences applicable to the ownership and disposition of common shares or American depositary shares by a non-Brazilian holder, as defined below, is the opinion of Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados.

This discussion only applies to a holder who is not domiciled in Brazil for purposes of Brazilian taxation and to a holder of common shares, who has registered his/her investment in common shares with the Central Bank as a U.S. dollar investment (in each case, a non-Brazilian holder). It is based on the tax laws of Brazil and regulations thereunder in effect on the date hereof, which are subject to change (possibly with retroactive effect).

Any change in such law may change the consequences we describe below. The following discussion summarizes the principal tax consequences applicable under current Brazilian law to non-Brazilian holders of common shares or American depositary receipts; it does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Therefore, each non-Brazilian holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in common shares or American depositary shares.

Taxation of Dividends. Dividends, including dividends paid in kind, paid by us (1) to the depositary in respect of the common shares underlying the American depositary shares or (2) to a non-Brazilian holder in respect of common shares will generally not be subject to Brazilian withholding income tax for distribution of profits earned at January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to taxation at varying rates, except in case of stock dividends, which are not subject to withholding income tax in Brazil unless we redeem the stock within five years from such distribution or the non-Brazilian holder sells the stock in Brazil within such five-year period.

Since January 1, 1996, Brazilian corporations may attribute interest on shareholders' equity, which they may pay in cash. They base the calculation on shareholders' equity as stated in the statutory accounting records. The interest rate applied may not exceed the TJLP as determined by the Brazilian Central Bank from time to time (in 2000 the annual rate was approximately 10.75%). Also, the amount paid may not be higher than the greater of (1) 50% of net income (after the deduction of the provision of social contribution on net profits but before taking into account such payment of interest and the provision of corporate income tax) for the relevant period or (2) 50% of the sum of retained earnings and profit reserves as of the beginning of the year in respect of which the payment is made.

The amount of interest attributed to shareholders is deductible for corporate income tax and social contribution on net profit purposes. Therefore, the benefit to us, as opposed to making a dividend payment, is a reduction in our corporate taxes charge equivalent to 34% of such amount. Subject to certain limitations, income tax is withheld from the shareholders on interest payments at the rate of 15%, except if the beneficiary is located in a tax haven jurisdiction (as described below), in which case the applicable rate is 25%.

Taxation of Gains. Regarding this issue, for purposes of Brazilian taxation, two types of non-Brazilian residents should be considered: (1) non-Brazilian holders that are not resident or domiciled in tax haven jurisdictions, which are registered before the Central Bank and the CVM to invest in Brazil in accordance with Resolution 2,689 or are holders of American depositary receipts; and (2) other non-Brazilian holders, which include any and all non-residents in Brazil who invest in the country through any other means and all types of investors that are located in a tax haven jurisdiction. The investors identified in item (1) are subject to a favorable tax treatment, as described below.

Gains realized outside Brazil by a non-Brazilian holder on the disposition of American depositary shares to another non-Brazilian holder are not subject to Brazilian tax.

The deposit of common shares in exchange for American depositary shares is not subject to Brazilian income tax if the common shares are registered under Resolution 2,689 and the respective holder is not located in a tax haven jurisdiction. If the common shares are not registered or if they are registered but the respective holder is located in a tax haven jurisdiction, the deposit of common shares in exchange for American depositary shares may be subject to Brazilian capital gains tax at the rate of 15%. The withdrawal of common shares in exchange for American depositary shares is not subject to Brazilian tax. On receipt of the underlying common shares, a non-Brazilian holder, registered under Resolution 2,689 may register the U.S. dollar value of such shares with the Central Bank as described below under Registered Capital.

Non-Brazilian holders are not subject to tax in Brazil on gains realized on sales of common shares that occur abroad to a non-Brazilian resident. Non-Brazilian holders registered under Resolution 2,689 and not located in a tax haven jurisdiction are subject to income tax imposed at a rate of 15% on gains realized on sales or exchanges of common shares that occur in Brazil or with a resident of Brazil, other than on a Brazilian stock, future or commodities exchange. With reference to proceeds of a redemption or of a liquidating distribution with respect to the common shares, the difference between the amount received and the amount of foreign currency registered with the Central Bank, translated into *reais* at the commercial market rate on the date of the redemption or liquidation distribution, will be also subject to income tax at a rate of 15%, once such transactions are treated as a sale or exchange carried out of the Brazilian stock, future commodities exchange.

Gains realized arising from transactions on a Brazilian stock, future or commodities exchange, by an investor under Resolution 2,689 and not located in a tax haven jurisdiction are exempt from income tax. At January 1, 2000, the preferential treatment under Resolution 2,689 is no longer applicable if the non-Brazilian holder of the American depositary shares or common shares is resident in a tax haven jurisdiction in accordance with Law 9,959 of January 27, 2000. As a consequence, gains realized on transactions performed by such holder of Brazilian stock, futures or commodities exchange are subject to income tax at a rate of 20%, except if such gains are obtained on the spot market of a Brazilian stock exchange or on variable funds, in which case the applicable rate is 10% (to be increased to 20% at January 1, 2002).

Therefore, non-Brazilian holders are subject to income tax imposed at a rate of 10% (20% on and after January 1, 2002) on gains realized on sales or exchanges in the spot market in Brazil of common shares that occur on a Brazilian stock exchange unless such a sale is made by a non-Brazilian holder who is not resident in a tax haven jurisdiction (1) and such sale is made within five business days of the withdrawal of such common shares in exchange for American depositary shares and the proceeds thereof are remitted abroad within such five-day period, or (2) such sale is made under Resolution 2,689 by registered non-Brazilian holders who obtain registration with the Brazilian securities commission.

The gain realized as a result of a transaction on a Brazilian stock exchange is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost, without any correction for inflation, of the shares sold. The gain realized as a result of a transaction that does not occur on a Brazilian stock exchange will be calculated based on the foreign currency amount registered with the Central Bank. It is possible that the current preferential treatment for holders of American depositary receipts and non-Brazilian holders of common shares under Resolution 2,689 will not continue in the future.

Any exercise of preemptive rights relating to the common shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the common shares by the depositary that occurs abroad among non-residents will not be subject to Brazilian taxation. In case such sale or assignment is made to a Brazilian party, any gain on the transaction will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of common shares, unless such sale or assignment is performed within Brazilian stock exchanges and by a investor under Resolution 2,689 who is not a resident in a tax haven jurisdiction, in which the gains are exempt from income tax.

Taxation of Foreign Exchange Transactions (IOF/Câmbio). Pursuant to Decree 2,219 of May 2, 1997, the conversion into Brazilian currency of proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with an investment in common shares or the American depositary shares and those under Resolution 2,689) and the conversion into foreign currency of proceeds received by a non-Brazilian holder are subject to a tax on exchange transactions known as IOF/Câmbio, which is currently zero for the transaction under analysis. However, according to Law 8,894/94, the IOF/Câmbio rate may be increased at any time to a maximum of 25% by a decision of the Minister of Finance, but only in relation to future exchange transactions.

Tax on Bonds and Securities Transactions (IOF/Títulos). Law 8,894/94 created the Tax on Bonds and Securities Transactions, the IOF/Títulos, which may be imposed on any transactions involving bonds and securities, even if these transactions are performed on Brazilian stock, futures or commodities exchanges. As a general rule, the rate of this tax is currently zero, although the executive branch may increase such rate up to 1.5% per day, but only with respect to future transactions.

Tax on Bank Accounts (CPMF). As a general rule, CPMF is imposed on any debit to bank accounts, at a current rate of 0.38%. Although CPMF is set to expire in June 2002, the Government is discussing the possibility of converting this tax into a permanent tax.

Other Brazilian Taxes. There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or American depositary shares by a non-Brazilian holder. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common shares or American depositary receipts.

Registered Capital. The amount of an investment in common shares held by a non-Brazilian holder who obtains registration under Resolution 2,689, or by the depositary representing such holder, is eligible for registration with the Central Bank; such registration (the amount so registered is referred to as Registered Capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized with respect to disposition of, such common shares.

The registered capital for each common share purchased in the form of an American depositary shares, or purchased in Brazil, and deposited with the depositary in exchange for an American depositary share, will be equal to its purchase price (in U.S. dollars) to the purchaser.

The registered capital for a common share that is withdrawn upon surrender of an American depositary share will be the U.S. dollar equivalent of:

(1) the average price of a common share on the Brazilian stock exchange on which the greatest number of such shares was sold on the day of withdrawal, or

(2) if no common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of common shares were sold in the fifteen trading sessions immediately preceding such withdrawal.

The U.S. dollar value of the common shares is determined on the basis of the average commercial market rates quoted by the Central Bank on such date (or, if the average price of common shares is

determined under clause (2) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the common shares).

A non-Brazilian holder of common shares may experience delays in completing such registration which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

U.S. Federal Income Tax Considerations

The following discussion of the material U.S. federal income tax consequences applicable to the ownership and disposition of common shares or American depositary shares by U.S. holders, as defined below, is the opinion of Davis Polk & Wardwell.

This discussion only applies to U.S. holders who hold their common shares or American depositary shares as capital assets. This discussion does not describe all of the tax consequences that may be relevant in light of a holder's particular circumstances or to holders subject to special rules, such as:

- certain financial institutions,
- insurance companies,
- dealers or traders in securities or foreign currencies,
- persons holding common shares or American depositary shares as part of a hedge, straddle, conversion or other integrated transaction,
- holders whose functional currency is not the U.S. dollar,
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes,
- persons subject to the alternative minimum tax, or
- persons owning, actually or constructively, 10% or more of our voting shares.

This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein. Holders should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion is also based, in part, on representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

As used herein, the term "U.S. holder" means a beneficial owner of common shares or American depositary shares that is for U.S. federal income tax purposes:

- a citizen or resident alien individual of the United States,
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The term "U.S. holder" also includes certain former citizens of the United States.

In general, for U.S. federal income tax purposes, holders of American depositary receipts evidencing American depositary shares will be treated as the beneficial owners of the common shares represented by those American depositary shares. Deposits and withdrawals of common shares by holders in exchange for American depositary shares will not result in the realization of gain or loss for U.S. federal income tax purposes.

Taxation of Dividends. Subject to the discussion under "— Passive Foreign Investment Company Rules" below, distributions paid on American depositary shares or common shares, including distributions paid in the form of payments of interest on capital for Brazilian tax purposes, out of our current or accumulated earnings and profits, as determined for U.S. federal tax purposes, before reduction for any Brazilian income tax withheld by us, will be taxable to you as foreign source dividend income and will not be eligible for the dividends-received deduction allowed to corporations.

You will be required to include dividends paid in *reais* in income in an amount equal to their U.S. dollar value calculated by reference to an exchange rate in effect on the date such items are received. If you hold American depositary shares, you will be considered to receive a dividend when the dividend is received by the depositary.

Subject to generally applicable limitations and restrictions, you will be entitled to a credit against your United States federal income tax liability, or a deduction in computing your U.S. federal taxable income, for Brazilian income taxes withheld by us. You must satisfy minimum holding period requirements to be eligible to claim a foreign tax credit for Brazilian taxes withheld on dividends. The limitation on foreign taxes eligible for credit is calculated separately for specific classes of income. For this purpose dividends paid by us on our shares will generally constitute "passive income." The U.S. Treasury has expressed concerns that parties to whom depositary receipts such as the American depositary receipts are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of such depositary receipts. Accordingly, the creditability of Brazilian taxes described above could be affected by actions that may be taken by the U.S. Treasury.

Taxation of Capital Gains. Subject to the discussion under "— Passive Foreign Investment Company Rules" below, upon a sale or exchange of common shares or American depositary shares, you will recognize a capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or exchange and your adjusted tax basis in the common shares or American depositary shares. This gain or loss will be long-term capital gain or loss if your holding period in the American depositary shares or common shares exceeds one year. Any gain or loss generally will be U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, if a Brazilian withholding tax is imposed on the sale or disposition of common shares, and you do not receive significant foreign source income from other sources you may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian withholding tax. You should consult your own tax advisor regarding the application of the foreign tax credit rules to your investment in, and disposition of, common shares.

If a Brazilian tax is withheld on the sale or disposition of shares, your amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. For a discussion of this Brazilian tax matter, see "— Brazilian Tax Considerations — Taxation of Gains."

Passive Foreign Investment Company Rules

We do not believe that we will be considered a passive foreign investment company for U.S. federal income tax purposes. However, it is unclear whether certain of our income constitutes passive income for these purposes. Furthermore, the classification as a passive foreign investment company depends upon the composition of a company's income and assets, and the market value of its assets from time to time. Therefore, there can be no assurance that we will not be a passive foreign investment company in any taxable year. If we were considered a passive foreign investment company for any taxable year during which a U.S. holder holds common shares or American depositary shares, certain adverse consequences could apply to the U.S. holder, including the imposition of tax at higher rates than would otherwise apply to income derived from the common shares or American depositary shares as well as additional tax form filing requirements.

Information Reporting and Backup Withholding

Information returns may be filed with the Internal Revenue Service in connection with distributions on the common shares or American depositary shares and the proceeds from their sale or other disposition. You may be subject to United States backup withholding tax on these payments if you fail to provide your taxpayer identification number or comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the Internal Revenue Service.

UNDERWRITING

The selling shareholders intend to offer the American depositary shares in an underwritten offer to be made in the United States and elsewhere internationally. Merrill Lynch, Pierce, Fenner & Smith Incorporated and ABN AMRO Rothschild LLC are acting as representatives for each of the underwriters named below. Subject to the terms and conditions described in a purchase agreement among us, the selling shareholders, and the underwriters, the selling shareholders have agreed to sell to the underwriters, and each of the underwriters severally has agreed to purchase from the selling shareholders, the number of American depositary shares listed opposite its name below.

Underwriter	Number of American Depositary Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
ABN AMRO Rothschild LLC	
Total	

In the purchase agreement, the several underwriters have agreed, subject to the terms and conditions set forth in that agreement, to purchase all of the American depositary shares sold under the terms of that purchase agreement if any of the American depositary shares sold under the terms of that agreement are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

In the purchase agreement, we and the selling shareholders have agreed to, respectively, indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of those respective liabilities.

The underwriters are offering the American depositary shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the common shares and the American depositary shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us and the selling shareholders that the underwriters propose to offer the American depositary shares to the public initially at the public offering price listed on the cover page of this prospectus, and to certain dealers at that price less a concession not in excess of US$ per American depositary share. The underwriters may allow, and such dealers may reallow, a discount not in excess of US$ per American depositary share to certain other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the per American depositary share and total public offering price, underwriting discount to be paid and proceeds before expenses to the selling shareholders. The information assumes either no exercise or full exercise by the underwriters of their overallotment options.

	Per American Depositary Share	Without Option	With Option
Public offering price	US$	US$	US$
Underwriting discount	US$	US$	US$
Proceeds, before expenses, to the selling shareholders	US$	US$	US$

The following table shows the fees and estimated expenses payable in connection with this offering:

Securities and Exchange Commission registration fee	US$
New York Stock Exchange listing fee	
National Association of Securities Dealers, Inc. filing fee	
Blue Sky fees and expenses	
Printing and engraving expenses	
Legal fees and expenses	
Accounting fees and expenses	
Mining expert fees and expenses	
Taxes	
Miscellaneous	
Total(1)	US$

(1) Of the total expenses payable, exclusive of the underwriting discount, the selling shareholders have agreed to pay $ and the underwriters have agreed to reimburse us for some of our offering expenses.

Overallotment Option

The selling shareholders have granted an option to the representatives on behalf of the underwriters, exercisable until 30 days after the date of this prospectus, to purchase from the selling shareholders an additional amount of shares (in the form of American depositary shares) up to a number not exceeding 15% of the aggregate number of shares (in the form of common shares or American depositary shares) in the global offering, at the public offering price set forth on the cover page of this prospectus, less the underwriting discount, to cover overallotments, if any. The representatives may exercise this option from time to time solely to cover overallotments, if any, made on the sale of our American depositary shares offered hereby. If the representatives exercise this option, each underwriter will be obligated, subject to certain conditions contained in the purchase agreement, to purchase a number of additional American depositary shares proportionate to that underwriter's initial amount reflected in the above table.

Intersyndicate Agreement

The underwriters and the Brazilian underwriters have entered into an intersyndicate agreement that provides for the coordination of their activities. Under the terms of the intersyndicate agreement, the underwriters and any dealer to whom they sell American depositary shares will not offer to sell or sell American depositary shares in Brazil or to persons they believe intend to resell in Brazil, and the Brazilian underwriters and any dealer to whom they sell common shares will not offer to sell or sell common shares outside of Brazil, except in the case of transactions under the terms of the intersyndicate agreement. The intersyndicate agreement also provides that Merrill Lynch, Pierce, Fenner & Smith Incorporated may direct the transfer of American depositary shares or common shares among the underwriters and the Brazilian underwriters in response to market demand. The price of any American depositary shares so transferred will be the initial public offering price, less an amount not greater than the selling concession, as defined in the intersyndicate agreement.

No Sales of Similar Securities

We and the selling shareholders have agreed, with exceptions, not to sell or transfer any shares for 120 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch,

Pierce, Fenner & Smith Incorporated, on behalf of the underwriters. Specifically, we and the selling shareholders have agreed not to directly or indirectly:

- offer, pledge, sell, or contract to sell any American depositary shares or common shares;
- sell any option or contract to purchase any American depositary shares or common shares;
- purchase any option or contract to sell any American depositary shares or common shares;
- grant any option, right or warrant for the sale of any American depositary shares or common shares;
- lend or otherwise dispose of or transfer any American depositary shares or common shares;
- file a registration statement under the Securities Act relating to any of the foregoing; or
- enter into any swap or other agreement or transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any American depositary shares or any common shares whether any such swap or transaction is to be settled by delivery of any American depositary shares, common shares or other securities, in cash or otherwise.

This lock-up provision applies to common shares and to securities convertible into or exchangeable or exercisable for or repayable with common shares. It also applies to common shares and preferred shares owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. This restriction does not apply only to those preferred shares of our company held by BNDESPAR, a wholly owned subsidiary of BNDES, which may be contributed to an investment fund intended to track the São Paulo Stock Exchange Index. Otherwise, the lock-up applies to these preferred shares.

The underwriters may, in their sole discretion, release all or any portion of the shares subject to the lock-up agreements prior to the expiration of their term. The underwriters may waive these restrictions at our request or upon the request of a shareholder. In evaluating whether to grant such a request, the underwriters may consider a number of factors with a view toward maintaining an orderly market for, and minimizing volatility in the market price of our shares. These factors include, among others, the number of shares involved, the then recent trading volume and prices of the stock, the length of time before the lock-up expires and the reasons for, and the timing of, the request.

New York Stock Exchange Listing

We have applied to list our American depositary shares on the New York Stock Exchange under the symbol "RIO." In order to meet the requirements for listing of the American depositary shares on that exchange, the underwriters have undertaken to sell a minimum number of American depositary shares to a minimum number of beneficial owners as required by that exchange.

The underwriters do not expect to sell more than 5% of the common shares in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization and Short Positions

Until the distribution of the American depositary shares is completed, U.S. Securities and Exchange Commission rules may limit the ability of the underwriters and certain selling group members from bidding for and purchasing our common shares, including common shares in the form of American depositary shares. However, Merrill Lynch, Pierce, Fenner & Smith Incorporated and ABN AMRO Rothschild LLC, as joint global coordinators, may engage in transactions that stabilize the price of the American depositary shares, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the global coordinators may make short sales of the American depositary shares and may purchase the American depositary shares on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of American depositary shares than they are required to purchase in the offering. Covered short sales are sales made in

an amount not greater than the underwriters' overallotment option to purchase additional American depositary shares in the offering. Naked short sales are sales in excess of the overallotment option. The underwriters may close out any covered short position by either exercising their overallotment option or purchasing American depositary shares in the open market. In determining the source of American depositary shares to close out the covered short position, the underwriters will consider, among other things, the price of American depositary shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. The underwriters must close out any naked short position by purchasing American depositary shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the American depositary shares in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the common shares or preventing or retarding a decline in the market price of the common shares. As a result, the price of the common shares may be higher than the price that might otherwise exist in the open market.

Neither we, the selling shareholders, nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the American depositary shares. In addition, neither we, the selling shareholders, nor any of the underwriters make any representation that these transactions, once commenced, will not be discontinued without notice.

U.K. Selling Restrictions

Each underwriter has agreed that:

- it has not offered or sold and will not offer or sell any American depositary shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the American depositary shares in, from or otherwise involving the United Kingdom; and
- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity within the meaning of Section 21 of the Financial Services and Markets Act 2000 received by it in connection with the issue or sale of any American depositary shares in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us.

Brazilian Offering

The selling shareholders will be conducting a concurrent offering in Brazil of of our common shares to retail and institutional investors, pursuant to a Brazilian underwriting agreement entered into between us, the selling shareholders and BB Banco de Investimento S.A., Banco Merrill Lynch S.A. and NM Rothschild and Sons (Brasil) Ltda., and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Brazilian individual investors who, subject to certain limits of investment, wanted to acquire our common shares directly in the Brazilian retail offering, and certain investment vehicles made available to Brazilian individual investors have made reservations for shares offered by the selling shareholders and have deposited the amount of the proposed investment with the Brazilian underwriters. The number of shares to be purchased by each individual investor or each investment vehicle is the highest number of shares that may be purchased with the amount deposited, and any remainder in the account representing less than one share will be returned by the Brazilian underwriters to the depositing investor.

Priority in the Allocation of Shares. In the event of an over-subscription for our shares in this offering, Brazilian individual retail investors and the investment vehicles for individual investors will have priority with respect to the allocation of shares to be offered by the Brazilian underwriters and the underwriters. If Brazilian individual investors indicate an interest in all of the shares offered by the selling shareholders, the underwriters will not be permitted to purchase any shares in the offering. Furthermore, if all of the shares are not purchased by Brazilian retail investors, the shares, either directly or in the form of American depositary shares, will then be allocated to institutional investors and the underwriters.

Retail Incentives. In order to encourage investment at the retail level, the selling shareholders are offering incentives to Brazilian individual investors and the investment vehicles for individual investors, including:

- preferential allocation for retail investors and the investment vehicles for individual investors; and
- a discounted purchase price under certain circumstances.

Discounted Purchase Price. Brazilian individual investors and the investment vehicles for individual investors who agree not to sell or transfer any shares for six months after the date of this prospectus, will be entitled to purchase the common shares offered by the selling shareholders at a discount of 5% from the retail offering price. With limited exceptions, shares purchased at the discounted price may only be sold after six months.

No Public Offering Outside the United States and Brazil

No action has been or will be taken in any jurisdiction (except in the United States and Brazil) that would permit a public offering of the common shares, directly or in the form of American depositary shares, or the possession, circulation or distribution of this prospectus or any other material relating to our company, the selling shareholders, our common shares or our American depositary shares in any jurisdiction where action for that purpose is required. Accordingly, our common shares, directly or in the form of American depositary shares, may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the common shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the securities offered by this prospectus may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this prospectus.

Other Relationships

Some of the underwriters and their affiliates and the selling shareholders have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or the selling shareholders. They have received customary fees and commissions for these transactions.

LEGAL MATTERS

The validity of the American depositary shares offered hereby will be passed upon for us by Davis Polk & Wardwell, New York, New York and for the underwriters by Shearman & Sterling, New York, New York. The validity of the common shares underlying the American depositary shares will be passed upon for us by Paulo Francisco de Almeida Lopes, our general counsel, and for the underwriters by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, São Paulo, Brazil. Various legal matters in connection with this offering will be passed upon for the selling shareholders by Arnold & Porter, Washington, D.C.

EXPERTS

Our consolidated financial statements at and for the three years ended December 31, 2000 have been included in this prospectus in reliance upon the report of PricewaterhouseCoopers Auditores Independentes, independent accountants, given on the authority of said firm as experts in auditing and accounting. The financial statements of certain of our subsidiaries and affiliates, not separately included in this prospectus, have been audited by various independent accountants other than PricewaterhouseCoopers Auditores Independentes. The companies and periods covered by these audits are indicated in the individual accountants' reports appearing in this prospectus. These financial statements, to the extent they have been included in our consolidated financial statements, have been included in reliance on the reports of the various independent accountants given on the authority of said firms as experts in auditing and accounting.

With respect to our unaudited interim consolidated financial statements, at and for the nine months ended September 30, 2000 and 2001, PricewaterhouseCoopers Auditores Independentes reported that they have applied limited procedures in accordance with professional standards for a review of that information. However, their separate report thereon states that they did not audit and they did not express an opinion on our unaudited information. Accordingly, the degree of reliance on their report on that information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers Auditores Independentes is not subject to the liability provisions of Section 11 of the Securities Act for their report on our interim financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers Auditores Independentes within the meaning of Sections 7 and 11 of the Securities Act.

We have engaged Mineral Resources Development, Inc., or MRDI, experts in geology, mining and ore reserve determination, to perform an audit of our estimates of proven and probable reserves and mine life at December 31, 2000. The estimates of proven and probable reserves and mine life as presented herein have been audited and verified by MRDI, which has indicated that our proven and probable reserves have been estimated in accordance with good engineering practices, using current reasonable cost estimates. Reserves classified as "other mineral deposits" have not been audited by MRDI.

ENFORCEMENT OF CIVIL LIABILITIES AGAINST NON-U.S. PERSONS

The Issuer

We are organized under the laws of Brazil and substantially all of our assets are located outside of the United States. The majority of our directors and executive officers and certain experts named in this prospectus reside outside of the United States and substantially all of the assets of such persons are located outside the United States. As a result, it may not be possible (or may be difficult) for investors to effect service of process upon us or such persons within the United States or to enforce against us or them judgments obtained in U.S. courts, including those predicated upon the civil liability provisions of the federal securities laws of the United States.

We have been advised by Paulo Francisco de Almeida Lopes, our general counsel, that a judgment of a U.S. court for civil liabilities predicated upon the federal securities laws of the United States may be enforced in Brazil against us and our directors and executive officers and certain of the experts named herein without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Federal Supreme Court. Such confirmation, generally, will be available if the foreign judgment (i) is for a payment of a sum certain, (ii) fulfills all formalities required for its enforceability under the laws of the United States, (iii) is issued by a competent court after proper service of process, (iv) is not subject to appeal, (v) is authenticated by a Brazilian consular office in the United States and is accompanied by a sworn translation in Portuguese and (vi) does not violate Brazilian national sovereignty, public policy or "good morals" (as set forth in Brazilian law). We have also been advised by our General Counsel that (i) original civil actions may be brought in connection with this prospectus predicated solely on the federal securities laws of the United States in Brazilian courts and that Brazilian courts may enforce such

liabilities in such actions against us and our directors and executive officers and certain of the experts named herein (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy and provided further that Brazilian courts can assert jurisdiction over the particular action) and (ii) the ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant is limited by provisions of Brazilian law. In addition, a plaintiff (whether Brazilian or non-Brazilian) that resides outside Brazil during the course of the litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil.

The Selling Shareholders

BNDES, an entity owned by the Brazilian government, is incorporated under the laws of Brazil. Substantially all of BNDES's assets are located in Brazil. All of BNDES's directors and officers and some of the advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or BNDES in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

The Federative Republic of Brazil is a foreign sovereign government and has not waived its sovereign immunity in connection with any action relating to the securities, including any action arising out of or based on United States federal or state securities laws. Under Brazilian law, the Federative Republic of Brazil is prohibited from submitting to the jurisdiction of a foreign court for the purpose of adjudication on the merits in any dispute, controversy or claim against the Federative Republic of Brazil arising out of or relating to the sale of the securities.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Commission. You may inspect and copy reports and other information that we have filed with the Commission at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of these materials by mail from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may also inspect and copy this material at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our American depositary shares are listed.

As a foreign private issuer, we are not subject to the proxy rules of Section 14 of the Securities Exchange Act of 1934 or the insider short-swing profit reporting requirements of Section 16 of that Act.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically be deemed to update and supersede this information. We incorporate by reference the following documents that have been filed with the SEC:

- our Annual Report on Form 20-F/A for the fiscal year ended December 31, 2000; and
- exhibits 1(a), 1(b) and 8 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000.

We also incorporate by reference into this prospectus any future filings made with the SEC under Sections 13(a), 13(c), or 15(d) of the Exchange Act and, to the extent designated therein, reports on Form 6-K that we furnish to the SEC.

Any statement contained in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus.

We will provide without charge to each person to whom a copy of this prospectus is delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents). Requests should be directed to the Investor Relations Department, Avenida Graça Aranha, No. 26, 17th floor, 20005-900 Rio de Janeiro, RJ, Brazil (telephone no: 5521-3814-4557).

MINING TERMS

Alumina	Aluminum oxide. It is extracted from bauxite in a chemical refining process and is the principal raw material in the electro-chemical process from which aluminum is produced.
Bauxite	A rock composed primarily of hydrated aluminum oxides. It is the principal ore of alumina, the raw material from which aluminum is made.
Beneficiation	The process of separating, concentrating and classifying ore by particle size or some other characteristic (*e.g.*, specific gravity, magnetic susceptibility, surface chemistry, etc.) in order to obtain the mineral or metal of interest.
CIF	Cost, insurance and freight. It indicates that the seller pays for shipping, insurance, and all other costs associated with transportation of the commodity to its destination.
CIL	Carbon-in-Leach. A method of recovering gold in solution from slurry streams by contacting activated carbon with the pulp during the leaching process within agitated vessels and separating loaded carbon from the pulp by screening.
CIP	Carbon-in-Pulp. A method of recovering gold and silver extracted from pregnant cyanide solutions by absorbing the precious metals to granules of activated carbon, which are typically ground up coconut shells.
Concentration	Physical, chemical or biological process to increase the grade of the metal or mineral of interest.
DR	Direct reduction. DR iron ore pellets are used by steelmakers that employ minimill technology.
DWT	Deadweight ton. The measurement unit of a vessel's capacity for cargo, fuel oil, stores and crew, measured in metric tons of 1,000 kg. A vessel's total deadweight is the total weight the vessel can carry when loaded to a particular load line.
Fines	Refers to iron ore with particles in the range of 0.10 mm to 6.35 mm diameter.
FOB	Free on Board. It indicates that the purchaser pays for shipping, insurance, and all the other costs associated with transportation of the commodity to its destination.
Grade	The proportion of metal or mineral present in ore or any other host material.
HL	Heap Leaching. A low cost method of extracting metals such as gold and copper from low-grade ores. It consists of building a heap of ore and applying a solution (lixiviant) which dissolves the metal to produce a pregnant solution (leachate) from which the metal is recovered by precipitation and smelting or carbon absorption, stripping and electrowinning methods.

Kaolin	A fine white aluminum silicate clay used as a coating agent, filler, extender and absorbent in the paper, ceramics and pharmaceutical industries.
Lump ore	Iron ore or manganese ore with the coarsest particle size in the range of 6.35 mm to 75 mm diameter, but varying slightly between different mines and ores.
Manganese	A hard brittle metallic element found primarily in the minerals pyrolusite, hausmannite and manganate.
Mineral deposit(s) or mineralized material(s)	Refers to a mineralized body which has been intersected by a sufficient number of closely-spaced drill holes and/or underground/surface samples to support sufficient tonnage and grade of metal(s) or mineral(s) of interest to warrant further exploration-development work. The deposit does not qualify as an ore body until it can be legally and economically extracted at the time of ore reserve determination.
Open pit mining	The extraction method by which surface or barren rock is removed so that ore may be removed using power shovels, front-end loaders, hydraulic excavators, draglines, etc.
Oxides	Compounds of oxygen with another element. For example, magnetite (Fe_3O_4) is an oxide mineral formed by the chemical union of iron with oxygen.
Pellet feed	Fine (0.10 mm to 6.35 mm) and ultra-fine (less than 0.10 mm) iron ore particles generated by the mining, grading, handling and transporting of iron ore, with no practical direct application in the steel industry, unless the material is aggregated into pellets through an agglomeration process.
Pellets	Balls of agglomerated fine and ultra-fine iron ore particles of a size and quality suitable for particular steelmaking processes. Our pellets range in size from 8 mm to 18 mm.
Potash	A potassium chloride compound, chiefly KCl, used in industry and agriculture.
Probable (indicated) reserves	Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

Proven (measured) reserves	Reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (2) grade and/or quality are computed from the results of detailed sampling; and (3) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.
Recoverable reserve	That portion of interest in the ore that can be physically recovered through processing.
Reserve	Refers to that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Run-of-mine	Ore in its natural (unprocessed) state, as mined, without having been crushed.
Seaborne market	The market for iron ore products that are shipped in vessels which have a capacity in excess of 50,000 DWT.
Sinter feed	Iron or manganese ore suitable for sintering.
Sintering	Refers to the agglomeration of small particles into a coherent mass by heating without melting.
S/P	Stockpile. Refers to ore or materials accumulated or piled at the surface for future use.
Sulfides	Compounds of sulphur with more than one element and metallic sulfides (such as galena, PbS, and chalcopyrite, $CuFeS_2$) which occur as minerals.

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PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Companhia Vale Do Rio Doce

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity, present fairly, in all material respects, the financial position of Companhia Vale do Rio Doce and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain affiliates, the investments in which total US$1,188 million and US$929 million at December 31, 2000 and 1999, respectively, and equity in earnings of US$213 million, US$42 million and US$21 million for 2000, 1999 and 1998, respectively. Also, we did not audit the financial statements of the majority-owned shipping and ferro alloys subsidiaries as at and for the years ended December 31, 2000, 1999 and 1998, which statements reflect total assets of US$584 million and US$569 million at December 31, 2000 and 1999, respectively, and total revenues of US$480 million, US$177 million and US$222 million for 2000, 1999 and 1998, respectively. The financial statements of these affiliates and subsidiaries were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts for these affiliates and subsidiaries, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS
PRICEWATERHOUSECOOPERS
Auditores Independentes

Rio de Janeiro, Brazil
February 21, 2001, except for the information on subsequent events contained in Note 21 which is as of March 9, 2001.

CONSOLIDATED BALANCE SHEETS
Expressed in Millions of United States Dollars

	As of December 31	
	2000	1999
Assets		
Current assets		
Cash and cash equivalents	1,211	1,453
Accounts receivable		
Related parties	125	107
Unrelated parties	365	350
Loans and advances to related parties	136	103
Inventories	306	244
Deferred income tax	89	60
Others	283	181
	2,515	2,498
Property, plant and equipment, net	3,850	3,848
Investments in affiliated companies and joint ventures and other investments	2,244	1,726
Provision for losses on equity investments	(21)	(87)
Other assets		
Goodwill on acquisition of consolidated subsidiaries	189	—
Loans and advances		
Related parties	704	601
Unrelated parties	52	66
Unrecognized pension obligation	125	64
Deferred income tax	187	116
Judicial deposits	119	72
Others	113	57
TOTAL	10,077	8,961
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	321	251
Payroll and related charges	51	48
Interest attributed to stockholders	657	254
Current portion of long-term debt		
Related parties	28	30
Unrelated parties	252	458
Short-term debt	449	649
Loans from related parties	156	197
Others	210	151
	2,124	2,038
Long-term liabilities		
Employees postretirement benefits	591	314
Long-term debt		
Related parties	74	90
Unrelated parties	1,891	1,200
Loans from related parties	21	4
Provisions for contingencies (Note 15)	338	185
Others	111	98
	3,026	1,891
Minority interest	5	—
Stockholders' equity		
Preferred class A stock — 600,000,000 no-par-value shares authorized and 138,575,913 issued	709	709
Common stock — 300,000,000 no-par-value shares authorized and 249,983,143 issued	1,279	1,279
Treasury stock — 3,659,311 (1999 — 3,659,311) preferred and 7,300 common shares	(61)	(61)
Additional paid-in capital	498	498
Other cumulative comprehensive income	(3,020)	(2,465)
Appropriated retained earnings	3,537	3,567
Unappropriated retained earnings	1,980	1,505
	4,922	5,032
TOTAL	10,077	8,961

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Expressed in Millions of United States Dollars
(Except Number of Shares and Per-Share Amounts)

	Year ended December 31		
	2000	1999	1998
Operating revenues, net of discounts, returns and allowances			
Sales of ores and metals			
Iron ore and pellets	2,177	1,694	1,930
Gold	156	155	168
Others	412	175	200
	2,745	2,024	2,298
Revenues from transportation services	760	642	848
Aluminum products	362	363	407
Other products and services	202	128	105
	4,069	3,157	3,658
Value-added tax	(134)	(81)	(105)
Net operating revenues	3,935	3,076	3,553
Operating costs and expenses			
Cost of ores and metals sold	(1,423)	(996)	(1,348)
Cost of transportation services	(481)	(368)	(440)
Cost of aluminum products	(334)	(323)	(387)
Others	(191)	(119)	(97)
	(2,429)	(1,806)	(2,272)
Selling, general and administrative expenses	(225)	(138)	(171)
Research and development	(48)	(27)	(48)
Employee profit sharing plan	(29)	(24)	(29)
Other	(206)	(161)	(179)
	(2,937)	(2,156)	(2,699)
Operating income	998	920	854
Non-operating income (expenses)			
Financial income	208	200	394
Financial expenses	(315)	(233)	(243)
Foreign exchange and monetary gains (losses), net	(142)	(213)	(108)
Others	(4)	(4)	(5)
	(253)	(250)	38
Income before income taxes, equity results and minority interests	745	670	892
Income taxes			
Current	(10)	—	(28)
Deferred	35	(33)	(68)
	25	(33)	(96)
Equity in results of affiliates and joint ventures	267	41	80
Change in provision for losses on equity investments	62	(268)	21
Minority interests	1	2	(1)
Net income	1,100	412	896
Basic earnings per Common Share	2.86	1.07	2.31
Basic earnings per Preferred Class A Share	2.86	1.07	2.31
Weighted average number of shares outstanding (thousands of shares)			
Common shares	249,983	249,983	249,983
Preferred Class A shares	134,917	134,917	137,965

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Millions of United States Dollars

	Year ended December 31		
	2000	1999	1998
Cash flows from operating activities:			
Net income	1,100	412	896
Adjustments to reconcile net income with cash provided by operating activities:			
Depreciation, depletion and amortization	195	163	231
Equity in results of affiliates and joint ventures, net of dividends received	(134)	23	36
Change in provision for losses on equity investments	(62)	268	(21)
Deferred income taxes	(35)	33	68
Provisions for contingencies	101	57	78
Loss on disposals of property, plant and equipment	47	23	64
Gain on Alunorte/MRN transaction	(54)	—	—
Pension plan	105	55	88
Foreign exchange and monetary losses	208	399	135
Others	40	61	(50)
Decrease (increase) in assets:			
Accounts receivable	(63)	(135)	(69)
Inventories	(50)	(6)	(58)
Others	(103)	(25)	(2)
Increase (decrease) in liabilities:			
Suppliers	84	49	(2)
Payroll and related charges	(1)	2	(20)
Others	46	(43)	(2)
Net cash provided by operating activities	1,424	1,336	1,372
Cash flows from investing activities:			
Loans and advances receivable			
Related parties			
Additions	(168)	(202)	(399)
Repayments	32	42	230
Others	8	5	6
Guarantees and deposits	(98)	(4)	(47)
Additions to investments	(538)	(49)	(36)
Additions to property, plant and equipment	(447)	(265)	(412)
Proceeds from disposal of property, plant and equipment	1	1	12
Proceeds from disposal of investments	44	—	—
Net cash used to acquire subsidiaries	(323)	—	—
Others	—	3	15
Net cash used in investing activities	(1,489)	(469)	(631)
Cash flows from financing activities:			
Short-term debt, net issuances	(278)	(110)	60
Loans			
Related parties			
Additions	8	223	46
Repayments	(42)	(42)	(38)
Perpetual notes	120	—	—
Long-term debt			
Related parties	62	60	38
Unrelated parties	750	175	288
Repayments of long-term debt			
Related parties	(25)	(48)	(87)
Unrelated parties	(419)	(299)	(239)
Interest attributed to stockholders	(246)	(452)	(607)
Treasury stock	—	—	(36)
Net cash used in financing activities	(70)	(493)	(575)
Increase (decrease) in cash and cash equivalents	(135)	374	166
Effect of exchange rate changes on cash and cash equivalents	(107)	(110)	(85)
Cash and cash equivalents, beginning of year	1,453	1,189	1,108
Cash and cash equivalents, end of year	1,211	1,453	1,189
Cash paid during the year for:			
Interest on short-term debt	(48)	(55)	(68)
Interest on long-term debt, net of interest capitalized of $12 in 2000, $12 in 1999 and $23 in 1998	(128)	(107)	(98)
Income tax	(6)	—	—
Non-cash transactions			
Exchange of loans receivable for investments	7	241	240
Transfer of credits from related parties at fair value	—	126	—

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Expressed in Millions of United States Dollars
(Except Number of Shares and Per-Share Amounts)

	Year ended December 31			
	Shares	2000	1999	1998
Preferred class A stock (including one special share)				
Balance January 1, 1998, 1999 and 2000	138,575,913	709	642	468
Transfer from appropriated retained earnings	—	—	67	174
Balance December 31, 1998, 1999 and 2000	138,575,913	709	709	642
Common stock				
Balance January 1, 1998, 1999 and 2000	249,983,143	1,279	1,159	845
Transfer from appropriated retained earnings	—	—	120	314
Balance December 31, 1998, 1999 and 2000	249,983,143	1,279	1,279	1,159
Treasury stock				
Balance January 1	(1,347,500)	(61)	(61)	(25)
Acquisitions in 1998	(2,311,500)	—	—	(36)
Acquisitions in 1999	(311)	—	—	—
Acquisitions in 2000	(7,300)	—	—	—
Balance December 31	(3,666,611)	(61)	(61)	(61)
Additional paid-in capital				
Balance January 1 and December 31		498	498	498
Other cumulative comprehensive income				
Amounts not recognized as net periodic pension cost				
Balance January 1		—	(153)	(77)
Excess of additional minimum liability		(151)	229	(115)
Tax effect on above		51	(76)	39
Balance December 31		(100)	—	(153)
Cumulative translation adjustments				
Balance January 1		(2,513)	(731)	(218)
Change in the year		(439)	(1,782)	(513)
Balance December 31		(2,952)	(2,513)	(731)
Unrealized gain on available-for-sale securities				
Balance January 1		54	30	—
Unrealized gain (loss) in the year		(30)	24	30
Balance December 31		24	54	30
Adjustments relating to investments in affiliates				
Balance January 1		(6)	(7)	—
Change in adjustments relating to investments in affiliates		14	1	(7)
Balance December 31		8	(6)	(7)
Total other cumulative comprehensive income		(3,020)	(2,465)	(861)
Appropriated retained earnings				
Balance January 1		3,567	5,212	5,806
Transfer to retained earnings		(30)	(1,458)	(106)
Transfer to capital stock		—	(187)	(488)
Balance December 31		3,537	3,567	5,212
Retained earnings				
Balance January 1		1,505	126	(270)
Net income		1,100	412	896
Interest attributed to stockholders				
Preferred class A stock ($1.70, $1.28 and $1.58 per share in 2000, 1999 and 1998)		(230)	(172)	(212)
Common stock ($1.70, $1.28 and $1.58 per share in 2000, 1999 and 1998)		(425)	(319)	(394)
Appropriation from reserves		30	1,458	106
Balance December 31		1,980	1,505	126
Total stockholders' equity	384,892,445	4,922	5,032	6,715
Comprehensive income is comprised as follows:				
Net income		1,100	412	896
Amounts not recognized as net period pension cost		(100)	153	(76)
Cumulative translation adjustments		(439)	(1,782)	(513)
Unrealized gain (loss) on available-for-sale securities		(30)	24	30
Adjustments relating to investments in affiliates		14	1	(7)
Total comprehensive income (loss)		545	(1,192)	330

See Notes to Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Expressed in Millions of United States Dollars, Unless Otherwise Stated

1. The Company and its Operations

Companhia Vale do Rio Doce (CVRD) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. Our operations are carried out through CVRD and its subsidiary companies, joint ventures and affiliates, and mainly consist of mining, non-ferrous metal production and logistics, as well as pulp and paper, aluminum and steel activities. Further details of our operations and those of our joint ventures and affiliates are described in Note 16.

The main operating subsidiaries we consolidate are as follows:

Subsidiary	% Ownership	Head Office Location	Principal Activity
S.A. Mineração da Trindade — SAMITRI	100	Brazil	Iron ore and pellets
Pará Pigmentos S.A.	76	Brazil	Kaolin
SIBRA — Eletrosiderúrgica Brasileira S.A.	98	Brazil	Ferrous alloys
Navegação Vale do Rio Doce S.A. — DOCENAVE	100	Brazil	Shipping
Vale do Rio Doce Alumínio S.A. — ALUVALE	100	Brazil	Aluminum
Itabira Rio Doce Company Ltd. — ITACO	100	Cayman Island	Trading
Rio Doce International Finance Ltd. — RDIF	100	Bahamas	International finance

2. Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy, defined as an economy in which the cumulative inflation rate over the latest thirty-six month period has exceeded 100%. Accordingly, up to June 30, 1997, we adopted the U.S. dollar as both our functional currency and reporting currency.

As from July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary and changed our functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais). Accordingly, at July 1, 1997, we translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases, including those relating to affiliates and joint ventures, net of related valuation allowances, were reflected in the cumulative translation adjustments component of stockholders' equity.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R$1.9554 and R$1.7890 to US$1.00 at December 31, 2000 and 1999, respectively), and all accounts in the statements of income (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The translation gain or loss resulting from this remeasurement process is included in the cumulative translation adjustments account in stockholders' equity.

The net transaction loss included in our statement of income was $115, $265 and $114 in 2000, 1999 and 1998, respectively.

(b) Basis of Consolidation

All majority-owned subsidiaries where we have both share and management control are consolidated (unless control is temporary), with elimination of all significant intercompany accounts and transactions. Investments in unconsolidated affiliates and joint ventures are reported at cost less amortized goodwill 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 10).

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall management thereof, 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.

(c) Business Combinations

We adopt the procedures determined by Accounting Principles Board Opinion 16 — "Business Combinations" (APB 16) to recognize acquisitions of interests in other companies. The method of accounting normally used in our business combination transactions is the "purchase method", which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase to be recognized as an intangible asset. On the acquisition of assets which include the rights to mine reserves of natural resources, the establishment of values for these assets includes the placing of fair values on purchased reserves, which are classified in the balance sheet as property, plant and equipment.

Goodwill recorded in our business combination transactions is amortized in a systematic manner over the periods estimated to be benefited.

(d) Inventories

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

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

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line basis at rates which take into consideration the useful lives of the items, principally an average of 80 years for the railroads, 20 years

for ships, 25 years for buildings and improvements and between 10 to 20 years for mining and other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

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

(f) Available-For-Sale Equity Securities

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

(g) Revenues and Expenses

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

(h) Environmental and Site Reclamation and Restoration Costs

Expenditures relating to ongoing compliance with environmental regulations are charged against earnings or capitalized as appropriate. These ongoing programs are designed to minimize the environmental impact of our activities. With respect to our two major iron ore mines at Itabira and Carajas, which have extensive remaining reserves, liabilities for final site reclamation and restoration costs will be recorded when the respective reclamation and restoration strategies can be reasonably determined and the related costs can be reasonably estimated. At December 31, 2000 we have recorded provisions of $14.

(i) Compensated Absences

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

(j) Income Taxes

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

(k) Statement of Cash Flows

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

In 2000, dividends of $133 received from equity method affiliates and joint ventures have been netted against the equity in results of these entities in the statement of cash flows. For comparative purposes dividends received in 1999 and 1998 of $64 and $116, respectively, have been reclassified from investing activities to reflect the same presentation.

(l) Earnings Per Share

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

(m) Interest Attributed to Stockholders

As from January 1, 1996 Brazilian corporations are permitted to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves.

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

We have opted to pay such tax-deductible interest to our stockholders and have therefore accrued the amounts due as of December 31, 2000 and 1999, with a direct charge to stockholders' equity.

Under Brazilian law interest attributable to stockholders is considered as part of the annual minimum dividend (See Note 13). Accordingly such distributions are treated as dividends for accounting purposes.

(n) Accounting for Derivatives and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 — Accounting for Derivative Financial Instruments and Hedging Activities (SFAS 133). The standard, as amended by SFAS 137 — Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB 133, and amendment of FASB Statement No. 133 and SFAS 138 — Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133 (referred to hereafter as "FAS 133"), is effective for us as from January 1, 2001. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge relationship. The ineffective portion of all hedges is recognized in current period earnings. We currently believe that the initial impact of the adoption of SFAS 133 will not be significant.

(o) Comprehensive Income

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

3. Our Privatization

In May 1997, we were privatized by the Brazilian Government, which transferred voting control to Valepar S.A. ("Valepar"). The Brazilian Government has retained certain rights with respect to our future

decisions and those of Valepar and has also caused us to enter into agreements which may affect our activities and results of operations in the future. These rights and agreements are:

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

- *Preferred Class A Share of Valepar.* The Brazilian Government holds a preferred class A share of Valepar which confers upon it approval rights for a period of five years in respect of (i) concentration of ownership of Valepar by particular types of investors in excess of prescribed limitations and (ii) changes in the Valepar holding company structure relating to ownership of our common shares.

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

In addition to the preferred special share mentioned above, the National Treasury and the Banco Nacional de Desenvolvimento Econômico e Social - BNDES, the Government-owned development bank, together currently own 32% of our common shares and 4% of our preferred shares, which in aggregate represents 22% of our total capital.

4. Major Acquisitions

We made the following acquisitions during the year ended December 31, 2000. Pro forma information with respect to results of operations is not presented since the effects are not considered material to an understanding of our consolidated financial statements.

(a) On May 11, 2000, we acquired the entire capital of Mineração SOCOIMEX S.A., a non-public company whose main activity is production and commercialization of iron ore, for the total price of $55, being an initial cash payment of $47 and two further cash payments of $3 and $5, in 2001 and 2002, respectively, plus interest based on 89% of the Brazilian Interbank Rate through the payment date. The increment of the fair value over the book value of SOCOIMEX at the date of purchase was entirely attributable to its mineral reserves, which are included in the property, plant and equipment. In August 2000 SOCOIMEX was merged into CVRD.

(b) On May 30, 2000, we acquired 4,026,694,190 common shares and 4,231,324,374 preferred shares of S.A. Mineração Trindade — SAMITRI, representing 79.27% of the voting capital and 63.06% of the total capital for $520 in cash: becoming the controlling stockholder. At the date of the purchase, SAMITRI was a publicly listed Brazilian iron ore mining company, which also owned a 51% interest in the voting capital of SAMARCO Mineração S.A., a large iron ore pellets producer (see Note 10). On June 29, 2000, we sold 1% of the share capital of SAMARCO to BHP Brasil Ltda. (BHP), a subsidiary of The Broken Hill Proprietary Company Limited of Australia, for $8, to equalize our shareholdings in the joint venture.

(c) The assets and liabilities acquired as a result of the above transactions and corresponding goodwill were as follows:

	Unconsolidated Joint Venture	Consolidated Subsidiaries	
	SAMARCO	SAMITRI	SOCOIMEX
Fair value of assets	1,006	293	77
Fair value of liabilities	(450)	(144)	(22)
Net assets at fair value	556	149	55
Interest acquired	50.00%	63.06%	100.00%
Fair value of net assets acquired	278	94	55
Attributable to minority stockholders of SAMITRI (36.94%)	(103)	—	—
Tax benefits	31	—	—
Effective interest acquired	206	94	55
Purchase price	252	268	55
Goodwill	46	174	—

The main assets for which fair values differ from book values are inventories and property, plant and equipment. We determined the fair values of inventories based on the current replacement costs for raw materials and the estimated selling prices for finished goods, net of disposal costs and a selling margin. The fair values of property, plant and equipment were determined based on current replacement costs for similar capacity and the estimated market value of purchased reserves. Deferred taxes were recorded for the differences between fair values and tax bases.

For SAMARCO, SAMITRI and SOCOIMEX inventories were valued at $36, $38 and $9, respectively, property, plant and equipment were valued at $830, $161 and $58, respectively, and the deferred tax liability was $60, $49 and $15, respectively.

We will amortize the goodwill on the SAMITRI and SAMARCO purchases on the straight-line basis over a period of 5 years, starting in the second half of 2001 when we expect the benefits will begin to be realized. Such benefits relate to:

- reduction in our overall tax burden upon the intended merger of SAMITRI into CVRD before the end of 2001.
- operational economies to be realized through logistic benefits, substitution of mines nearing depletion and postponement of investments in other mines. The implementation of actions to achieve these economies depends, in part, on a revision of our master plan for the Southern System, which we expect to be concluded in September 2001.

(d) On September 22, 2000 we acquired via public tender a further 1,014,529,197 common shares and 3,716,344,366 preferred shares of SAMITRI bringing our ownership to 99.25% of the voting capital and 99.19% of the total capital. The cash cost of this purchase was $180 and resulted in additional goodwill of $27, all attributed to SAMARCO.

(e) In October 2000, we acquired 50% of Gulf Industrial Investment Company (GIIC), a pelletizing company located in Bahrain, for $91, including goodwill of $20.

5. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory enacted tax rates applicable in the years presented are as follows:

	Year ended December 31 — %		
	2000	1999	1998
Federal income tax	25.00	25.00	25.00
Social contribution(*)	9.00 to 12.00	8.00 to 12.00	8.00
Composite tax rate	34.00 to 37.00	33.00 to 37.00	33.00

(*) As from May 1, 1999 through January 31, 2000, the social contribution rate has been increased from 8% to 12% (not enacted). Pursuant to a provisional measure, which is valid only for 30 days unless approved by the Congress, the social contribution rate will be 9% from February 1, 2000 to December 31, 2002 and will be reduced to 8% as from January 1, 2003. Since the provisional measure is not enacted, the social contribution rate of 8% was used to calculate deferred taxes at December 31, 2000.

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

	Year ended December 31		
	2000	1999	1998
Income before income taxes, equity results, provision for losses on equity investments and minority interests	745	670	892
Federal income tax and social contribution expense at statutory not enacted rates	(253)	(248)	(294)
Adjustments to derive effective tax rate:			
Tax benefit on interest attributed to stockholders	222	181	200
Tax incentives	31	—	—
Exempt foreign income (losses)	69	(4)	23
Valuation allowance reversal (provision)	(51)	37	(2)
Other non-taxable gains (loss)	7	1	(23)
Federal income tax and social contribution benefit (expense) in consolidated financial statements	25	(33)	(96)

In 2000, we obtained government approval of certain tax incentives relative to our iron ore and manganese operations in Carajás. The incentives comprise full income tax exemption on defined production levels up to 2005 and partial exemption thereafter up to 2013. An amount equal to the tax saving must be appropriated to a reserve account within stockholders' equity (Note 13) and may not be distributed in the form of cash dividends.

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

	As of December 31	
	2000	1999
Net current deferred tax assets		
Accrued expenses deductible only when disbursed	89	58
Tax loss carryforwards	—	2
	89	60
Long-term deferred tax		
Assets		
Deferred tax relative to temporary differences :		
Established on the July 1, 1997 change in functional currency, less reversals	16	23
Relative to investments acquired	15	—
Tax-deductible goodwill in business combinations	96	—
Additional retirement benefits provision, net of unrecognized pension obligation	158	84
Tax loss carryforwards	190	214
Other temporary differences	6	1
	481	322
Liabilities		
Inflationary income	(32)	(28)
Fair value adjustments in business combinations	(61)	—
	(93)	(28)
Valuation allowance		
Beginning balance	(178)	(54)
Translation adjustments	15	17
Additions	(51)	—
Valuation allowance of ferro alloys subsidiaries	13	(158)
Reversals	—	17
Ending balance	(201)	(178)
Net long-term deferred tax assets	187	116

6. Cash and Cash Equivalents

	As of December 31	
	2000	1999
Cash	28	20
Deposits in local currency	694	338
Deposits in United States dollars	489	1,095
	1,211	1,453

7. Accounts Receivable

	As of December 31	
	2000	1999
Customers		
Domestic	198	195
Export, all denominated in United States dollars	312	280
	510	475
Allowance for doubtful accounts	(14)	(13)
Allowance for ore weight credits	(6)	(5)
Total	490	457

Accounts receivable from customers in the steel industry amount to 16.3% and 14.5% of domestic receivables (export receivables — 78.8% and 80.8%) at December 31, 2000 and 1999, respectively. No single customer accounted for more than 10% of total revenues in any of the years presented.

8. Inventories

	As of December 31	
	2000	1999
Finished products		
Iron ore	100	57
Gold	4	9
Manganese	7	22
Ferro alloys	32	31
Others	34	20
Spare parts and maintenance supplies	129	105
	306	244

9. Property, Plant and Equipment

a) Per Business Area:

	As of December 31, 2000			As of December 31, 1999		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Ferrous						
Ferrous — Southern System						
Mining	1,096	533	563	969	560	409
Railroads	1,022	513	509	1,110	574	536
Marine terminals	157	102	55	184	115	69
	2,275	1,148	1,127	2,263	1,249	1,014
Ferrous — Northern System						
Mining	691	310	381	783	333	450
Railroads	1,206	439	767	1,289	457	832
Marine terminals	222	108	114	229	112	117
	2,119	857	1,262	2,301	902	1,399
Pelletizing	194	123	71	190	125	65
Ferro alloys	278	140	138	295	152	143
Energy	77	4	73	81	2	79
Construction in progress	406	—	406	250	—	250
	5,349	2,272	3,077	5,380	2,430	2,950
Non-Ferrous						
Potash	47	16	31	48	14	34
Gold	295	132	163	323	134	189
Kaolin	91	12	79	153	18	135
Research and projects	19	10	9	21	10	11
Construction in progress	43	—	43	31	—	31
	495	170	325	576	176	400
Logistics						
General cargo	349	173	176	371	177	194
Maritime transportation	351	167	184	361	158	203
Construction in progress	14	—	14	7	—	7
	714	340	374	739	335	404
Holdings						
Pulp and paper	70	26	44	96	33	63
Corporate Center						
Corporate	41	15	26	35	14	21
Construction in progress	4	—	4	10	—	10
	45	15	30	45	14	31
Total	6,673	2,823	3,850	6,836	2,988	3,848

b) Per Type of Assets:

	As of December 31, 2000			As of December 31, 1999		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land and buildings	824	289	535	899	317	582
Installations	1,634	885	749	1,806	976	830
Equipment	597	290	307	519	259	260
Ships	348	165	183	358	156	202
Railroads	1,741	770	971	2,043	947	1,096
Mine development costs	326	83	243	303	64	239
Others	736	341	395	610	269	341
	6,206	2,823	3,383	6,538	2,988	3,550
Construction in progress	467	—	467	298	—	298
Total	6,673	2,823	3,850	6,836	2,988	3,848

Losses on disposals of property, plant and equipment totaled $47, $23 and $64 in 2000, 1999 and 1998, respectively. In 2000 and 1999, disposals mainly relate to sales of trucks, locomotives and other equipment which were replaced in the normal course of business. In 1998, additional losses of $28 were incurred with respect to closure of the Serra Leste gold mine and $13 on sale of two ships.

10. Investments

	As of December 31								
	2000				Investments		Equity Adjustments		
	Participation in Capital(%)		Net Equity(1)	Net Income (Loss) for the Year(1)	2000	1999	2000	1999	1998
	voting	total							
Investments in Affiliated Companies and Joint Ventures									
STEEL									
Usinas Siderúrgicas de Minas Gerais SA — USIMINAS(2)	22.99	11.46	1,213	61	225	255	7	(13)	10
Companhia Siderúrgica Nacional — CSN(3)(7)	10.33	10.33	1,621	129	167	134	13	3	39
Companhia Siderúrgica de Tubarão — CST(4)	20.51	22.85	1,179	99	269	248	22	(5)	19
California Steel Industries Inc — CSI	50.00	50.00	238	34	119	110	17	22	14
PAPER AND PULP									
Celulose Nipo-Brasileira SA — CENIBRA	50.67	51.48	407	129	210	177	66	(4)	6
Bahia-Sul Celulose SA — BSC	50.00	32.00	506	131	162	141	42	13	(28)
Celmar SA — Indústria de Celulose e Papel(5)	85.00	85.00	25	—	22	19	—	—	—

	As of December 31								
	2000				Investments		Equity Adjustments		
	Participation in Capital(%)		Net Equity(1)	Net Income (Loss) for the Year(1)	2000	1999	2000	1999	1998
	voting	total							
ALUMINUM AND BAUXITE									
Mineração Rio do Norte SA — MRN	40.00	40.00	383	91	153	145	36	10	28
Valesul Alumínio SA — VALESUL	54.51	54.51	80	21	44	41	12	—	16
Alumínio Brasileiro SA — ALBRAS	51.00	51.00	—	—	—	—	—	—	(25)
Alumina do Norte do Brasil SA — ALUNORTE	50.28	49.29	102	23	80	105	11	—	—
PELLETS									
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	51.11	51.00	54	22	28	39	11	10	11
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	51.00	50.89	42	17	21	21	9	7	9
Companhia Coreano Brasileira de Pelotização — KOBRASCO	50.00	50.00	24	3	12	12	2	(11)	(5)
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	51.00	50.90	32	13	16	17	7	7	5
Gulf Industrial Investment Company — GIIC	50.00	50.00	186	2	93	—	1	—	—
SAMARCO Mineração SA	50.00	50.00	519	30	325	—	15	—	—
OTHERS									
Fertilizantes Fosfaltados SA — FOSFERTIL(6)	10.96	10.96	281	48	31	33	5	7	6
Salobo Metais SA(5)	50.00	50.00	50	—	25	27	—	—	—
Ferrovia Centro-Atlantica SA — FCA	20.00	45.65	131	(67)	82	—	(30)	—	0
Vale Usiminas Participações SA — VUPSA(8)				—	—	—	—	—	(15)
Pará Pigmentos SA(8)				—	—	—	—	—	(8)
Others					111	96	21	(5)	(2)
					2,195	1,620	267	41	80
Investments at cost									
AÇOMINAS	2.28	2.28			—	29	—	—	—
SIDERAR (market value $42 in 2000 — $69 in 1999)	4.85	4.85			15	15	—	—	—
Unrealized holding gains on equity security					27	54	—	—	—
Others					7	8	—	—	—
					2,244	1,726	267	41	80
Change in provision for losses on equity investments:									
Pará Pigmentos SA(8)							—	(15)	—

	As of December 31							
	2000				Investments		Equity Adjustments		
	Participation in Capital(%)		Net Equity(1)	Net Income (Loss) for the Year(1)	2000	1999	2000	1999	1998
	voting	total							
Cia Ferrotoviária do Nordeste							(4)	(4)	—
Vale Usiminas Participações S.A. — VUPSA(8)							—	(56)	—
Alumínio Brasileiro S.A. — ALBRAS							66	(104)	—
Alumina do Norte do Brasil S.A. — ALUNORTE							—	(89)	21
							62	(268)	21

(1) Based on US GAAP financial statements.

(2) Value based on quoted market price at December 31, 2000 is $75.

(3) Value based on quoted market price at December 31, 2000 is $218.

(4) Value based on quoted market price at December 31, 2000 is $129.

(5) Development state enterprises.

(6) Value based on quoted market price at December 31, 2000 is $47.

(7) In 2000, based on September 30 financial statements.

(8) Consolidated as from 1999 upon increase in ownership to over 50%.

Goodwill included in the above investments is as follows:

Investee	Original Term of Amortization (Years)	Remaining Amortization (Years)	As of December 31 2000	1999
Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS	20	10	86	103
Alumina do Norte do Brasil S.A. — ALUNORTE	35	35	30	78
SAMARCO Mineração S.A.	5	5	66	—
Ferrovia Centro-Atlântica S.A. — FCA	30	26	22	—
Gulf Industrial Investment Company — GIIC	20	20	20	—
			224	181

The combined financial position and results of operations of the Company's affiliates in the steel sector is as follows:

	Steel Sector Affiliates (Combined) As of December 31	
	2000	1999
Balance sheet		
Current assets	3,094	3,013
Noncurrent assets	10,231	10,542
Current liabilities	(2,695)	(3,626)
Noncurrent liabilities	(5,094)	(4,314)
Purchase accounting adjustments	(1,285)	(1,615)
Stockholders' equity	4,251	4,000
Investments	780	747

	Steel Sector Affiliates (Combined) Year ended December 31		
	2000	1999	1998
Statement of operations			
Net sales	4,581	4,174	5,095
Cost and expenses	(4,082)	(4,790)	(4,351)
Purchase accounting adjustments	24	83	26
Income before income taxes	523	(533)	770
Income taxes	(199)	556	(58)
Net income	324	23	712
Equity adjustments	59	7	82

Information with respect to other major affiliates' financial position and results of operations is as follows:

	As of December 31							
	ALUNORTE		ALBRAS		MRN		BSC	
	2000	1999	2000	1999	2000	1999	2000	1999
Balance Sheet								
Current assets	130	74	128	145	90	99	164	144
Noncurrent assets	505	531	627	632	349	346	857	923
Current liabilities	(79)	(123)	(247)	(321)	(19)	(33)	(232)	(299)
Noncurrent liabilities	(454)	(446)	(538)	(620)	(37)	(49)	(283)	(328)
Stockholders' equity	102	36	(30)	(164)	383	363	506	440
Company's participation	49.29%	74.06%	51.00%	51.00%	40.00%	40.00%	32.00%	32.00%
Investments	50	27	(15)	(84)	153	145	162	141

	Year ended December 31											
	ALUNORTE			ALBRAS			MRN			BSC		
	2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998
Statement of Operations												
Net sales	322	253	268	551	459	452	217	205	224	402	326	288
Costs and expenses	(327)	(446) (*)	(286)	(452)	(755)	(535)	(109)	(156)	(136)	(274)	(397) (*)	(380)
Income (loss) before income taxes	(5)	(193)	(18)	99	(296)	(83)	108	49	88	128	(71)	(92)
Income taxes	28	56	57	30	93	33	(17)	(23)	(19)	3	112(**)	—
Net income (loss)	23	(137)	39	129	(203)	(50)	91	26	69	131	41	(92)
Company's participation	49.29%	65.82%	53.61%	51.00%	51.00%	51.00%	40.00%	40.00%	40.00%	32.00%	32.00%	30.48%
Participation in results	11	(89)	21	66	(104)	(25)	36	10	28	42	13	(28)
Change in provision for losses	—	89	(21)	(66)	104	—	—	—	—	—	—	—
Equity adjustments	11	—	—	—	—	(25)	36	10	28	42	13	(28)

(*) Includes exchange losses of $213 (ALUNORTE), $378 (ALBRAS), and $127 (BSC) for the year ended December 31, 1999 — see Note 20

(**) Includes $19 of tax benefit on 1999 losses and $93 of valuation allowance reversal relative to prior year losses

The provision for losses on equity investments of $21 and $87 at December 31, 2000 and 1999, respectively, relates to our investments in affiliates which have reported negative stockholders' equity in their financial statements prepared in accordance with US GAAP and in circumstances where we have assumed commitments to fund our share of the accumulated losses, if necessary, through additional capital contributions or other means. Accordingly we (a) first reduce the value of the investment to zero and (b) subsequently provide for our portion of negative equity. The provision is comprised as follows:

	As of December 31					
	PARÁ PIGMENTOS	CIA FERROVIARIA DO NORDESTE	VUPSA	ALBRAS	ALUNORTE	Total
Provision at January 1, 1999	—	—	—	—	(9)	(9)
Change in provision — results	(15)	(4)	(56)	(104)	(89)	(268)
	(15)	(4)	(56)	(104)	(98)	(277)
Cumulative translation adjustment	—	—	10	21	(7)	24
Payment of capital					76	76
Elimination upon consolidation in 1999	15	—	46	—	—	61
Effect of capitalization of interest-free debentures	—	—	—	—	29	29
PROVISION AT DECEMBER 31, 1999	—	(4)	—	(83)	—	(87)
Change in provision — results	—	(4)	—	66	—	62
	—	(8)	—	(17)	—	(25)
Cumulative translation adjustment	—	1	—	2	—	3
Payment of capital	—	1	—	—	—	1
PROVISION AT DECEMBER 31, 2000	—	(6)	—	(15)	—	(21)

Our participation in ALUNORTE (49.29% at December 31, 2000) changed several times during the periods presented, but we did not consolidate the financial statements of this investee due to the temporary nature of our increased holding. Movements on the investment account and related provision during 1999 and 2000 are as follows:

	Total Shares of ALUNORTE	ALUNORTE Shares Owned by CVRD	Investment	Goodwill	Provision	Net
	(In Thousands)	(In Thousands)				
Balance January 1, 1999	325,107	174,279	—	—	(9)	(9)
Purchase of additional participation:	—					
January 1999	453,921	124,491	68	48	9	125
December 1999	598,184	144,263	55	30	—	85
Participation in 1999 losses			(89)			(89)
Translation adjustment			(7)			(7)
BALANCE DECEMBER 31, 1999	598,184	443,033	27	78	—	105
Sale of participation in January 2000	598,184	(124,491)	(7)	(48)	—	(55)
Changes in participation-subscriptions by other shareholders			19		—	19
Capital call	673,494	13,437	5			5
Participation in 2000 net income			11			11
Translation adjustment			(5)			(5)
BALANCE DECEMBER 31, 2000	673,494	331,979	50	30	—	80

On January 14, 2000 we entered into a structured transaction with an unrelated party to sell both a 20.81% of the capital of ALUNORTE and a beneficial interest in 8% of the capital of MRN owned by us for a total of $164, resulting in a net gain to us of $54, recorded in other operating income, as follows:

Book value of 124,491 thousand shares of ALUNORTE sold	7
Goodwill amortized	48
Book value of beneficial interest in 8% of MRN	—
Cash received by us	55
On transfer of ALUNORTE shares	44
On issue and sale of Perpetual Notes	120
Fair value of Perpetual Notes	(55)
Gain recognized on the transaction	54

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

termination multiplied by 20 and discounted by 10% per year. This latter amount represents a fair value of $55.

On October 6, 2000, with the objective of financing part of the expansion in its alumina production capacity from 1,5 million tons to 2,3 million tons per year, ALUNORTE called a capital increase of $126, to be paid up in 6 installments. ALUVALE contributed only $5 to the first of these installments ($15), changing its stockholding interest to 49.29%.

During 1999 our 50%-owned affiliate VUPSA incurred significant losses, of which we recognized our portion of $56 through the provision for losses on equity investments. In December 1999 we acquired the remaining 50% of VUPSA in exchange for the transfer of amounts owed to the seller from subsidiaries of VUPSA amounting to $126, resulting in negative goodwill of $86. At December 31, 1999 the balance sheet of VUPSA has been consolidated and the negative goodwill used to reduce the carrying value of VUPSA's property, plant and equipment.

In 2000, we acquired a further 34.41% of Ferrovia Centro-Atlântica S.A., for $25, bringing our participation to 45.65%.

Dividends received from investees aggregated $133, $64 and $116 in 2000, 1999 and 1998 respectively.

11. Short-Term Debt

Our short-term borrowings are principally from commercial banks and include import and export financing denominated in United States dollars, as follows:

	As of December 31	
	2000	1999
Export	370	614
Import	11	21
Working Capital	68	14
	449	649

Average annual interest rates on short-term borrowings were 8.18% and 7.13% in 2000 and 1999, respectively.

12. Long-Term Debt

	As of December 31			
	Current Liabilities		Long-Term Liabilities	
	2000	1999	2000	1999
Foreign debt				
Loans and financing contracted in the following currencies, maturing up to 2011:				
United States dollars	170	336	965	576
Japanese Yen	10	11	4	5
Others	2	2	4	6
Fixed Rate Notes — US$ denominated	—	—	500	500
Export Securitization — US$ denominated	—	—	300	—
Perpetual Notes	—	—	55	—
Accrued charges	41	28	—	—
	223	377	1,828	1,087
Local debt				
Indexed by Long-Term Interest Rate — TJLP maturing up to 2002	6	6	10	20
Indexed by General Price Index-Market (IGPM) maturing up to 2005	21	38	49	66
Basket of currencies	15	9	51	52
Capital Lease	1	1	—	—
Shareholder revenue interests (Note 2)	—	—	3	4
Indexed by US dollars	11	55	24	61
Accrued charges	3	2	—	—
	57	111	137	203
Total	280	488	1,965	1,290

The long-term portion at December 31, 2000 becomes due in the following years:

2002	181
2003	625
2004	580
2005	170
2006	107
2007 and thereafter	247
No due date (Perpetual notes)	55
	1,965

At December 31, 2000 annual interest rates on long-term debt were as follows:

Up to 7%	410
7.1% to 9%	1,183
9.1% to 11%	538
Over 11%	59
Variable (Perpetual notes)	55
	2,245

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

	2000	1999	1998
TJLP — Long-Term Interest Rate (effective rate)	4.56	6.92	5.41
IGP-M — General Price Index — Market	9.95	20.10	1.78
United States Dollar	9.30	48.01	8.27

Long-term debt at December 31, 2000 is guaranteed or secured as follows:

	Amount of Guarantee
Federal Government guarantee (for which we have provided counter-guarantees)	353
Shares and securities given in guarantee	28
Ships	69

In October 2000 we issued $300 under a US dollar — denominated export securitization program, divided into three tranches as follows:

	Amount	Tenor (Years)	Grace Period (Years)	Effective Rate P.A.
Tranche 1	25	7	2	8.682%
Tranche 2	125	7	2	Libor+0.65%
Tranche 3	150	10	3	8.926%
	300			

Tranche 2 is guaranteed by an insurance contract with a major U.S. insurance company.

13. Stockholders' Equity

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters that come before a stockholders' meeting, except for the election of the Board of Directors, which is restricted to the holders of common stock. As described in Note 3, the Brazilian Government holds a preferred special share which confers on it permanent veto rights over certain matters.

The Board of Directors authorized the acquisition of up to 9,832,691 of our own preferred class A shares, to remain in treasury for subsequent disposal or cancellation. As of December 31, 2000, 3,659,311 shares had been acquired, at an average weighted unit cost of R$20,83 (minimum cost of R$14,02 and maximum of R$24,19).

Both common and preferred stockholders are entitled to receive a dividend of at least 25% of annual net income, upon approval at the annual stockholders' meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records. With respect to each of 2000, 1999 and 1998 we distributed dividends to preferred stockholders in excess of this limit. Interest attributed to stockholders as from January 1, 1996 is considered part of the minimum dividend.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the statutory accounting records and such payments are made in Reais. At December 31, 2000, we had no undistributed retained earnings. In addition appropriated retained earnings at December 31, 2000 includes $2,420, related to the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders.

No withholding tax is payable on distribution of profits earned as from January 1, 1996, except for distributions in the form of interest attributed to stockholders as explained in Note 2(m).

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

	Year Ended December 31		
	2000	1999	1998
Appropriated retained earnings			
Unrealized income reserve			
Balance January 1	1,062	1,636	1,850
Transfer to retained earnings	(188)	(574)	(214)
Balance December 31	874	1,062	1,636
Expansion reserve			
Balance January 1	1,367	1,685	1,936
Transfer to capital stock	—	—	(469)
Transfer (to) from retained earnings	179	(318)	218
Balance December 31	1,546	1,367	1,685
Legal reserve			
Balance January 1	284	368	352
Transfer (to) from retained earnings	23	(84)	16
Balance December 31	307	284	368
Fiscal incentive depletion reserve			
Balance January 1	842	1,246	1,349
Transfer to retained earnings	(71)	(404)	(103)
Balance December 31	771	842	1,246
Fiscal incentive investment reserve			
Balance January 1	12	277	300
Transfer to capital stock	—	(187)	—
Transfer to retained earnings	27	(78)	(23)
Balance December 31	39	12	277
Development reserve Balance January 1	—	—	19
Transfer to capital stock	—	—	(19)
Balance December 31	—	—	—
Total appropriated retained earnings	3,537	3,567	5,212

The purpose and basis of appropriation to such reserves is as follows:

- *Unrealized income reserve* — this represents principally inflationary profit up to December 31, 1995 and our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

- *Expansion reserve* — this is a general reserve for expansion of our activities.
- *Legal reserve* — this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income under Brazilian GAAP up to a limit of 20% of capital stock under Brazilian GAAP.
- *Fiscal incentive depletion reserve* — this represents an additional amount relative to mineral reserve depletion equivalent to 20% of the sales price of mining production, which is deductible for tax purposes providing an equivalent amount is transferred from retained earnings to the reserve account. This fiscal incentive expired in 1996.
- *Fiscal incentive investment reserve* — this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve also contemplates the tax incentives described in Note 5.
- *Development reserve* — this was a general reserve for assisting economic and social development in areas in which we operate. During 1998, this reserve was extinguished by transfer to capital stock.

14. Pension Plan

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

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

The following information details the status of the defined benefit elements of our plans in accordance with SFAS 132 — "Employers' Disclosure about Pensions and Other Postretirement Benefits":

(a) Change in Benefit Obligation

	As of December 31	
	2000	1999
Benefit obligation at beginning of year	1,440	2,102
Service cost	10	31
Interest cost	91	126
Benefits paid	(109)	(107)
Plan amendments	(13)	—
Effect of exchange rate changes	(65)	(734)
Actuarial loss	242	22
Benefit obligation at end of year	1,596	1,440

The actuarial loss of $242 in 2000 is mainly due to the adoption of a new mortality table which is considered to better reflect the current life expectancy of the plan participants.

(b) Change in Plan Assets

	As of December 31	
	2000	1999
Fair value of plan assets at beginning of year	1,231	1,402
Actual return on plan assets	128	345
Employer contributions	34	27
Employee contributions	5	15
Benefits paid	(109)	(107)
Effect of exchange rate changes	(100)	(451)
Fair value of plan assets at end of year	1,189	1,231

Plan assets at December 31, 2000 include $95 of portfolio investments in our own shares ($93 at December 31, 1999) and $9 of shares of related parties ($1 at December 31, 1999), as well as $480 of Federal Government Securities ($439 at December 31, 1999).

(c) Accrued Pension Cost Liability

	As of December 31	
	2000	1999
Funded status, excess of benefit obligation over plan assets	407	209
Unrecognized net transitory obligation	(125)	(165)
Unrecognized net actuarial gains (loss)	(152)	88
Accrued pension cost liability	130	132

(d) Recognition of Additional Minimum Liability

	As of December 31	
	2000	1999
Accrued pension cost liability	130	132
Unrecognized pension obligation, limited to unrecognized net transitory obligation	125	64
Additional amount recognized in stockholders' equity	151	—
Minimum liability	406	196

(e) Assumptions Used in Each Period

	2000	1999
Discount rate	6% p.a.	6% p.a.
Expected return on plan assets	6% p.a.	6% p.a.
Rate of compensation increase	1.82% p.a.	1.82% p.a.

Net pension cost includes the following components:

	Year ended December 31		
	2000	1999	1998
Service cost — benefits earned during the period	10	31	52
Interest cost on projected benefit obligation	91	126	126
Actual return on assets	(128)	(345)	(104)
Amortization of initial transitory obligation	15	17	24
Net deferral	58	241	17
	46	70	115
Employee contributions	(5)	(15)	(27)
Net periodic pension cost	41	55	88

The cost recognized in 2000 relative to the defined contribution element of the New Plan was $3.

In addition to benefits provided under our pension plans accruals have been made relative to supplementary benefits extended in previous periods as part of early-retirement programs. Such accruals included in long-term liabilities totalled $185 and $118, at December 31, 2000 and 1999, respectively, plus $30 and $19 in current liabilities.

15. Commitments and Contingencies

(a) At December 31, 2000, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of $833, of which $637 is denominated in United States dollars and the remaining $196 in local currency. These guarantees include $372 relative to ALBRAS and $75 relative to ALUNORTE (see Note 10).

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

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

	As of December 31			
	2000		1999	
	Provision for Contingencies	Judicial Deposits	Provision for Contingencies	Judicial Deposits
Labor claims	114	60	72	52
Civil claims	137	4	88	3
Tax-related actions	80	54	24	16
Others	7	1	1	1
	338	119	185	72
Current	—	—	—	—
Long-term	338	119	185	72
	338	119	185	72

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 changes in basis of calculation and rates of certain revenue taxes 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.

Contingencies settled in 2000 and 1999 aggregated $36 and $12, respectively, and additional provisions aggregated $101 and $60 in these years, respectively.

(c) We are defendant 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 delivery of approximately 175,950 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 $1,567.20 per metric ton at December 31, 2000, represents an annual commitment of $275. We are also committed to take-or-pay 465,816 metric tons per year of alumina produced by ALUNORTE which at a market price of $194.17 per metric ton at December 31, 2000, represents an annual commitment of $90. Actual take from ALBRAS was $260, $222 and $222 in 2000, 1999 and 1998, respectively, and direct from ALUNORTE was $45 (net of take ceded to ALBRAS), $30 and $83 in 2000, 1999 and 1998, respectively.

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

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide $205, which represents half of the $410 in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region over a period of five years. Under certain circumstances, this period may be extended for an additional two years. We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of December 31, 2000, each of us and BNDES had remaining commitments to contribute an additional $93 toward exploration and development activities. We both expect to fund a portion of these contributions each year through 2001. In the event that either of us wishes to conduct further exploration and development after having spent such $205, 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 (1) all the rights and benefits provided for in the Mineral Risk Contract and (2) any amount previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us for our contribution of existing development and ownership rights in the Carajás region through a finder's fee production royalty

on 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, which are described below, were set to ensure that our pre-privatization shareholders, including the Brazilian Government, would participate alongside us in potential future financial benefits that we are able to derive from exploiting our mineral resources.

In preparation for the issuance of the debentures, we issued series B preferred shares on a one-for-one basis to all holders of our common shares and series A preferred shares. We then exchanged all of the series B shares for the debentures at par value. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. At present the debentures cannot be traded. Holders will be able to trade the debentures only after a three-month period that will commence upon completion of the sale by the Brazilian Government of its 32% stake in our common shares, which will constitute the final step of our privatization. We will be required to register the debentures with the CVM in order to permit trading at this time. We cannot be sure when the final step of our privatization will take place.

Under Brazilian Central Bank regulations, pre-privatization shareholders that held their shares through our American Depositary Receipt, or ADR, program were not permitted to receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank to distribute the debentures to the ADR holders, but the Central Bank rejected our request. We intend to renew our request to the Central Bank, but we cannot be sure that we will succeed. If the Central Bank does not approve our request, the ADR depositary will not be able to distribute the debentures to the ADR holders and will not be able to sell the debentures. Therefore, unless the Central Bank approves our request, the debentures will not have any value for ADR holders.

Under the terms of the debentures, holders will have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned as of May 1997, to that extent the we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned as of May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted. Based on current production levels, we would begin making payments related to iron ore resources in approximately 2012, and payments related to other mineral resources in later years.

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

Area	Mineral	Required Payments by CVRD
Southern System	Iron ore	1.8% of net revenue, after total production from May 1997 exceeds 1.7 billion tons
Northern System	Iron ore	1.8% of net revenue, after total production from May 1997 exceeds 1.2 billion tons
Pojuca, Andorinhas, Liberdade and Sossego	Gold and copper	2.5% of net revenue from the beginning of commercial production
Igarape Bahia and Alemao	Gold and copper	2.5% of net revenue, after total production from the beginning of commercial production exceeds 70 tons of gold

Area	Mineral	Required Payments by CVRD
Fazenda Brasileiro	Gold	2.5% of net revenue after total production from the beginning of commercial production exceeds 26 tons
Other areas, excluding Carajás/ Serra Leste	Gold	2.5% of net revenue
Other areas owned as of May 1997	Other minerals	1% of net revenue, 4 years after the beginning of commercial production
All areas	Sale of mineral rights owned as of May 1997	1% of the sales price

(g) At December 31, 2000 we have provided $14 for environmental liabilities. Such provisions relate to site restoration at mines already closed or which are expected to be closed in the next two years.

We use various judgments and assumptions when measuring our environmental liabilities. 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.

16. 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 financial information is required to be reported on the basis that the top decision-maker uses such information 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 ferro alloys are also classified in this segment.

Non-ferrous products — comprises the production of gold and other non-ferrous minerals.

Logistics — comprises our transportation systems as they pertain to external commercial operations, and the operations of our ships.

Holdings — divided into the following sub-groups:

- *Pulp and paper* — comprises our forestation activities and investments in joint ventures and affiliates engaged in the manufacture of pulp and paper products.
- *Aluminium* — comprises aluminum trading activities and investments in joint ventures and affiliates engaged in bauxite mining, alumina refining 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.

Corporate Center — the Corporate Center is responsible for accounting and control, finance, legal matters, human resources and administration, investor and external relations and internal auditing.

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 Brazilian corporate law together with certain relatively minor inter-segment allocations, and is focused primarily on return on capital employed (ROCE), net operating profit less taxes (NOPLT) as well as net income. For return on

capital employed purposes we consider dividends received from affiliates and joint ventures as part of our net operating profit less taxes.

In 2000 we transferred various accounting, control, legal and information technology functions from the operating divisions to our Corporate Center. We estimate that this transfer increased the costs in our Corporate Center by approximately $8, and reduced the costs of our ferrous, non ferrous and logistics segments by $6, $1 and $1, respectively.

Consolidated net income and principal assets are reconciled as follows (certain minor reclassifications have been made to the 1999 and 1998 information to be comparable with that for 2000):

				Holdings					2000	
	Ferrous	Non Ferrous	Logistics	Pulp and Paper	Aluminum	Steel	Others	Corporate Center	Eliminations	Consolidated
RESULTS										
Revenues — Export	2,849	198	195	121	351	—	—	—	(1,068)	2,646
Revenues — Domestic	1,000	90	403	21	12	1	—	—	(104)	1,423
Cost and expenses	(2,585)	(214)	(418)	(156)	(261)	(10)	—	(564)	1,196	(3,012)
Interest revenue	52	1	1	7	25	5	—	173	(56)	208
Interest expense	(74)	(12)	(6)	—	(2)	(6)	—	(247)	32	(315)
Depreciation	(115)	(30)	(22)	(22)	—	—	—	(6)	—	(195)
Pension plan	(7)	(2)	—	—	—	—	—	—	—	(9)
Equity and provision for losses	52	—	(22)	108	126	60	5	—	—	329
Income taxes	8	—	5	(7)	(5)	(48)	—	72	—	25
Net income	1,180	31	136	72	246	2	5	(572)	—	1,100
Sales classified by geographic destination:										
Export market										
Latin America	224	—	30	—	23	—	—	—	(91)	186
United States	252	156	64	73	39	—	—	—	(108)	476
Europe	969	35	75	48	237	—	—	—	(222)	1,142
Middle East	209	—	6	—	16	—	—	—	(19)	212
Japan	544	4	15	—	34	—	—	—	(308)	289
Asia, other than Japan	651	3	5	—	2	—	—	—	(320)	341
	2,849	198	195	121	351	—	—	—	(1,068)	2,646
Domestic market	1,000	90	403	21	12	1	—	—	(104)	1,423
	3,849	288	598	142	363	1	—	—	(1,172)	4,069
Assets :										
Property, plant and equipment, net	3,077	325	374	44	—	—	—	30	—	3,850
Capital expenditures	373	50	14	—	—	—	—	10	—	447
Investments in affiliated companies and joint ventures and other investments	526	31	151	393	262	823	37	—	—	2,223
Capital employed	3,064	316	390	30	(10)	1	14	(6)	8	3,807
NOPLT	1,155	52	165	(44)	23	(54)	—	(70)	16	1,243
ROCE	38%	16%	42%	(147%)	—	—	—	—	—	33%

				Holdings					1999	
	Ferrous	Non Ferrous	Logistics	Pulp and Paper	Aluminum	Steel	Others	Corporate Center	Eliminations	Consolidated
RESULTS										
Revenues — Export	1,989	143	100	101	318	—	—	—	(578)	2,073
Revenues — Domestic	639	96	318	10	62	—	—	—	(41)	1,084
Cost and expenses	(1,435)	(151)	(396)	(103)	(367)	—	—	(428)	619	(2,261)
Interest revenue	46	—	8	4	9	—	—	170	(37)	200
Interest expense	(50)	—	(13)	—	(6)	—	—	(201)	37	(233)
Depreciation	(120)	(16)	(21)	(6)	—	—	—	—	—	(163)
Pension plan	(21)	(4)	(3)	—	—	—	—	—	—	(28)
Equity and provision for losses	(44)	(15)	(9)	9	(182)	7	—	7	—	(227)
Income taxes	—	—	14	(5)	—	—	—	(42)	—	(33)
Net income	1,004	53	(2)	10	(166)	7	—	(494)	—	412
Sales classified by geographic destination:										
Export market										
Latin America	149	—	13	—	5	—	—	—	(60)	107
United States	147	139	34	62	23	—	—	—	(71)	334
Europe	621	—	31	39	146	—	—	—	(110)	727
Middle East	146	—	3	—	—	—	—	—	(13)	136
Japan	351	—	9	—	94	—	—	—	(83)	371
Asia, other than Japan	575	4	9	—	50	—	—	—	(241)	397
Others	—	—	1	—	—	—	—	—	—	1
	1,989	143	100	101	318	—	—	—	(578)	2,073
Domestic market	639	96	318	10	62	—	—	—	(41)	1,084
	2,628	239	418	111	380	—	—	—	(619)	3,157
Assets:										
Property, plant and equipment, net	2,920	400	404	63	—	—	—	61	—	3,848
Capital expenditures	201	56	4	—	—	—	—	4	—	265
Investments in affiliated companies and joint ventures and other investments	116	33	68	337	208	843	34	—	—	1,639
Capital employed	3,081	399	419	53	9	—	—	(9)	—	3,952
NOPLT	1,055	68	28	6	28	—	—	(309)	11	887
ROCE	34%	17%	7%	11%	311%	—	—	—	—	22%

				Holdings					1998	
	Ferrous	Non Ferrous	Logistics	Pulp and Paper	Aluminum	Steel	Others	Corporate Center	Eliminations	Consolidated
RESULTS										
Revenues — Export	2,004	145	135	80	419	—	—	—	(443)	2,340
Revenues — Domestic	776	124	396	8	65	—	—	—	(51)	1,318
Cost and expenses	(1,548)	(213)	(382)	(90)	(473)	—	—	(422)	494	(2,634)
Interest revenue	20	—	16	4	25	—	—	367	(38)	394
Interest expense	(23)	—	(25)	—	(10)	—	—	(223)	38	(243)
Depreciation	(167)	(32)	(28)	(4)	—	—	—	—	—	(231)
Pension plan	(46)	(7)	—	—	—	—	—	—	—	(53)
Equity and provision for losses	2	(9)	1	(22)	40	83	6	—	—	101
Income taxes	—	—	—	—	—	—	—	(96)	—	(96)
Net income	1,018	8	113	(24)	66	83	6	(374)	—	896
Sales classified by geographic destination:										
Export market										
Latin America	177	—	5	—	105	—	—	—	(121)	166
United States	185	145	36	37	44	—	—	—	(96)	351
Europe	751	—	40	43	269	—	—	—	(65)	1,038
Middle East	135	—	2	—	—	—	—	—	(3)	134
Japan	299	—	31	—	—	—	—	—	—	330
Asia, other than Japan	456	—	15	—	—	—	—	—	(158)	313
Others	1	—	6	—	1	—	—	—	—	8
	2,004	145	135	80	419	—	—	—	(443)	2,340
Domestic market	776	124	396	8	65	—	—	—	(51)	1,318
	2,780	269	531	88	484	—	—	—	(494)	3,658
Assets:										
Property, plant and equipment, net	4,106	392	508	103	—	—	—	52	—	5,161
Capital expenditures	366	32	1	8	—	—	—	5	—	412
Investments in affiliated companies and joint ventures and other investments	166	45	64	452	240	1,045	47	—	—	2,059
Capital employed	4,098	401	523	104	15	—	—	(32)	—	5,109
NOPLT	1,018	17	133	(5)	11	—	—	(412)	(4)	758
ROCE	25%	4%	25%	(5)%	73%	—	—	—	—	15%

17. Related Party Transactions

Transactions with major related parties (including agencies of the Brazilian Federal Government) resulted in the following balances:

	As of December 31			
	2000		1999	
	Assets	Liabilities	Assets	Liabilities
AFFILIATED COMPANIES AND JOINT VENTURES				
ALUNORTE(1)	332	45	333	5
CENIBRA(2)	126	41	161	69
Salobo Metais S.A.(3)	76	—	75	—
FCA	151	18	1	—
HISPANOBRÁS	21	23	22	23
ITABRASCO	17	22	27	29
NIBRASCO	29	38	12	42
KOBRASCO	34	7	38	37
Wilsea Shipping Inc.	—	34	9	—
USIMINAS	24	—	4	—
ALBRAS	1	24	—	42
URUCUM	8	1	2	2
Others	148	89	139	71
EMPLOYEE FUNDS				
Fundação Vale do Rio Doce	—	1	15	8
VALIA	—	40	—	6
BRAZILIAN FEDERAL GOVERNMENT				
Banco do Brasil S.A.(4)	85	3	151	—
Rede Ferroviária Federal S.A.	13	39	14	42
BNDES	7	94	6	127
	1,072	519	1,009	503
Current	352	376	378	367
Long-term	720	143	631	136

(1) Includes on lending outstanding balance of $204 (1999 — $204), with identical conditions and terms, of a $200 U.S. dollar denominated loan obtained by us from the Nippon Amazon Aluminium Company (NAAC) in January 1997 (bearing interest of 6.41% p.a. and maturing up to 2011).

(2) Includes onlending outstanding balance of $117 (1999 — $146), with identical conditions and terms, of a $200 U.S. dollar denominated loan obtained by us from the Japanese Eximbank in 1996, bearing interest of 6.21% p.a. and maturing up to 2004.

(3) Convertible debentures bearing interest of IGPM plus 6.50% p.a., maturing up to 2000.

(4) Represents interest bearing deposits and investment funds.

These balances are included in the following balance sheet classifications:

	As of December 31			
	2000		1999	
	Assets	Liabilities	Assets	Liabilities
Current assets				
Cash and cash equivalents	85	—	151	—
Accounts receivable	125	—	107	—
Loans and advances to related parties	136	—	115	—
Others	6	—	5	—
Other assets				
Loans and advances to related parties	704	—	613	—
Others	16	—	18	—
Current liabilities				
Suppliers	—	179	—	119
Current portion of long-term debt	—	28	—	30
Loans from related parties	—	156	—	202
Others	—	13	—	16
Long-term liabilities				
Long-term debt	—	74	—	90
Loans from related parties	—	21	—	4
Others	—	48	—	42
	1,072	519	1,009	503

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

	Year ended December 31					
	2000		1999		1998	
	Income	Expense	Income	Expense	Income	Expense
AFFILIATED COMPANIES AND JOINT VENTURES						
CST	166	—	135	—	132	—
NIBRASCO	172	205	44	58	101	108
ALUNORTE	42	93	167	28	76	89
SIDERAR	18	—	30	—	45	—
ITABRASCO	66	24	57	23	40	41
HISPANOBRÁS	75	77	26	50	40	45
KOBRASCO	76	18	62	67	9	9
CENIBRA	33	123	78	99	27	1
USIMINAS	47	—	18	—	25	—
AÇOMINAS	7	—	8	—	12	—
ALBRAS	6	216	14	205	11	222
VALESUL	4	—	—	24	2	32
MRN	1	17	—	20	—	20
Others	82	75	80	59	55	73
BRAZILIAN FEDERAL GOVERNMENT						
Banco do Brasil S.A.	46	24	46	14	72	14
Petróleo Brasileiro S.A. — PETROBRÁS	6	11	1	17	1	24
Centrais Elétricas Brasileiras S.A.	—	—	—	—	1	15
BNDES	1	18	1	12	1	13
	848	901	767	676	650	706

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

	Year ended December 31					
	2000		1999		1998	
	Income	Expense	Income	Expense	Income	Expense
Sales of iron ore and pellets	494	313	288	175	316	183
Revenues from transportation services	133	—	89	—	137	—
Cost of aluminum products	—	327	—	271	—	357
Financial income/expenses	117	79	101	59	162	62
Others	104	182	289	171	35	104
	848	901	767	676	650	706

18. Fair Value of Financial Instruments

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

The market value of long-term investments, where available, is disclosed in Note 10 to these financial statements.

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair market value of long-term debt at December 31 is estimated as follows:

	Fair Market Value	Carrying Value
2000	1,967	1,965
1999	1,278	1,290

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

19. Derivative Financial Instruments

We actively manage our positions in derivative instruments. In view of the policies and practices established for operations with derivatives, management considers the occurrence of non-measurable risk situations as unlikely. Our policy has been to settle all contracts through cash payments or receipts, without physical delivery of product.

(A) Gold

In connection with our gold mining activities, we are party to derivative financial instruments designed to manage the risks associated with gold price fluctuations, to provide stable cash flows and gross margins for the gold business. At December 31, 2000, such operations can be summarized as follows:

Type	Quantity (oz.)	Final Maturity	Unrealized Gain (Loss)
Puts	479,500	December 2004	13
Calls	999,800	December 2004	(5)
Collar conditional	30,000	November 2002	1
			9

The unrealized gain in the amount of $9 represents the amount receivable if all transactions had been settled on December 31,2000.

Realized net gains (losses) were $7, $3 and $14 in 2000, 1999 and 1998, respectively.

(B) Interest Rates (6-Month Libor)

We carry out derivative operations seeking to manage our exposure to the 6-month Libor rate, arising from our trade finance operations. At December 31,2000 such operations were as follows:

Type	Notional Value	Final Maturity	Unrealized Gain (Loss)
Cap	1,200	December 2004	3
Floor	850	December 2004	(7)
Swap	125	October 2007	(4)
			(8)

The unrealized loss in the amount of $8 represents the amount payable if all transactions had been settled on December 31, 2000.

Realized net gains (losses) were $3, $nihil and $(1) in 2000, 1999 and 1998, respectively.

(C) Currency

We also carry out derivative operations seeking to manage our exposure to currencies, arising from our indebteness in EURO and YEN. At December 31,2000 such operations were as follows:

Type	Notional Value	Final Maturity	Unrealized Gain (Loss)
Yen	15	April 2005	(2)
EURO	12	April 2005	(2)
			(4)

The unrealized loss in the amount of $4 represents the amount payable if all transactions had been settled on December 31, 2000.

Realized net gains (losses) were $(7), $54 and $(20) in 2000, 1999 and 1998, respectively.

20. Effects of Currency Devaluation

On January 13 and 15, 1999, certain significant changes occurred in the exchange rate policy until then adopted by the Brazilian government, which resulted in the elimination of certain exchange controls, previously carried out by means of a system of trading bands, from the moment the Central Bank decided to no longer intervene in the foreign exchange market. As result of this decision and the market reaction, our functional currency (Real) devalued to US$1: R$1.7890 on December 31, 1999 from US$1: R$1.2087 at December 31, 1998 (US$1: R$1.9554 at December 31, 2000).

21. Subsequent Events

(a) On February 22, 2001 we agreed to sell our 32.00% interest in Bahia Sul Celulose S.A. — BSC for $318.

(b) On March 9, 2001 we transferred our 10.33% interest in Companhia Siderúrgica Nacional — CSN to VALIA as a special pension plan contribution for $249 (fair market valued determined based on the weighted average price of the last 30 (thirty) trading sessions at the São Paulo stock exchange in the period ended on March 9, 2001).

22. Information about our auditors

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

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

	Auditors	Years Audited	City	State	Country
Alumínio Brasileiro S.A. — ALBRAS	DTT	2000, 1999, 1998	RJ	RJ	Brazil
Alumina do Norte do Brasil S.A. — ALUNORTE	DTT	2000, 1999, 1998	RJ	RJ	Brazil
Vale do Rio Doce Alumínio S.A. — ALUVALE	DTT	2000, 1999, 1998	RJ	RJ	Brazil
Bahia Sul Celulose S.A.	KPMG	2000, 1999, 1998	SP	SP	Brazil
California Steel Industries, Inc.	KPMG LLP	2000, 1999, 1998	Orange County	CA	USA
Celulose Nipo-Brasileira S.A. — CENIBRA	DTT	2000 and 1999	BH	MG	Brazil
Navegação Vale do Rio Doce S.A. — DOCENAVE	DTT	2000, 1999, 1998	RJ	RJ	Brazil
DOCEPAR S.A.	DTT	2000, 1999	RJ	RJ	Brazil
Companhia Hispano-Brasileira de Pelotização — HISPANOBRAS	AA	2000, 1999, 1998	Vitória	ES	Brazil
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	AA	2000, 1999, 1998	Vitória	ES	Brazil
Companhia Coreano Brasileira de Pelotização — KOBRASCO	DTT	2000	RJ	RJ	Brazil
Mineração Rio do Norte S.A.	AA	2000, 1999, 1998	RJ	RJ	Brazil
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	DTT	2000, 1999, 1998	RJ	RJ	Brazil
Valesul Alumínio S.A.	KPMG	2000, 1999	RJ	RJ	Brazil
Valesul Alumínio S.A.	DTT	1998	RJ	RJ	Brazil
Companhia Siderúgica Nacional	AA	2000, 1999	RJ	RJ	Brazil

In addition to the above, the following entities prepare financial statements in Brazilian GAAP which are audited in accordance with auditing standards generally accepted in Brazil. PricewaterhouseCoopers Auditores Independentes relies on such audits but is responsible for reviewing the US GAAP translation and, if applicable, US GAAP adjustments.

	Auditors	Years Audited	City	State	Country
Terminal Vila Velha S.A.	DTT	2000, 1999, 1998	RJ	RJ	Brazil
Nova Era Silicon S.A.	DTT	2000	BH	MG	Brazil
Nova Era Silicon S.A.	Trevisan	1999, 1998	BH	MG	Brazil
Celmar S.A. — Indústria de Celulose e Papel	DTT	2000	RJ	RJ	Brazil
SIBRA Eletrosiderúrgica Brasileira S.A.	DTT	2000	Salvador	BA	Brazil

AA — Arthur Andersen S/C
DTT — Deloitte Touche Tohmatsu
RJ — Rio de Janeiro
MG — Minas Gerais
BH — Belo Horizonte
SP — São Paulo
BA — Bahia
ES — Espírito Santo

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Companhia Vale Do Rio Doce

We have reviewed the accompanying unaudited consolidated balance sheets of Companhia Vale do Rio Doce and its subsidiaries at September 30, 2001 and 2000, and the related unaudited consolidated statements of income, of cash flows and of changes in stockholders' equity for the nine month periods then ended. This financial information is the responsibility of the Company's management. The unaudited financial information of certain affiliates, the investments in which total US$274 million and US$864 million at September 30, 2001 and 2000, respectively, and equity in earnings total US$7 million and US$156 million for the nine month periods then ended, and that of the majority-owned shipping and ferrous alloy subsidiaries, which statements reflect total assets of US$288 million and US$422 million at September 30, 2001 and 2000, respectively, and total revenues of US$197 million and US$223 million for the nine month periods then ended, were reviewed by other independent accountants whose reports thereon have been furnished to us.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the reports of the other independent accountants referred to above, we are not aware of any material modification that should be made to the accompanying financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

/s/ PRICEWATERHOUSECOOPERS
PRICEWATERHOUSECOOPERS
Auditores Independentes

Rio de Janeiro, Brazil
October 22, 2001

CONSOLIDATED BALANCE SHEETS
Expressed in Millions of United States Dollars

	As of September 30	
	2001	2000
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	1,708	1,055
Accounts receivable		
Related parties	102	122
Unrelated parties	418	391
Loans and advances to related parties	102	202
Inventories	286	295
Deferred income tax	197	39
Others	198	223
	3,011	2,327
Property, plant and equipment, net	3,239	3,916
Investments in affiliated companies and joint ventures and other investments	1,236	2,184
Provision for losses on equity investments	(47)	(32)
Other assets		
Goodwill on acquisition of consolidated subsidiaries	503	187
Loans and advances		
Related parties	516	636
Unrelated parties	97	56
Unrecognized pension obligation	46	136
Prepaid pension cost	89	—
Deferred income tax	4	223
Judicial deposits	147	109
Unrealized gain on derivative instruments	6	—
Others	67	115
TOTAL	8,914	9,857
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	258	280
Payroll and related charges	49	76
Interest attributed to stockholders	667	428
Current portion of long-term debt		
Related parties	24	25
Unrelated parties	236	313
Short-term debt	643	735
Loans from related parties	121	101
Others	162	169
	2,160	2,127
Long-term liabilities		
Employees postretirement benefits	194	530
Long-term debt		
Related parties	79	76
Unrelated parties	1,985	1,419
Loans from related parties	4	21
Provisions for contingencies (Note 15)	373	312
Unrealized loss on derivative instruments	44	—
Others	142	112
	2,821	2,470
Minority interests	5	22
Stockholders' equity		
Preferred class A stock — 600,000,000 no-par-value shares authorized and 138,575,913 issued	820	709
Common stock — 300,000,000 no-par-value shares authorized and 249,983,143 issued	1,479	1,279
Treasury stock — 4,249,970 (2000 — 3,659,311) common and 91 preferred shares	(79)	(61)
Additional paid-in capital	498	498
Other cumulative comprehensive income	(3,929)	(2,742)
Appropriated retained earnings	2,321	3,484
Unappropriated retained earnings	2,818	2,071
	3,928	5,238
TOTAL	8,914	9,857

See Notes to Consolidated Financial Information.

CONSOLIDATED STATEMENTS OF INCOME
Expressed in Millions of United States Dollars
(Except Number of Shares and Per-Share Amounts)

	Nine Months ended September 30	
	2001	2000
	(Unaudited)	
Operating revenues, net of discounts, returns and allowances		
Sales of ores and metals		
Iron ore and pellets	1,937	1,635
Gold	100	113
Others	291	327
	2,328	2,075
Revenues from transportation services	497	577
Aluminum products	224	280
Other products and services	83	160
	3,132	3,092
Value-added tax	(102)	(96)
Net operating revenues	3,030	2,996
Operating costs and expenses		
Cost of ores and metals sold	(1,155)	(1,107)
Cost of transportation services	(303)	(357)
Cost of aluminum products	(214)	(259)
Others	(76)	(142)
	(1,748)	(1,865)
Selling, general and administrative expenses	(188)	(140)
Research and development	(31)	(34)
Employee profit sharing plan	(21)	(31)
Others	(326)	(223)
	(2,314)	(2,293)
Operating income	716	703
Non-operating income (expenses)		
Financial income	80	136
Financial expenses	(240)	(204)
Foreign exchange and monetary losses, net	(700)	(10)
Gain on sale of investments	784	54
Others	(43)	(11)
	(119)	(35)
Income before income taxes, equity results and minority interests	597	668
Income taxes		
Current	41	—
Deferred	(4)	(3)
	37	(3)
Equity in results of affiliates and joint ventures	1	191
Change in provision for losses on equity investments	(45)	53
Minority interests	7	—
Net income	597	909
Basic earnings per Common and Preferred Class A Share	1.55	2.36
Weighted average number of shares outstanding (thousands of shares)		
Common shares	249,864	249,983
Preferred Class A shares	135,042	134,917

See Notes to Consolidated Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Millions of United States Dollars

	Nine Months ended September 30	
	2001	2000
	(Unaudited)	
Cash flows from operating activities:		
Net income	597	909
Adjustments to reconcile net income with cash provided by operating activities:		
Depreciation, depletion and amortization	174	130
Equity in results of affiliates and joint ventures, net of dividends received	111	(97)
Change in provision for losses on equity investments	45	(53)
Deferred income taxes	4	3
Provisions for contingencies	87	131
Loss on disposals of property, plant and equipment	69	34
Gain on sale of investments	(784)	(54)
Pension plan	24	21
Foreign exchange and monetary losses	616	57
Net unrealized derivative losses	38	—
Others	125	(6)
Decrease (increase) in assets:		
Accounts receivable	(78)	(61)
Inventories	(17)	(26)
Others	(5)	(100)
Increase (decrease) in liabilities:		
Suppliers	30	30
Payroll and related charges	12	22
Others	42	27
Net cash provided by operating activities	1,090	967
Cash flows from investing activities:		
Loans and advances receivable		
Related parties		
Additions	(4)	(185)
Repayments	69	20
Others	5	6
Guarantees and deposits	(15)	(61)
Additions to investments	(52)	(423)
Additions to property, plant and equipment	(444)	(214)
Proceeds from disposals of property, plant and equipment	2	1
Proceeds from disposal of investments	989	44
Net cash used to acquire subsidiaries	(516)	(323)
Net cash provided by (used in) investing activities	34	(1,135)
Cash flows from financing activities:		
Short-term debt, net issuances	133	20
Loans		
Related parties		
Additions	85	53
Repayments	(9)	(81)
Perpetual notes	—	120
Long-term debt		
Related parties	3	70
Others	320	237
Repayments of long-term debt		
Related parties	(27)	(22)
Others	(326)	(331)
Interest attributed to stockholders	(639)	(251)
Treasury stock	(18)	—
Net cash used in financing activities	(478)	(185)
Increase (decrease) in cash and cash equivalents	646	(353)
Effect of exchange rate changes on cash and cash equivalents	(149)	(45)
Cash and cash equivalents, beginning of period	1,211	1,453
Cash and cash equivalents, end of period	1,708	1,055
Cash paid during the period for:		
Interest on short-term debt	(25)	(36)
Interest on long-term debt, net of interest capitalized of $9 in 2001 and $12 in 2000	(116)	(102)
Income tax	(41)	—
Non-cash transactions		
Special pension plan contribution in shares of CSN	249	—
Exchange of loans receivable for investments	35	4

See Notes to Consolidated Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Expressed in Millions of United States Dollars
(Except Number of Shares and Per-Share Amounts)

	Nine Months ended September 30		
	Shares	2001	2000
		(Unaudited)	
Preferred class A stock (including one special share)			
Balance January 1, 2001 and 2000	138,575,913	709	709
Transfer from appropriated retained earnings	—	111	—
Balance September 30, 2001 and 2000	138,575,913	820	709
Common stock			
Balance January 1, 2001 and 2000	249,983,143	1,279	1,279
Transfer from appropriated retained earnings	—	200	—
Balance September 30, 2001 and 2000	249,983,143	1,479	1,279
Treasury stock			
Balance January 1	(3,666,611)	(61)	(61)
Acquisitions in 2001	(583,450)	(18)	—
Balance September 30	(4,250,061)	(79)	(61)
Additional paid-in capital			
Balance January 1 and September 30		498	498
Other cumulative comprehensive income			
Amounts not recognized as net periodic pension cost			
Balance January 1		(100)	—
Excess of additional minimum liability		151	(119)
Tax effect on above		(51)	40
Balance September 30		—	(79)
Cumulative translation adjustments			
Balance January 1		(2,952)	(2,513)
Change in the period		(984)	(184)
Balance September 30		(3,936)	(2,697)
Unrealized gain on available-for-sale security			
Balance January 1		24	54
Change in the period		(24)	(19)
Balance September 30		—	35
Adjustments relating to investments in affiliates			
Balance January 1		8	(6)
Change in the period		(1)	5
Balance September 30		7	(1)
Total other cumulative comprehensive income		(3,929)	(2,742)
Appropriated retained earnings			
Balance January 1		3,537	3,567
Transfer to retained earnings		(905)	(83)
Transfer to capital stock		(311)	—
Balance September 30		2,321	3,484
Retained earnings			
Balance January 1		1,980	1,505
Net Income		597	909
Interest attributed to stockholders			
Preferred class A stock ($1.72 and $1.11 per share in 2001 and 2000)		(239)	(149)
Common stock ($1.72 and $1.11 per share in 2001 and 2000)		(425)	(277)
Appropriation from reserves		905	83
Balance September 30		2,818	2,071
Total stockholders equity	384,308,995	3,928	5,238
Comprehensive income is comprised as follows:			
Net Income		597	909
Amounts not recognized as net periodic pension cost		100	(79)
Cumulative translation adjustments		(984)	(184)
Unrealized gain on available-for-sale security		(24)	(19)
Adjustments relating to investments in affiliates		(1)	5
Total comprehensive income (loss)		(312)	632

See Notes to Consolidated Financial Information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION
Expressed in Millions of United States Dollars, Unless Otherwise Stated

1. The Company and Its Operations

Companhia Vale do Rio Doce (CVRD) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. Our operations are carried out through CVRD and its subsidiary companies, joint ventures and affiliates, and mainly consist of mining, non-ferrous metal production and logistics, as well as pulp and paper, aluminum and steel activities. Further details of our operations and those of our joint ventures and affiliates are described in Note 16.

The main operating subsidiaries we consolidate are as follows:

Subsidiary	% Ownership	Head Office Location	Principal Activity
S.A. Mineração da Trindade — SAMITRI	100	Brazil	Iron ore and pellets
Ferteco Mineração S.A. — FERTECO	100	Brazil	Iron ore and pellets
Pará Pigmentos S.A.	80	Brazil	Kaolin
SIBRA — Eletrosiderúrgica Brasileira S.A.	98	Brazil	Ferrous alloys
Navegacao Vale do Rio Doce S.A. — DOCENAVE	100	Brazil	Shipping
Vale do Rio Doce Alumínio S.A. — ALUVALE	100	Brazil	Aluminum
Itabira Rio Doce Company Ltd. — ITACO	100	Cayman Island	Trading
Rio Doce International Finance Ltd. — RDIF	100	Bahamas	International finance
Tacuma	100	Brazil	Railroads

2. Summary of Significant Accounting Policies

Our consolidated interim financial information as of and for the periods of nine months ended September 30, 2001 and 2000 is unaudited. However, in our management's opinion, such consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation thereof. The results of operations for the nine month period ended September 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2001.

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

(a) Basis of Presentation

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

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

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy, defined as an economy in which the cumulative inflation rate over the latest thirty-six month period has exceeded 100%. Accordingly, up to June 30, 1997, we adopted the U.S. dollar as both our functional currency and reporting currency.

As from July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary and changed our functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais). Accordingly, at July 1, 1997, we translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases, including those relating to affiliates and joint ventures, net of related valuation allowances, were reflected in the cumulative translation adjustments component of stockholders' equity.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R$2.6713 and R$1.8437 to US$1.00 at September 30, 2001 and 2000, respectively), and all accounts in the statements of income (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the period. The translation gain or loss resulting from this remeasurement process is included in the cumulative translation adjustments account in stockholders' equity.

The net transaction loss included in our statement of income was $558 and $2 in the nine months ended September 30, 2001 and 2000, respectively.

(b) Basis of Consolidation

All majority-owned subsidiaries where we have both share and management control are consolidated (unless control is temporary), with elimination of all significant intercompany accounts and transactions. Investments in unconsolidated affiliates and joint ventures are reported at cost less amortized goodwill 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 10).

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall management thereof, 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.

(c) Business Combinations

We adopt the procedures determined by Accounting Principles Board Opinion 16 — "Business Combinations" (APB 16) to recognize acquisitions of interests in other companies. The method of accounting normally used in our business combination transactions is the "purchase method", which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase to be recognized as an intangible asset. On the acquisition of assets which include the rights to mine reserves of natural resources, the establishment of values for these assets includes the placing of fair values on purchased reserves, which are classified in the balance sheet as property, plant and equipment.

Goodwill recorded in our business combination transactions is amortized in a systematic manner over the periods estimated to be benefited.

(d) Inventories

Inventories are stated at the average cost of purchase or production, lower than replacement or realizable values. We record allowances for slow-moving or obsolete inventories when considered

appropriate, reflecting our periodic assessment of recoverability. A write-down of inventory utilizing the allowance establishes a new cost basis for the related inventory.

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

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line basis at rates which take into consideration the useful lives of the items, principally an average of 80 years for the railroads, 20 years for ships, 25 years for buildings and improvements and between 10 to 20 years for mining and other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

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

(f) Available-For-Sale Equity Securities

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

(g) Revenues and Expenses

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

(h) Environmental and Site Reclamation and Restoration Costs

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

(i) Compensated Absences

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

(j) Income Taxes

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

(k) Statement of Cash Flows

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

At September 30, 2001 dividends of $112 received from equity method affiliates and joint ventures have been netted against the equity in results of these entities in the statement of cash flows. For comparative purposes dividends received at September 30, 2000 of $94, have been reclassified from investing activities to reflect the same presentation.

(l) Earnings Per Share

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

(m) Interest Attributed to Stockholders

As from January 1, 1996 Brazilian corporations are permitted to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves.

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

We have opted to pay such tax-deductible interest to our stockholders and have therefore accrued the amounts due as of September 30, 2001 and 2000, with a direct charge to stockholders' equity.

Under Brazilian law interest attributable to stockholders is considered as part of the annual minimum dividend (See Note 13). Accordingly such distributions are treated as dividends for accounting purposes.

(n) Derivatives and Hedging Activities

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

The transition adjustment relating to the fair value of derivatives existing as of December 31, 2000 is recorded as a charge of $3 in our statement of income for the period of nine months ended September 30, 2001. In view of the immateriality of this effect of a change in accounting principle the corresponding amount was included with other non-operating expenses. Certain of our affiliated companies and joint

ventures also recorded similar charges, of which our portion of $3 is included in the caption "Equity in results of affiliates and joint ventures" in the statement of income.

Further information about our derivatives and hedging activities is included in Note 18.

(o) Comprehensive Income

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

(p) Recently-Issued Accounting Pronouncements

In June 2001 the Financial Accounting Standards Board (FASB) issued SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets". We do not expect that the provisions of SFAS 141 will affect our current accounting practices relative to business combinations. However, the adoption of SFAS 142 on January 1, 2002 (or immediately for goodwill relating to acquisitions after June 30, 2001) is expected to have the following effects:

(i) goodwill relative to consolidated subsidiaries will no longer be amortized, but will be aggregated to reporting units and subject at least annually to testing for impairment, considering the reporting unit as a whole.

(ii) goodwill relative to affiliates and joint ventures will no longer be amortized but will remain allocated to the respective investment and included in the measurement of the gain or loss on sale, or the loss arising from an other than temporary decline in the value of the investment.

Goodwill charged against earnings for the nine months ended September 30, 2001 totaled $53.

In June 2001 and August 2001, respectively, the FASB also issued SFAS 143 "Accounting for Asset Retirement Obligations" and SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 143 is effective for us as from January 1, 2003 and we are still studying the potential effects that adoption may have on our financial statements. SFAS 144 will be effective for us as from January 1, 2002 and the provisions thereof generally are to be applied prospectively.

3. Our Privatization

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

- *Preferred Special Share.* The Brazilian Government holds a preferred special share of CVRD which confers upon it permanent veto rights over changes in our (i) name, (ii) headquarters location, (iii) corporate purpose with respect to mineral exploration, (iv) continued operation of our integrated iron ore mining systems and (v) certain other matters.
- *Preferred Class A Share of Valepar.* The Brazilian Government holds a preferred class A share of Valepar which confers upon it approval rights for a period of five years in respect of (i) concentration of ownership of Valepar by particular types of investors in excess of prescribed limitations and (ii) changes in the Valepar holding company structure relating to ownership of our common shares.
- *Shareholder revenue interests.* On July 7, 1997, we issued to shareholders of record on April 18, 1997 (including the Brazilian Government) revenue interests providing holders thereof with the right to receive semi-annual payments based on a percentage of our net revenues above threshold

production volumes from identified mining resources. These instruments are not secured by the corresponding mineral reserves and deposits.

In addition to the preferred special share mentioned above, the National Treasury and the Banco Nacional de Desenvolvimento Economico e Social — BNDES, the Government — owned development bank, together currently own 32% of our common shares and 4% of our preferred shares, which in aggregate represents 22% of our total capital.

4. Major Acquisitions and Disposals During the Periods Presented

We made the following acquisitions during the periods presented. Pro forma information with respect to results of operations is not presented since the effects are not considered material to an understanding of our consolidated financial statements.

(a) On May 11, 2000, we acquired the entire capital of Mineração SOCOIMEX S.A., a non-public company whose main activity is production and commercialization of iron ore, for the total price of $55, being an initial cash payment of $47 and two further cash payments of $3 and $5, in 2001 and 2002, respectively, plus interest based on 89% of the Brazilian Interbank Rate through the payment date. The increment of the fair value over the book value of SOCOIMEX at the date of purchase was entirely attributable to its mineral reserves, which are included in the property, plant and equipment. In August 2000 SOCOIMEX was merged into CVRD.

(b) On May 30, 2000, we acquired 4,026,694,190 common shares and 4,231,324,374 preferred shares of S.A. Mineração Trindade — SAMITRI, representing 79.27% of the voting capital and 63.06% of the total capital for $520 in cash, becoming the controlling stockholder. At the date of the purchase, SAMITRI was a publicly listed Brazilian iron ore mining company, which also owned a 51% interest in the voting capital of SAMARCO Mineração S.A., a large iron ore pellets producer (see Note 10). On June 29, 2000, we sold 1% of the share capital of SAMARCO to BHP Brasil Ltda. (BHP), a subsidiary of The Broken Hill Proprietary Company Limited of Australia, for $8, to equalize our shareholdings in the joint venture.

(c) The assets and liabilities acquired as a result of the above transactions and corresponding goodwill were as follows:

	Unconsolidated Joint Venture	Consolidated Subsidiaries	
	SAMARCO	SAMITRI	SOCOIMEX
Fair value of assets	1,006	293	77
Fair value of liabilities	(450)	(144)	(22)
Net assets at fair value	556	149	55
Interest acquired	50.00%	63.06%	100.00%
Fair value of net assets acquired	278	94	55
Attributable to minority stockholders of SAMITRI (36.94%)	(103)	—	—
Tax benefits	31	—	—
Effective interest acquired	206	94	55
Purchase price	252	268	55
Goodwill	46	174	—

The main assets for which fair values differ from book values are inventories and property, plant and equipment. We determined the fair values of inventories based on the current replacement costs for raw

materials and the estimated selling prices for finished goods, net of disposal costs and a selling margin. The fair values of property, plant and equipment were determined based on current replacement costs for similar capacity and the estimated market value of purchased reserves. Deferred taxes were recorded for the differences between fair values and tax bases.

For SAMARCO, SAMITRI and SOCOIMEX inventories were valued at $36, $38 and $9, respectively, property, plant and equipment were valued at $830, $161 and $58, respectively, and the deferred tax liability was $60, $49 and $15, respectively.

We had adopted a policy to amortize the goodwill on the SAMITRI and SAMARCO purchases on the straight-line basis over a period of 5 years, starting in October 2001 when we expect the benefits will begin to be realized. However, as explained in note 2(p), upon adoption of SFAS 142 on January 1, 2002 such straight-line amortization will cease.

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

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

Fair value of assets	401
Fair value of liabilities	(251)
Net assets at fair value	150
Purchase price	523
Goodwill	373

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

(e) On January 14, 2000 we sold 20.81% of the capital of Alumina do Norte do Brasil S.A. — ALUNORTE and a beneficial interest in 8% of the capital of Mineração Rio do Norte S.A. — MRN owned by us for an aggregate of $164, resulting in a gain of $54. The total consideration of $164 was received in cash; however, $120 was received through the issue and sale of Perpetual Notes with a fair value of $55 and this fair value continues to be reported as a liability and periodically adjusted based on an early termination formula reflecting the underlying profitability of MRN.

(f) On March 9, 2001 we transferred our 10.33% interest in Companhia Siderúrgica Nacional — CSN to VALIA, as a special pension plan contribution, for $249 (fair market value determined based on the weighted average price of the last thirty trading sessions at the Sao Paulo stock exchange in the period ended on March 9, 2001). This transfer resulted in a gain of $107.

(g) On April 27, 2001 we concluded the sale of our 32.00% interest in Bahia Sul Celulose S.A. — BSC for $318, received in cash on May 7, 2001. This operation resulted in a gain of $170.

(h) On June 6, 2001 we concluded the sale of our 51.48% interest in Celulose Nipo-Brasileira S.A. — CENIBRA for $671, received in cash on September 14, 2001. This operation resulted in a gain of $507.

5. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory enacted tax rates applicable in the periods presented are as follows:

	Nine Months Ended September 30 - %	
	2001	2000
Federal income tax	25.00	25.00
Social contribution(*)	9.00	9.00 to 12.00
Composite tax rate	34.00	34.00 to 37.00

(*) As from May 1, 1999 through January 31, 2000, the social contribution rate has been increased from 8% to 12% (not enacted). Pursuant to a provisional measure, the social contribution rate will be 9% from February 1, 2000 to December 31, 2002 and will be reduced to 8% as from January 1, 2003.

The amount reported as income tax benefit in this consolidated financial information is reconciled to the statutory rates as follows:

	Nine Months Ended September 30	
	2001	2000
Income before income taxes, equity results and minority interests	597	668
Federal income tax and social contribution expense at statutory enacted rates	(203)	(227)
Adjustments to derive effective tax rate:		
Tax benefit on interest attributed to stockholders	226	144
Exempt foreign income	185	65
Tax incentives	22	32
Valuation allowance reversal (provision)	(27)	(5)
Other non-taxable gains	1	13
Adjustment to reflect expected annual effective tax rate	(167)	(25)
Federal income tax and social contribution expense in consolidated statements of income	37	(3)

In 2000, we obtained approval of certain tax incentives relative to our iron ore and manganese operations in Carajás. The incentives comprise full income tax exemption on defined production levels up to 2005 and partial exemption up to 2013. An amount equal to the tax saving must be appropriated to a reserve account within stockholders' equity (Note 13) and may not be distributed in the form of cash dividends.

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

	As of September 30	
	2001	2000
NET CURRENT DEFERRED TAX ASSETS		
Accrued expenses deductible only when disbursed	147	64
Interest attributed to stockholders	217	—
Adjustment to reflect expected annual effective tax rate	(167)	(25)
	197	39
LONG-TERM DEFERRED TAX ASSETS AND LIABILITIES		
ASSETS		
Deferred tax relative to temporary differences:		
Established on the July 1, 1997 change in functional currency, less reversals	—	22
Relative to investments acquired	9	15
Tax-deductible goodwill in business combinations	71	96
Additional retirement benefits provision (in 2000 net of unrecognized pension obligation)	49	135
Tax loss carry forwards	175	218
Other temporary differences	29	3
	333	489
LIABILITIES		
Inflationary income	(22)	(29)
Established on the July 1, 1997 change in functional currency, less reversals	(44)	—
Prepaid retirement benefit	(30)	—
Fair value adjustments in business combinations	(59)	(58)
	(155)	(87)
VALUATION ALLOWANCE		
Beginning balance	(201)	(178)
Translation adjustments	54	1
Additions	(27)	(2)
Ending balance	(174)	(179)
Net long-term deferred tax assets	4	223

6. Cash and Cash Equivalents

	As of September 30	
	2001	2000
Cash	33	28
Deposits in local currency	451	464
Deposits in United States dollars	1,224	563
	1,708	1,055

7. Inventories

	As of September 30	
	2001	2000
Finished products		
Iron ore	116	80
Gold	6	11
Manganese	23	15
Ferrous alloys	22	30
Others	7	14
Spare parts and maintenance supplies	112	145
	286	295

8. Other Assets — Loans and Advances

	As of September 30	
	2001	2000
Alunorte(1)	294	314
Cenibra	—	85
Salobo(2)	60	79
CFN	—	11
FCA	83	76
Eletrobrás	9	13
Sepetiba Tecon	9	12
Kobrasco	23	21
Wilsea	—	4
Usiminas	17	12
BNDES	6	7
Others	15	2
TOTAL RELATED PARTIES	516	636
Cenibra	57	—
Regional development loans	16	28
Mineração Morro Velho	18	18
Estaleiro Verolme	6	8
Others	—	2
TOTAL UNRELATED PARTIES	97	56

(1) Includes on-lending outstanding balance of $203 (2000 — $204), with identical conditions and terms, of a $200 U.S. dollar denominated loan obtained by us from the Nippon Amazon Aluminium Company (NAAC) in January 1997 (bearing interest of 6.41% p.a. and maturing up to 2011).

(2) Convertible debentures bearing interest of IGPM plus 6.50% p.a.

9. Property, Plant and Equipment

a) Per Business Area:

	As of September 30, 2001			As of September 30, 2000		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Ferrous						
Ferrous — Southern System						
Mining	842	372	470	1,147	550	597
Railroads	818	396	422	1,087	540	547
Marine terminals	192	79	113	166	107	59
	1,852	847	1,005	2,400	1,197	1,203
Ferrous — Northern System						
Mining	564	256	308	738	330	408
Railroads	926	345	581	1,260	459	801
Marine terminals	172	83	89	223	113	110
	1,662	684	978	2,221	902	1,319
Pelletizing	168	92	76	202	132	70
Ferrous-alloys	217	113	104	273	142	131
Energy	131	5	126	85	4	81
Construction in progress	380	—	380	287	—	287
	4,410	1,741	2,669	5,468	2,377	3,091
NON-FERROUS						
Potash	44	15	29	49	16	33
Gold	225	147	78	321	148	173
Kaolin	65	10	55	95	12	83
Research and projects	15	7	8	20	10	10
Construction in progress	33	—	33	39	—	39
	382	179	203	524	186	338
LOGISTICS						
General cargo	278	140	138	368	180	188
Maritime transportation	303	162	141	357	167	190
Construction in progress	15	—	15	11	—	11
	596	302	294	736	347	389
HOLDINGS						
Pulp and paper	59	10	49	104	41	63
CORPORATE CENTER						
Corporate	34	14	20	35	15	20
Construction in progress	4	—	4	15	—	15
	38	14	24	50	15	35
Total	5,485	2,246	3,239	6,882	2,966	3,916

b) Per Type of Assets:

	As of September 30, 2001			As of September 30, 2000		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land and buildings	525	205	320	850	296	554
Installations	1,349	665	684	1,717	928	789
Equipment	569	246	323	639	316	323
Ships	301	160	141	354	164	190
Railroads	1,449	621	828	1,832	809	1,023
Mine development costs	284	72	212	318	73	245
Others	576	277	299	820	380	440
	5,053	2,246	2,807	6,530	2,966	3,564
Construction in progress	432	—	432	352	—	352
Total	5,485	2,246	3,239	6,882	2,966	3,916

10. Investments

	As of September 30							
	2001							
	Participation in Capital (%)		Net	Net Income (Loss) for the	Investments		Equity Adjustments	
Investments in Affiliated Companies and Joint Ventures	Voting	Total	Equity(1)	Period(1)	2001	2000	2001	2000
STEEL								
Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS(2)	22.99	11.46	1,389	60	159	239	7	4
Companhia Siderúrgica Nacional — CSN(3)			—	92	—	137	9	4
Companhia Siderúrgica de Tubarão — CST(4)	20.51	22.85	1,186	26	271	265	6	19
California Steel Industries Inc. — CSI	50.00	50.00	230	(5)	115	121	(3)	17
PAPER AND PULP								
Celulose Nipo-Brasileira S.A. — CENIBRA(3)			—	17	—	215	9	50
Bahia-Sul Celulose S.A — BSC(3)			—	6	—	166	2	34
ALUMINUM AND BAUXITE								
Mineração Rio do Norte S.A. — MRN	40.00	40.00	358	53	143	146	21	29
Valesul Alumínio S.A. — VALESUL	54.51	54.51	72	15	39	46	8	8
Alumina do Norte do Brasil S.A. — ALUNORTE	50.30	46.60	42	(79)	41	73	(37)	8
PELLETS								
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	51.11	51.00	41	(12)	21	30	6	8
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	51.00	50.89	30	8	16	21	4	6
Companhia Coreano Brasileira de Pelotização — KOBRASCO	50.00	50.00	3	(17)	1	13	(8)	2
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	51.00	50.90	26	7	13	17	4	5
Gulf Industrial Investment Company — GIIC	50.00	50.00	130	8	65	—	4	—
SAMARCO Mineração S.A.	50.00	50.00	355	(5)	229	352	(3)	4

	As of September 30							
	2001							
	Participation in Capital(%)		Net	Net Income (Loss) for the	Investments		Equity Adjustments	
Investments in Affiliated Companies and Joint Ventures	Voting	Total	Equity(1)	Period(1)	2001	2000	2001	2000
OTHERS								
Fertilizantes Fosfaltados S.A. — FOSFÉRTIL(5)	10.96	10.96	205	23	22	30	3	3
Salobo Metais S.A. (6)	50.00	50.00	37	—	18	27	—	—
Ferrovia Centro-Atlântica S.A. — FCA	20.00	45.65	68	(61)	—	54	(28)	(14)
Others					43	120	(3)	4
					1,196	2,072	1	191
INVESTMENTS AT COST								
AÇOMINAS					—	27	—	—
SIDERAR (market value $18 in 2001 — $50 in 2000)	4.85	4.85			15	15	—	—
Unrealized holding gains on equity security					3	35	—	—
MRS Logistica S.A.	17.19	9.76			19	—	—	—
Others					3	35	—	—
					1,236	2,184	1	191
CHANGE IN PROVISION FOR LOSSES ON EQUITY INVESTMENTS:								
Alumínio Brasileiro S.A. — ALBRAS							(37)	55
Cia Ferroviaria do Nordeste							(8)	(2)
							(45)	53

(1) Based on US GAAP financial statements

(2) Value based on quoted market price at September 30, 2001 is $36

(3) Investments sold in 2001

(4) Value based on quoted market price at September 30, 2001 is $81

(5) Value based on quoted market price at September 30, 2001 is $31

(6) Development stage enterprise

Goodwill included in the above investments is as follows:

Investee	Original Term of Amortization (Years)	Remaining Amortization (Years)	As of September 30 2001	As of September 30 2000
Usinas Siderúrgicas de Minas Gerais S.A — USIMINAS	20	10	60	93
Alumina do Norte do Brasil S.A. — ALUNORTE	35	34	21	30
SAMARCO Mineração S.A.	5	5	51	73
			132	196

Based on our revised expectation for profitability and other economic facts, we fully amortized the remaining goodwill relative to FCA and GIIC in the quarter ended September 30, 2001.

The combined financial position and results of operations of our affiliates in the steel sector is as follows:

	Steel Sector Affiliates (Combined) As of September 30	
	2001	2000
Balance sheet		
Current assets	1,099	2,873
Noncurrent assets	5,843	10,420
Current liabilities	(973)	(2,929)
Noncurrent liabilities	(2,505)	(4,825)
Purchase accounting adjustments	(1,184)	(1,546)
Stockholders' equity	2,280	3,993
Investments	545	762

	Steel Sector Affiliates (Combined) Nine Months ended September 30	
	2001	2000
Statement of operations		
Net sales	2,320	3,277
Costs and expenses	(2,195)	(2,958)
Purchase accounting adjustments	4	24
Income before income taxes	129	343
Income taxes	45	(146)
Net income	174	197
Equity adjustments	19	44

Information with respect to other major affiliates' financial position and results of operations is as follows:

	As of September 30					
	ALUNORTE		ALBRAS		MRN	
	2001	2000	2001	2000	2001	2000
Balance Sheet						
Current assets	120	74	100	123	51	72
Noncurrent assets	408	513	483	636	371	347
Current liabilities	(76)	(78)	(163)	(235)	(26)	(17)
Noncurrent liabilities	(410)	(423)	(507)	(577)	(38)	(38)
Stockholders' equity	42	86	(87)	(53)	358	364
Our participation	46.60%	50.27%	51.00%	51.00%	40.00%	40.00%
Investments	20	43	(44)	(27)	143	146

	Nine Months ended September 30					
	ALUNORTE		ALBRAS		MRN	
	2001	2000	2001	2000	2001	2000
Statement of Operations Net sales	227	237	382	417	148	164
Costs and expenses	(306)	(236)	(454)	(326)	(80)	(84)
Income (loss) before income taxes	(79)	1	(72)	91	68	80
Income taxes	—	14	—	18	(6)	(15)
Equity in results of affiliates	—	—	—	—	(9)	7
Net income (loss)	(79)	15	(72)	109	53	72
Our participation	46.60%	50.27%	51.00%	51.00%	40.00%	40.00%
Participation in results	(37)	8	(37)	55	21	29
Change in provision for losses	—	—	37	(55)	—	—
Equity adjustments	(37)	8	—	—	21	29

The provision for losses on equity investments of $47 and $32 at September 30, 2001 and 2000, respectively, relates to our investments in affiliates which have reported negative stockholders' equity in their financial statements prepared in accordance with US GAAP and in circumstances where we have assumed commitments to fund our share of the accumulated losses, if necessary, through additional capital contributions or other means. Accordingly we (a) first reduce the value of the investment to zero and (b) subsequently provide for our portion of negative equity. The provision is comprised as follows:

	CIA FERROVIÁRIA DO NORDESTE	ALBRAS	Total
PROVISION AT JANUARY 1, 2000	(4)	(83)	(87)
Change in provision — results	(2)	55	53
	(6)	(28)	(34)
Payment of capital	1	—	1
Translation adjustment	—	1	1
PROVISION AT SEPTEMBER 30, 2000	(5)	(27)	(32)
PROVISION AT JANUARY 1, 2001	—	(15)	(15)
Change in provision — results	(8)	(37)	(45)
	(8)	(52)	(60)
Translation adjustment	5	8	13
PROVISION AT SEPTEMBER 30, 2001	(3)	(44)	(47)

Dividends received from investees aggregated $112 and $94 in nine month periods ended September 30, 2001 and 2000, respectively.

11. Short-Term Debt

Our short-term borrowings are principally from commercial banks and include import and export financing denominated in United States dollars, as follows:

	As of September 30	
	2001	2000
Export	632	719
Import	2	9
Working Capital	9	7
	643	735

Average annual interest rates on short-term borrowings were 7.43% and 8.67% in 2001 and 2000, respectively.

12. Long-Term Debt

	As of September 30			
	Current Liabilities		Long-Term Liabilities	
	2001	2000	2001	2000
Foreign debt				
Loans and financing contracted in the following currencies, maturing up to 2011:				
United States dollars	199	235	1,047	743
Japanese Yen	9	10	30	4
Others	2	3	3	3
Fixed Rate Notes — US$ denominated	—	—	500	500
Export Securitization — US$ denominated	—	—	300	—
Perpetual notes	—	—	56	55
Accrued charges	21	23	—	—
	231	271	1,936	1,305
Local debt				
Indexed by Long-Term Interest Rate — TJLP maturing up to 2002	3	7	7	12
Indexed by General Price Index-Market (IGPM) maturing up to 2005	2	21	51	50
Basket of currencies	15	16	44	61
Capital Lease	—	1	—	—
Shareholders revenue interests (Note 3)	—	—	3	3
Indexed by U.S. dollars	5	21	23	64
Accrued charges	4	1	—	—
	29	67	128	190
Total	260	338	2,064	1,495

The long-term portion at September 30, 2001 becomes due in the following years:

2002 (after September 30)	55
2003	642
2004	713
2005	192
2006	129
2007 and thereafter	277
No due date (Perpetual notes)	56
	2,064

At September 30, 2001 annual interest rates on long-term debt were as follows:

Up to 7%	1,141
7.1% to 9%	481
9.1% to 11%	562
Over 11%	84
Variable (Perpetual notes)	56
	2,324

Long-term debt at September 30, 2001 is guaranteed or secured as follows:

	Amount of Guarantee
Federal Government guarantee(*)	308
Export receivables (securitization)	125
Ships	62

(*) For this guarantee, counter-guarantees were constituted by us with receivables of a subsidiary and an affiliate.

13. Stockholders' Equity

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters that come before a stockholders' meeting, except for the election of the Board of Directors, which is restricted to the holders of common stock. As described in Note 3, the Brazilian Government holds a preferred special share which confers on it permanent veto rights over certain matters.

The Board of Directors authorized the acquisition of up to 9,832,691 of our own preferred class A shares, to remain in treasury for subsequent disposal or cancellation. As of September 30, 2001, 3,519,288 shares had been acquired, at an average weighted unit cost of R$20.03 (minimum cost of R$14.02 and maximum of R$24.19).

Both common and preferred stockholders are entitled to receive a dividend of at least 25% of annual net income, upon approval at the annual stockholders' meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records. With respect to each of 2001 and 2000 we distributed dividends to preferred stockholders in excess of this limit. Interest attributed to stockholders as from January 1, 1996 is considered part of the minimum dividend.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the statutory accounting records and such payments are made in Reais. At September 30, 2001, we had $239

in undistributed retained earnings. In addition, appropriated retained earnings at September 30, 2001 includes $1,532, related to the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders.

No withholding tax is payable on distribution of profits earned as from January 1, 1996, except for distributions in the form of interest attributed to stockholders as explained in Note 2 (m).

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

	Nine Months ended September 30	
	2001	2000
Appropriated retained earnings		
Unrealized income reserve		
Balance January 1	874	1,062
Transfer to retained earnings	(234)	(34)
Balance September 30	640	1,028
Expansion reserve		
Balance January 1	1,546	1,367
Transfer to capital stock	(278)	—
Transfer to retained earnings	(376)	(43)
Balance September 30	892	1,324
Legal reserve		
Balance January 1	307	284
Transfer to retained earnings	(82)	(10)
Balance September 30	225	274
Fiscal incentive depletion reserve		
Balance January 1	771	842
Transfer to retained earnings	(207)	(27)
Balance September 30	564	815
Fiscal incentive investment reserve		
Balance January 1	39	12
Transfer to capital stock	(33)	—
Transfer (to) from retained earnings	(6)	31
Balance September 30	—	43
Total appropriated retained earnings	2,321	3,484

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

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

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

- *Legal reserve* — this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income under Brazilian GAAP up to a limit of 20% of capital stock under Brazilian GAAP.
- *Fiscal incentive depletion reserve* — this represents an additional amount relative to mineral reserve depletion equivalent to 20% of the sales price of mining production, which is deductible for tax purposes providing an equivalent amount is transferred from retained earnings to the reserve account. This fiscal incentive expired in 1996.
- *Fiscal incentive investment reserve* — this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve also contemplates the tax incentives described in Note 5.

14. Pension Plans

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

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

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

(a) Change in Benefit Obligation

	As of and for the Nine Months ended September 30	
	2001	2000
Benefit obligation at beginning of period	1,596	1,440
Service cost	3	9
Interest cost	60	69
Benefits paid	(68)	(84)
Plan amendments	—	(13)
Effect of exchange rate changes	(427)	(51)
Actuarial loss	—	242
Benefit obligation at end of period	1,164	1,612

The actuarial loss of $242 in the period of nine months ended September 30, 2000 is mainly due to the adoption of a new mortality table which is considered to better reflect the current life expectancy of the plan participants.

(b) Change in Plan Assets

	As of and for the Nine Months ended September 30	
	2001	2000
Fair value of plan assets at beginning of period	1,189	1,231
Actual return on plan assets	114	82
Special employer contributions (Note 4(f))	249	—
Employer contributions	14	25
Employee contributions	—	4
Benefits paid	(68)	(84)
Effect of exchange rate changes	(380)	(39)
Fair value of plan assets at end of period	1,118	1,219

Plan assets at September 30, 2001 include $92 of portfolio investments in our own shares ($92 at September 30, 2000) and $6 of shares of related parties ($9 at September 30, 2000), as well as $469 of Federal Government Securities ($426 at September 30, 2000).

(c) Accrued Pension Cost Liability

	As of September 30	
	2001	2000
Funded status, excess of benefit obligation over plan assets	46	393
Unrecognized net transitory obligation	(84)	(136)
Unrecognized net actuarial loss	(51)	(120)
Accrued pension cost liability (prepaid pension cost)	(89)	137

(d) Recognition of Additional Minimum Liability

	As of September 30	
	2001	2000
Accrued pension cost liability	—	137
Unrecognized pension obligation, limited to unrecognized net transitory obligation	46	136
Additional amount recognized in stockholders' equity	—	119
Minimum liability	46	392

(e) Assumptions Used in Each Period

	2001	2000
Discount rate	6% p.a.	6% p.a.
Expected return on plan assets	6% p.a.	6% p.a.
Rate of compensation increase	1.82% p.a.	1.82% p.a.

Net pension cost includes the following components:

	Nine Months ended September 30	
	2001	2000
Service cost — benefits earned during the period	3	9
Interest cost on projected benefit obligation	60	69
Actual return on assets	(114)	(82)
Amortization of initial transitory obligation	9	12
Net deferral	66	30
	24	38
Employee contributions	—	(4)
Net periodic pension cost	24	34

In addition to benefits provided under our pension plan accruals have been made relative to supplementary benefits extended in previous periods as part of early-retirement programs. Such accruals included in long-term liabilities totaled $148 and $138, at September 30, 2001 and 2000, respectively, plus $23 and $22 in current liabilities.

The cost recognized in the period of nine months ended September 30, 2001 relative to the defined contribution element of the New Plan was $3.

15. Commitments and Contingencies

(a) At September 30, 2001, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of $843, of which $645 is denominated in United States dollars and the remaining $198 in local currency. These guarantees include $372 relative to ALBRAS and $78 relative to ALUNORTE (see Note 10).

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

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

	As of September 30			
	2001		2000	
	Provision for Contingencies	Judicial Deposits	Provision for Contingencies	Judicial Deposits
Labor claims	97	45	98	60
Civil claims	102	42	139	15
Tax — related actions	122	58	69	32
Others	52	2	6	2
	373	147	312	109
Current	—	—	—	—
Long-term	373	147	312	109
	373	147	312	109

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 changes in basis of calculation and rates of certain revenue taxes 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.

Contingencies settled in the nine months ended September 30, 2001 and 2000 aggregated $19 and $15, respectively, and additional provisions aggregated $125 and $131 in these periods, respectively.

(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 delivery of approximately 175,950 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 $1,368.15 per metric ton at September 30, 2001, represents an annual commitment of $241. We are also committed to take-or-pay 459,214 metric tons per year of alumina produced by ALUNORTE which at a market price of $183.21 per metric ton at September 30, 2001, represents an annual commitment of $84. Actual take from ALBRAS was $176 and $196 during the nine month periods ended September 30, 2001 and 2000, respectively, and direct from ALUNORTE (net of take ceded to ALBRAS) was $22 and $35 during the nine month periods ended September 30, 2001 and 2000, 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 Carajas region, as well as proportional participation in any financial benefits earned from the development of such resources. Iron ore and manganese deposits already identified and subject to development are specifically excluded from the Mineral Risk Contract.

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide $205, which represents half of the $410 in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region over a period of five years. Under certain circumstances, this period may be extended for an additional two years. We oversee these projects and BNDES advances us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of September 30, 2001, each of us and BNDES had remaining commitments to contribute an additional $89 toward exploration and development activities. We both expect to fund a portion of these contributions through the end of 2001. In the event that either of us wishes to conduct further exploration and development after having spent such $205, 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 (1) all the rights and benefits provided for in the Mineral Risk Contract and (2) any amount previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us for our contribution of existing development and ownership rights in the Carajás region through a finder's fee production royalty on 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", which are described below, were set to ensure that our pre-privatization shareholders, including the Brazilian Government, would participate alongside us in potential future financial benefits that we are able to derive from exploiting our mineral resources.

In preparation for the issuance of the debentures, we issued series B preferred shares on a one-for-one basis to all holders of our common shares and series A preferred shares. We then exchanged all of the series B shares for the debentures at par value. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. At present the debentures cannot be traded. Holders will be able to trade the debentures only after a three-month period that will commence upon completion of the sale by the Brazilian Government of its 32% stake in our common shares, which will constitute the final step of our privatization. We will be required to register the debentures with the CVM in order to permit trading at this time. We cannot be sure when the final step of our privatization will take place.

Under Brazilian Central Bank regulations, pre-privatization shareholders that held their shares through our American Depositary Receipt, or ADR, program were not permitted to receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank to distribute the debentures to the ADR holders, but the Central Bank rejected our request. We intend to renew our request to the Central Bank, but we cannot be sure that we will succeed. If the Central Bank does not approve our request, the ADR depositary will not be able to distribute the debentures to the ADR holders and will not be able to sell the debentures. Therefore, unless the Central Bank approves our request, the debentures will not have any value for ADR holders.

Under the terms of the debentures, holders will have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned as of May 1997, to that extent the we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned as of May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted. Based on current production levels, we would begin making payments related to iron ore resources in approximately 2012, and payments related to other mineral resources in later years.

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

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

(g) At September 30, 2001 we have provided $29 for environmental liabilities. Such provisions relate to site restoration at mines already closed or which are expected to be closed in the next two years.

We use various judgments and assumptions when measuring our environmental liabilities. 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.

16. 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 financial information is required to be reported on the basis that the top decision-maker uses such information 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 ferrous alloys are also classified in this segment.

Non-ferrous products — comprises the production of gold and other non-ferrous minerals.

Logistics — comprises our transportation systems as they pertain to external commercial operations, and the operations of our ships.

Holdings — divided into the following sub-groups:

- *Pulp and paper* — comprises our forestation activities and investments in joint ventures and affiliates engaged in the manufacture of pulp and paper products.

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

Corporate Center — the Corporate Center is responsible for accounting and control, finance, legal matters, human resources and administration, investor and external relations and internal auditing.

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 Brazilian corporate law together with certain minor inter-segment allocations, and is focused primarily on return on capital employed (ROCE), net operating profit less taxes (NOPLT) as well as net income.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION — (Continued)
Expressed in Millions of United States Dollars, Unless Otherwise Stated

Consolidated net income and principal assets are reconciled as follows:

	As of and for the Nine Months ended September 30, 2001									
				Holdings						
	Ferrous	Non Ferrous	Logistics	Pulp and Paper	Aluminum	Steel	Others	Corporate Center	Eliminations	Consolidated
RESULTS										
Revenues — Export	2,570	133	125	49	225	—	—	—	(986)	2,116
Revenues — Domestic	805	58	269	7	1	—	—	—	(124)	1,016
Cost and expenses	(2,292)	(141)	(446) (1)	611 (2)	(209)	107 (3)	—	(910)	1,110	(2,170)
Interest revenue	22	1	6	7	5	—	—	75	(36)	80
Interest expense	(76)	(9)	(7)	—	(1)	(3)	—	(180)	36	(240)
Depreciation	(128)	(23)	(17)	(2)	—	—	—	(4)	—	(174)
Pension plan	(19)	(3)	(2)	—	—	—	—	—	—	(24)
Equity	11	—	(43)	11	(45)	19	3	—	—	(44)
Income taxes	2	—	(1)	(3)	—	—	—	39	—	37
Net income	895	16	(116)	680	(24)	123	3	(980)	—	597
Sales classified by geographic destination:										
Export market										
Latin America	194	4	52	—	8	—	—	—	(69)	189
United States	154	100	15	42	33	—	—	—	(57)	287
Europe	1,015	27	43	7	161	—	—	—	(450)	803
Middle East	149	—	3	—	—	—	—	—	(57)	95
Japan	395	—	9	—	12	—	—	—	(114)	302
Asia, other than Japan	663	2	3	—	11	—	—	—	(239)	440
	2,570	133	125	49	225	—	—	—	(986)	2,116
Domestic market	805	58	269	7	1	—	—	—	(124)	1,016
	3,375	191	394	56	226	—	—	—	(1,110)	3,132
Assets:										
Property, plant and equipment, net	2,669	203	294	49	—	—	—	24	—	3,239
Capital expenditures	382	36	17	—	—	—	—	9	—	444
Investments in affiliated companies and joint ventures and other investments	385	20	35	—	179	545	25	—	—	1,189
Capital employed	2,819	194	302	46	(2)	10	1	(15)	(50)	3,305
NOPLT	1,071	62	55	(30)	17	(1)	—	(166)	(9)	999
ROCE	38%	32%	18%	(65)%	—	(10)%	—	—	—	30%

(1) — Includes provisions $101 to reflect realizable value of assets

(2) — Includes $170 profit on sale of Bahia Sul Celulose S.A. — BSC and $507 profit on sale of Celulose Nipo-Brasileira S.A. — CENIBRA

(3) — Includes $107 profit on sale of Companhia Siderúrgica Nacional — CSN

	As of and for the Nine Months ended September 30, 2000									
				Holdings						
	Ferrous	Non Ferrous	Logistics	Pulp and Paper	Aluminum	Steel	Others	Corporate Center	Eliminations	Consolidated
RESULTS										
Revenues — Export	1,980	143	143	114	274	—	—	—	(649)	2,005
Revenues — Domestic	748	70	295	9	11	1	—	—	(47)	1,087
Cost and expenses	(1,784)	(154)	(307)	(114)	(193)	(3)	—	(358)	696	(2,217)
Interest revenue	32	1	1	5	21	—	—	114	(38)	136
Interest expense	(46)	(9)	(6)	—	(3)	(4)	—	(174)	38	(204)
Depreciation	(87)	(18)	(18)	(2)	—	—	—	(5)	—	(130)
Pension plan	(7)	(2)	—	—	—	—	—	—	—	(9)
Equity	31	—	(18)	84	100	44	3	—	—	244
Income taxes	2	—	6	(4)	(4)	—	—	(3)	—	(3)
Net income	869	31	96	92	206	38	3	(426)	—	909
Sales classified by geographic destination:										
Export market										
Latin America	161	—	16	—	17	—	—	—	(51)	143
United States	169	113	53	114	34	—	—	—	(70)	413
Europe	660	28	56	—	172	—	—	—	(120)	796
Middle East	135	—	3	—	16	—	—	—	(11)	143
Japan	409	2	8	—	34	—	—	—	(191)	262
Asia, other than Japan	446	—	7	—	1	—	—	—	(206)	248
	1,980	143	143	114	274	—	—	—	(649)	2,005
Domestic market	748	70	295	9	11	1	—	—	(47)	1,087
	2,728	213	438	123	285	1	—	—	(696)	3,092
Assets:										
Property, plant and equipment, net	3,091	338	389	63	—	—	—	35	—	3,916
Capital expenditures	168	29	12	—	—	—	—	5	—	214
Investments in affiliated companies and joint ventures and other investments	463	32	111	403	238	838	67	—	—	2,152
Capital employed	3,174	343	434	44	2	12	4	(28)	31	4,016
NOPLT	850	44	119	3	22	1	—	(139)	—	900
ROCE	27%	13%	27%	7%	—	8%	—	—	—	22%

17. Fair Value of Financial Instruments

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

The market value of long-term investments, where available, is disclosed in Note 10 to these financial statements.

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair market value of long-term debt at September 30, 2001 is not substantially different from that as of December 31, 2000.

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

18. 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.

As from January 1, 2001 we adopted SFAS 133 "Accounting for Derivative Financial Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138, and began to recognize all derivatives on our balance sheet at fair value. Accordingly we recognized an initial transition adjustment of $3 as a charge in our statement of income relative to net unrealized losses on contracts open as of December 31, 2000. Subsequently to January 1, 2001 all derivatives have been adjusted to fair market value at each balance sheet date and the change included in current earnings.

For the nine month period ended September 30, 2001 the movement of unrealized and realized gains or losses on derivative financial instruments is as follows:

	Net Gains (Losses)			
	Gold	Interest Rates (Libor)	Currencies	Total
Initial unrealized gains and losses at January 1, 2001	9	(8)	(4)	(3)
Change in the period	2	(39)	(1)	(38)
(Gains) and losses realized in the period	(5)	6	2	3
UNREALIZED GAINS AND (LOSSES) AT SEPTEMBER 30, 2001	6	(41)	(3)	(38)

Realized and unrealized gains and losses are included in our income statement under the following captions:

Gold — other operating costs and expenses;

Interest rates — financial expenses;

Currencies — foreign exchange and monetary losses, net.

Final maturity dates for the above instruments are as follows:

Gold	December 2005
Interest rates (libor)	October 2007
Currencies	April 2005

(a) Interest Rate and Exchange Rate Risk

Interest rate risks mainly relate to that part of the 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. Since May 1998, we have used derivative instruments to protect overselves against fluctuations in the LIBOR rate.

There is an exchange rate risk associated with our foreign currency denominated debt. On the other hand, a substantial proportion of our revenues are denominated in, or automatically indexed to, the U.S. dollar, while the majority of costs are expressed 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 advent of a floating exchange rate regime in Brazil in January 1999, we adopted 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 nine months ended September 30, 2001 our use of such instruments was not significant.

(b) Commodity Price Risk

We also use derivative instruments to manage exposure to changing gold prices. Derivatives allow the fixing of an average minimum profit level for future gold production. However, they may also have the effect of eliminating potential gains on certain price increases in the spot market for gold. 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 derivatives, our policy has been to settle all contracts through cash payments or receipts, without physical delivery of product.

Our affiliates Albras and Alunorte manage the risk of fluctuating aluminum prices using derivatives, allowing an average minimum profit level for future production and ensuring stable cash generation. However, they may also have the effect of eliminating potential gains on certain price increases in the spot market for aluminum. We account for both affiliates using the equity method.

In December 2000, we introduced a new risk management system to evaluate, measure and manage the market risk associated with our financial activities, using the value-at-risk — VAR method. VAR incorporates a variety of risk factors which affect our results, including commodity prices, interest and exchange rate volatilities, as well as the correlation between all these variables. This tool will permit more efficient monitoring of market risk exposure.

19. Information about our auditors

Our consolidated financial statements are reviewed by PricewaterhouseCoopers Auditores Independentes. The financial statements of certain of our subsidiaries and affiliates have been reviewed by independent accountants other than PricewaterhouseCoopers Auditores Independentes and, as mentioned

in their report, PricewaterhouseCoopers Auditores Independentes has relied on such reviews when issuing their report on our consolidated financial statements.

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

	Independent Accountants	Periods reviewed	City	State	Country
Alumínio Brasileiro S.A.-ALBRAS	DTT	2001, 2000	RJ	RJ	Brazil
Alumina do Norte do Brasil S.A.-ALUNORTE	DTT	2001, 2000	RJ	RJ	Brazil
Bahia Sul Celulose S.A.(1)	KPMG	2000, 1999	SP	SP	Brazil
Celulose Nipo-Brasileira S.A.-CENIBRA(1)	DTT	2001, 2000	BH	MG	Brazil
Navegação Vale do Rio Doce S.A.-DOCENAVE	DTT	2001, 2000	RJ	RJ	Brazil
DOCEPAR S.A.	DTT	2001, 2000	RJ	RJ	Brazil
Companhia Hispano-Brasileira de Pelotização-HISPANOBRAS	AA	2001, 2000	Vitória	ES	Brazil
Companhia Ítalo-Brasileira de Pelotização-ITABRASCO	AA	2001, 2000	Vitória	ES	Brazil
Companhia Coreano Brasileira de Pelotização-KOBRASCO	DTT	2001, 2000	RJ	RJ	Brazil
Minaração Rio do Norte S.A.	AA	2001, 2000	RJ	RJ	Brazil
Companhia Nipo-Brasileira de Pelotização-NIBRASCO	DTT	2001, 2000	RJ	RJ	Brazil
Valesul Alumínio S.A.	KPMG	2001, 2000	RJ	RJ	Brazil
Companhia Siderúrgica Nacional(1)	AA	2000	RJ	RJ	Brazil

(1) Investments sold in 2001.

AA — Arthur Andersen S/C
DTT — Deloitte Touche Tohmatsu
RJ — Rio de Janeiro
MG — Minas Gerais
BH — Belo Horizonte
SP — São Paulo
ES — Espírito Santo

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INDEPENDENT ACCOUNTANTS' REPORT

To the Directors and Stockholders of
ALBRAS — Alumínio Brasileiro S.A.
Barcarena — PA

We have audited the accompanying balance sheets of ALBRAS — Alumínio Brasileiro S.A. as of December 31, 2000 and 1999, and the related statements of operations, changes in stockholders' deficiency and cash flows for the three-year period ended December 31, 2000 (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of ALBRAS — Alumínio Brasileiro S.A. at December 31, 2000 and 1999, and the results of its operations and its cash flows for the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

January 19, 2001

/s/ Deloitte Touche Tohmatsu

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INDEPENDENT ACCOUNTANTS' REPORT

To the Directors and Stockholders of
ALBRAS — Alumínio Brasileiro S.A.
Barcarena — PA

We have reviewed the accompanying balance sheets of ALBRAS - Alumínio Brasileiro S.A. as of September 30, 2001 and 2000, and the related statements of operations, changes in stockholders' deficiency and cash flows for the nine-month periods then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

October 23, 2001

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INDEPENDENT ACCOUNTANTS' REPORT

To the Directors and Stockholders
ALUNORTE — Alumina do Norte do Brasil S.A.
Barcarena — PA

We have audited the accompanying balance sheets of ALUNORTE — Alumina do Norte do Brasil S.A. as of December 31, 2000 and 1999, and the related statement of operations, changes in stockholders' equity and cash flows for the three-year period ended December 31, 2000 (all expressed in United States Dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of ALUNORTE — Alumina do Norte do Brasil S.A. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

January 17, 2001

/s/ DELOITTE TOUCHE TOHMATSU

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INDEPENDENT ACCOUNTANTS' REPORT

To the Directors and Stockholders
ALUNORTE — Alumina do Norte do Brasil S.A.
Barcarena — PA

We have reviewed the accompanying balance sheets of ALUNORTE — Alumina do Norte do Brasil S.A. as of September 30, 2001 and 2000, and the related statements of operations, changes in stockholders' equity and cash flows for the nine-month periods then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

October 23, 2001

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of
Vale do Rio Doce Alumínio S.A. — ALUVALE

We have audited the accompanying balance sheets of Vale do Rio Doce Alumínio S.A. — ALUVALE as of December 31, 2000 and 1999, and the related statements of operations, cash flows and changes in stockholders' equity for each of the three-years in the period ended December 31, 2000 (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Mineração Rio do Norte S.A. (2000, 1999 and 1998) and Valesul Alumínio S.A. (2000 and 1999), the Company's investment in which are accounted for by use of the equity method. The Company's equity in the aforementioned affiliates companies' net assets at December 31, 2000 and 1999, totaling US$197,104,000 and US$186,296,000, respectively, and the Company's net equity in the aforementioned affiliated companies' net income for the years ended December 31, 2000, 1999 and 1998, totaling US$47,861,000, US$10,538,000 and US$27,688,000, respectively, are included in the accompanying financial statements. The financial statements of the above mentioned affiliated companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such companies is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Vale do Rio Doce Alumínio S.A. — ALUVALE as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with the accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

January 19, 2001

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
Bahia Sul Celulose S.A.

We have audited the accompanying consolidated balance sheets of Bahia Sul Celulose S.A. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bahia Sul Celulose S.A. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

São Paulo, Brazil
February 6, 2001

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
and Shareholders of Bahia Sul Celulose S.A.

We have reviewed the accompanying consolidated balance sheet of Bahia Sul Celulose S.A. and subsidiaries as of September 30, 2000 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for the nine-month periods ended September 30, 2000 and 1999. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with United States generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Bahia Sul Celulose S.A. and its subsidiaries as of December 31, 1999. We also have audited the consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the year then ended not presented herein. In our report dated January 20, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the selected information set forth in the accompanying consolidated balance sheet as of December 31, 1999 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

São Paulo, Brazil

/s/ KPMG Auditores Independentes

October 18, 2000

600 Anton Boulevard
Suite 700
Costa Mesa, CA 92626-7651

INDEPENDENT AUDITORS' REPORT

The Board of Directors
California Steel Industries, Inc.:

We have audited the accompanying consolidated balance sheets of California Steel Industries, Inc. and subsidiary as of December 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Steel Industries, Inc. and subsidiary as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principals generally accepted in the United States of America.

/s/ KPMG LLP

Orange County, California
January 19, 2001

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' OPINION

To the Shareholders and Directors of
Celulose Nipo-Brasileira S.A. — CENIBRA
Belo Oriente/MG

We have audited the accompanying consolidated balance sheets of Celulose Nipo-Brasileira S.A. — CENIBRA as of December 31, 2000 and 1999 and the related statements of operations, changes in stockholders' equity and of cash flows for the years then ended (all expressed in United States dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended December 31, 1998 were audited by other auditors, whose report dated January 21, 1999 expressed a qualified opinion in relation to the same matter mentioned in the fourth paragraph.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Celulose Nipo-Brasileira S.A. — CENIBRA and its subsidiaries as of December 31, 2000 and 1999 the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in United States of America.

As mentioned in note 4, at December 31, 1999 the Company had not provided for a contingency in the amount of US$2,993 thousand related to the tax effects (income tax and social contribution) for the use of the deductibility of the effects of the restatement determined by Law nº 7.730/89, which established the "Plano Verão". In 2000 the Company conservatively decided to provide for the referred amount and, consequently, to restatement the financial statements of 1999 and 1998.

/s/ Deloitte Touche Tohmatsu

January 19, 2001

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Directors of
Celulose Nipo-Brasileira S/A — CENIBRA
Belo Oriente/MG

We have reviewed the accompanying consolidated balance sheets of Celulose Nipo-Brasileira S/A — CENIBRA as of September 30, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the nine-month periods then ended (all expressed in United States dollars). These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

November 1, 2001

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders
Navegação Vale do Rio Doce S.A. — DOCENAVE

We have audited the accompanying consolidated balance sheets of Navegação Vale do Rio Doce S.A. — DOCENAVE and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the affiliated company, Wilsea Shipping, Inc., the Company's investment in which is accounted for by use of the equity method. The Company's equity of US$36,257,000 and US$22,273,000 in the aforementioned affiliated company's net assets at December 31, 2000 and 1999, respectively, and of US$13,984,000 and US$783,000 in that company's net income for the respective years then ended are included in the accompanying financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements referred to above presented fairly, in all material respects, the financial position of Navegação Vale do Rio Doce S.A. — DOCENAVE and subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 8, 2001

/s/ Deloitte Touche Tohmatsu

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of
Vale do Rio Doce Navegação S.A. - DOCENAVE

We have audited the accompanying consolidated balance sheet of Vale do Rio Doce Navegação S.A. - DOCENAVE and subsidiaries as of December 31, 1998 (restated as note 9) and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the affiliated companies, Companhia Siderúrgica Nacional and Wilsea Shipping Inc., the Company's investments in which are accounted for by use of the equity method. The Company's equity and net income for the year in the aforementioned affiliated companies totals US$246,136,000 and US$42,309,000 at December 31, 1998.

The financial statements of the above mentioned affiliated companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such companies, is based solely on the reports of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying restated financial statements referred to above present fairly, in all material respects, the financial position of Vale do Rio Doce Navegação S.A. and subsidiaries as of December 31, 1998 and the result of its operations, its cash flows and the changes in its stockholders' equity for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Subsequent to the issuance of the Company's 1998 financial statements, the management determined to change the method used to account for the investment in a certain affiliated company, as discussed in note 9. As a result, the previously-issued financial statements for the year ended December 31, 1998 have been restated in order to reflect such changing in the accounting method.

The consolidated financial statements of Vale do Rio Doce Navegação S.A. and subsidiaries for the year ended in December 31, 1997 and the consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended December 31, 1996 were audited by other accountants whose issued unqualified opinion thereon dated February 6, 1998. These financial statements have also been restated due to the same reason described in the previous paragraph.

February 12, 1999

/s/ Deloitte Touche Tohmatsu

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders
Navegação Vale do Rio Doce S.A. — DOCENAVE
Rio de Janeiro — RJ

We have reviewed the accompanying consolidated balance sheets of Navegação Vale do Rio Doce S.A. — DOCENAVE and subsidiaries as of September 30, 2001 and 2000 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the nine-month periods then ended (all expressed in United States dollars). These consolidated financial statements are the responsibility of the Company's management.

Except as discussed in the following paragraph, we conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The financial statements of the affiliated company, Wilsea Shipping, Inc., in which the Company's investment is accounted for by use of the equity method, were not reviewed by us or other accountants. The Company's equity and accounts receivable from the aforementioned affiliated company total US$946,000 and US$26,391,000 as of September 30, 2001 and 2000, respectively, and the net loss for the nine-month periods ended September 30, 2001 and 2000 totals US$314,000 and US$1,577,000, respectively.

Based on our reviews, excepted for the effects of adjustments, if any, as might have been determined to be necessary had the affiliated company's financial statements referred to above been reviewed by independent accountants, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte Touche Tohmatsu

October 22, 2001

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INDEPENDENT ACCOUNTANTS' REPORT

To
The Board of Directors and Stockholders of
DOCEPAR S.A.
Rio de Janeiro - RJ
Brazil

We have audited the accompanying balance sheets of DOCEPAR S.A. as of December 31, 2000 and 1999, and the related statements of operations, cash flows and changes in stockholders' equity (deficiency) for the years then ended (all expressed in United States Dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the affiliated company, Companhia Siderúrgica Nacional, the Company's investments in which is accounted for by use of the equity method. The Company's equity related to the aforementioned affiliated company totals US$133,569,000 at December 31, 1999 and a gain of US$4,189,000 and US$3,328,000 for the years ended December 31, 2000 and 1999, respectively. The financial statements of the above mentioned affiliated company were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such company, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of DOCEPAR S.A. as of December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

January 19, 2001

/s/ DELOITTE TOUCHE TOHMATSU

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INDEPENDENT ACCOUNTANTS' REPORT

To The Board of Directors and Stockholders of
DOCEPAR S.A.
Rio de Janeiro — RJ
Brazil

We have reviewed the accompanying balance sheets of DOCEPAR S.A. as of September 30, 2001 and 2000 and the related statements of operations, cash flows and changes in stockholders' equity (deficiency) for the nine-month periods then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. We were furnished with the report of other accountants on their review of the interim financial information of the affiliated company, Companhia Siderúrgica Nacional-CSN for the nine-month period ended September 30, 2000, in which the Company's investment was accounted for by use of equity method. The Company's gain related to the aforementioned affiliated company totals US$4,189,000 for the nine-month period ended September 30, 2000.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the report of the other accountants, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

October 22, 2001

ARTHURANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of

Companhia Hispano-Brasileira de
Pelotização — HISPANOBRÁS:

(1) We have audited the accompanying balance sheets of COMPANHIA HISPANO-BRASILEIRA DE PELOTIZAÇÃO — HISPANOBRÁS (a Brazilian corporation and a subsidiary of Companhia Vale do Rio Doce), translated into U.S. dollars, as of December 31, 2000 and 1999, and the related translated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(3) These translated financial statements have been prepared as the basis for application of the equity method by its stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Companhia Hispano-Brasileira de Pelotização — Hispanobrás for that purpose, as explained in Note 2.

(4) In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, and for the purpose described in the preceding paragraph, the financial position of Companhia Hispano-Brasileira de Pelotização — Hispanobrás as of December 31, 2000 and 1999, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years ended December 31, 2000, 1999 and 1998, in conformity with generally accepted accounting principles in the United States.

/s/ Arthur Andersen S/C

Vitória, Brazil,
January 15, 2001.

ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of

Companhia Hispano-Brasileira de
Pelotização — Hispanobrás:

(1) We have reviewed the accompanying balance sheets of COMPANHIA HISPANO-BRASILEIRA DE PELOTIZAÇÃO — HISPANOBRÁS (a Brazilian corporation and a subsidiary of Companhia Vale do Rio Doce), translated into U.S. dollars, as of September 30, 2001 and 2000, and the related translated statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

(2) We conducted our audits in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

(3) These translated financial statements have been prepared as the basis for application of the equity method by its stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Companhia Hispano-Brasileira de Pelotização — Hispanobrás for that purpose, as explained in Note 2.

(4) Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements referred to above for them to be in conformity with generally accepted accounting principles in the United States of America.

/s/ Arthur Andersen S/C

Vitória, Brazil,
October 19, 2001

ARTHURANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of

Companhia Italo-Brasileira de
Pelotização — ITABRASCO:

(1) We have audited the accompanying balance sheets of COMPANHIA ITALO-BRASILEIRA DE PELOTIZAÇÃO-ITABRASCO (a Brazilian corporation and a subsidiary of Companhia Vale do Rio Doce), translated into U.S. dollars, as of December 31, 2000 and 1999, and the related translated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(3) These translated financial statements have been prepared as the basis for application of the equity method by its stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Companhia Italo-Brasileira de Pelotização — Itabrasco for that purpose, as explained in Note 2.

(4) In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, and for the purpose described in the preceding paragraph, the financial position of Companhia Italo-Brasileira de Pelotização — Itabrasco as of December 31, 2000 and 1999, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years ended December 31, 2000, 1999 and 1998, in conformity with generally accepted accounting principles in the United States.

/s/ Arthur Andersen S/C

Vitória, Brazil
January 15, 2001

ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of

Companhia Italo-Brasileira de
Pelotização — ITABRASCO:

(1) We have reviewed the accompanying balance sheets of COMPANHIA ITALO-BRASILEIRA DE PELOTIZAÇÃO-ITABRASCO (a Brazilian corporation and a subsidiary of Companhia Vale do Rio Doce), translated into U.S. dollars, as of September 30, 2001 and 2000, and the related translated statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

(2) We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

(3) These translated financial statements have been prepared as the basis for application of the equity method by its stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Companhia Italo-Brasileira de Pelotização — Itabrasco for that purpose, as explained in Note 2.

(4) Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements referred to above for them to be in conformity with generally accepted accounting principles in the United States of America.

Vitória, Brazil

/s/ Arthur Andersen S/C

October 19, 2001

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Companhia Coreano-Brasileira de Pelotização — KOBRASCO
Vitória, Brazil

We have audited the accompanying consolidated balance sheet of Companhia Coreano-Brasileira de Pelotização — KOBRASCO as of December 31, 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the years ended December 31, 1999 and 1998 were audited by other accountants whose reports thereon, dated January 14, 2000 and January 15, 1999, respectively, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Companhia Coreano-Brasileira de Pelotização — KOBRASCO as of December 31, 2000, and the consolidated results of its operations, the changes in its stockholders' equity and its cash flow for the year then ended, in conformity with accounting principles generally accepted in United States of America.

January 29, 2001

/s/ Deloitte Touche Tohmatsu

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
Companhia Coreano — Brasileira de Pelotização — KOBRASCO
Vitoria, Brazil

We have reviewed the accompanying consolidated balance sheets of Companhia Coreano-Brasileira de Pelotização — KOBRASCO as of September 30, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the nine-month periods then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

October 19, 2001

ARTHURANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and
Board of Directors of

Mineração Rio do Norte S.A.:

(1) We have audited the accompanying balance sheets of MINERAÇÃO RIO DO NORTE S.A. (a Brazilian corporation), translated into U.S. dollars, as of December 31, 2000 and 1999, and the related translated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(3) The financial statements of the associated company Alunorte — Alumina do Norte do Brasil S.A. as of December 31, 2000 and 1999 were audited by other auditors. This investment represents 3% of the total assets (1% in 1999) and 7% of the net income (19% in 1999). Our opinion on such investment is based solely on the report of the other auditors.

(4) These translated financial statements have been prepared as the basis for application of the equity method by the Company's stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Mineração Rio do Norte S.A. for that purpose, as explained in Note 2.

(5) In our opinion, based on our audits and on the report of other auditors, as mentioned in paragraph (3), the financial statements referred to in paragraph (1) present fairly, in all material respects, and for the purpose described in the preceding paragraph, the financial position of Mineração Rio do Norte S.A. as of December 31, 2000 and 1999, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States.

/s/ ARTHUR ANDERSEN S/C

Rio de Janiero, Brazil,
January 18, 2001.

ARTHURANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and
Board of Directors of

Mineração Rio do Norte S.A.:

(1) We have audited the accompanying balance sheets of MINERAÇÃO RIO DO NORTE S.A. (a Brazilian corporation), translated into U.S. dollars, as of December 31, 1999 and 1998, and the related translated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

(3) The financial statements of the associate Alunorte — Alumina do Norte do Brasil S.A. as of December 31, 1999 were audited by other auditors. This investment represents 1% of the total assets and 100% of the equity adjustment. Our opinion on such investments is based solely on the report of the other auditors.

(4) These translated financial statements have been prepared as the basis for application of the equity method by the Company's stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Mineração Rio do Norte S.A. for that purpose, as explained in Note 2.

(5) In our opinion, based on our audits and on the report of other auditors, as mentioned in paragraph (3), the financial statements referred to in paragraph (1) present fairly, in all material respects, and for the purpose described in the preceding paragraph, the financial position of Mineração Rio do Norte S.A. as of December 31, 1999 and 1998, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States.

(6) The report of other auditors, mentioned in paragraph (3), indicates the Alunorte — Alumina do Norte do Brasil S.A. and its stockholders are implementing measures designed to alleviate the Company's financial condition (Note 7).

/s/ ARTHUR ANDERSEN S/C

Rio de Janeiro, Brazil,
January 17, 2000.

ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of

Mineração Rio do Norte S.A.:

(1) We have reviewed the accompanying balance sheets of MINERAÇÃO RIO DO NORTE S.A. (a Brazilian corporation), translated into U.S. dollars, as of September 30, 2001 and 2000, and the related translated statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

(2) The interim financial statements of the associated company Alunorte — Alumina do Norte do Brasil S.A. as of September 30, 2001 and 2000 were reviewed by other auditors. This investment represents 2.10% (3.28% in 2000) of the total assets and 100% of the equity adjustment (100% in 2000). Our review of such investment is based solely on the report of the other auditors.

(2) We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

(4) These translated financial statements have been prepared as the basis for application of the equity method by the Company's stockholders and, accordingly, they translate the assets, liabilities, stockholders' equity and revenues and expenses of Mineração Rio do Norte S.A. for that purpose, as explained in Note 2.

(5) Based on our review and on the report of other auditors, as mentioned in paragraph (2), we are not aware of any material modifications that should be made to the financial statements referred to in paragraph (1) for them to be in conformity with generally accepted accounting principles in the United States.

Rio de Janeiro, Brazil,
October 22, 2001.

/s/ Arthur Andersen S/C

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Companhia Nipo-Brasileira de Pelotização - NIBRASCO
Vitória, Brazil

We have audited the accompanying balance sheets of Companhia Nipo-Brasileira de Pelotização - NIBRASCO as of December 31, 2000 and 1999, and the related statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000 (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Companhia Nipo-Brasileira de Pelotização - NIBRASCO at December 31, 2000 and 1999, and the results of its operations, the changes in its stockholders' equity and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

January 29, 2001

/s/ DELOITTE TOUCHE TOHMATSU

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
Companhia Nipo-Brasileira de Pelotização — NIBRASCO
Vitória, Brazil

We have reviewed the accompanying balance sheets of Companhia Nipo-Brasileira de Pelotização - NIBRASCO as of September 30, 2001 and 2000, and the related statements of operations, changes in stockholders' equity and cash flows for the nine-month periods then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE TOUCHE TOHMATSU

October 19, 2001

KPMG Auditores Independentes

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The Board of Directors of
Valesul Alumínio S.A.

We have audited the accompanying balance sheet of Valesul Alumínio S.A. as of December 31, 2000 and 1999, and the related statements of income, changes in stockholders' equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying statements of income, changes in stockholders' equity and comprehensive income and cash flows for the year ended December 31, 1998 were audited by other independent auditors, who issued an unqualified report, dated January 20, 1999.

We conducted our audit in accordance with auditing standards generally accepted in Brazil and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valesul Alumínio S.A. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Notes 4 and 8 to the financial statements, the company has adjusted its property, plant and equipment and deferred income taxes accounting balances as a result of correcting of errors. Consequently, the Company's financial statements for 2000, 1999 and 1998 referred to above have been restated to conform with these adjustments.

January 19, 2001, except for notes 4 and 8, which date is January 17, 2002
Rio de Janeiro, Brazil

/s/ KPMG Auditores Independentes

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INDEPENDENT AUDITORS' REPORT

To the Directors and Stockholders
Valesul Alumínio S.A.
Rio de Janeiro, Brazil

We have audited the accompanying balance sheets of Valesul Alumínio S.A. as of December 31, 1998 and 1997, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended (all expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Valesul Alumínio S.A. at December 31, 1998 and 1997, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

January 20, 1999

/s/ DELOITTE TOUCHE TOHMATSU

Independent accountants' review report

The Board of Directors of
Valesul Alumínio S.A.

We have reviewed the accompanying balance sheets of Valesul Alumínio S.A. as of September 30, 2001 and 2000 and the related income statements, changes in stockholders' equity and comprehensive income/losses and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with auditing standards generally accepted in Brazil and in the United States of America. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles in the United States of America.

As more fully described in Notes 4 and 8 to the financial statements, the company has adjusted its property, plant and equipment and deferred income taxes accounting balances as a result of corrections of errors. Consequently, the Company's financial statements for 2001 and 2000 referred to above have been restated to conform with these adjustments.

/s/ KPMG Auditores Independentes

Rio de Janeiro, October 19, 2001, except for notes 4 and 8, which date is January 17, 2002

ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Companhia Siderúrgica Nacional

(1) We have audited the accompanying consolidated balance sheets of COMPANHIA SIDERÚRGICA NACIONAL (a Brazilian corporation) and its subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) The financial statements of the affiliate CVRD — Companhia Vale do Rio Doce as of December 31, 2000 and 1999 were audited by other auditors. As of December 31, 2000 this asset represents 14% of the total assets and 28% of the net income (15% and 21% respectively as of December 31, 1999). Our opinion on such asset is based solely on the report of other auditors.

(3) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(4) In our opinion, based on our audits and the report of other auditors for the years ended December 31, 2000 and 1999 as mentioned in paragraph (2) above, the consolidated financial statements referred to in paragraph (1) present fairly, in all material respects, the financial position of Companhia Siderúrgica Nacional and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

/s/ Arthur Andersen S/C

Rio de Janeiro, Brazil,
February 19, 2001 (except for Notes 7, 9 and 21, as to which the date is June 19, 2001).

ARTHURANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Companhia Siderúrgica Nacional

1. We have reviewed the accompanying condensed consolidated balance sheet of Companhia Siderúrgica Nacional (a Brazilian corporation) and subsidiaries, translated into U.S. dollars, as of September 30, 2000, and the related translated condensed consolidated statements of operations, cash flows and changes in stockholders' equity for the nine-month period then ended. These financial statements are the responsibility of the Company's management.

2. The financial statements of the affiliate CVRD — Companhia Vale do Rio Doce as of September 30, 2000 and 1999 were reviewed by other accountants. This investment represents 14% of the total assets (15% in 1999) and 38% of net income (28% of net loss in 1999). Our report on such investment is based solely on the report of other auditors.

3. We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

4. Based on our review and the report of other auditors, as mentioned in paragraph (2), we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles in the United States.

5. The balance sheet as of December 31, 1999, presented for comparison purposes only, was audited by us, and our report dated February 15, 2000 was unqualified. The condensed consolidated statements of operations, cash flows and changes in stockholders' equity for the nine-month period ended September 30, 1999, also presented for comparison purposes, was reviewed by us and our report dated October 22, 1999 was unqualified.

/s/ Arthur Andersen S/C

Rio de Janeiro, Brazil,
October 20, 2000 (except for Note 11, as to which the date is January 11, 2001)

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INDEPENDENT AUDITORS' OPINION

To
The Stockholders and Board of Directors
TVV - Terminal de Vila Velha S.A.
Vitória - ES

1. We have audited the balance sheets of TVV - Terminal de Vila Velha S.A. as of December 31, 2000 and 1999, and the related statements of operations, changes in stockholders' equity and changes in financial position for the years then ended (all expressed in Brazilian Reais). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with auditing standards generally accepted in Brazil, and included: (a) planning the audit, considering the materiality of the amounts presented, the number of transactions and the Company's accounting and internal control systems; (b) examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements; and (c) the assessment of the accounting principles used and of the significant estimates made by management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of as of December 31, 2000 and 1999, and the results of its operations, changes in its stockholders' equity and changes in its financial position for the years then ended, in conformity with the Brazilian corporate law.

4. The translation of the financial statements into English have been made solely for the convenience of readers outside of Brazil.

Vitória, February 2, 2001

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Independent Auditors
CRC-SP 11.609 S/RJ

/s/ Marcelo C. Almeida
MARCELO C. ALMEIDA
Certified Accountant
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Deloitte Touche Tohmatsu
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Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' OPINION

To
The Stockholders and Board of Directors
TVV - Terminal de Vila Velha S.A.
Vila Velha - ES

1. We have audited the balance sheets of TVV - Terminal de Vila Velha S.A. as of December 31, 1999 and 1998, and the related statements of operations, changes in stockholders' equity and changes in financial position for the years then ended and for the period between July 2 (date of Company's organization) and December 31, 1998 (all expressed in Brazilian Reais). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with auditing standards generally accepted in Brazil, and included: (a) planning the audit, considering the materiality of the amounts presented, the number of transactions and the Company's accounting and internal control systems; (b) examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements; and (c) the assessment of the accounting principles used and of the significant estimates made by management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of as of December 31, 1999 and 1998 and the results of its operations, changes in its stockholders' equity and changes in its financial position for the years then ended and for the period between July 2 (date of Company's organization) and December 31, 1998, in conformity with the Brazilian corporate law.

4. The translation of the financial statements into English have been made solely for the convenience of readers outside of Brazil.

Rio de Janeiro, April 28, 2000

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Independent Auditors
CRC-SP 11.609 S/RJ

/s/ Marcello C. Almeida
MARCELLO C. ALMEIDA
Certified Accountant
CRC-RJ 36.206–3 S/ES

Deloitte Touche Tohmatsu
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Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

To the Management and Stockholders of
Nova Era Silicon S.A.
Belo Horizonte/MG

1. We have audited the accompanying balance sheet of Nova Era Silicon S.A. as of December 31, 2000 and the related statements of income, changes in stockholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except for the mentioned on the third paragraph, we conducted our audit in accordance with generally accepted auditing standards in Brazil, which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control system of the Company; (b) examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; and (c) evaluation of the accounting principles used and significant used adopted by management of the company, as well as the overall financial statement presentation.

3. The Company has calculated the depletion of its forests, with a net balance of R$3,761 at December 31, 2000, at a 10% annual (straight line) rate. As required by accounting policies, depletion of forests should be calculated based on the volume of timber that has been extracted in proportion to total potential volume, applied to total building cost. We were unable to measure the effects arising from the adoption of such procedure as of December 31, 2000.

4. As of December 31, 1999, the Company elected to follow Resolution 294, issued by the Brazilian Securities and Exchange Commission — CVM, and recorded in its deferred assets the net loss on exchange variation for the three-month period ended March 31, 1999. As required by accounting principles, exchange variation should be recorded as expenses in the period in which they were incurred. Consequently, permanent assets and stockholders' equity as of December 31, 2000 were overstated by R$4,128 thousand, and net income for the year then ended was understated by R$2,061 related to respective amortization.

5. In our opinion, except for the effects, if any, of the matter mentioned in the third paragraph and for the effects of the matter mentioned in the fourth paragraph, the financial statements referred in the first paragraph present fairly, in all material respects, the financial position of Nova Era Silicon S.A. as of December 31, 2000, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with accounting principles established by the Brazilian Corporate Law.

6. The financial statements for the year ended December 31, 1999, presented for comparison purposes, were examined by other auditors who issued a report on January 18, 2000 containing the same qualification as stated in Paragraph 4, in the amount of R$6,190 thousand.

7. The translation of the financial statements into English have been made solely for the convenience of readers outside of Brazil.

/s/ Deloitte Touche Tohmatsu

January 19, 2001

A free translation of the original in Portuguese, issued in January 18, 2000, on financial statements prepared in accordance with Brazilian generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

The Shareholders and Management
Nova Era Silicon S.A.

1. We have examined the balance sheets of Nova Era Silicon S.A. as of December 31st, 1999 and 1998, and the related statements of income, of changes in shareholders' equity and of changes in financial position for the years then ended, all prepared under the responsibility of the management. Our responsibility is to issue an opinion on these financial statements, based on our audit.
2. Except for the subject on paragraph 3, we conducted our audit in accordance with Brazilian generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test-basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, internal control systems and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The Company has calculated the depletion on the forests, which net amount at December 31st, 1999 is R$3,859 (R$3,998 at 1998), considering the straight-line method and the rate of 10% per annum. Brazilian generally accepted accounting principles require that depletion on the forest should be calculated considering the amount of wood extracted in relation to the total potential of extraction of the referred forests. The possible effects related to the deviation of accounting principles has not been measured at the balance sheet dates.
4. Exercising the permission contained in the Deliberation 294 of the Brazilian Securities Exchange Commission — CVM (the *Comissão de Valores Mobiliarios*), as of March 26, 1999, the company recorded the negative net effect from exchange variation for the 3 months period ended on March 31, 1999 as a deferred asset. Brazilian generally accepted accounting principles request that exchange variations to be registered as expense on the period of their occurrence. Consequently, the permanent assets (deferred assets) and the shareholders' equity as of December 31, 1999 and the net income for the year then ended are overstated in an amount of R$6,190 thousand.

A free translation of the original in Portuguese, issued in January 18, 2000, on financial statements prepared in accordance with Brazilian generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

The Shareholders and Management
Nova Era Silicon S.A.

5. In our opinion, except for the possible effects regarding the subject mentioned in the paragraph 3, and the effects of the exchange variation deferred, mentioned in the paragraph 4, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Nova Era Silicon S.A. as of December 31, 1999 and 1998, the results of its operations, the changes in its shareholders' equity and in financial position for the years then ended, in accordance to accounting practices prescribed by the Brazilian Corporate law.

Belo Horizonte, Brazil

January 18th, 2000 (except for the subject mentioned on the paragraph 3 that is dated on January 31st, 2002)

/s/ Luiz Claudio Fontes
Luiz Claudio Fontes
Socio-contador
CRC 1RJ032470/O-9 "I" PR "S" MG
Trevisian Auditores
Independentes
CRC 2SP013439/O-5 "S" MG

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' OPINION

To
The Stockholders and Board of Directors
CELMAR S.A. — Indústria de Celulose e Papel
Imperatriz - Maranhão

1. We have audited the balance sheets of CELMAR S.A. — Indústria de Celulose e Papel as of December 31, 2000, and the related statements of operations, changes in stockholders' equity and changes in financial position for the years then ended (all expressed in Brazilian Reais). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with auditing standards generally accepted in Brazil, and included: (a) planning the audit, considering the materiality of the amounts presented, the number of transactions and the Company's accounting and internal control systems; (b) examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements; and (c) the assessment of the accounting principles used and of the significant estimates made by management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of CELMAR S.A. — Indústria de Celulose e Papel as of December 31, 2000, and the results of its operations, changes in its stockholders' equity and changes in its financial position for the years then ended, in conformity with the Brazilian corporate law.

4. The Company is in the pre-operating phase. In order to take advantage of new technology that would allow the optimization of industrial production capacity, the production activities start-up was postponed. As described in the first paragraph to the financial statements, the Company's management is endeavoring, primarily, to obtain financial resources that will enable the Company to increase the forestry capacity of the project. The continuity as well as the recovery of the costs already invested in the project depends on the obtaining of these resources.

5. The financial statements of CELMAR S.A. — Indústria de Celulose e Papel for the year ended December 31, 1999 were audited by other auditors, whose report, dated January 14, 2000, expressed an unqualified opinion included the same emphasis as that described in the previous paragraph.

6. The translation of the financial statements into English have been made solely for the convenience of readers outside of Brazil.

Rio De Janeiro, January 19, 2001

/s/ DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU
Independent Auditors
CRC-SP 11.609 S/RJ

/s/ MARCELO C. ALMEIDA
MARCELO C. ALMEIDA
Certified Accountant
CRC/RJ 36.206-3

Deloitte Touche Tohmatsu
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Deloitte Touche Tohmatsu

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Administrative Council and Directors of
SIBRA — ELETROSIDERÚRGICA BRASILEIRA S.A.
Simões Filho - BA

1. We have audited the accompanying balance sheet of SIBRA — ELETROSIDERÚRGICA BRASILEIRA S.A., Parent Company and Consolidated, as of December 31, 2000, and the related statements of income, changes in shareholders' equity (Parent Company) and changes in financial position for the year then ended (all expressed in thousands of Brazilian Reais) which were prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in Brazil. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The accompanying financial statements have been translated into the English language from those issued in Portuguese and in all respects follow Brazilian generally accepted accounting principles and reporting practices. The effects of the differences between generally accepted accounting principles as established by Brazilian Corporate Law and the accounting principles generally accepted in the countries in which the accompanying financial statements are to be used have not been quantified. Accordingly, the accompanying financial statements are not intended to present financial position, results of operations and changes in financial position in accordance with accounting principles generally accepted in the countries of users of the financial statements other than Brazil.

4. In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of SIBRA — ELETROSIDERÚRGICA BRASILEIRA S.A. as of December 31, 2000, Parent Company and Consolidated, the results of its operations, changes in its shareholder's equity and changes in its financial position for the year then ended in conformity with accounting principles established by Brazilian Corporate Law.

5. As mentioned in notes 15 and 17, the Company and its subsidiary Companhia Paulista de Ferro-Ligas, have received a Public Civil Environment Suit and a Notice of Violation questioning certain procedures for federal taxes and several legal actions, which currently are in process. Based on the opinion of its lawyers that the Company will be successful in these processes, no provisions were made.

6. The financial statements corresponding to the period ending on December 31, 1999, presented for comparative reasons, were audited by us, and our opinion, dated February 24, 2000, contained an emphasis paragraph concerning the matters below:

- The Company's administration introduced a series of operational and financial restructuring measures, with the objective of reestablishing the economic and financial equilibrium of the Company and its subsidiaries, and the financial statements were prepared based on the presumed success of these measures. In 2000, these measures were concluded;
- the Company and its subsidiary, Companhia Paulista de Ferro-Ligas, hold loans with subsidiary companies and shareholders in the amount of R$ 10,537 thousand, parent company and R$ 35,975 thousand, consolidated, R$ 4,054 thousand and R$ 4,500 thousand, consolidated, respectively, registered under long term liabilities. In 2000, R$ 12,056 thousand, in loans with shareholders were capitalized and the other loans with shareholders and subsidiaries, ICMS and IPI, are being used in the operations;
- on December 31, 1999 the subsidiary, Companhia Paulista de Ferro-Ligas had overdue loans for which the parent company recognized a provision equivalent to its stock participation. On March 31, 2000, the subsidiary reverted the situation of deficiency in Shareholder's equity.

Salvador, January 22, 2001

/s/ DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC — SP 011.609/O-8-F "BA"

/s/ José Othon Tavares de Almeida
Accountant
CRC — BA 013.212/O

Through and including 2002 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

American Depositary Shares

Companhia Vale do Rio Doce

(Valley of the Rio Doce Company)

Each American Depositary Share
Represents One Common Share

PROSPECTUS

Merrill Lynch & Co.

ABN AMRO Rothschild LLC

, 2002

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 8. ***Indemnification of Directors and Officers***

The Registrant maintains standard policies of insurance under which coverage is provided (a) to its directors and officers against loss rising from claims made by reason of breach of duty or other wrongful act, and (b) to the Registrant with respect to payments which may be made by the Registrant to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

The proposed forms of Purchase Agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification of directors and officers of the Registrant by the underwriters against certain liabilities.

Item 9. ***Exhibits***

The following documents are filed as part of this Registration Statement:

Exhibit Number	Description
1.1	Purchase Agreement*
4.1	Deposit Agreement among us, JPMorgan Chase Bank, as Depositary, and holders of American Depositary Receipts*
5.1	Opinion of Paulo Francisco de Almeida Lopes, our general counsel, as to the legality of the common shares*
8.1	Opinion of Davis Polk & Wardwell as to U.S. tax matters*
8.2	Opinion of Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados as to Brazilian tax matters.*
10.1	Stock Purchase Agreement dated August 21, 2001 among us and Shanghai Baosteel Group Corporation
15.1	Awareness Letter of PricewaterhouseCoopers Auditores Independentes for the nine months periods ended September 30, 2001 and 2000
15.2	Awareness Letter of Deloitte Touche Tohmatsu for the nine months periods ended September 30, 2001 and 2000 (Albras).
15.3	Awareness Letter of Deloitte Touche Tohmatsu (Alunorte).
15.4	Awareness Letter of KPMG Auditores Independentes for the nine months periods ended September 30, 2000 and 1999 (Bahia Sul).
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15.7	Awareness Letter of Deloitte Touche Tohmatsu for the nine months periods ended September 30, 2001 and 2000 (Docepar).
15.8	Awareness Letter of Arthur Andersen S/C for the nine months periods ended September 30, 2001 and 2000 (Hispanobras).
15.9	Awareness Letter of Arthur Andersen S/C for the nine months periods ended September 30, 2001 and 2000 (Itabrasco).
15.10	Awareness Letter of Deloitte Touche Tohmatsu for the nine months periods ended September 30, 2001 and 2000 (Kobrasco).
15.11	Awareness Letter of Arthur Andersen S/C for the nine months periods ended September 30, 2001 and 2000 (MRN).
15.12	Awareness Letter of Deloitte Touche Tohmatsu for the nine months periods ended September 30, 2001 and 2000 (Nibrasco).

Exhibit Number	Description
15.13	Awareness Letter of KPMG Auditores Independentes for the nine months periods ended September 30, 2001 and 2000 (Valesul).
15.14	Awareness Letter of Arthur Andersen S/C for the nine month period ended September 30, 2000 (CSN).
23.1	Consent of PricewaterhouseCoopers Auditores Independentes for the three years ended December 31, 2000, 1999 and 1998 (CVRD)
23.2	Consents of Deloitte Touche Tohmatsu for the three years ended December 31, 2000, 1999 and 1998 (Albras)
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23.18	Consents of Deloitte Touche Tohmatsu for the three years ended December 31, 2000, 1999, and 1998. (Terminal Vila Velha S.A.)
23.19	Consent of Deloitte Touche Tohmatsu for the year ended December 31, 2000. (Nova Era Silicon S.A.)
23.20	Consent of Trevisan for the two years ended December 31, 1999 and 1998. (Nova Era Silicon S.A.)
23.21	Consent of Deloitte Touche Tohmatsu for the year ended December 31, 2000. (Celmar S.A.-Indústria de Celulose e Papel)
23.22	Consent of Deloitte Touche Thomatsu for the years ended December 31, 2000, 1999 and 1998. (SIBRA Eletrosiderúrgica Brasileira S.A.)
23.23	Consent of Mineral Resources Development, Inc.

* To be filed by amendment.

Item 10. ***Undertakings***

The undersigned hereby undertakes:

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this Registration Statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Rio de Janeiro, Brazil, on the 5th day of February, 2002.

COMPANHIA VALE DO RIO DOCE

By: /s/ ROGER AGNELLI
Name: Roger Agnelli
Title: Chief Executive Officer

By: /s/ GABRIEL STOLIAR
Name: Gabriel Stoliar
Title: Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roger Agnelli, Tito Botelho Martins, Francisco Rohan de Lima and Paulo Francisco de Almeida Lopes, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and any and all additional registration statements pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agents full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roger Agnelli Roger Agnelli	Director and Chief Executive Officer	February 5, 2002
/s/ Luiz Tarquínio Sardinha Ferro Luiz Tarquínio Sardinha Ferro	Director	February 5, 2002
/s/ Octávio Lopes Castello Branco Neto Octávio Lopes Castello Branco Neto	Director	February 5, 2002
/s/ Romeu do Nascimento Teixeira Romeu do Nascimento Teixeira	Director	February 5, 2002
/s/ Fabio de Oliveira Barbosa Fabio de Oliveira Barbosa	Director	February 5, 2002
/s/ Francisco Valadares Póvoa Francisco Valadares Póvoa	Director	February 5, 2002
/s/ Gabriel Stoliar Gabriel Stoliar	Executive Officer (Chief Financial and Accounting Officer)	February 5, 2002
/s/ Armando de Oliveira Santos Neto Armando de Oliveira Santos Neto	Authorized Representative in the United States	February 5, 2002

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23.19	Consent of Deloitte Touche Tohmatsu for the year ended December 31, 2000. (Nova Era Silicon S.A.)
23.20	Consent of Trevisan for the two years ended December 31, 1999 and 1998. (Nova Era Silicon S.A.)
23.21	Consent of Deloitte Touche Tohmatsu for the year ended December 31, 2000. (Celmar S.A.-Indústria de Celulose e Papel)
23.22	Consent of Deloitte Touche Thomatsu for the years ended December 31, 2000, 1999 and 1998. (SIBRA Eletrosiderúrgica Brasileira S.A.)
23.23	Consent of Mineral Resources Development, Inc.

* To be filed by amendment.