VALLEY OF THE RIO DOCE CO
Form 20-F
June 30, 2003

As filed with the Securities and Exchange Commission on June 30, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

For the fiscal year ended: **December 31, 2002**

Commission file number: **000-26030**

COMPANHIA VALE DO RIO DOCE

(Exact name of Registrant as specified in its charter)

VALE OVERSEAS LIMITED

(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

Cayman Islands

(Jurisdiction of incorporation or organization)

Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Preferred class A shares of CVRD, no par value per share	New York Stock Exchange*
American depositary shares (as evidenced by American depositary receipts) each representing one preferred class A share of CVRD	New York Stock Exchange
Common shares of CVRD, no par value per share	New York Stock Exchange*
American depositary shares (as evidenced by American depositary receipts) each representing one common share of CVRD	New York Stock Exchange

* Shares are not listed for trading, but only in connection with the registration of American depositary shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The number of outstanding shares of each class of stock of CVRD as of December 31, 2002 was:

245,267,973 common shares, no par value per share
138,571,432 preferred class A shares, no par value per share
1 golden share, no par value per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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GLOSSARY

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.
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.
Fe unit	A measure of the iron content in the iron ore that is equivalent to 1% iron content in 1 ton of iron ore.
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 goods to their 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) that dissolves the metal to produce a pregnant solution (leachate) from which the metal is recovered by precipitation and smelting or carbon absorption, stripping and

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	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 that 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.
Pig iron	Crude iron tapped from a blast furnace.
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;

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	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.
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.
Ton	Metric ton, equaling 1,000 kilograms.
Troy ounce	One troy ounce equals 31.103 grams.

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PRESENTATION OF FINANCIAL INFORMATION

We have prepared our financial statements appearing in this annual report in accordance with generally accepted accounting principles in the United States (U.S. GAAP), which differ in certain respects from accounting practices adopted in Brazil (defined as 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 also publish Brazilian GAAP financial statements in Brazil, which we refer to as our Brazilian Corporation Law financial statements. 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 annual report have been translated from Brazilian *reais* into U.S. dollars on the basis explained in note 2(a) to our financial statements unless we indicate otherwise.

References to *real*, *reais* or R$ are to Brazilian *reais* (plural) and to the Brazilian *real* (singular), the official currency of Brazil. References to U.S. dollars, dollars or US$ are to United States dollars.

Unless otherwise specified, metric units have been used, *e.g.,* tons refer to metric tons.

References to CVRD Group, us or we are to CVRD, its consolidated subsidiaries and its joint ventures and other affiliated companies. References to Vale Overseas are to Vale Overseas Limited. 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.

References to our ADSs or American depositary shares include both our common American depositary shares (our common ADSs), each of which represents one common share of CVRD, and our preferred American depositary shares (our preferred ADSs), each of which represents one preferred class A share of CVRD. American depositary shares are represented by American depositary receipts (ADRs) issued by JPMorgan Chase Bank, as depositary.

PRESENTATION OF INFORMATION CONCERNING RESERVES

The estimates of proven and probable reserves at mines within the CVRD Group and the estimates of mine life, as of December 31, 2002, included in this annual report have been calculated according to the technical definitions required by the U.S. Securities and Exchange Commission, or the SEC. We derived estimates of mine life described in this annual report from such reserve estimates. We have adjusted ore reserve estimates for extraction losses and metallurgical recoveries during extraction for gold, manganese and bauxite deposits. Our reserve estimates of iron, kaolin and potash are reported as in situ tons with adjustments for dilution and mining lossess. See *Item 3. Key Information Risk Factors Risks Relating to Our Business*. We have retained AMEC E&C Services, Inc., or AMEC, to audit and verify some of our estimates of proven and probable reserves as of December 31, 2002. Unless specifically stated, our reserve estimates have not been audited by AMEC.

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FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as anticipate, believe, could, expect, should, plan, intend, estimate and potential, among others. Those statements app of places in this annual report and include statements regarding our intent, belief or current expectations with respect to:

our direction and future operation;

the implementation of our principal operating strategies, including our potential participation in privatization, acquisition or joint venture transactions or other investment opportunities;

our acquisition or divestiture plans;

the implementation of our financing strategy and capital expenditure plans;

the exploration of mineral reserves and development of mining facilities;

the 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 *Item 3. Key Information Risk Factors.*

We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, including those identified under *Item 3. Key Information Risk Factors*. These risks and uncertainties include factors relating to the Brazilian economy and securities markets, which exhibit volatility and can be adversely affected by developments in other countries, factors relating to the iron ore business and its dependence on the global steel industry, which is cyclical in nature, and factors relating to the highly competitive industries in which we operate. For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see *Item 3. Key Information Risk Factors*, and our reports filed with the SEC. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED FINANCIAL DATA

The table below presents selected consolidated financial information as of and for the periods indicated. You should read this information together with our consolidated financial statements appearing in this annual report.

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002
	(in millions of US$)				
Statement of Income Data					
Net operating revenues	US$ 3,553	US$ 3,076	US$ 3,935	US$ 3,935	US$ 4,123
Cost of products and services	(2,272)	(1,806)	(2,429)	(2,272)	(2,263)
Selling, general and administrative expenses	(171)	(138)	(225)	(241)	(224)
Research and development	(48)	(27)	(48)	(43)	(50)
Employee profit sharing plan	(29)	(24)	(29)	(38)	(38)
Other expenses	(184)	(155)	(180)	(379)	(119)
Operating income	849	926	1,024	962	1,429
Non-operating income (expenses):					
Financial income (expenses)	151	(33)	(107)	(200)	(248)
Foreign exchange and monetary losses, net	(108)	(223)	(240)	(426)	(580)
Gain on sale of investments			54	784	
Subtotal	43	(256)	(293)	158	(828)
Income before income taxes, equity results and minority interests	892	670	731	1,120	601
Income taxes benefit (charge)		(33)	32	218	149
Equity in results of affiliates and joint ventures	80	41	260	(49)	(28)
Change in provision for losses on equity investments	(273)	(268)	62	(4)	(59)
Minority interests	(1)	2	1	2	17
Net income	US$ 698	US$ 412	US$ 1,086	US$ 1,287	US$ 680
Total cash paid to shareholders(1)	US$ 607	US$ 452	US$ 246	US$ 1,066	US$ 602

(1) Total cash paid to shareholders consists of cash paid during the period in respect of interest on shareholders equity.

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002
	(in US$ except recorded dividends and interest on shareholders equity per share in Brazilian *reais* and share numbers)				
Per Share Data					
Basic earnings per Common and Preferred Class A Share(1):	US$ 1.80	US$ 1.07	US$ 2.82	US$ 3.34	US$ 1.77
	US$ 1.58	US$ 1.28	US$ 1.70	US$ 1.99	US$ 0.84

Declared distributions on shareholders equity per share in US$(2)					
Declared distributions on shareholders equity per share in Brazilian *reais*(2)	R$ 1.86	R$ 2.28	R$ 3.33	R$ 4.61	R$ 2.68
Weighted average number of shares outstanding (in thousands):					
Common shares(1)	249,983	249,983	249,983	249,864	249,864
Preferred shares(1)	137,965	134,917	134,917	135,042	135,042
Total	387,948	384,900	384,900	384,906	384,906

(1) Each common American depositary share represents one common share and each preferred American depositary share represents one preferred class A share.
(2) Our distributions to shareholders may take the form of dividends or of interest on shareholders equity. Since 1998, all distributions have taken the form of interest on shareholders equity. The amount shown represents distributions declared during the year. Part of our distributions is usually paid in the year after the year of declaration.

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	At December 31,				
	1998	1999	2000	2001	2002
	(in millions of US$)				
Balance Sheet Data					
Current assets	US$ 2,845	US$ 2,490	US$ 2,502	US$ 2,638	US$ 2,589
Property, plant and equipment, net	5,261	3,943	3,955	3,813	3,297
Investments in affiliated companies and joint ventures and other investments	1,557	1,203	1,795	1,218	732
Other assets	1,385	1,052	1,543	1,839	1,337
Total assets	US$ 11,048	US$ 8,688	US$ 9,795	US$ 9,508	US$ 7,955
Current liabilities	US$ 2,030	US$ 2,072	US$ 2,136	US$ 1,921	US$ 1,508
Long-term liabilities(1)	1,169	601	1,061	772	774
Long-term debt(2)	1,389	1,321	2,020	2,170	2,359
Minority interest	68	3	9	5	27
Total liabilities	4,656	3,997	5,226	4,868	4,668
Stockholder s equity:					
Capital stock	1,740	1,927	1,927	2,211	2,446
Additional paid-in capital	498	498	498	498	498
Reserves and retained earnings	4,154	2,266	2,144	1,931	343
Total stockholders equity	6,392	4,691	4,569	4,640	3,287
Total liabilities and stockholders equity	US$ 11,048	US$ 8,688	US$ 9,795	US$ 9,508	US$ 7,955

(1) Excludes long-term debt.

(2) Excludes current portion. At December 31, 2002, we had extended guarantees for borrowings of joint ventures and affiliated companies in an aggregate amount of US$ 516 million. These contingent liabilities do not appear on the face of our consolidated balance sheets, but are disclosed in note 15(a) to our consolidated financial statements.

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 influenced by Central Bank intervention. In 1999, the Central Bank placed the commercial exchange market and the floating rate exchange market under identical operational limits, 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 these 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.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and during that period, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank of Brazil has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank of Brazil or the Brazilian government will continue to let the *real* float freely or

will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate substantially in the future. For more information on these risks, see *Item 3. Key Information Risk Factors Risks Relating to Brazil*.

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

	Average for			
	Period-end	**Period**	**Low**	**High**
Year ended				
December 31, 1998	1.209	1.164(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
December 31, 2002	3.533	2.998(1)	2.270	3.955
Month ended				
December 2002	3.533	3.612(2)	3.427	3.798
January 2003	3.526	3.468(2)	3.275	3.662
February 2003	3.563	3.575(2)	3.493	3.658
March 2003	3.353	3.458(2)	3.353	3.563
April 2003	2.889	3.113(2)	2.889	3.336
May 2003	2.966	2.947(2)	2.865	3.028
June 2003 (through June 25, 2003)	2.856	2.913(2)	2.849	2.978

(1) Average of the rates of each period, using the average of the exchange rates on the last day of each month during each period.
(2) Average of the lowest and highest rates in the month.

Source: Central Bank.
On June 25, 2003, the commercial selling rate was R$2.856 per US$ 1.00.

RISK FACTORS

Risks Relating to Our Business

Due to our dependence on the global steel industry, 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, which usually leads to corresponding reductions in demand for iron ore. Global steel output increased in 2002, which resulted in higher iron ore demand. Although we expect this to have a positive effect on world contract prices and sales volumes for iron ore in the short term, we cannot guarantee the length of time that demand will remain at current high levels. Future prolonged reductions or declines in world contract prices or sales volumes for iron ore could have a material adverse effect on our revenues. In addition, poor conditions in the global steel industry could result in the bankruptcy of some of our customers.

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. Prices for these metals are more volatile than iron and pellet prices because they respond more quickly to actual and expected changes in supply and demand. Prolonged declines in world market prices for our products would have a material adverse effect on our revenues.

The mining industry is an intensely competitive industry, and we may have difficulty effectively competing 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. Competition from foreign or Brazilian iron ore producers may result in our losing market share and revenues. Our gold, aluminum, manganese and other activities are also subject to intense competition and are subject to similar risks.

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Demand for iron ore in peak periods may outstrip our production capacity, rendering us unable to satisfy customer demand.

Our ability to rapidly increase production capacity to satisfy increases in demand for iron ore is limited. In periods where customer demand exceeds our production capacity, we generally satisfy excess customer demand by reselling iron ore purchased from joint ventures or third parties. If we are unable to satisfy excess customer demand by purchasing from joint ventures or third parties, we may lose customers.

Our reserve estimates may be materially different from mineral quantities that we may actually recover, our estimates of mine life may prove inaccurate 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 to extract 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 may not be able to replenish our reserves, which could adversely affect our mining prospects.

We engage in mineral exploration, which is highly speculative in nature, involves many risks and frequently is nonproductive. Our exploration programs, which involve significant capital expenditures, may fail to result in the expansion or replacement of reserves depleted by current production. If we do not develop new reserves, we will 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 minerals, it can 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.

If a project proves not to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs. In addition, potential changes or complications involving metallurgical and other technological processes arising during the life of a project may result in cost overruns that may render the project not economically feasible.

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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 to use more expensive processes to extract remaining ore. As a result, over time, we usually experience rising unit extraction costs with respect to each 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.

Our mining and logistics activities depend on authorizations of regulatory agencies, and changes in regulations could have an adverse effect on our business.

Our mining and logistics activities in Brazil depend on authorizations and concessions by regulatory agencies of the Brazilian government. Our exploration, mining, mineral processing and logistics 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 could 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 and logistics activities depend, see *Item 4. Information on the Company Regulatory Matters.*

Changes in Brazilian environmental laws may adversely affect our mining and energy businesses.

Our operations often involve using, handling, disposing and discharging hazardous materials into the environment or the use of natural resources, 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 by imposing restrictions on our activities, creating new requirements for the issuance or renewal of environmental licenses, raising our costs or requiring us to engage in expensive reclamation efforts. Several Brazilian states in which we operate are currently considering implementing water use fees under the National Hydrological Resources Policy. This may require us to pay usage fees in the future for water rights that we currently use for free, which could considerably increase our costs in areas where water resources are scarce. In addition, we are currently a defendant in an action brought by the municipality of Itabira, in the state of Minas Gerais, which alleges that our Itabira iron ore mining operations have caused environmental and social damages. If we do not prevail in this lawsuit, we could incur a substantial expense. For more information on environmental laws and the legal challenges we face, see *Item 4. Information on the Company Environmental Matters* and *Item 8. Financial Information Legal Proceedings*.

Our Albras joint venture may experience 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 discounted rates from Eletronorte, a state-owned electric power utility. The contract through which Albras purchases electricity from this utility expires in 2004. Albras is unlikely to continue to benefit from favorable electricity costs following expiration of the contract. Albras is currently trying to negotiate a new contract and is examining other alternatives. Although we expect future energy costs for Albras to be in line with those of its peers in the industry, its costs will likely increase compared to current levels.

The Brazilian government s responses to energy shortages 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 2002. 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 electric generation in past years and unfavorable hydrological conditions. In response, the Brazilian government implemented an energy-rationing program to alleviate the energy shortage that aimed to decrease energy consumption by at least 20%. As a result of this program, we experienced a temporary reduction in our aluminum and ferroalloy production both of which use significant amounts of electrcity. By the end of 2001, weather conditions improved, leading to increased generation at hydroelectric plants and reducing the immediate risk of energy shortages. Accordingly, the Brazilian government eliminated the restrictions on the use of energy on March 1, 2002 for the northern,

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northeastern and southeastern regions of Brazil. Energy consumption habits in Brazil have been affected by the energy-rationing, and energy consumption has not returned to prior levels. As a result, there currently is an oversupply in the electricity markets. Although we believe the risk of another energy shortage in the next four years is low, we are unable to assess the long-term impact that the government s response to future energy shortages may have on our operations, particularly on our aluminum and ferroalloy production.

Changes in government regulations could result in lower returns on our energy sector investments.

The Brazilian power generation business depends on concessions granted by the government and is regulated and supervised by the Brazilian electricity regulatory governmental agency, ANEEL. The recently elected Brazilian government has not yet made clear its policy towards the electricity markets. Changes in the laws, regulations or governmental policies regarding the power generation industry, the marketing of energy in the wholesale market or concession requirements could lower the returns we are expecting from our investments in the energy business. For more information on the regulations governing our energy business, see *Item 4. Information on the Company Regulatory Matters.*

We are subject to ongoing antitrust investigations.

We are currently involved in 23 proceedings before the *Conselho Administrativo de Defesa Econômica*, or CADE, which is the primary Brazilian antitrust regulator. Most of these proceedings involve post-transaction review of acquisition or joint venture transactions, which is required for nearly all of our acquisitions and joint ventures. The remaining are administrative proceedings alleging that we have engaged in illegal anticompetitive conduct in connection with our logistics and aluminum businesses. We intend to defend these claims vigorously. We cannot predict the outcome of these proceedings. If CADE were to determine that undue concentration exists in any of our industries, it could impose measures to safeguard competition, which could include requirements that we divest operations or respect price restrictions. If CADE were to find that we have engaged in anticompetitive conduct, it could order us to cease the conduct and / or to pay fines, which could be substantial. The European Commission is also reviewing our acquisition of Caemi Mineração e Metalurgia S.A., which we refer to as Caemi. See *Item 8. Financial Information Legal Proceedings*. If the European Commission fails to approve the Caemi acquisition, or imposes burdensome conditions, we could be required to abandon the acquisition or to take actions that would reduce the benefits we are expecting from the acquisition.

We are vulnerable to adverse developments affecting other economies.

In 2002, 6.7% of our consolidated net operating revenues were attributable to sales to Japanese customers, 12.9% were attributable to sales to other Asian customers and 36.2% were attributable to sales to European customers. In 2002, 7.2% of our iron ore and pellets sales were made to customers in China, and the Chinese market was the main driver of demand in the iron ore market. A weakened economy in China or in the other markets where we sell our products could reduce demand for our products in the Chinese market and such other markets, which, in turn, could result in lower revenues and profitability.

Our principal shareholder could have significant influence on our company.

Valepar, our principal shareholder, currently owns 52.3% of our outstanding common stock and 33.6% of our total outstanding capital. For a description of the ownership of our shares, see *Item 7. Major Shareholders and Related Party Transactions Principal Shareholder*. As a result of its share ownership, Valepar can control the outcome of any action requiring shareholder approval. Further, the Brazilian government owns a golden share in us that gives it limited 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 *Item 10. Additional Information Common Shares and Preferred Shares General.*

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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, aluminum and steel businesses through joint ventures with other companies. Our forecasts and plans for these joint ventures assume that our joint venture partners will observe their obligations to contribute capital, purchase products and, in some cases, provide managerial talent. If any of our joint venture partners fails to observe its commitments, the affected joint venture may not be able to operate in accordance with its business plans or we may have to increase the level of our investment to give effect to these plans. For more information on our joint ventures, see *Item 4. Information on the Company Lines of Business*.

Our risk management strategy may not be effective.

We are exposed to fluctuations in interest rates, foreign currency exchange rates, and 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 *Item 11. Quantitative and Qualitative Disclosures about Market Risk.* 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.

We may not have adequate, if any, insurance coverage for some business risks that 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,

slope failures,

environmental hazards,

electricity stoppages,

equipment or vessel failures, and

severe 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 risks that are typical in our business 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. As a result, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

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Risks Relating to Brazil

The Brazilian government has historically 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 substantial changes in policy, as often occurs in other emerging economies. 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 factors in Brazil including:

currency fluctuations;

inflation;

monetary policy and interest rates;

fiscal policy;

tariff policy;

exchange controls;

energy shortages; and

other political, social and economic developments in or affecting Brazil.

Inflation and 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 in the past experienced extremely high rates of inflation, with annual rates of inflation during the last ten years reaching as high as 1,158% in 1992, 2,708% in 1993 and 1,093% in 1994 (as measured by the Índice Geral de Preços do Mercado published by Fundação Getúlio Vargas, or IGP-M Index). More recently, Brazil s rates of inflation were 9.9% in 2000, 10.4% in 2001, 25.3% in 2002 and 7.0% for the five months ended May 31, 2003 (as measured by the IGP-M Index). Inflation, governmental measures to combat inflation and public speculation about possible future actions have in the past had significant negative effects on the Brazilian economy, and have contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs may increase, our operating and net margins may decrease and, if investor confidence declines, the price of our securities may fall. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, which could involve the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

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 devaluation and depreciation. In the past, the Brazilian government has implemented various economic plans and 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, depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, depreciation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

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The *real* depreciated 34.3% against the U.S. dollar in 2002, and appreciated 19.1% during the first five months of 2003. The exchange rate between the *real* and the U.S. dollar may continue to fluctuate and may rise or decline substantially from current levels.

Depreciation of the *real* relative to the U.S. dollar reduces the U.S. dollar value of distributions and the dividends on our American depositary shares and may also reduce the market value of our securities. Depreciation also creates 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* also tends to have a negative impact on our margins because most of our costs are denominated in *reais*, while most of our revenues are denominated in U.S. dollars. In addition, 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 additional information about historical exchange rates, see *Item 3. Key Information Exchange Rates*.

Access to international capital markets for Brazilian companies is influenced by the perception of risk in Brazil and other emerging economies, which may hurt our ability to finance our operations.

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. As a result of economic problems in various emerging market countries in recent years (such as the Asian financial crisis of 1997, the Russian financial crisis in 1998 and the Argentinian financial crisis which began in 2001 and is continuing), investors have viewed investments in emerging markets with heightened caution. This has resulted in a significant outflow of U.S. dollars from Brazil, and Brazilian companies have faced higher costs for raising funds, both domestically and abroad, and have been impeded from accessing international capital markets. We cannot assure you that international capital markets will remain open to Brazilian companies or that prevailing interest rates in these markets will be advantageous to us. In addition, future financial crises in emerging market countries may have a negative impact on the Brazilian markets, which could adversely affect our share price.

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 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 reason to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1989 and early 1990. If enacted in the future, similar restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of shares from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. In that event, 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 American depositary shares for the underlying shares, as a result of Brazilian regulations you risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the shares underlying our American depositary shares will obtain an electronic registration from the Central Bank of Brazil to entitle it to remit U.S. dollars abroad for payments of dividends and other distributions relating to the shares underlying our American depositary shares or upon the disposition of the underlying shares. If you decide to exchange your American depositary shares for the underlying shares, you will be entitled to continue to rely, for five business days from the date of exchange, on the custodian s electronic registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of, or

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distributions relating to, the underlying shares unless you obtain your own electronic registration by registering your investment in the underlying shares under Resolution No. 2,689 of the National Monetary Council, which entitles foreign investors to buy and sell securities on the São Paulo stock exchange, or BOVESPA. For more information regarding these exchange controls, see *Item 10. Additional Information Exchange Controls and Other Limitations*. If you attempt to obtain your own electronic 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 underlying shares or the return of your capital in a timely manner. We cannot assure you that the custodian s electronic 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 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 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 underlying 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 underlying 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, JPMorgan 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 underlying shares, see *Item 10. Additional Information Common Shares and Preferred Shares Preemptive Rights*.

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

Holders of our common and preferred shares are entitled to vote on shareholder matters. You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold our American depositary shares rather than the underlying 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.

Holders of our American depositary shares may have fewer and less well defined shareholder s rights than in the United States and certain other jurisdictions.

Our corporate affairs are governed by our by-laws and the Brazilian Corporation Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Brazil. Under the Brazilian Corporation Law holders of our common and preferred shares may have fewer and less well-defined rights to protect their interests relative to actions taken by our board of directors or the holders of common shares than under the laws of some jurisdictions outside Brazil.

Although Brazilian law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of minority shareholder interests may be less well developed and enforced in Brazil than in the United States, which could potentially disadvantage you as a holder of the underlying shares and American depositary shares. For example, when compared to Delaware general corporation law, Brazilian Corporation Law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale-of-business transactions. In addition, shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

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Item 4. Information on the Company

BUSINESS OVERVIEW

General

We are one of the world s largest producers and exporters of iron ore and pellets. 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 7.6 million hectares (18.8 million acres). We operate large logistics systems including railroads and ports that are integrated with our mining operations. Directly and through affiliates and joint ventures, we have major investments in the energy, aluminum-related and steel businesses.

For the year ended December 31, 2002, we had consolidated gross operating revenues of US$ 4,282 million, of which 65.9% were attributable to sales of iron ore and pellets, 10.7% were attributable to third-party logistics services, 10.8% were attributable to sales of aluminum-related products, 6.6% were attributable to sales of manganese and ferroalloys and 2.4% were attributable to sales of gold. For the year ended December 31, 2002, we recorded consolidated operating income of US$ 1,429 million and consolidated net income of US$ 680 million.

Our principal lines of business are:

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 2.9 billion tons with an average grade of 54% iron. The Northern System, based in the states of Pará and Maranhão, contains aggregate estimated proven and probable iron ore reserves of approximately 1.5 billion tons with an average grade of 67% iron. We also operate ten pellet-producing facilities, six of which are joint ventures with international partners, and have a 50% stake in Samarco Mineração S.A., or Samarco, in Ponta do Ubú, which owns and operates two pelletizing plants. In addition, 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, kaolin and platinum group metals. Expenditures for mineral exploration were US$ 50 million in 2002. We currently hold claims to explore approximately 7.6 million hectares (18.8 million acres). We also produce kaolin, potash and gold. In June 2003, we agreed to sell our one remaining operating gold mine.

Logistics. In our logistics business, we provide customers 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 2002, our railroads transported approximately 55% of the total freight tonnage transported by Brazilian railroads, or approximately 171 million tons of cargo, of which 120 million tons were our iron ore and pellets. Of the total amount of iron ore and other products transported, 28% was for third parties and 72% was for us. 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. We have nearly completed our exit from the dry-bulk shipping business, which began in 2001.

Energy. Since 2001, we have considered energy to be an important supporting business, although at present energy production does not yet represent a significant portion of our activities. We currently hold stakes in ten hydroelectric power generation projects (Igarapava, Porto Estrela, Funil, Candonga, Aimorés, Capim Branco I, Capim Branco II, Foz do Chapecó, Santa Isabel and Estreito), which have a total projected capacity of 4,451 MW. We are currently negotiating with ANEEL to return the concession for the Santa Isabel hydroelectric project. The Igarapava, the Porto Estrela and the Funil power plants started operations in January 1999, September 2001 and December 2002, respectively. Our remaining power generation projects are scheduled to start operations within the next five years. Depending on market conditions, the

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power generated by these plants will be sold in the market and/or used for our own operations. See *Item 4. Lines of Business Energy.*

Aluminum-Related Operations. Through joint ventures, we conduct major operations in the production of aluminum-related products. They include:

- *Bauxite mining*, which we conduct through our 40.0% interest in Mineração Rio do Norte S.A., or MRN, which holds substantial bauxite reserves with a low strip ratio and high recovery rate. MRN is one of the largest bauxite producers in the world and produced 9.9 million tons of bauxite in 2002. In July 2002, we increased our share of the capital of Mineração Vera Cruz S.A., or MVC, to 100%. MVC is a bauxite producer with mining rights in the Paragominas region, in the state of Pará, which we expect will begin operations in December 2005**.**

- *Alumina refining*, which we conduct via our 62.09% voting interest in our alumina refining subsidiary, Alunorte-Alumina do Norte do Brasil S.A., or Alunorte, which has a nominal production capacity of 2.375 million tons of alumina per year.

- *Aluminum metal smelting and marketing*, which we conduct through two aluminum smelting joint ventures, Albras-Aluminio Brasileiro S.A., or Albras, in which we have a 51.0% interest, and Valesul Aluminio S.A., or Valesul, in which we have a 54.5% interest. These joint ventures have a combined production capacity of approximately 520,000 tons of aluminum per year. Our integrated aluminum operations rank among the largest in Latin America in terms of production volume.

Other Investments. In addition, we also have investments in four steel companies and in the fertilizer business. In 2002, we sold the last of our core pulp and paper assets.

Vale Overseas

Vale Overseas, our wholly-owned subsidiary, is a finance company for the CVRD Group. It was constituted as a special purpose company to be the issuer of its US$ 300 million 8.625% Notes Due 2007, the proceeds of which were used for general corporate purposes of the CVRD Group.

Incorporation of CVRD and Vale Overseas

CVRD

Our legal and commercial name is Companhia Vale do Rio Doce. We are a stock corporation, or *sociedade anônima*, duly organized on January 11, 1943, and existing under the laws of the Federative Republic of Brazil.

We were privatized in three stages between 1997 and 2002. In the third stage of the privatization process, on March 20, 2002, the Brazilian government and Banco Nacional de Desenvolvimento Econômico e Social (BNDES) each sold 39,393,919 shares, in the form of common shares or American depositary shares, which together represented 32.1% of our outstanding common stock.

We are organized for an unlimited period of time. Our principal executive offices are located at Avenida Graça Aranha, No. 26, 20030-900 Rio de Janeiro, RJ, Brazil, and our telephone number is (011) 55-21-3814-4540.

Vale Overseas

Our wholly-owned subsidiary Vale Overseas was registered and incorporated as a Cayman Islands exempted company with limited liability on April 3, 2001 (registration number 113637). Vale Overseas is incorporated for an indefinite period of time. Its registered office is at Walker House, P.O. Box 908 GT, Mary Street, Georgetown, Grand Cayman, Cayman Islands.

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Acquisitions, Asset Sales and Significant Changes in 2002 and 2003

In 2002, we continued to expand our investments in copper exploration, energy and the aluminum business. Since the beginning of 2003, we have announced significant acquisition agreements in the iron ore, ferroalloys, railroad, coastal shipping and steel businesses. We have also continued our efforts to exit the pulp and paper and dry-bulk shipping businesses. The following discussion describes some of the important recent acquisitions, asset sales and significant changes in our businesses.

Mining

Salobo. In May 2002, we acquired Anglo American s 50% interest in Salobo Metais S.A., or Salobo, through our subsidiary Caulim do Brasil Investimentos S.A. for US$ 50.9 million. Salobo is the largest of five copper projects that we are currently developing, with estimated mineral reserves of 784 million tons. We now own 100% of Salobo s equity capital.

Antofagasta. In July 2002, we signed an investment agreement and formed a joint venture for mining, research and exploration near Cuzco in southern Peru with Antofagasta Plc, or Antofagasta, one of Chile s largest copper producers. We have invested US$ 1.0 million in 2002 and expect to invest an additional US$ 5.7 million in the next two years. Upon completion of this investment, we will hold a 50% stake.

Rio Doce Manganese Norway. In February 2003, we acquired 100% of Elkem Rana AS, a Norwegian ferroalloy producer, for US$ 17.6 million. Elkem Rana AS has changed its name to Rio Doce Manganese Norway AS, and has a plant located in an industrial park in Mo i Rana, Norway, where ferrochrome was produced until June 2002. The plant will be converted to produce manganese ferroalloys from 2003 onwards, and is expected to have a production capacity of 100 thousand tons per year. This acquisition expands our ferroalloy business in continental Europe, where our wholly-owned subsidiary Rio Doce Manganèse Europe (RDME) already operates a manganese ferroalloy plant.

Caemi. In 2001, we acquired 50% of the voting shares of Caemi. In March 2003, we reached an agreement with Mitsui & Co. (Mitsui) to acquire its remaining stake in Caemi for US$ 426.4 million. After this transaction, we will own 100% of Caemi s common shares, 40% of its preferred shares and 60.2% of its total capital. Caemi, a Brazilian company with its headquarters in Rio de Janeiro, is the world s fourth largest producer of iron ore and is listed on BOVESPA. This acquisition is subject, *inter alia*, to the review and approval of competition authorities and the completion of the Valepar transactions described under *Item 7. Major Shareholders and Related Party Transactions*.

São Luís. In March 2002, we completed the construction of our new São Luís pelletizing plant. The plant produced 715,000 tons of pellets in 2002, and has a nominal production capacity of 6 million tons per year. Our total capital expenditures invested to build the plant amounted to US$ 188 million. As of December 31, 2002, our wholly-owned pelletizing operations had a combined annual production capacity of 15 million tons.

Logistics

Coastal Shipping. In May 2003, we signed a stock purchase agreement with Mitsui, a major Japanese participant in the global logistics market. Under the agreement, our wholly-owned subsidiary Navegação Vale do Rio Doce S.A.-Docenave, or Docenave, will own 79% of the total shares of a new company, DCNDB Overseas S.A., or DCNDB, established to develop the intermodal coastal shipping business. Mitsui will own the remaining 21% of the shares of DCNDB. The joint venture is subject to certain regulatory approvals. We expect the association with Mitsui to allow Docenave to offer service between the ports of Salvador and Itajai, a line which is currently not serviced by any other major carriers. We believe this joint venture could increase Docenave s share in the coastal shipping market and enable Docenave to attract additional domestic and international customers.

Restructuring of Certain Logistics Holdings. In April 2003, we, Companhia Siderúrgica Nacional, or CSN, and others signed an agreement for the purchase and sale of shares in logistics companies. The transactions set forth in the agreement are each conditional on the others and will take place once and only if certain conditions are fulfilled. The agreement involves three principal transactions: our acquisition of CSN s stake in Ferrovia Centro-Atlântica S.A. (FCA), the largest railroad in Latin America; the sale to CSN of our indirect stake in Sepetiba Tecon S.A., a

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company that operates a terminal at the Port of Sepetiba; and the transfer to CSN and Taquari Participações S.A. of our stake in Companhia Ferroviária do Nordeste (CFN), a railroad company. We believe these transactions will allow us to focus on our core transportation assets.

Energy

Estreito. In July 2002, we and our joint venture partners were awarded the concession for the Estreito hydroelectric power plant, which has a projected capacity of 1,087 MW. We now have interests in ten hydroelectric power plants with a total projected capacity of 4,451 MW, of which the energy available to CVRD will be 1,810 MW. Our Funil power plant started operations in December 2002, and we now have interests in three operational power plants (Igarapava, Porto Estrela and Funil). As described below, we are currently negotiating with ANEEL to return the concession for the Santa Isabel hydroelectric project.

Aluminum-Related Operations

Mineração Vera Cruz. In July 2002, we acquired 64% of the total capital of MVC through our wholly-owned subsidiary Aluvale for US$ 2 million. Aluvale now holds 100% of MVC, which holds active mining rights in the Paragominas region, in the state of Pará, located near our existing bauxite reserves, approximately 250 kilometers from Alunorte. This strategic location should increase our flexibility in using our existing infrastructure and should also support our planned expansion at Alunorte.

Alunorte. In July 2002, we increased our stake in Alunorte to 62.09% of the common shares and 19.05% of the preferred shares, giving us 57.03% of Alunorte s total capital. We began consolidating Alunorte as of this date. In April 2003, Alunorte inaugurated its third production line, which has a capacity of 825,000 tons per year. With this third line, Alunorte now has a production capacity of 2.375 million tons of alumina per year. Alunorte s total investment in this project amounted to approximately US$ 300 million.

Steel

Companhia Siderúrgica Tubarão.

In April 2003, we completed the acquisition of shares of Companhia Siderúrgica de Tubarão (CST) from Acesita S.A. (Acesita) that are not subject to the CST controlling shareholders agreement. We acquired 4.42% of the common shares and 5.64% of the preferred shares of CST, representing 5.17% of CST s total capital, for US$ 59.7 million. Following this transaction, we now own 24.93% of CST s common shares and 29.96% of CST s preferred shares, totaling 28.02% of CST s capital. In addition, we are currently negotiating with a group of Japanese shareholders led by JFE Steel (the Japanese Group) to acquire the Japanese Group s shares of CST, jointly with Arcelor. Upon the earlier of our acquisition of the Japanese Group s stake and the termination of the controlling shareholders agreement in 2005, we also expect to acquire, jointly with Arcelor, the remaining shares of CST held by Acesita and California Steel Industries, Inc. (CSI). We expect that the cost of acquiring these two stakes in CST will be approximately US$ 121 million. By increasing our stake in CST s capital, we ensure our presence in the controlling group. We have also entered into agreements with Arcelor to guarantee the liquidity of our position, under which we expect to decrease our participation in CST between 2007 and 2009 to 20% of the shares of the controlling group. By 2015, we will sell our remaining stake in CST. Our stake in CST will be sold to Arcelor at prices to be determined based on a valuation performed by two investment banks.

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Others.

In April 2003, we signed an investment agreement with Nucor Corporation, a North American steelmaker, in order to form a joint venture in Northern Brazil, in which approximately 78% and 22% of the voting shares will be held by CVRD and Nucor (or one of its affiliates), respectively. The main purpose of the company will be the production and sale of pig iron. Nucor will invest approximately US$ 10 million, and we will contribute our Celmar S.A. Indústria de Celulose e Papel (Celmar) forest assets to the new company. The new company will have a total value of approximately US$ 80 million. In December 2002, we purchased 46% of the outstanding capital of Celmar from Nissho Iwai Corporation. With this purchase, we now own 100% of Celmar and will soon contribute Celmar s cultivated forest assets for use as an energy source for our pig iron project with Nucor.

Dispositions and Asset Sales

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

In the pulp and paper industry, in September 2002, we sold, for approximately US$ 49 million, our assets in the São Mateus region situated in the state of Espírito Santo to Aracruz Celulose S.A. and Bahia Sul Celulose S.A. This sale completed our planned partial divestiture of our pulp and paper businesses. Our remaining forest assets will be used in the pig iron project described above.

In the transportation industry, we continued in 2002 the divestiture of our dry-bulk shipping business begun in 2001, by selling the fleet of vessels owned by Docenave. In February 2002, the sale of the six Brazilian flag vessels with a total capacity of 592,240 DWT for US$ 53 million concluded with the delivery of the last vessel to Empresa de Navegação Elcano S.A. In and subsequent to this period, we sold another six Liberian flag vessels for US$ 45.7 million. We intend to sell our remaining dry-bulk assets in the near future.

On June 18, 2003, we agreed to sell our one remaining gold mine, Fazenda Brasileiro, to Yamana Resources Inc., a Canadian mining company, for US$ 20.9 million. The sale is subject to certain conditions. Upon completion of the sale, our gold operations will be interrupted until the start-up of the copper projects we are currently developing in Carajás, where we expect to produce gold as a by-product of the copper mining process.

We are currently negotiating with ANEEL to return the concession for the Santa Isabel hydroelectric project due to difficulties in obtaining the required environmental permits.

Business Strategy

Our goal is to strengthen our standing among the world s leading mining companies by focusing on diversified growth in mining (mainly based on our own reserves and new exploration initiatives) and developing our new ventures in logistics and energy. We are pursuing disciplined growth in earnings and in cash generation, looking to maximize return on invested capital and the total return to our shareholders. We are emphasizing organic growth in our core businesses, although we will continue to make selective acquisitions in order to complement our strategy and diversify our portfolio.

Over the past several years, we have developed a more efficient governance structure and a robust long-term strategic planning process. Now we are building on these changes with ambitious long-range plans in each of our principal business areas. Over the five years 2003-2007, we are planning capital expenditures of approximately US$ 6 billion for organic growth. The following paragraphs highlight specific major strategies.

Maintaining Our Leadership Position in the Seaborne Iron Ore Market

In 2002, we consolidated our leadership in the seaborne iron ore trade market, achieving an estimated 29.4% of the total 480 million tons traded in the year. In 2003, we expect to further increase our share of this market through the consolidation of Caemi s operations. 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.

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Expanding Our Pelletizing Facilities to Accommodate Current Market Demands

We believe that, in the long term, global demand for pellets will continue to outpace the overall iron ore market, so we plan to continue investing in the development of this dynamic segment of the market. We built a new pelletizing plant at São Luís, and we are expanding production capacity at our Samarco pellet operations. With the addition of São Luís operations, and the completion of the Samarco expansion, we and our joint ventures have increased our total annual production capacity to 53 million tons. See *Lines of Business Mining Pellets*.

Growing Our Logistics Business

We believe that the quality of our railway assets and our many years of experience as a railroad and port operator position us to 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 the development of intermodal shipping through a new joint venture.

Developing Our Copper Resources

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. We have a Mineral Risk Contract with BNDES 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.

Increasing Our Aluminum-Related Activities

We plan to develop and increase production capacity in our aluminum-related operations, focusing on bauxite and alumina. Our bauxite joint venture, MRN, and our alumina subsidiary, Alunorte, are increasing annual production capacity. Our aluminum subsidiary, Albras, increased its production capacity by 46,000 tons in 2002. 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. We may pursue acquisitions and/or partnerships in the production of primary aluminum, depending on the level of related electricity costs.

Developing Power Generation Projects

Energy management and supply has become a priority for us, driven both by structural change in the industry, and by the risk of rising electricity prices and electricity rationing due to energy shortages, such as Brazil experienced in the second half of 2001. We have invested in ten consortia to develop hydroelectric power generation projects. These projects may sell their production to third parties in the power market, and/or we may use 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 volatility in price and supply of energy.

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LINES OF BUSINESS

Our principal lines of business consist of mining, logistics and energy. For internal management purposes, we group our aluminum-related operations together with our other significant equity participations in other companies.

Mining

Ferrous Minerals

Our ferrous minerals business segment includes 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 ferroalloys are also part of our ferrous minerals business.

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

	For the Year Ended December 31,		
	2000	2001	2002
	(In millions of US$)		
Gross revenues classified by geographic destination			
Export sales:			
Latin America	US$ 224	US$ 238	US$ 392
United States	252	247	340
Europe	969	1,469	1,799
Middle East	209	216	239
Japan	544	525	488
Asia, other than Japan	652	863	942
Subtotal	2,850	3,558	4,200
Domestic sales	1,000	1,083	996
Total	US$ 3,850	US$ 4,641	US$ 5,196
Gross revenues classified by category			
Iron ore	US$ 2,710	US$ 3,438	US$ 3,705
Pellets	770	860	1,099
Manganese and ferroalloys	370	343	392
Total	US$ 3,850	US$ 4,641	US$ 5,196

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Iron Ore

We conduct our iron ore business primarily at the parent company level and through our subsidiaries Ferteco Mineração S.A., or Ferteco, and Urucum Mineração S.A., or Urucum.

System Structure

The table below sets forth information regarding our proven and probable iron ore reserves and projected exhaustion dates as of December 31, 2002. The estimates of mineral reserves have been audited and verified by AMEC, experts in geology, mining and ore reserve determination. The projected exhaustion dates are estimated based on our estimates of future production levels.

Mine(1)	Began Operations	Projected Exhaustion Date	Production For the Year Ended December 31,			Proven and Probable Reserves at December 31, 2002	
			2000	2001	2002	Ore Tonnage	Grade
			(in millions of tons)			(In millions of tons)	(% Fe)
Southern System							
Itabira:							
Caué(2)	1942		20.1	19.7	20.7	6.0	51.3
Conceição(3)	1957		19.8	19.2	20.0	474.1	54.8
Minas do Meio(2)						654.5	53.7
Total Itabira		2021	39.9	38.9	40.7	1,134.6	54.1
Água Limpa Complex(4)	2000	2013	3.7	2.5	3.2	85.1	45.0
Alegria Complex(5)	2000	2024	9.4	9.7	9.9	685.7	54.3
Capanema/Ouro Fino(6)	1982	2003	5.3	3.9	4.0	23.0	58.9
Córrego do Meio Complex(7)	2000	2005	1.5	1.2	1.2	5.8	57.6
Fazendão(8)	1997		1.2	1.0	0.8	236.3	50.6
Gongo Soco Complex(9)	2000	2020	6.6	6.7	6.8	514.2	55.0
Timbopeba(10)	1984	2008	7.6	5.5	5.2	110.0	54.8
Urucum(11)	1993		0.7	0.6	0.8		
Ferteco:							
Fábrica(12)	1956			5.6	5.2	83.3	56.0
Córrego do Feijao(12)	1956			5.8	6.3	32.3	65.9
Total Ferteco		2008		11.4	11.5	115.6	58.7
Total Southern System			75.9	81.4	84.1	2,910.3	54.0
Northern System							
Carajás(13)	1986	2024	47.6	52.4	53.9	1,548.3	66.6
Total CVRD Group			123.5	133.8	138.0	4,458.6	58.4

(1) CVRD's equity interest in mines is 100% unless otherwise noted.
(2) The Minas do Meio mine has not yet begun operations. Average product recovery after beneficiation is 72%. Average drill spacing is 100 by 100 meters.
(3) Average product recovery after beneficiation is 78%. Average drill spacing is 100 by 100 meters.

(4) The Água Limpa Complex consists of the Água Limpa and Cururu deposits. CVRD ownership is 60%. Average product recovery after beneficiation is 51%. Average drill spacing is 50 by 50 meters.
(5) The Alegria Complex consists of the Alegria, Fábrica Nova and Morro da Mina deposits. Average product recovery after beneficiation is 73%. Average drill spacing is 100 by 100 meters.
(6) CVRD's ownership interest is 51%. Average product recovery after beneficiation is 85%. Average drill spacing is 100 by 100 meters.
(7) The Córrego do Meio Complex consists of the Córrego do Meio and Segredo deposits. Present proven and probable reserves are limited to the Córrego do Meio deposit. Average product recovery is 100% (direct shipping). Average drill spacing is 100 by 100 meters.
(8) Average product recovery is 100% (direct shipping). Average drill spacing is 100 by 100 meters.
(9) The Gongo Soco Complex consists of the Gongo Soco, Brucutu and Baú deposits. Average product recovery after beneficiation for Gongo Soco and Bau is 84%. Average product recovery for Brucutu is 100% (direct shipping). Average drill spacing is 100 by 100 meters.
(10) Average product recovery after beneficiation is 77%. Average drill spacing is 100 by 100 meters.
(11) There are no proven and probable reserves at Urucum.
(12) We acquired Ferteco in 2001; the beginning of operations before our acquisition was in 1956.
(13) Includes the N4WC, N4WN, N4E, N5W, N5E and N5E-N mines. Average product recovery after beneficiation is 92%. Average drill spacing for N4W and N4E mines is 100 by 100 meters with local infill at 50 by 50 meters. Average drill spacing for N5W, N5E and N5E-N is 50 by 50 meters.

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Integrated Systems

The following map shows the location of our current principal operations.

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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 each system and bring products from the mines to our maritime terminals, located at the Tubarão Maritime Terminal Complex in the Southern System, and Ponta da Madeira Maritime Terminal Complex 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 Tubarão Maritime Terminal Complex (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. The Southern System is accessible by road or by spur tracks of the Vitória-Minas railroad. The iron ore from Ferteco s mines is also transported through MRS Logística S.A. (MRS) s railroad to our Port of Sepetiba. Transportation of the iron ore concentrate, lump and natural pellet ore produced in the Southern System is discussed below in *Logistics*.

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 65%, 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.

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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. 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 six main mining bodies (N4E, N4WC, N4WN, N5W, N5E and N5E-N).

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). Mining of N5E-N is expected to begin in 2003.

Because of the high iron content (66.6% on average) in the Northern System, we do not have to operate a concentration plant at Carajás. The beneficiation process consists simply of sizing operations, including screening, hydrocycloning, crushing and filtration. This allows us to 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 Maritime Terminal Complex located at São Luís in the state of Maranhão, on the Atlantic Ocean.

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 have housing and other facilities in a nearby township.

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Pellets

The table below sets forth information regarding our share ownership and joint venture partners as of May 31, 2003 and total pellet production by us and our joint ventures for the periods indicated.

	System	Our Direct or Indirect Share of Capital		Partners	Total Pellet Production(1)(2) for the Year Ended December 31,			Nominal Capacity
		Voting	Total		2000	2001	2002	
		(%)				(in millions of tons)		
CVRD	Northern/ Southern	N/A	N/A	N/A	5.0	5.1	5.8	11.2
Ferteco	Southern	100 %	100%			3.5	4.5	4.0
GIIC	Bahrain	50.0	50.0	GIC	3.6	2.7	3.1	4.0
Hispanobrás	Southern	51.0	50.9	Aceralia	3.8	3.7	3.7	3.8
Itabrasco	Southern	51.0	50.0	Ilva	3.3	3.3	3.3	3.3
Kobrasco	Southern	50.0	50.0	Posco	4.4	4.2	4.1	4.3
Nibrasco	Southern	51.1	51.0	Nippon Steel Sumitomo JFE Steel Kobe Steel Nisshin Steel Nissho Iwai	8.5	7.1	7.1	8.4
Samarco	Ponta do Ubú	50.0	50.0	BHP Billiton	12.7	9.9	11.6	14.0
Total					41.3	39.5	43.2	53.0

(1) Total production by joint venture entity.
(2) Production figures are for the full year beginning the year of acquisition by CVRD of an equity interest in the entity even if acquired during the year.

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. Some of the pellets we and our joint ventures produce are DR pellets, which are used in steel mills that use minimill rather than blast furnace technology. The percentage of DR pellets our pellet joint ventures delivered was 23.5% in 2000, 36.2% in 2001 and 21% in 2002.

In March 2002, we completed the construction of our new São Luís pelletizing plant, which is located in the Northern System and has a nominal annual production capacity of 6 million tons. Our total capital expenditure for the plant was US$ 188 million.

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

	For the Year Ended December 31,		
	2000	2001	2002
	(In millions of tons)		
GIIC	2.0	1.7	2.6
Hispanobrás	4.1	3.9	3.7
Itabrasco	3.6	3.6	3.6
Kobrasco	4.7	4.5	4.4
Nibrasco	9.3	7.8	7.3
Samarco	1.9	1.9	2.0
Total	25.6	23.4	23.6

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 and pellets primarily to Asia and Europe, with customers in China, Japan, South Korea, France and Germany accounting for approximately 52.3% of our total iron ore and pellets export shipments in 2002. Our 10 largest customers collectively purchased 53.12 million tons of iron ore and pellets from us, representing 46% of our 2002 iron ore and pellet shipments and approximately 46% of our total iron ore and pellets revenues. No individual customer accounted for more than approximately 9.5% of our sales of iron ore and pellets for any of the three years ended December 31, 2002.

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. This variety helps us offset 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, Luxemburg, 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 complement our iron ore mining business. We operate an integrated railroad and terminal network in each of our Northern and Southern Systems. These networks transport our iron ore products from interior mining locations to the maritime terminal and domestic customers. A more detailed description of the networks is provided in the section below entitled *Logistics*.

Competition (Iron Ore and Pellets)

The international iron ore market is highly competitive. Several large producers operate in this market. The principal factors affecting competition are price, quality, range of products offered, reliability and transportation costs. In 2002, the European market and the Asian market (primarily China, Japan and South Korea) 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 Billiton, and The Rio Tinto Corporation Plc. Although the transportation

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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. Our ore also has high iron ore grade, which improves productivity in blast furnaces, which is important during periods of high demand. 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 readily available to serve our customers.

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

BHP Billiton (Australia) and Affiliates,

Kumba Resources (South Africa),

Luossavaara Kiirunavaara AB - LKAB (Sweden),

Rio Tinto (UK) and Affiliates, and

Sociétè Nationale Industrielle et Minière - SNIM (Mauritania).

The Brazilian iron ore market is highly competitive with a wide range of smaller producers. Although pricing is relevant, 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 Ferroalloys

We conduct our manganese and ferroalloy business primarily through the following subsidiaries and joint ventures, as of May 31, 2003:

	Our Direct or Indirect Share of Capital		
	Voting	**Total**	**Partners**
	(%)		
Companhia Paulista de Ferro-Ligas (CPFL)	99.9%	93.6%	
Nova Era Silicon S.A. (NES)	49.0	49.0	Mitsubishi JFE Steel Mizushima
Rio Doce Manganèse Europe (RDME) (France)	100	100	
Rio Doce Manganese Norway AS (RDMN)	100	100	
Sibra Eletrosiderúrgica Brasileira S.A. (SIBRA)	100	99.3	
Urucum Mineração S.A. (Urucum)	100	100	

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In 2002, we were the largest Brazilian manganese ore producer, with total shipments of approximately 665 thousand tons. We had US$ 283 million in revenues in 2002 from manganese ore and ferroalloy 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. We also operate minor mines in the states of Minas Gerais and Bahia.

Our manganese mines produce three types of manganese products:

- metallurgical ore used primarily for the production of ferroalloys;
- 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 ferroalloys consumes significant amounts of electricity. For information on the risks associated with potential energy shortages, see *Item 3. Key Information Risk Factors*.

The table below sets forth information regarding our manganese mines and recent manganese ore production for the periods indicated. The estimates of mineral reserves have been audited and verified by AMEC. We own 100% of both mines.

	Began Operations	**Projected Exhaustion Date**	**Production For the Year Ended December 31,**			**Proven and Probable Reserves**		
			2000	**2001**	**2002**	**Type**	**Ore Tonnage(1)**	**Grade(2)**
Azul(3)	1986	2016	1.4	1.4	1.8	Open Pit	19.5	47.0
						Stockpile	0.8	47.3
Urucum(4)	1976	2017	0.3	0.3	0.3	Underground	7.4	48.0
Total			1.7	1.7	2.1		27.7	47.3

(1) Reported as recoverable wet product tons, in millions of tons.
(2) Reported as wet recoverable product grade.
(3) Average drill spacing is 50 by 50 meters for proven reserves and 100 by 100 meters for probable reserves.
(4) Sampled with underground face samples at a spacing of 50 by 50 meters.

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The table below sets forth information regarding our ferroalloy production in 2002.

	Production Capacity	Production in 2002
	(In thousands of tons per year)	(In thousands of tons)
Rio Doce Manganese Europe (RDME)	130	123
Companhia Paulista de Ferro-Ligas / Sibra Eletrosiderúrgica Brasileira S.A. (CPFL/Sibra)	310	316
Nova Era Silicon S.A. (NES)	45	35
Total	485	474

Competition (Manganese Ore and Ferroalloys)

The markets for manganese ore and ferroalloys are highly competitive. Competition in the manganese ore market takes place in two sectors. High-grade (40% Mn or more) manganese ore competes on a seaborne basis, while low grade ore competes on a regional basis. For some ferroalloys high-grade ore is mandatory, while for some others high and low grade ores are complementary. Besides manganese content, cost and physical-chemical features play an important role in competition (*e.g.* moisture, impurities). The main suppliers of high-grade (HG) ores are South Africa, Gabon and Ghana. The main producers of low-grade (LG) ores are Ukraine, China, Kazakhstan, India and Mexico. CVRD is the second largest worldwide supplier of manganese ores with HG ores in Carajás and Urucum mines, and LG ores in Minas Gerais and Bahia states.

The ferroalloy market is characterized by a large number of market participants who compete primarily on the basis of price. The principal competitive factors in this market are costs of manganese ore, electricity, logistics and carbon. We compete both with standalone producers and integrated producers that also mine their own ore. Our competitors are located principally in ore or steel producing countries.

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 gross revenues and sales by geographic market for the periods indicated.

	For the Year Ended December 31,		
	2000	2001	2002
	(In millions of US$)		
Gross revenues classified by geographic destination			
Export sales:			
United States	US$ 156	US$ 139	US$ 35
Europe	35	33	100
Japan	4		3
Asia, other than Japan	3	1	5
Subtotal	198	173	143
Domestic sales	90	78	96
Total	US$ 288	US$ 251	US$ 239
Gross revenues classified by category			
Gold	US$ 156	US$ 139	US$ 103

Potash	85	71	91
Kaolin	47	41	45
Total	US$ 288	US$ 251	US$ 239

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Gold

We conduct our gold business primarily at the parent company level. We produced 314.5 thousand troy ounces of refined gold in 2002, and were responsible for approximately 22% of all gold produced on an industrial scale in Brazil during 2002. Gold sales generated US$ 103 million of revenues in 2002.

We started gold operations in 1984. In June 2002, we closed our Igarapé Bahia mine, leaving us with only one remaining gold mine, Fazenda Brasileiro, in operation at the end of 2002. On June 18, 2003, we agreed to sell Fazenda Brasileiro to Yamana Resources Inc., a Canadian mining company, for US$ 20.9 million. The sale is subject to certain conditions. Upon completion of the sale, our gold operations will be interrupted until the start-up of the copper projects we are currently developing in Carajás. We expect these projects to produce gold as a by-product of their copper mining operations.

The table below sets forth information regarding estimated gold proven and probable reserves as of December 31, 2002. The estimates of gold reserves have been audited and verified by AMEC. Fazenda Brasileiro is 100% owned by the Company and is principally an underground operation with limited oxide mineralization being mined by open pit. Average drill spacing is 25 by 10 meters for proven reserves and 100 by 50 meters for probable reserves.

		Proven and Probable Reserves					
	Ore Type(2)	Ore Tonnage (Mt)	Au Grade (g/t)	Contained Gold (t)	Metal Recovery (%)	Recoverable Gold	
		(Millions of tons)	(gram/ton)	(tons)	(percent)	(tons)	(Millions of troy ounces)
Fazenda Brasileiro	Sulfide						
	Carbon-in-Pulp	1.77	3.84	6.81	95	6.5	0.21
	Heap Leaching	0.63	2.14	1.34	72	1.0	0.03
	Total	2.40	3.39	8.15	91	7.5	0.24

The table below sets forth information regarding our gold mines and recent gold production for the periods indicated. The projected exhaustion date is based on 2002 production levels. The average total cash cost of production (US$ per troy ounce) was US$ 165 in 2000, US$ 146 in 2001 and US$ 141 in 2002.

	Commencement of Operations	Actual/Projected Exhaustion Date	Production For the Year Ended December 31,		
			2000	2001	2002
			(Thousands of troy ounces)		
Almas	1985	2001	13.2	0.6	
Caeté	1996	2001	11.0	0.4	
Fazenda Brasileiro	1984	2005	154.6	165.2	153.2
Igarapé Bahia	1991	2002	333.9	328.3	148.2
Itabira	1984	2002	22.4	18.8	13.1
Total			535.1	513.3	314.5

The Fazenda Brasileiro gold 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 99.99% purity. Our gold is insured from the time we place it in its mine vaults until it reaches the customer.

As of December 31, 2002, our proven and probable gold reserves represented less than three years of production. In 2002, we spent US$ 5 million for gold exploration and resource development, including US$ 0.4 million related to prospecting for new deposits and US$ 4.6 million

directed to the extension of existing reserves. None of these expenses were reimbursed under the Mineral Risk Contract. See *Current Copper Prospects Mineral Risk Contract*.

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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 75.5% and 80.0%, respectively. Our partners in Pará Pigmentos are Mitsubishi Corporation and International Finance Corporation. Our proven and probable reserves of 6.4 million tons are projected to be exhausted in 2007.

Kaolin is a fine white aluminum silicate clay used in the paper, ceramic and pharmaceutical industries as a coating agent and filler. Pará Pigmentos sold approximately 330,000 tons of kaolin in 2002.

Potash

Potash is an important raw material used in the production of fertilizers. We lease a potash mine in the state of Sergipe from Petrobras-Petróleo Brasileiro S.A. (Petrobras), the Brazilian oil company. The lease was signed in 1991 for a period of 25 years, and is renewable for another 25 years. The mine is the only potash mine in Brazil and has a current nominal capacity of 600,000 tons per year. We had gross revenues of US$ 91 million from potash sales in 2002.

We have budgeted US$ 67 million in capital expenditures to expand the mine capacity to 850,000 tons per year by 2005. Our proven and probable reserves should be sufficient to ensure the estimated production for the next 5 years.

Current Copper Prospects

The table below sets forth information, at May 31, 2003, regarding our joint ventures and the status and potential productivity of our principal copper (Cu) prospects, all but one of which features a gold (Au) by-product:

	Our Direct or Indirect Share of Capital (Voting and Total) (1)	Status	Total Expected Other Mineral Deposits	Total Expected Capital Expenditures	Anticipated Start-up Date
	%		(Millions of tons)	(In millions of US$)	
Sossego	100%	Under construction	196 at 1.02% Cu and 0.3 g/t Au	US$ 383	2004
Project 118	50.0	Feasibility in progress	64 at 0.80% Cu	154	2005
Salobo	100	Feasibility in progress	784 at 0.96% Cu and 0.6 g/t Au	418	2006
Cristalino	50.0	Pre-feasibility in progress	250 at 0.79% Cu and 0.15 g/t Au	385	2007
Alemão	67.0	Pre-feasibility in progress	200 at 1.60% Cu and 0.90 g/t Au	508	2008

(1) Where the project is not wholly-owned, our partner in the project is BNDES.

In addition, we and BNDES are prospecting the Carajás region for new copper exploration projects. See *Mineral Risk Contract.*

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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 mainly in Brazil, other Latin American countries and Asia, and focus primarily on copper, gold, nickel, manganese, kaolin and platinum group metals. Exploration costs are recorded as expenses until viability of mining activities is established (see note 2(e) to our financial statements). Expenditures for our mineral exploration program in 2002 amounted to US$ 50 million and the budget for 2003 is US$ 72.0 million.

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 as of December 31, 1997, to 7.6 million hectares as of December 31, 2002.

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 deposits 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, which was extended for an additional period of two years. We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of December 31, 2002, we and BNDES each had remaining commitments to contribute an additional US$ 63 million toward exploration and development activities. We both expect to fund a portion of these contributions each year through 2004. In the event that either of us wishes to conduct further exploration and development after having spent such US$ 205 million, the contract provides that each party may either choose to match the other party s contributions, or may choose to have its financial interest proportionally diluted. If a party s participation in the project is diluted to an amount lower than 40% of the amount invested in connection with exploration and development projects, then the Mineral Risk Contract provides that the diluted party will lose all the rights and benefits provided for in the Mineral Risk Contract and any amounts previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us 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.

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Logistics

We operate our logistics business, which is comprised of the transportation of third-party products and passengers, through the following subsidiaries and joint ventures as of May 31, 2003:

	Principal Activity	Our Direct or Indirect Share of Capital		Partners
		Voting	Total	
		(%)		
Cia. Portuária Baía de Sepetiba (CPBS)	Ports and Terminals	100.00 %	100.00 %	
Companhia Ferroviária do Nordeste (CFN) (1)	Railroad	33.17	33.17	Taquari Participações S.A. CSN Employees
DCNDB Overseas S.A. (DCNDB)	Shipping	79.00	79.00	Mitsui
Navegação Vale do Rio Doce S.A- Docenave (Docenave)	Shipping	100.00	100.00	
Ferroban-Ferrovias Bandeirantes S.A. (Ferroban)	Railroad	0.00	3.75	Nova Ferroban Gaborone Participações Capmelissa FUNCEF PREVI
Ferrovia Centro-Atlântica S.A. (FCA)	Railroad	20.00	45.65	CSN KRJ Participações Financeira Ibertrust TRANSGER Others
MRS Logística S.A. (MRS)	Railroad	28.90	17.30	CSN MBR Usiminas Ultrafértil Employees Others
Sepetiba Tecon S.A. (Sepetiba Tecon) (1)	Ports and Terminals	50.00	50.00	CSN
Terminal de Vila Velha S.A. (TVV)	Ports and Terminals	99.89	99.89	Employees

(1) We have entered into an agreement to restructure some of our logistics holdings. See *Business Overview Acquisitions, Asset Sales and Significant Changes in 2002 and 2003 Logistics Restructuring of Certain Logistics Holdings*.

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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,		
	2000	2001	2002
	(in millions of US$)		
Revenues classified by geographic destination:			
Export sales:			
Latin America	US$ 30	US$ 65	US$ 25
United States	64	21	3
Europe	75	44	9
Middle East	6	4	
Japan	15	10	1
Asia, other than Japan	5	3	3
Subtotal	195	147	41
Domestic sales	403	344	374
Total	US$ 598	US$ 491	US$ 415
Revenues classified by category			
Railroads	US$ 203	US$ 182	US$ 201
Ports	86	75	116
Ships	309	234	98
Total	US$ 598	US$ 491	US$ 415

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 Maritime Terminal Complex 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 has a daily capacity of 300,000 tons of iron ore. In 2002, the Vitória-Minas railroad carried a total of 112 million tons of iron ore and other cargo (of which 41.4 million tons, or 36.9%, consisted of cargo transported for third parties). The Vitória-Minas railroad also carried approximately one million passengers in 2002.

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

- iron ore and pellets, carried for us and third parties;
- steel, coal and pig iron carried for steel manufacturers located along the railroad;
- limestone carried for steel mills located in the states of Minas Gerais and Espírito Santo; and
- other general cargo such as agricultural products, construction products and fuel and chemical products.

We charge market rates for third-party freight, including pellets and aluminum 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.

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 mine in the state of Pará, and extends 892 kilometers to our Ponta da Madeira Maritime Terminal Complex facilities located near the Port of São Luís in the state of Maranhão. The Carajás railroad consists of one line of track, with

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spur tracks and turnouts to permit the passage of trains in opposite directions. The Carajás railroad has a daily capacity of 130,000 tons of iron ore. In 2002, the Carajás railroad carried a total of 58.9 million tons of iron ore and other cargo (of which 7.1 million tons, or 12%, consisted of cargo transported for third parties). The Carajás railroad also carried approximately 450 thousand passengers in 2002. The principal cargo of the Carajás railroad consists of iron ore, principally carried for us.

Other Investments. We hold a 20% interest in the voting capital of FCA, which operates the central east regional railway network of the Brazilian national railway system under a 30-year renewable concession granted in 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. FCA currently operates on the same track gauge as our Vitória-Minas railroad. In 2002, FCA reported net revenues of US$ 116.5 million and a net loss of US$ 92.9 million. In April 2003, we signed a contract to acquire CSN s stake in FCA. This acquisition is still subject to governmental approval and certain conditions. See *Business Overview Acquisitions, Asset Sales and Significant Changes in 2002 and 2003 Logistics*.

We currently hold 3.75% of the total capital of Ferroban-Ferrovias Bandeirantes S.A., or Ferroban. Ferroban operates a 4,236 kilometer railroad linking the states of São Paulo, Minas Gerais, Paraná and Mato Grosso do Sul. In 2002, Ferroban reported net revenues of US$ 38.4 million and a net loss of US$ 86.2 million. The section of Ferroban s network between Araguari and Vale Fertil, in the state of Minas Gerais, has been operated by FCA since 1998 and in January 2002 FCA began operating the section between Vale Fertil in the state of Minas Gerais and Boa Vista in the state of São Paulo. This connection allows FCA to reach the Santos port.

We own directly and indirectly 17.3% of the total capital and 28.9% of the voting capital in MRS. Caemi has a direct 17% interest in the total capital and 27.9% in the voting capital of MRS. MRS is a 1,612 kilometer railroad which links the states of Rio de Janeiro, São Paulo and Minas Gerais with a capacity to transport 85 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. All of our railroad concessions expire between August 2026 and December 2028.

Through CFN, we also hold a 32.4% stake in the Malha Nordeste railroad. 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. In 2002, CFN reported net revenues of US$ 7.8 million and a net loss of US$ 10.7 million. In April 2003, as described above in *Business Overview Acquisitions, Asset Sales and Significant Changes in 2002 and 2003*, we signed an agreement to transfer our stake in CFN to CSN and Taquari Participações S.A. A portion of the consideration we will pay in connection with this and the related transactions will be allocated to our share of CFN s negative shareholders equity. This acquisition is still subject to governmental approval and certain conditions.

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. See *Ferrous Minerals Pellets Distribution Iron Ore and Pellets*. We also use our ports and terminals to handle third-party cargo. In 2002, 20% of the cargo handled by our ports and terminals represented cargo handled for third parties.

Tubarão Maritime Terminal Complex. The Tubarão Maritime 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 180,000 DWT on the northern side. Pier II can accommodate one vessel of up to 330,000 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. Praia Mole Terminal, located in the

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Tubarão Maritime Terminal Complex, is principally a coal terminal and has an annual capacity of 12 million tons of coal, which is being expanded to 15 million tons per year in a project expected to be completed by 2004. In 2003, we have budgeted US$ 11 million for the expansion of the Praia Mole Terminal. The Tubarão Maritime Terminal Complex has a 75 million ton capacity of iron ore per year. We operate a grain terminal, accessible by highway in the Tubarão area, with an annual capacity of 6.0 million tons (4.5 million tons for grains and 1.5 million tons for general cargo) 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 per year.

Cargo shipped through our Tubarão Maritime Terminal Complex consists principally of iron ore and pellets. In 2002, 63,972 thousand tons of iron ore and pellets were shipped though the terminal (of which 58,980 thousand tons were shipped for us and 4,992 thousand tons were shipped for third-parties). Other cargo included coal, grain, coking coal, pig iron and fertilizers for a total of all cargo shipped of 83,897 thousand tons in 2002.

Ponta da Madeira Maritime Terminal Complex. The Ponta da Madeira Maritime 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. In 2003, we have budgeted US$ 16.4 million to build Pier III. Pier III will be able to accommodate vessels of up to 220,000 DWT and will have a maximum loading rate of 8,000 tons per hour.

Cargo shipped through our Ponta da Madeira Maritime Terminal Complex by tonnage consists principally of iron ore for us. Other cargo includes manganese ore for us and pig iron and soy beans for third parties. In 2002, 52,360 thousand tons were shipped through the terminal for us and 2,576 thousand tons were shipped through the terminal for third parties.

Other Investments. In September 1994, we licensed the Inácio Barbosa Maritime Terminal, a maritime 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 maritime terminal in Vitória, in the state of Espírito Santo. We shipped 2.0 million tons of cargo during 2002, and 1.7 million tons of cargo during 2001.

In September 1998, we acquired a 50% indirect interest in the lease of the Sepetiba container terminal, operated by Sepetiba Tecon S.A. 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, which started in January 2003. We have agreed, subject to certain conditions, to sell our indirect interest in Sepetiba Tecon to CSN. See *Business Overview Acquisitions, Asset Sales and Significant Changes in 2002 and 2003 Logistics*.

The Terminal de Vila Velha S.A. (TVV) is a port option for loading and unloading of containers, in addition to being an alternative for general cargo (import and export operations) and automobile operations in Southeast and Midwest Brazil. By connecting to the Vitória-Minas railroad and with easy access to the BR101 and BR262 highways, TVV is multimodal. The terminal is formed by berths 203 and 204 at the Capuaba Quay, has a 450 meter berth area and retro-area measuring nearly 100 thousand square meters. It has a covered storage area measuring 13,300 square meters and a yard with capacity for 3,300 containers. TVV is equipped with four quays cranes, two portainers and four transtainers. In 2002, TVV shipped over 102 thousand containers and approximately 735 thousand tons of diverse cargo, granite, iron ore and steel products and vehicles.

Cia. Portuária Baía de Sepetiba (CPBS) is a company owned by Ferteco created to operate the ore export terminal in the Port of Sepetiba. The ore export terminal has a pier that allows the boarding of ships of up to 18.1 meters and up to 230,000 DWT. In 2002 the terminal uploaded approximately 9.6 million tons of iron ore, of which 2.8 million tons were uploaded for Minerações Brasileiras Reunidas (MBR), a subsidiary of Caemi, and 798 thousand tons for companies unrelated to the CVRD Group.

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Shipping

The table below sets forth information on the volume of cargo that our dry bulk shipping service carried for the periods indicated.

	For the Year Ended December 31,		
	2000	**2001**	**2002**
	(Thousands of tons)		
Iron ore:			
CVRD Group	3,058	7,179	4,287
Third party	15,608	7,748	1,888
Coal	7,452	3,824	437
Other	9,031	7,036	1,294
Total	35,149	25,787	7,906

In the dry-bulk shipping business, Docenave generated total revenue of US$ 40 million in 2002. In 2001, the total revenue was US$ 183 million. The reduction in the year 2002 is due to the divestiture of Docenave s dry-bulk assets.

In the third quarter of 2002, Docenave s general cargo transportation service was reassessed and integrated into our intermodal logistics chain. Nine commercial representative offices throughout the coast of Brazil were opened to attend to our clients interests.

Docenave also operated a fleet of eight tugboats in the ports of Vitória in the state of Espírito Santo, Trombetas in the state of Pará, São Luís in the state of Maranhão and Aracajú in the state of Sergipe. In addition to Docenave s fleet, we also have three chartered tugboats, one operating in Trombetas and the other two in São Luís. In 2002 Docenave tugboats were responsible for 6,822 operations (manoeuvers) at the ports, generating total revenue of US$ 14.3 million.

We continued in 2002 the divestiture of our dry-bulk shipping business which we began in 2001, by selling the fleet of vessels owned by Docenave. In February 2002, the sale of the six Brazilian flag vessels with a total capacity of 592,240 DWT for US$ 53 million concluded with the delivery of the last vessel to Empresa de Navegação Elcano S.A. We have also sold another six Liberian flag vessels for US$ 45.7 million. We intend to sell our remaining dry-bulk assets in the near future.

Competition in the logistics industry. Our railroads compete with road transport, including trucks, with the main factors being cost and shipping time. We also have many international competitors in shipping.

Energy

In 2002 and 2001, we consumed 14.1 TWh and 12.5 TWh of electricity, respectively. Energy management and supply has become a priority for us, driven both by the uncertainties and opportunities associated with the Brazilian government s privatization 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 the second half of 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 set forth in the table below. These projects may sell their production to third parties in the power market. Our energy business includes the sale but not the delivery of electricity. We may use 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 volatility in price and supply of energy.

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The following table sets forth information regarding our power generation projects as of May 31, 2003:

	Location	Our Ownership Interest	Partners	Began Operations	Projected Capacity	Our Investment	
		(%)			(in MW)	As of December 31, 2002 (in millions of US$)	Projected Total (in millions of US$)
Aimorés	Rio Doce basin, in the state of Minas Gerais.	51.00%	Cemig-Capim Branco	December 2003(1)	330 MW	US$ 67.5	US$ 94.6
Candonga	Rio Doce basin, in the state of Minas Gerais.	50.00	EPP	November 2003(1)	140	24.0	40.1
Capim Branco I	Araguari river, in the state of Minas Gerais.	48.42	Cemig-Capim Branco Paineiras CMM	February 2006(1)	240	1.8	57.5
Capim Branco II	Araguari river, in the state of Minas Gerais.	48.42	Cemig-Capim Branco Paineiras CMM Camargo Corrêa Cimentos S.A.	June 2006(1)	210	1.4	70.1
Estreito	Tocantins river, on the border of the states of Maranhão and Tocantins.	30.00	Tractebel Alcoa BHP Billiton Camargo Energia S.A.	July 2007(1)	1,087	0.1	162.1
Foz do Chapecó	Uruguai river, on the border of the states of Santa Catarina and Rio Grande do Sul.	40.00	Foz do Chapecó Energia	July 2007(1)	855	1.5	175.5
Funil	Rio Grande, on the border between São Paulo and Minas Gerais.	51.00	Cemig-Capim Branco	December 2002	180	39.5	47.7
Igarapava	Rio Grande, on the border between São Paulo and Minas Gerais.	38.15	CMM CSN Cemig-Capim Branco MMV	January 1999	210	88.1	88.1
Porto Estrela	Santo Antonio river, in the state of Minas Gerais.	33.33	Cemig-Capim Branco Coteminas	September 2001	112	19.5	19.7
Santa Isabel(2)		43.85			1,087	0.2	231.4

	Araguaia river, on the border of the states of Tocantins and Pará.	BHP Billiton Alcoa Camargo Corrêa S.A. Votorantim Cimentos	August 2007(1)			
Total				4,451 MW	US$ 243.6	US$ 986.8

(1) Projected date of commencement of operations of the first unit of the project.
(2) We are currently negotiating with ANEEL to return our concession for the Santa Isabel project, in view of difficulties in obtaining the necessary environmental license to begin construction.

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Our partners in our energy investments include:

Companhia Energética de Minas Gerais, known as Cemig, is a state-government controlled company. Cemig Capim Branco Energia S.A., known as Cemig-Capim Branco, is an affiliate of Cemig.

Comercial e Agrícola Paineiras Ltda., known as Paineiras, which is an affiliate of Suzano Participações S.A.

BHP Billiton Metais S.A. is a wholly-owned subsidiary of BHP Billiton.

Companhia Mineira de Metais, known as CMM, which is an affiliate of Votorantim Participações S.A.

Alcoa Alumínio S.A., known as Alcoa, which is an affiliate of Alcoa Inc.

Mineração Morro Velho Ltda., known as MMV, which 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, which is affiliated with Coteminas International Ltd.

Tractebel Egi South America Ltda., known as Tractebel, which is a subsidiary of Tractebel S.A., a SUEZ group energy division.

Our total projected investment in these hydroelectric projects is estimated at US$ 987 million. We cannot assure you that the aggregate cost will not escalate or that the projects will be completed on schedule.

In addition to the above, some of our affiliates generate part of their own energy.

Aluminum-Related Operations

The table below sets forth information regarding our consolidated bauxite, alumina and aluminum revenues and sales by geographic market for the periods indicated. These figures do not include the revenues of our unconsolidated joint ventures.

	For the Year Ended December 31,		
	2000	**2001**	**2002**
Revenues classified by geographic destination			
Export sales:			
Latin America	US$ 23	US$ 9	US$ 27
Europe	237	173	318
Middle East	16		
Japan	34	12	11
United States	39	73	10
Asia, other than Japan	1	16	21
Subtotal	350	283	387
Domestic sales	12	1	75
Total	US$ 362	US$ 284	US$ 462
Revenues classified by category			
Bauxite	18	21	23
Alumina	54	32	159
Aluminum	290	231	280

Total	US$ 362	$ 284	US$ 462

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We operate our aluminum-related businesses through the following subsidiaries and joint ventures, as of May 31, 2003:

	Business	Our Direct or Indirect Share of Capital (Voting, Total)		Partners
		Voting	Total	
		(%)		
Albras-Aluminio Brasileiro S.A. (Albras)	Aluminum	51.00 %	51.00%	Nippon Amazon
Alunorte-Alumina do Norte do Brasil S.A. (Alunorte)	Alumina	62.09	57.03	Companhia Brasileira de Alumínio JAIC Nippon Amazon Norsk Hydro
Mineração Rio do Norte S.A. (MRN)	Bauxite	40.00	40.00	Abalco Alcoa Alcan BHP Billiton Metais Companhia de Brasileira Alumínio Norsk Hydro
Mineração Vera Cruz S.A. (MVC)	Bauxite	100.00	100.00	
Valesul Aluminio S.A. (Valesul)	Aluminum	54.50	54.50	BHP Billiton Metais

These subsidiaries and joint ventures 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 products produced by its subsidiaries and affiliated companies. In 2002, net revenues from aluminum products totaled US$ 462 million.

Bauxite

MRN, the largest bauxite producer in Latin America and one of the largest in the world, produces bauxite for sale to us and our joint venture partners. Excess production may be sold to third parties. MRN operates three 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$ 173 million and net income of US$ 94 million in 2002. MRN s mines are located in the northern region of the state of Pará.

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The table below sets forth information regarding MRN s bauxite reserves as of December 31, 2002. The estimates of mineral reserves have been audited and verified by AMEC. We are in the process of confirming the amount of proven and probable reserves at MVC.

	Proven and Probable Reserves(1)		
	Type	**Ore Tonnage**	**Grade(2)**
		(Millions of tons)	**(% Al_2O_3)**
Mineração Rio do Norte S.A. (3)	Open pit	129.2	50.5

(1) Reported as washed bauxite recoverable product. Recovery of washed bauxite from raw bauxite ore ranges from 67.4 to 76.4%, depending on the individual deposit. Average drill spacing is 200 by 200 meters.
(2) Expressed as $A1_2O_3$.
(3) Includes four active mines: Almeidas, Aviso, Papagaio Oeste and Saracá.

Operations at MRN s mines commenced in 1979 and the proven and probable reserves are projected to be exhausted in 2017. For 2000, 2001 and 2002, production equaled 11.2, 10.7 and 9.9 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 expanded its capacity from 11.0 million tons to 16.3 million tons in 2003. The cost of this expansion is estimated at approximately US$ 230 million.

In July 2002, we acquired 64% of the total capital of MVC, through our wholly-owned subsidiary Aluvale. Aluvale now holds 100% of MVC, which holds active mining rights in the Paragominas region in the state of Pará. A new bauxite mine wholly-owned by MVC, and located in Paragominas, will begin operations in December 2005 to supply Alunorte s new expansion with 4.5 million tons per year of wet 12% moisture bauxite. The bauxite quality will be similar to MRN s, and the project will use the strip mining method of extraction, and have a beneficiation plant including milling and a 230 kilometer long slurry pipeline. We expect that total capital expenditures on this project will be approximately US$ 280 million.

Our MRN bauxite joint venture produces bauxite for sale on a take-or-pay basis to us and our joint venture partners at a price that is determined by a formula based on prevailing world prices of aluminum. Our Alunorte alumina subsidiary, which we began consolidating in July 2002, purchases all of its bauxite requirements from MRN. Our annual purchase commitment for 2002 was approximately US$ 82 million.

Alumina

Alunorte began operations in July 1995 and produces alumina by refining bauxite which MRN supplies. The Alunorte plant recently concluded an expansion of capacity and now has a production capacity of 2.375 million tons of alumina per year. In 2002, it produced 1.7 million tons. Alunorte sells the major portion of its production to Albras, Valesul and third-party aluminum companies 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, Albras, to share infrastructure and other resources. Alunorte had net revenues of US$ 265 million and net loss of US$ 101 million in 2002.

Each Alunorte joint venture partner must purchase on a take-or-pay basis all alumina produced by Alunorte in proportion to its respective interest. 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 131,000 metric tons per year of alumina produced by Alunorte, which at a market price of US$ 171.36 per metric ton at December 31, 2002, represents an annual commitment of US$ 22 million.

In 2000, we and our joint venture partners in Alunorte 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 2003, a project which cost approximately US$ 300 million. Our share of this contribution was US$ 37 million.

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In June 2002, we acquired common shares and preferred shares representing 12.62% of the total capital of Alunorte from MRN. Following the acquisition, we now hold, directly or indirectly, 62.09% of the common shares and 19.05% of the preferred shares, representing 57.03% of Alunorte s total capital.

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 430,000 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$ 529 million and net income of US$ 21 million in 2002.

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$ 279 million. See note 15(d) to our consolidated financial statements. We generally market our share of Albras s output in international export markets to third-party aluminum processing companies.

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

	For the Year Ended December 31,		
	2000	2001	2002
	(Thousands of tons)		
Albras production	366.0	333.0	407.7
Our purchases from Albras	187.0	167.0	208.8

As of December 31, 2002, Albras had US$ 323 million of long-term outstanding debt, of which US$ 60 million was denominated in Japanese yen (approximately 50% 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. See *Item 11. Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk.*

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 non-peak period 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 discounted prices. This contract is scheduled to expire in 2004. We, together with other aluminum producers in the region, are currently investigating alternative electricity sources, as well as negotiating the possible renewal of this contract on new terms. See *Energy*.

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$ 139 million and net income of US$ 25 million in 2002. Valesul sells directly to its own clients.

The table below sets forth information regarding Valesul s recent primary aluminum production and third-party scrap recycled by Valesul.

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	For the Year Ended December 31,		
	2000	2001	2002
	(Thousands of tons)		
Valesul production	93.8	80.1	92.9
Third-party scrap recycled	19.5	20.1	21.4

Valesul currently obtains a portion of its electrical energy requirements from four wholly-owned hydroelectric power plants located in the state of Minas Gerais, a portion from the Machadinho hydroelectric power plant in which Valesul has a share of 7% and the remainder from a third-party power company at market rates. Valesul is able to supply 100% of its own energy requirements during peak hours.

Competition in Bauxite, Alumina and Aluminum

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.

Competition in the alumina market is based primarily on quality, price and reliability of supply. 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 ongoing support of its owners in committing to purchase a substantial portion of its annual production.

As aluminum is a commodity, competition in the aluminum market 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.

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Steel Investments

We have investments in the following joint ventures in the steel business, as of May 31, 2003:

	Our Direct or Indirect Share of Capital (Voting Total)		Partners	2002 Production	2002 Net Revenues	Principal Products
	Voting	Total				
	(%)			(Millions of tons)(1)	(In millions of US$)(2)	
CSI (California)	50.0%	50.0%	JFE Steel	1,827	US$ 754	Hot-rolled steel; cold-rolled steel; galvanized steel; steel tubes
CST (Brazil)	24.9	28.0(3)	Acesita Usinor JFE Steel Others	4,865	976	Steel slabs; hot-rolled steel
Siderar (Argentina)	5.0	4.9	Techint Group Employees Usiminas Others	2,175	915	Steel slabs; hot-rolled steel; cold-rolled steel; galvanized steel; tin plates
Usiminas (Brazil)	23.0	11.5	Nippon PREVI Caixa does Empregados da Usiminas Others	8,447	2,265	Hot-rolled steel; cold-rolled steel; heavy steel plates; electro galvanized steel

(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
(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$ 206 million at December 31, 2002. The aggregate net book value of these investments was US$ 57 million at December 31, 2002. The aggregate net book value of our total investments in steel producing companies (including CSI, a privately held company) was US$ 164 million at December 31, 2002. We earned US$ 17 million in dividends from these investments in 2002.

In line with our strategy to consolidate and focus on mining, logistics and energy, in March 2001, we unwound our cross-holding relationships with CSN. 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 at market rates 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 prior to March 2006.

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

In April 2003, we acquired shares of CST from Acesita that are not subject to the CST controlling shareholders agreement. In this transaction, we acquired 4.42% of the common shares and 5.64% of the preferred shares of CST, representing 5.17% of CST s total capital, for US$ 59.7 million. Following this transaction, we now own 24.93% of CST s common shares and 29.96% of CST s preferred shares, totaling 28.02% of CST s capital. In addition, we are currently negotiating with the Japanese Group to acquire the Japanese Group s shares of CST, jointly with Arcelor. Upon the earlier of our acquisition of the Japanese Group s stake and the termination of the controlling shareholders agreement in 2005, we also expect to acquire, jointly with Arcelor, the remaining shares of CST held by Acesita and CSI. We expect that the cost of acquiring these two stakes in CST will be approximately US$ 121 million. By increasing our stake in CST s capital, we ensure our presence in the controlling group. We have also entered into agreements with Arcelor to guarantee the liquidity of our position, under which we expect to decrease our participation in CST between 2007 and 2009 to 20% of the shares owned by the controlling group. By 2015, we will sell any remaining stake in CST. Our stake in CST will be sold at prices based on a valuation performed by two investment banks.

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. Fosfértil generated gross revenues of US$ 233 million in 2002.

REGULATORY MATTERS

Mining

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

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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 charges us a royalty, known as *Financial Compensation for Exploiting Mineral Resources* (CFEM), on the revenues from the sale of minerals we extract, net of taxes, insurance costs and costs of transportation. The annual rates paid on our products are:

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

It also imposes other financial obligations. For example, mining companies must compensate landowners for the damages and loss of income caused by the use and occupation of the land (either for exploitation or exploration) and must also share with the landowners the results of the exploration based on 50% of the CFEM. Mining companies must also compensate the government for damages caused to public lands. 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.

Railroads

The Brazilian government, acting through the Ministry of Transportation and the National Agency of Terrestrial Transportation (ANTT), regulates and supervises the policies for the railroad transportation sector. The Federal Government may grant private companies concessions for the construction, operation or commercial exploration of railroads. The ANTT sets different tariff limits for railroad services for each of the concessionaires and each of the different products transported. So long as these limits are respected, the actual prices charged can be negotiated directly with the users of such services.

Energy

The power industry in Brazil is comprehensively regulated by the Brazilian government, acting through the Ministry of Mines and Energy and ANEEL, the Brazilian electricity regulatory governmental agency. The role of the Ministry of Mines and Energy is to develop policies and regulations aimed at organizing and regulating the electricity sector. ANEEL s main function is to ensure the efficient and economical supply of energy to consumers by monitoring prices and promoting market competition.

Under Law No. 8,987, concessions grant exclusive rights to generate and transmit or to distribute electricity in a particular area for a period of time that, in the opinion of ANEEL, is sufficient for the concessionaire to recover its investment, up to a limit of 35 years in the case of concessions for power generation. Concessions may be renewed at ANEEL s discretion for an additional period of equal duration. Concessionaires are required to supply electricity for public services at the established prices, on a continuing basis, in sufficient quantity and within approved standards of quality.

To mitigate the potential volatility of revenues for hydroelectric generators, ANEEL has implemented regulations that create the Energy Reallocation Mechanism, known as MRE, a mechanism for sharing hydrological risk among all generators. In order to implement the MRE, ANEEL designates a level of energy production, known as Assured Energy, for each generator, every five years. Assured Energy is calculated in accordance with a statistical model based on average rainfalls in the relevant region, water flows of rivers and water levels in each plant s reservoir over a multi-year time frame. Each generator is promised payment for the amount of its Assured Energy, as long as MRE members as a whole are able to meet MRE Assured Energy levels. To the extent a generator has signed contracts for the sale of its Assured Energy, it receives payments based on these contractual terms, regardless of its level of

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actual generation. Each generator is allowed to enter into contracts to sell up to 100% of its Assured Energy. If all MRE members meet their contracted energy and there is a surplus of energy remaining, the net regional surplus generation is allocated among generators in different regions.

All contracts for the wholesale purchase and sale of energy are recorded in the wholesale energy market, or MAE. The MAE is a non-profit private entity subject to the authorization, regulation and supervision of ANEEL, and is responsible for operating the wholesale energy market and for ensuring that purchases of energy in the short-term market are settled and cleared in an efficient manner. The MAE is primarily designed to effect the settlement of differences between the contracted energy amounts under bilateral contracts of the several market agents, and the amounts actually consumed and produced. The settlement is done in accordance with the MAE spot prices, which are expressed in R$/MWh and are calculated for each settlement period for each sub-market. Financial settlement of the balances traded on the MAE are still under review by outside auditors and only 50% of the volume has been settled, with the remainder expected to be settled in July 2003.

The recently elected Brazilian government has yet not made clear its policy towards the electricity markets, and no concrete measures have been enacted to date. We will not be able to make a fair assessment of the new regulatory environment until the government releases its new policies. Changes in the regulatory environment could negatively affect our energy investments.

Environmental Matters

Federal, state and municipal legislation contain provisions for the control and protection of the environment in Brazil. These laws govern the use of natural resources, 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 and the control of water resources under the National Hydrological Resources Policy, which establishes hydrologic use rights and the fees applicable to that use. It is possible that environmental regulations will become more strict in the future. Any strengthening of these laws may lead to greater costs for environmental compliance.

In order to conduct our mining, energy generation and industrial activities, we must prepare environmental impact assessments and submit them to authorities who oversee the granting of environmental permits. We seek to comply with all legal requirements and to achieve good relationships with interested parties, especially the communities located near our operations. Our environmental management system is designed to provide a systematic approach to environmental issues.

Under Brazilian Federal Law No. 9,605, non-compliance with environmental laws and regulations can result in criminal penalties, such as imprisonment and other restrictions for individuals (including directors, officers and managers of companies), and fines and the mandatory rendering of public services by companies. Administrative penalties range from warnings and fines to the suspension of corporate activities, and may also include the loss or reduction of incentives, or the cancellation or interruption of credit facilities granted by governmental institutions.

Issuance of Environmental Licenses. We must obtain environmental licenses in order to build, install, expand and operate facilities that use natural resources or may pollute the environment. We seek to obtain the legally required licenses for each of our facilities and activities. We have entered into agreements with the appropriate environmental authorities with respect to facilities where environmental non-compliance has been detected in order to make these facilities compliant.

Prevention and Environmental Control Measures. Our environmental policies also aim to prevent, control and reduce the environmental impact caused by our business operations. To that end, we have made significant environment related investments in our facilities and in employee training programs (approximately US$ 10.8 million in 2002). We are also investing to develop environmental projects directed at the communities located near our facilities (approximately US$ 2.4 million in 2002).

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Water Use. We are intensive water users in eleven states with hydrological resources that vary from very high water availability in the Amazon to the scarcity in the northeast of Brazil. The Hydrical Resources Management System that is being implemented throughout CVRD, includes evaluation of the availability of water in the areas where we operate and rationalization and control of water use. We continually monitor new water legislation and regulations and take particular interest in requirements adopted under the National Policy of Hydrical Resources, established by Law 9433/97, which defines the conditions for obtaining the water use grants and for effluents disposal.

ISO Certifications. Our environmental management system is based on International Organization for Standardization (ISO) standard 14001. We have obtained 12 certificates. In 2002 the following installations were certified under ISO 14001:

Docenave Tug Wharf, Espírito Santo State;

The iron and gold mining complexes of Itabira and Conceição, Minas Gerais State;

Gongo Soco, Minas Gerais State;

Sociedade Mineira de Mineração manganese mine, Minas Gerais State;

Ferteco Mineração iron ore mines, Minas Gerais State;

Companhia Portuária Baía de Sepetiba Maritime Terminal, Rio de Janeiro State; and

Rio Doce Manganèse Europe, France.

Environmental Control Systems. As a mining company, air emissions control is one of our main objectives, including in our pelletizing plants. Control equipment and systems at our facilities are complemented by monitoring systems and control software.

With respect to improvements in water quality, we strive to treat and control the pollutants disposed into the sea and into the local rivers or other water sources and also use extensive water recycling in our operations.

Through a comprehensive waste management system under implementation, we aim to achieve greater control of the generation and disposal of our waste, to develop opportunities to reuse and recycle, and to reduce waste.

Our environmental program also includes reforestation projects which are intended to protect the soil against erosion processes, or to create buffers between our activities and communities in the surrounding areas.

We are also pursuing other legally required projects in connection with the restoration of lands degraded in the course of our mining operations. Environmental laws require us to spend at least 0.5% of the total cost of each venture with a material environmental impact to create and maintain protected sites. In 2002 we spent US$ 4.7 million on these activities. We also participate in the maintenance and preservation of Brazilian forests, including the National Carajás Forest in the Amazon, and we own and preserve the Vale do Rio Doce Natural Reserve, one of the remaining areas of the Atlantic Forest in the state of Espírito Santo. In the last twenty years we have provided support to the indigenous communities in the areas of education, health, infrastructure development and technical assistance with the aim of enhancing life quality and self-sustainability of these communities. Expenditures on these programs amounted to US$ 3.7 million in 2002.

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, which are the governmental agencies responsible for the granting and registration of patent and trademarks rights in the United States and in Brazil, as well as in other countries. The majority of our patents relate to proprietary ore dressing processes. One of our most successful

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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 also registered our trademark and our proprietary logo with the INPI. We renew our trademark registrations with the INPI every ten years.

INSURANCE

We carry insurance covering various types of risks, such as property, liability, vehicles, liability of maritime terminals and transportation, as well as a group life insurance policy for 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.

CAPITAL EXPENDITURES

Capital expenditures in 2002 included:

- the construction of the São Luís pelletizing plant;
- the expansion of the logistics capacity for iron ore produced in the Northern System, which includes part of the construction of Pier III at the Ponta da Madeira Maritime Terminal and the expansion of iron ore stockyards;
- the purchase of new locomotives and the expansion of cargo capacity in the Southern System;
- the acquisition of the stake of our partner in the Salobo copper project in the Carajás region;
- preparation for the start-up of operations of the Sossego copper project in the Carajás region in 2004;
- the pre-feasibility study on the Vermelho nickel deposit, which we expect will conclude in the second half of 2003;
- part of the project to expand the capacity of the Taquari-Vassouras potash mine in the state of Sergipe;
- part of the expansion of alumina production capacity at Alunorte and bauxite production capacity at MRN; and
- part of the construction of hydroelectric plants, particularly the Aimorés and Candonga plants, which we expect will begin operating in late 2003, and the Funil plant, which began operations in December 2002.

The table below sets forth our historical capital expenditures by business area for the periods indicated. Our capital expenditures have historically been more intensive in the second half of the year. See *Item 5* for a description of our divestitures and budgeted capital expenditures.

	For the Year Ended December 31,		
	2000	2001	2002
	(In millions of US$)		
Ferrous	US$ 354	US$ 454	US$ 435
Non-ferrous	50	40	132
Logistics	14	25	33
Energy	19	52	72
Aluminum			63
Corporate center	10	24	31
Total	US$ 447	US$ 595	US$ 766

Capital expenditures relating to non-ferrous products increased 230% from US$ 40 million in 2001 to US$ 132 million in 2002, primarily due to the implementation of copper projects.

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Item 5. Operating and Financial Review and Prospects

OVERVIEW

Despite a sluggish world economy and lower selling prices for our iron ore and pellets, our net operating revenues continued to improve in 2002, rising 4.8% to US$ 4,123 million, largely as a result of strong Chinese demand for iron ore and pellets. Operating income also improved, rising 48.5% to US$ 1,429 million. The increase in operating income resulted primarily from the devaluation of the *real*, which reduced our costs, 52% of which were denominated in *reais*. Despite the increases in revenues and operating income, our net income was sharply lower in 2002, declining by 47.1% to US$ 680 million from US$ 1,287 million in 2001. This decline resulted primarily from gains on sales of investments (paper and pulp, steel and dry-bulk shipping) in 2001 of US$ 784 million. Net income in 2002 was also negatively affected by a 36.1% increase in foreign exchange and monetary losses resulting from the impact of the devaluation of the *real* on our U.S. dollar denominated debt.

Key Factors Affecting Revenue and Results of Operations

Prices

Ores and Metals

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. Fines, lump ore and pellets typically command different prices. We generally conduct annual price negotiations beginning in November of each year and ending early in the following year. Separate prices are 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.

	Reference Prices for Europe in US$ cents/metric ton Fe unit		
Year	**Carajás fines**	**Standard sinter feed**	**Blast furnace pellets**
2000	28.79US¢	27.67US¢	49.24US¢
2001	30.03	28.92	50.10
2002	29.31	28.62	47.36
2003	31.95	31.04	52.00

Our reference prices per Fe unit for iron ore declined across-the-board in 2002 by 2.4% from 2001 levels, after rising by 4.5% in 2001 from 2000 levels. We experienced similar trends in the market for pellets, where reference prices declined by 5.5% in 2002, after rising by 1.7% in 2001. In light of high levels of demand for iron ore, in May 2003, we concluded agreements with several major steelmakers under which our iron ore reference prices for 2003 will increase by an average of 9%. In June 2003, we concluded agreements under which our pellet reference prices for 2003 will increase by an average of 9.8%.

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Gold. We sell gold in an active world market in which prices respond to daily changes in supply and demand. The following table sets forth the London Gold Market prices for the periods indicated.

	Gold
	(per troy ounce)
1Q00	US$ 277
2Q00	288
3Q00	274
4Q00	274
1Q01	258
2Q01	269
3Q01	293
4Q01	278
1Q02	299
2Q02	319
3Q02	324
4Q02	347

We generally seek to manage the risks associated with changes in gold prices through hedging. For more information about our gold hedging activities, see *Item 11. Quantitative and Qualitative Disclosures about Market Risk*. Average gold prices were higher in 2002 than in 2001, reflecting a number of factors including weakness in the U.S. dollar, international political tension and equity market declines that increased the attractiveness of gold as an alternative investment.

Aluminum-Related Operations. We operate our aluminum operations through a combination of subsidiaries and non-consolidated joint ventures. We consolidate the revenues of (i) Alunorte, which sells alumina, and (ii) our wholly-owned trading subsidiary Itabira Rio Doce Company Ltd., which we refer to as Itaco, which resells bauxite, alumina and aluminum. Our remaining bauxite, alumina and aluminum operations are reflected in the line item Equity in results of affiliates and joint ventures and change in provision for losses on equity investments in our consolidated income statement.

Through Itaco, 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. The following table sets forth the three-month average market prices for aluminum on the London Metals Exchange for the periods indicated.

	Aluminum
	(per pound)
1Q00	US$ 0.75
2Q00	0.68
3Q00	0.72
4Q00	0.69
1Q01	0.71
2Q01	0.69
3Q01	0.64
4Q01	0.61
1Q02	0.63
2Q02	0.62
3Q02	0.60
4Q02	0.62

Three-month average market prices for aluminum on the London Metals Exchange declined during 2002 from US$ 1,454 / ton in 2001 to US$ 1,365 / ton in 2002, primarily reflecting an increase in world aluminum production that more than offset a modest recovery in world demand. Albras and Alunorte seek to manage the risks associated with changes in aluminum prices by hedging. For more information about aluminum hedging, see *Item 11. Quantitative and Qualitative Disclosures about Market Risk*. During the first five months of 2003 three-month average

market prices for aluminum on the London Metals Exchange rose by 4.23%. During the same period, world alumina prices also increased substantially.

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We conduct our bauxite, alumina and aluminum business through subsidiaries and consolidated and unconsolidated joint ventures. Our unconsolidated joint venture MRN sells a substantial proportion of its bauxite to our consolidated subsidiary Alunorte, which in turn sells a substantial portion of its alumina production to our unconsolidated joint ventures Albras and Valesul. The basic arrangements under which these sales are made are as follows:

Our MRN bauxite joint venture produces bauxite for sale on a take-or-pay basis to us and our joint venture partners at a price that is determined by a formula based on prevailing world prices of aluminum. Our Alunorte alumina subsidiary, which we began consolidating in July 2002, purchases all of its bauxite requirements from MRN. Our annual purchase commitment for 2002 was approximately US$ 82 million.

Each Alunorte joint venture partner must purchase on a take-or-pay basis all alumina produced by Alunorte in proportion to its respective interest. Each joint venture partner pays the same price, which is determined by a formula based on prevailing world prices of aluminum and alumina. Our annual purchase commitment for 2002 was approximately US$ 22 million. In June 2002, we increased our stake in and acquired control of Alunorte (alumina) and began consolidating it in our financial statements. As a result, since June 2002, payments we make to Alunorte under our take-or-pay commitment are eliminated in preparing our consolidated financial statements.

Each Albras aluminum joint venture partner must purchase on a take-or-pay basis all aluminum produced by Albras in proportion to its ownership interest. In our case, our take-or-pay commitment is 51% (representing our proportional ownership interest) of the joint venture s annual aluminum production. Although our annual purchase commitment to Albras can be substantial, approximately US$ 279 million in 2002, prevailing world market prices for aluminum (subject to discount in accordance with the terms of our joint venture agreements) determine the aluminum prices at which we purchase from Albras. We resell the aluminum we receive from Albras through our trading subsidiary Itaco and earn a margin on the sale. We do not have a take-or-pay commitment to Valesul, which sells aluminum directly to its customers.

Manganese and Ferroalloys. Manganese and ferroalloy prices are strongly influenced by trends in the steel market. Manganese prices are generally negotiated on an annual basis using a benchmark established in the Japanese market based on the reference price for the related ferroalloys. Ferroalloy prices are negotiated in open bids, quarterly contracts (particularly in Europe) or on a spot basis. They are influenced by a number of factors and are more volatile than prices for manganese. Among the principal factors are the price of manganese, the inventories held by producers or traders, occasional interruptions in production and anti-dumping tariffs in the principal markets (U.S., Europe, Japan and Korea). Average manganese prices declined to US$ 54 per ton in 2002 from US$ 63 per ton in 2001, primarily reflecting poor conditions in the world steel market at the time the annual prices for 2002 were established. Average ferroalloy prices declined from US$ 456 per ton in 2001 to US$ 423 per ton in 2002, reflecting changes in our product mix.

Potash and Kaolin. Potash prices were lower in 2002 than in 2001, primarily reflecting lower world prices due to an increase in low-price exports from Russia and Jordan, which have cut prices to gain market share. Kaolin prices have remained fairly stable over the last decade, and showed little movement during 2002 and 2001. The average prices per ton for each of the years 2002 and 2001 were US$ 136 and US$ 130, respectively, an increase of 5%, primarily reflecting increased demand.

Logistics

We earn our logistics revenues primarily from fees charged to customers for the transportation of cargo via our railroads, ports and ships. Most of these revenues are earned by our railways, and nearly all of our logistics revenues are denominated in *reais.* Prices in the Brazilian railroad market are subject to maximum levels set by the Brazilian regulatory authorities but in practice have historically fallen well below the maximum levels permitted by law, primarily reflecting railroads need to remain competitive with the trucking industry. In 2002, prices for transportation

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of general cargo increased in *real* terms from 2001 levels, reflecting inflation as well as rising demand and an increase in trucking prices, which are used as a reference when setting railroad freight prices.

Demand

Demand for Mineral Products

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 experienced a downward trend over the three-year period from 2000 to 2002. A slowdown in economic activity in Europe or Asia will generally affect demand for our iron ore products, although there will typically be a lag effect. In recent years, we have experienced a significant increase in demand from China that has offset lower demand in Europe and elsewhere in Asia. Demand for our other mineral products is also influenced to varying degrees by worldwide economic activity.

Driven primarily by demand from China, demand for iron ore and pellets increased throughout 2002, and by the fourth quarter of 2002, had begun to exceed our production capacity. We expect that demand will continue to exceed our production capacity in 2003. We plan to invest US$ 217 million in 2003 to increase the production capacity of our mines and to expand the capacity of our ports in order to better meet rising customer demand. In the interim, to the extent demand exceeds our production capacity, we expect to purchase and resell iron ore and pellets from third parties to attempt to meet any shortfall.

Demand for Third-Party Transportation Services.

Demand for our third party transportation services is influenced by Brazilian economic growth as well as by Brazilian exports and imports of goods. Demand for general cargo services was higher in 2002, primarily reflecting the improved health of the Brazilian economy and a strong grain crop. We expect logistics demand to continue to increase in 2003, reflecting continued growth in the Brazilian gross domestic product and international trade.

Currency Fluctuations

Most of our sales are dollar-denominated, while most of our costs (other than debt expenses) are denominated in Brazilian currency. As a result, when the *real* is relatively strong against the 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 dollar-denominated, a relatively weak *real* causes us to record monetary and foreign-exchange losses. The 34.3% decline of the *real* had a significant impact on our results in 2002. During the first five months of 2003, the *real* has appreciated 19.1% against the dollar. We cannot predict the future direction of exchange rates.

Acquisitions

In June 2002, we increased our stake in and acquired control of Alunorte (alumina) and began consolidating it in our financial statements. We previously had accounted for Alunorte under the equity method. We also increased our stakes in Salobo and MVC in 2002, but these acquisitions did not have a significant impact on our gross revenues, net income or total assets.

The following table shows the effect of the Alunorte acquisition on our gross revenues, net income and total assets.

	As of and for the Year Ended December 31,
	2002
Increase in gross revenues	3.0%
Increase in net income	3.8
Increase in total assets	7.4

We have continued to make acquisitions in 2003, as more fully described in *Item 4. Information on the Company Business Overview.* In particular, in March 2003, we reached an agreement with Mitsui to acquire its remaining stake in Caemi, for US$ 426.4 million. After the transaction, we will own 100% of Caemi s common shares, 40% of its preferred shares and 60.2% of its total capital. Caemi, a Brazilian company with its headquarters in Rio de Janeiro, is the world s fourth largest producer of iron ore and is listed on BOVESPA. This acquisition is

subject, *inter alia*, to the review and approval of competition authorities and the completion of the Valepar transactions described under *Item 7. Major Shareholder and Related Party Transactions*.

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Divestitures and Asset Sales

In 2001, we divested our interests in Bahia Sul (pulp and paper), Cenibra (pulp and paper) and CSN (steel). In addition to these divestitures, in 2001 and 2002, we recorded the sale of the remaining forestry assets in connection with our exit from the pulp and paper business and ships in connection with our exit from the dry-bulk shipping business. The following table shows the effects of these divestitures on our gross revenues, net income and total assets. The percentages in the table represent the portion of our revenues, net income and total assets attributable to the divested businesses and assets in the periods indicated prior to disposal.

	As of and for the Year Ended December 31,		
	2002	**2001**	**2000**
Decrease in gross revenues	0.1%	4.7%	6.9%
Decrease (increase) in net income	0.1%	(1.0)%	7.3%
Decrease in total assets	0.7%	1.7%	7.7%

On June 18, 2003, we agreed to sell our one remaining gold mine, Fazenda Brasileiro, to Yamana Resources Inc., a Canadian mining company, for US$ 20.9 million. The sale is subject to certain conditions. Upon completion of the sale, our gold operations will be interrupted until the start-up of the copper projects we are currently developing in Carajás, where we expect to produce gold as a by-product of the copper mining process.

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 can have a significant effect on our results of operations and financial condition. 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 have not materially affected our 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 years ended December 31, 2002, 2001 and 2000 the prevailing market rate was US$ 20.62, US$ 22.87 and US$ 24.48 per MWh, respectively. The average price paid by Albras for the same periods was US$ 12.86, US$ 11.27 and US$ 11.93 per MWh, respectively. The Eletronorte contract is scheduled to expire in May 2004. Albras is currently negotiating a possible new contract and is examining other alternatives. Although we expect future energy costs for Albras to be in line with those of its peers in the industry, its costs will likely increase compared to current levels following expiration of the current contract.

Effects of Brazilian Energy Shortages

On June 1, 2001, the Brazilian government, as part of its energy rationing program, required reductions in energy consumption of at least 20% compared to average consumption for May, June and July 2000. Aluminum and ferroalloy 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 12.5 TWh. In 2000, our total energy consumption was 13.8 TWh. As a result, we reduced our ferroalloy 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, on March 1, 2002, the Brazilian government eliminated the rationing in the rest of the country.

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For a discussion about the possible consequences and risks associated with future energy shortages, see *Item 3. Risk Factors Risks Relating to Brazil.*

Domestic Inflation Rates in Brazil

As measured by the IGP-M Index, the Brazilian inflation rate was approximately 9.9% in 2000, 10.4% in 2001 and 25.3% in 2002. Most of our costs are incurred in Brazil in *reais,* while most of our revenues are earned outside of Brazil in U.S. dollars. Inflation generally has a negative impact on our operating margins only in periods where it exceeds the rate of devaluation of the *real* against the U.S. dollar. In recent years and in 2002, domestic inflation in Brazil has been more than offset by devaluation of the *real.*

Brazilian Taxes

We are subject to a number of Brazilian taxes. Brazilian tax legislation changes, which are frequent, can have a significant impact on our results of operations. The principal taxes we pay are:

Value-Added Tax and Revenue Taxes. Our gross 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. We also collect other revenue taxes for social programs that are recorded under the line items value-added tax and other financial expenses in our financial statements. Export sales are currently exempt from both the value-added tax and the social taxes.

Income tax and Social Contribution on Profits. We pay income taxes, which include a tax called the social contribution on profits. The social contribution on profits tax rate has fluctuated in the past three years from 8% to 12% and is currently at 9%.

Critical Accounting Policies

We believe that the following are our critical accounting policies. We consider an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of our management. For a summary of all of our significant accounting policies, see note 1 to our consolidated financial statements.

Translation Adjustments

Our reporting currency is the U.S. dollar, but our functional currency for the majority of our operations is the *real*. In accordance with Statement of Financial Accounting Standards (SFAS) 52 Foreign Currency Translation, we translate statement of income items to reflect the approximate results that would have occurred if each transaction had been translated using the exchange rate in effect on the date that the transaction was recognized. Because the separate translation of every transaction is impractical, an appropriate weighted-average exchange rate for the period is used. In most cases, we translate our statement of income accounts and those of subsidiaries that use the *real* as their functional currency into U.S. dollars at weighted average monthly rates for the relevant reporting period. In the case of material exceptional items, we translate the amounts into U.S. dollars using the exchange rate on the date of the transaction. Additionally, during periods of high exchange rate volatility, we use estimated daily rates to translate our foreign exchange and monetary losses, financial currency, financial income and financial expenses. The determination of the appropriate weighted-average exchange rate requires significant management judgment and estimates. During 2002, the *real* devalued by approximately 34.3% against the U.S. dollar and generated a debit for the year recorded directly in the cumulative translation adjustment account of US$ 1,710 million.

Reserves and Life of Mines

We regularly evaluate and update our estimates of proven and probable mineral reserves. Our proven and probable mineral reserves are determined using generally accepted estimation techniques and are audited by AMEC, an expert in geology, mining and iron ore reserves. Calculating our reserves requires us to make assumptions about future conditions that are highly uncertain, including future ore prices,

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foreign currency exchange rates, inflation rates, mining technology, availability of permits and production costs. Changes in some or all of these assumptions could have a significant impact on our recorded proven and probable reserves.

One of the ways we use our ore reserve estimates is to determine the mine closure dates used in recording the fair value liability for our asset retirement obligations and the periods over which we amortize our mining assets. Any change in our estimates of total expected future mine or asset lives could have a significant impact on the depreciation, depletion and amortization charges recorded in our consolidated financial statements under cost of goods sold. Changes in the estimated lives of our mines could also significantly impact our estimates of environmental and site reclamation costs, which are described in greater detail below.

Environmental and Site Reclamation 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.

Until December 31, 2002, we provided only for environmental liabilities relating to site restoration at mines already closed or which were expected to close in the next two years. The estimation of environmental costs was based on projections limited to the next two years and was not discounted to present value.

Effective January 1, 2003, we adopted SFAS 143 Accounting for Asset Retirement Obligations. SFAS 143 requires that we recognize a liability for the fair value of our estimated asset retirement obligations in the period in which they are incurred, if a reasonable estimate can be made. We consider the accounting estimates related to reclamation and closure costs to be critical accounting estimates because:

- we will not incur most of these costs for a number of years, requiring us to make estimates over a long period;
- reclamation and closure laws and regulations could change in the future or circumstances affecting our operations could change, either of which could result in significant changes to our current plans;
- calculating the fair value of our asset retirement obligations in accordance with SFAS 143 requires us to assign probabilities to projected cash flows, to make long-term assumptions about inflation rates, to determine our credit-adjusted risk-free interest rates and to determine market risk premiums that are appropriate for our operations; and
- given the significance of these factors in the determination of our estimated environmental and site reclamation costs, changes in any or all of these estimates could have a material impact on net income. In particular, given the long periods over which many of these charges are discounted to present value, changes in our assumptions about credit-adjusted risk-free interest rates could have a significant impact on the size of our provision**.** At January 1, 2003, we estimated the fair value of our aggregate total asset retirement obligations to be approximately US$ 41 million, representing an increase of US$ 26 million over the amount recorded under the prior accounting policy.

Impairment of Long-Lived Assets and Goodwill

We evaluate our investments and long-lived assets, which primarily include identifiable property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the balance sheet carrying value of the asset may not be recoverable. If the asset is determined to be impaired, we record an impairment loss, and write down the asset, based upon the amount by which the carrying amount of the asset exceeds the higher of net realizable value and value in use. We generally determine value in use by discounting expected future cash flows using a risk-adjusted pre-tax discount rate that we believe is appropriate to the risks inherent in the asset. In order to estimate future cash flows, we must make various assumptions about matters that are highly uncertain, including future production and sales, product prices (which we estimate based on current and historical prices, price trends and related factors), recoverable reserves, operating costs, environmental and site reclamation costs and

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planned capital costs. Arriving at assumptions and estimates concerning these matters is a complex and often subjective process. These assumptions and estimates can be affected by a variety of matters, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. More conservative assumptions of the anticipated future benefits from these businesses would result in greater impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions would result in smaller impairment charges, higher net income and higher asset values.

In assessing potential impairment of our equity investments, we evaluate the carrying value of our listed equity investments relative to publicly available quoted market prices. If the quoted market price is below carrying value, and we consider the decline to be other than temporary, we write down our equity investments to quoted market value. For investments for which quoted market prices are not readily available, we evaluate the investments for impairment whenever the performance of the underlying entity indicates that impairment may exist. In such cases, the fair value of the investments is estimated principally based on discounted estimated cash flows using assumptions similar to those described above.

In relation to goodwill, each year on September 30, we use a two-step process to test for the recoverability of goodwill for each of our reporting units. Step one requires a comparison of the fair value of the reporting unit to the book value of its net assets. The fair value of the net assets is based on discounted cash flows using assumptions similar to those used in the process described above. Step two requires an estimate of the fair value of the individual assets and liabilities within the reporting unit. Write-down of goodwill on equity investees amounted to US$ 86 million in the year ended December 31, 2002. There were no other write-downs of goodwill during 2002.

Derivatives and Hedging Activity

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 (outside net income), in the latter case depending on whether a transaction is designated as an effective hedge. In 2002, we did not designate any derivative financial instruments as hedges and the fair value adjustments to our derivatives were thus recorded in current net income. Had we designated our hedging instruments as permitted under SFAS 133 there would have been corresponding fair value adjustments, for certain of our hedging instruments, to the related hedged items in the case of fair value hedges or directly to stockholders equity in the case of cash flow hedges. During the year ended December 31, 2002 we recorded a charge of US$ 92 million in relation to fair value adjustments on derivative instruments.

Income Taxes

In accordance with SFAS 109 Accounting for Income Taxes, we recognize deferred tax effects of temporary differences in our consolidated financial statements. We record a valuation allowance when we believe that it is more likely than not that tax assets will not be fully recoverable in the future.

When we prepare our consolidated financial statements, we estimate our income taxes based on regulations in the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a tax expense in our statement of operations.

Determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax assets requires significant management judgment and estimates and

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assumptions about matters that are highly uncertain. For each future income tax asset, we evaluate the likelihood of whether some portion or all of the asset will not be recognized. The valuation allowance made in relation to accumulated income tax losses depends on our assessment of the probability of generation of future taxable profits within the legal entity in which the related deferred tax asset is recorded based on our production and sales plans, commodity prices, operating costs, environmental, group restructuring plans for subsidiaries and site reclamation costs and planned capital costs.

As of December 31, 2002 we recorded a valuation allowance of US$ 230 million on our net deferred income tax assets totaling US$ 799 million and we recorded a deferred tax expense of US$ 12 million related to the net increase in the valuation allowance during the year.

Contingencies

We disclose material contingent liabilities unless the possibility of any loss arising is considered remote and of material contingent assets where the inflow of economic benefits is probable. We discuss our material contingencies in note 15 to our financial statements.

We account for contingencies in accordance with SFAS 5 Accounting for Contingencies which requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that a future event will confirm that an asset has been impaired or a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. In particular, given the uncertain nature of Brazilian tax legislation, the assessment of potential tax liabilities requires significant management judgment. By their nature contingencies will only be resolved when one or more future events occur or fail to occur and typically those events will occur a number of years in the future. Assessing such liabilities, particularly in the uncertain Brazilian legal environment, inherently involves the exercise of significant management judgment and estimates of the outcome of future events.

The provision for contingencies at December 31, 2002, totaling US$ 428 million, consists of provisions of US$ 109 million, US$ 95 million, US$ 220 million and US$ 4 million for labor, civil, tax and other claims, respectively.

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RESULTS OF OPERATIONS

2002 Compared To 2001

Revenues

The following table summarizes our gross revenues by product and our net operating revenues for the periods indicated:

	For the Year Ended December 31,		
	2002	2001	% change
	(In millions of US$)		
Iron ore and pellets			
Iron ore	US$ 2,147	US$ 2,003	7.2%
Pellets	673	597	12.7
Subtotal	2,820	2,600	8.5
Gold	103	139	(25.9)
Manganese and Ferroalloys	283	259	9.3
Potash	91	71	28.2
Others	45	41	9.8
Revenues from logistic services	458	608	(24.7)
Aluminum-related Products	462	284	62.7
Other products and services	20	75	(73.3)
Gross Revenues	4,282	4,077	5.0
Value Added Tax	(159)	(142)	12.0
Net Operating Revenues	US$ 4,123	US$ 3,935	4.8

Net operating revenues increased 4.8% to US$ 4,123 million in 2002 from US$ 3,935 million in 2001. This increase reflected higher gross revenues from our iron ore and pellets, aluminum-related products and other mining products, which were partially offset by decreases in gross revenues from logistics, gold and other products and services.

Iron ore and Pellets

Gross revenues from iron ore and pellets increased 8.5% to US$ 2,820 million in 2002 from US$ 2,600 million in 2001, reflecting a 10.4% increase in volume sold, partially offset by lower average selling prices.

Sales of iron ore attained record levels in 2002, amounting to 143.6 million tons in 2002, compared to 130.8 million tons in 2001, an increase of 9.8%. The expansion seen in sales of pellets was greater in percentage terms than sales growth for iron ore, reflecting the strong demand for steel and the use of pellets to increase the productivity of blast furnaces in making steel, particularly in China. Pellet sales rose from 17.9 million tons in 2001 to 20.6 million tons in 2002, a 14.8% increase. The increase in volume of iron ore and pellets in 2002 was driven primarily by strong demand from China, where increased demand for consumer durables, coupled with substantial investment in infrastructure and housing, resulted in sharply higher steel consumption, leading Chinese steelmakers to dramatically increase their purchases of iron ore and pellets. Demand in our other principal markets was stable.

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Actual average selling prices for iron and pellets declined by 1.7%, reflecting an across-the-board reduction in reference prices following the 2002 price negotiations with steel manufacturers, and a decrease of 0.2% due to an increase in the proportion of pellets in the product mix, which accentuated the effect of reductions in pellet prices.

Gold

Revenues from gold sales decreased 25.9% to US$ 103 million in 2002 from US$ 139 million in 2001, reflecting a 34.8% decrease in volume sold, which was partially offset by an 8.9% increase in average selling prices. The 34.8% decrease in volume from 508,472 troy ounces in 2001 to 331,479 troy ounces in 2002 was primarily due to the closure of our Igarapé Bahia gold mine in 2002 and reduced production at Fazenda Brasileiro, which is nearing the end of its productive life and has encountered lower gold yields. We have since agreed to sell Fazenda Brasileiro as described above. The 8.9% increase in average selling prices reflects the increase in world gold prices during 2002 as a result of increased political uncertainty, lower equity prices, weakness in the U.S. dollar and other factors which made gold an attractive alternative investment.

Manganese and Ferroalloys

Gross revenues from sales of manganese and ferroalloys increased by 9.3%, from US$ 259 million in 2001 to US$ 283 million in 2002, driven by higher sales of ferroalloys, which more than offset a decline in sales of manganese. Gross revenues from ferroalloys increased by US$ 45 million or 22%, driven by a 107% increase in volume resulting from strong demand for steel and from the end of the energy rationing in Brazil, which was partially offset by a decline in prices due to the shift in product mix. Gross revenues from sales of manganese declined by US$ 21 million, or 37%, primarily as a result of a 27% decline in volume. The decline in manganese volumes resulted primarily from the delay of a major shipment in December 2002. Average selling prices for manganese fell by 15% in 2002, driven by lower overall demand for manganese from the steel industry at the time the annual prices were established.

Potash

Gross revenues from sales of potash increased by 28.2% from US$ 71 million in 2001 to US$ 91 million in 2002, primarily due to a 45% increase in volume, which more than offset a 16.7% decline in average selling prices. The significant increase in volume resulted from strong demand from the domestic fertilizer sector. The decline in average selling prices primarily reflects a reduction in prices to match our international competitors.

Others

Gross revenues from sales of kaolin increased by 9.8% from US$ 41 million in 2001 to US$ 45 million in 2002, mainly due to an increase in sales volume as well as higher average selling prices.

Logistic Services

Gross revenues from logistic services decreased by 24.7% to US$ 458 million in 2002 from US$ 608 million in 2001. This reduction is principally due to a decrease of US$ 140 million in our world-wide logistics revenues due principally to our divestitures in the dry-bulk shipping business in the second half of 2001. It also reflects the impact of a decrease relating to revenues from services provided to Ferteco and Samitri in 2001 prior to our acquisition of these companies. In addition, gross logistics revenues were adversely affected by the devaluation of the *real*, which largely offset increases in volumes in the domestic market. General cargo shipped by our railroads increased by 14.0% from 12.9 billion net ton kilometers in 2001 to 14.7 billion net ton kilometers in 2002. The increase in volume reflects strong increases in the transport of grains and soybeans, increases in steel shipments, and increases in the inter-modal transport of containers, which exploits the connections between highway transportation, rail, ports and coastal shipping. Our ports handled 26.3 million tons of general cargo in 2002, compared with 21.7 million tons in the previous year.

Aluminum-Related Products

Revenues from aluminum products (bauxite, alumina, aluminum) increased 62.7% to US$ 462 million in 2002 from US$ 284 million in 2001. Of the total increase of US$ 178 million, US$ 124 million was due to the consolidation of Alunorte beginning in June 2002 when we acquired control of this previously affiliated company. The remaining US$ 54 million resulted from:

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resales by us of increased aluminum purchased from our affiliate Albras, under take-or-pay arrangements, reflecting Albras increase in production capacity beginning at the start of 2002 and the end of energy rationing; and

US$ 21 million in resales of alumina purchased from third parties to meet excess customer demand at Alunorte.

Other products and services

Revenues from other products and services decreased 73.3% to US$ 20 million in 2002 from US$ 75 million in 2001, reflecting our exit from the pulp and paper business, which began in 2001 with the sale of Bahia Sul and Cenibra, and was completed in 2002 upon the sale of approximately 47,700 hectares of Eucalyptus forest owned by our subsidiary Florestas Rio Doce S.A.

Operating Costs and Expenses

The following table summarizes our operating costs and expenses for the periods indicated.

	For the Year Ended December 31,	
	2002	**2001**
	(In millions of US$)	
Cost of ores and metals sold	US$ 1,579	US$ 1,550
Cost of logistic services	252	378
Cost of aluminum-related products	412	269
Others	20	75
Cost of goods sold	2,263	2,272
Selling, general and administrative expenses	224	241
Research and development, employee profit sharing and other costs and expenses	207	460
Total operating costs and expenses	US$ 2,694	US$ 2,973

Cost of goods sold

Total cost of goods sold decreased 0.4% to US$ 2,263 million in 2002 from US$ 2,272 million in 2001. Our costs, 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$2.3204 to US$ 1.00 at December 31, 2001 to R$3.5333 to US$ 1.00 at December 31, 2002, or a devaluation of 34.3%), because the majority of these costs and expenses are denominated in *reais.* The average rate of exchange was R$2.9286 to US$ 1.00 during 2002 and R$2.2464 to US$ 1.00 during 2001, representing a devaluation of 23.3%. The average rate of devaluation is lower than year-on-year devaluation because the exchange rate movements were concentrated in the second half of 2002.

Cost of ores and metal sold increased 1.8% to US$ 1,579 million in 2002 from US$ 1,550 million in 2001, primarily due to increased production volumes required by the 10.3% increase in sales of iron ore and pellets, offset by an near-equivalent decrease attributed to the effects of devaluation of the *real* on our domestic costs (approximately 52% of our total costs is denominated in *reais*) net of wage and price increases linked to local inflation. The amount in 2002 also includes US$ 22 million in gold derivatives losses. A portion of the increase in cost of ores and metal sold also reflects higher costs associated with purchases of iron ore from third parties to meet excess demand.

Cost of logistic services decreased 33.3% to US$ 252 million in 2002 from US$ 378 million in 2001, whereas our corresponding revenue decreased only 24.7%. The decrease in costs at a rate greater than the decrease in revenue is due to the effects of the devaluation of the *real* on our domestic costs as described above.

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Cost of aluminum-related products increased 53.2% to US$ 412 million in 2002 from US$ 269 million in 2001. The increase is partly due to the consolidation of Alunorte beginning in June 2002, which contributed US$ 91 million to consolidated costs. The remaining US$ 52 million cost increase relates to the take-or-pay arrangements and third party sales described above. The effects of exchange rate movements on the cost of aluminum-related products were insignificant, since the related costs are primarily determined by international market prices.

Cost of other products and services decreased 73.3% to US$ 20 million in 2002 from US$ 75 million in 2001, reflecting principally the decreases in volumes of pulp purchases as a result of our divestitures in this line of business.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased 7.1% to US$ 224 million in 2002 from US$ 241 million in 2001, due principally to the favorable effects of exchange rate movements, partly offset by the effects of increased selling expenses due to increased volumes. As a percentage of net operating revenues, selling, general and administrative expenses declined from 6.1% in 2001 to 5.4% in 2002.

Research and development, employee profit sharing and other operating costs and expenses

Research and development, employee profit sharing and other costs and expenses decreased 55.0% to US$ 207 million in 2002 from US$ 460 million in 2001. This decrease resulted primarily from a US$ 260 million reduction in other operating costs and expenses, which more than offset a US$ 7 million increase in research and development expenses.

The US$ 260 million reduction in other operating costs and expenses primarily reflects three asset impairment provisions that occurred in 2001:

- plant and equipment impairment provisions of US$ 67 million and US$ 34 million due to impairment of certain shipping assets;
- amortization of goodwill of US$ 34 million; and
- a write-off of value added taxes of US$ 54 million on products purchased based on our agreement with a state government.

The reduction also reflects:

- a US$ 26 million reduction in contingency provisions, to US$ 53 million in 2002 from US$ 79 million in 2001; and
- a gain in 2002 of US$ 49 million on the sale of certain forestry assets of our subsidiary Florestas Rio Doce S.A.

Together, these two factors more than offset a US$ 40 million provision in 2002 related to the acceleration of the expected closing date for our Fazenda Brasileiro gold mine, from 2009 to 2005.

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Non-Operating Income (Expenses)

	For the Year Ended December 31,	
	2002	2001
	(In millions of US$)	
Financial income	US$ 127	US$ 135
Financial expenses	(375)	(335)
Foreign exchange and monetary losses, net	(580)	(426)
Gain on sale of investments		784
Non-operating income (expenses)	US$ (828)	US$ 158

Net non-operating expenses in 2002 were US$ 828 million compared to net non-operating income of US$ 158 million in 2001. The principal reasons for this change were:

the negative effect of exchange rate movements on our net U.S.-dollar denominated liabilities (mainly short and long-term debt less cash and cash equivalents). Our net foreign exchange and monetary losses amounted to US$ 580 million in 2002 compared to US$ 426 million in 2001; and

gains of US$ 784 million in 2001 upon divestitures of our interests in Bahia Sul, CSN and Cenibra.

In addition, our financial income decreased to US$ 127 million in 2002 from US$ 135 million in 2001, due primarily to lower international interest rates following the terrorist attacks in the United States in September 2001. Our financial expenses increased to US$ 375 million in 2002 from US$ 335 million in 2001 mainly due to our consolidation of Alunorte, which increased our financial expenses by US$ 14 million in the second half of 2002, and to US$ 76 million in losses we incurred on interest rate derivatives.

In 2002 we included the cost of contractual increases in supplementary benefits related to early retirement programs (US$ 35 million in 2002) in financial expenses. Until 2001, this cost had been recorded under other operating expenses. For comparison purposes US$ 33 million in 2001 and US$ 98 million in 2000 have been reclassified accordingly.

Income Taxes

In 2002 we recorded a tax benefit of US$ 149 million as compared to a tax benefit of US$ 218 million in 2001. Our tax expense at statutory rates would have been US$ 204 million in 2002 and US$ 381 million in 2001. The difference is principally due to the tax benefit of tax-deductible dividends that we pay in the form of interest on shareholders equity, which amounted to US$ 99 million in 2002, as compared to US$ 260 million in 2001, and US$ 196 million due to tax-exempt foreign income in 2002 as compared to US$ 226 million in 2001.

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 loss of US$ 87 million in 2002 compared to a loss of US$ 53 million in 2001.

Iron Ore and Pellets. Our equity in the results of iron ore and pellet affiliates and joint ventures amounted to a loss of US$ 55 million in 2002, compared to a loss of US$ 7 million in 2001. The loss in 2002 included a charge of US$ 86 million for a goodwill write-down relating to our investment in Caemi, which more than offset improved results at several of our other pellet joint ventures, including Samarco, where earnings were helped by volumes that increased by 29% and the elimination of goodwill amortization expenses in 2002. The writedown of

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our investment at Caemi reflects the decline in the listed market price of Caemi s preferred shares. We also recorded a provision for losses at Kobrasco in the amount of US$ 14 million.

Aluminum and Bauxite. Our equity in the results of aluminum and bauxite affiliates and joint ventures declined from US$ 37 million in 2001 to US$ 29 million in 2002, and we recorded a US$ 10 million release of a provision related to our investment in Albras. Our portion of Alunorte s losses up until the time we acquired control in June 2002 was US$ 23 million, compared to losses of US$ 6 million for the whole of 2001. The increased losses at Alunorte primarily reflect the effects of the devaluation of the *real* on Alunorte s U.S.-dollar denominated debt.

Like Alunorte, in 2002, our affiliates in the aluminum sector recorded increased losses due to the effects of the depreciation of the *real* on their foreign currency denominated debt. In addition to exchange rate effects, the operating results of Albras and MRN in 2002 compared to 2001 were influenced by the following factors:

Albras. In 2002, Albras generated net income of US$ 20 million on net sales of US$ 529 million. This compares to net income of US$ 8 million in 2001 on net sales of US$ 472 million. Our portion of net income of Albras was US$ 10 million in 2002 compared with US$ 4 million in 2001. The increase in sales at Albras primarily reflects a 22.3% increase in sales volume resulting from a capacity expansion completed at the beginning of 2002. This increase in volume was partially offset by an 8.6% decline in the average sales price of aluminum from US$ 1,428 per ton in 2001 to US$ 1,306 per ton in 2002.

MRN. In 2002, MRN generated net income of US$ 94 million on net sales of US$ 173 million. This compares to net income of US$ 81 million in 2001 on net sales of US$ 211 million. Our portion of the net income of MRN was US$ 38 million in 2002 compared with US$ 32 million in 2001. MRN s revenues declined in 2002 due to an 8.1% reduction in the average sales price of bauxite to US$ 18.95 per ton in 2002 from US$ 20.63 per ton in 2001, and a 9.3% decline in sales volume to 9.9 million tons in 2002 from 10.9 million tons in 2001 due to lower demand in the first half of the year and interference from the expansion work in the second half of the year. However, since most of MRN s costs are incurred in *reais*, the reduction in costs as expressed in U.S. dollars more than offset the reduction in revenue, resulting in an increase in net income.

Steel. Our equity in the results of steel affiliates and joint ventures increased from US$ 5 million in 2001 to US$ 23 million in 2002, reflecting higher net income at CST and CSI, which more than offset a loss at Usiminas. The improved performance at CST and CSI primarily reflects lower energy costs in 2002 in Brazil and California, respectively. The loss at Usiminas primarily reflects the effects of the devaluation of the *real* on Usiminas U.S. dollar-denominated debt.

Paper and Pulp. Reflecting our sale of Cenibra and Bahia Sul in 2001, we recorded no equity in results of paper and pulp affiliates and joint ventures in 2002. These companies had contributed in aggregate US$ 20 million to our equity results up to the date of sale.

Other Affiliates and Joint Ventures. Our equity in the results of other affiliates and joint ventures amounted to a loss of US$ 25 million in 2002, compared to a loss of US$ 95 million in 2001. We recorded a provision for losses related to FCA of US$ 42 million in 2002, after recording a loss of US$ 95 million in 2001 (which had included a US$ 74 million write-off of goodwill). In addition, our affiliate MRS generated significant losses in 2002, of which our portion was US$ 20 million; in addition to this amount, we recorded a provision for losses of US $ 7 million related to MRS. We and the other shareholders of these companies continue to explore various alternatives to restructure their businesses.

Upon adoption of SFAS 142 Goodwill and other intangible assets, beginning January 1, 2002 we ceased amortizing goodwill. In 2001, we recorded goodwill amortization of US $ 45 million relating to us and our consolidated subsidiaries and US$ 47 million related to equity investees.

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2001 compared to 2000

Revenues

The following table summarizes our gross revenues by product and net operating revenues for the periods indicated:

	For the Year Ended December 31,				
	2001		2000		% change
	(In millions of US$)				
Iron Ore and Pellets	US$	2,600	US$	2,177	19.4 %
Gold		139		156	(10.9)
Other mining products					
Manganese and Ferroalloys		259		285	(9.1)
Potash		71		85	(16.5)
Others		41		42	(2.4)
Subtotal		371		412	(10.0)
Revenues from Logistic Services		608		760	(20.0)
Aluminum-related Products		284		362	(21.5)
Other products and services		75		202	(62.9)
Gross Revenues		4,077		4,069	0.2
Value Added Tax		(142)		(134)	6.0
Net Operating Revenues	US$	3,935	US$	3,935	

Net operating revenues remained constant at US$ 3,935 million in both 2001 and 2000, reflecting an increase in our iron ore and pellets revenues which was partially offset by decreases in revenues from other lines of business.

Revenues from iron ore and pellets increased 19.4% to US$ 2,600 million in 2001 from US$ 2,177 million in 2000, reflecting a 19.4% increase in volume sold to 148.8 million tons in 2001 from 124.5 million tons in 2000 partially offset by an increase in average selling prices of 0.4% and an increase of 19.6% 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 14.9 million tons in 2001 compared to 9.2 million tons in 2000. Our acquisition of Ferteco in April 2001 increased our 2001 sales volume for iron ore and pellets by 11.7 million tons.

Revenues from gold sales decreased 10.9% to US$ 139 million in 2001 from US$ 156 million in 2000, representing a 9.0% decrease in volume sold and a 2.1% decrease in average selling prices. The reduction in volume sold was principally due to the closure of our Almas and Caeté mines at the end of 2000 and to a reduction in gold extracted during the first quarter of 2001, due to operational problems at two other mines, which problems were subsequently resolved.

Revenues from other mining products decreased 10.0% to US$ 371 million in 2001 from US$ 412 million in 2000. This decrease is mainly due to a US$ 49 million reduction of sales of our ferroalloys partially offset by a price increase of US $23 million of manganese sold by our subsidiary Sibra. Potash and kaolin sales also decreased as a result of a reduction in demand.

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Revenues from transportation services decreased 20.0% to US$ 608 million in 2001 from US$ 760 million in 2000, principally due to the loss of revenues from services provided to Ferteco and Samitri following our acquisition of these companies in May 2000 and in April 2001, respectively, which are now eliminated in our consolidated financial statements. Revenues from services provided to Ferteco and Samitri prior to their acquisition totaled US$ 86 million in 2000 and US$ 22 million in 2001. Other factors leading to the reduction in revenues from transportation services include a 13.0% decline in prices for domestic transport as a result of the depreciation of the *real* in 2001, as well as a decrease in our international transportation revenues due to our divestments in the dry-bulk shipping business.

Revenues from aluminum-related products (bauxite, alumina and aluminum) decreased 21.5% to US$ 284 million in 2001 from US$ 362 million in 2000. This decrease of US$ 78 million was due to a US$ 60 million or 20.3% reduction in aluminum-related sales as a result of lower production due to the energy rationing program, and to a US$ 18 million reduction in our resales of alumina provided by our alumina affiliate Alunorte as a result of increased alumina sales by Alunorte to its other shareholders.

Revenues from other products and services decreased 62.9% to US$ 75 million in 2001 from US$ 202 million in 2000, primarily representing decreases in pulp and paper product revenues following our divestment of Cenibra.

Operating Costs and Expenses

The following table summarizes our operating costs and expenses for the periods indicated.

	For the Year Ended December 31,	
	2001	**2000**
	(In millions of US$)	
Cost of ores and metals sold	US$ 1,550	US$ 1,423
Cost of transportation services	378	481
Cost of aluminum-related products	269	334
Others	75	191
Cost of Goods Sold	2,272	2,429
Selling, general and administrative expenses	241	225
Research and development, employee profit sharing and other costs and expenses	460	257
Total operating costs and expenses	US$ 2,973	US$ 2,911

Overall costs of goods sold decreased 6.5% to US$ 2,272 million in 2001 from US$ 2,429 million in 2000. Our costs and expenses, as expressed in U.S. dollars, were favorably affected by the significant depreciation of the *real* against the U.S. dollar during the year (from R$1.9554 to US$ 1.00 at December 31, 2000 to R$2.3204 to US$ 1.00 at December 31, 2001, or a depreciation of 15.7%), because the majority of these costs and expenses are denominated in *reais.* The average exchange rate was R$2.2854 to US$ 1.00 during 2001 and R$l.7975 to US$ 1.00 during 2000, or a depreciation of 21.3%. This decrease was partially offset by an increase of US$ 109 million, or 4.8%, in 2001 relating to our acquisition of Ferteco (which added approximately US$ 33 million in additional costs) and a smaller increase due to the inclusion of Samitri costs in 2001.

Cost of ores and metal sold increased 8.9% to US$ 1,550 million in 2001 from US$ 1,423 million in 2000. The increase of US$ 127 million was principally due to an increase of US$ 124 million in costs due to the consolidation of Ferteco. This increase in costs was partially offset by the favorable impact of exchange rate movements which is estimated at US$ 90 million.

Cost of transportation services decreased 21.4% to US$ 378 million in 2001 from US$ 481 million in 2000, due to improved cost management related to our ships in addition to the decrease in associated revenues.

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Cost of aluminum-related products decreased 19.5% to US$ 269 million in 2001 from US$ 334 million in 2000 as a result of lower levels of activity. The favorable effect of exchange rate movements on the cost of aluminum-related products is insignificant, since the related costs are primarily determined by international market prices.

Cost of other products and services decreased 60.7% to US$ 75 million in 2001 from US$ 191 million in 2000, reflecting principally the decreases in volumes of pulp and paper purchases as a result of our divestitures in this line of business.

Selling, general and administrative expenses increased 7.1% to US$ 241 million in 2001 from US$ 225 million in 2000, due principally to the acquisition of Ferteco which increased these expenses by US$ 25 million or 11.1% in 2001, partially offset by the effects of exchange rate movements.

Research and development, employee profit sharing and other costs and expenses increased 79% to US$ 460 million in 2001 from US$ 257 million in 2000. This increase is mainly attributable to plant and equipment and ship impairment provisions of US$ 101 million, including expected losses on the sale of ships (US$ 34 million), amortization of goodwill of US$ 34 million and a write-off of value-added taxes of US$ 54 million based on our agreement with a state government.

Non-Operating Income (Expenses)

	For the Year Ended December 31,	
	2001	**2000**
	(In millions of US$)	
Financial income	US$ 135	US$ 208
Financial expenses	(335)	(315)
Foreign exchange and monetary losses, net	(426)	(240)
Gain on sale of investments	784	54
Non-operating income (expenses)	US$ 158	US$ (293)

Net non-operating income was US$ 158 million in 2001 compared to net non-operating expenses of US$ 293 million in 2000. This decrease resulted from a reduction in the contractual cost of supplementary benefits related to early retirement programs which were recorded as financial expenses of US$ 33 million in 2001 and US$ 98 million in 2000, whereas until 2000 this cost had been classified as other operating expenses. For comparison purposes US$ 98 million have been reclassified accordingly. The aggregate favorable change of US$ 386 million was principally due to gains on sales of investments (US$ 784 million) upon divestment of our interests in Bahia Sul, CSN and Cenibra in 2001. This was partially offset by additional net financial expenses of US$ 93 million in 2001 due principally to a reduction in financial income as a result of lower average balances of cash and cash equivalents and the negative effect of exchange rate movements on our U.S. dollar denominated liabilities, mainly short and long-term debt totaling US$ 186 million.

Income Taxes

In 2001 we recorded a tax benefit of US$ 218 million. However, our Federal income tax and social contribution expense at statutory rates for 2001 was US$ 381 million. The difference was principally due to the tax benefit we derived from making distributions to our shareholders in the form of interest on shareholders equity in the amount of US$ 260 million and US$ 226 million due to tax-exempt foreign income.

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 loss of US$ 53 million in 2001 compared to a gain of US$ 322 million in 2000.

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Steel. In 2001, our steel sector affiliates were affected in addition to a devaluation of the *real* against the U.S. dollar, by a weaker market for steel products which resulted in decreased average sales prices in 2001. Our U.S. affiliate, CSI, was also affected by higher costs resulting from the energy crisis in California. In 2001 we recorded a loss of US$ 3 million in respect of our steel sector affiliates compared to a gain of US$ 17 million in 2000.

Aluminum-Related Products. In 2001, our affiliates in the aluminum sector recorded losses due to the effects of the depreciation of the *real* on their foreign currency denominated debt. Albras reported a gain in 2001, of which we recognized our portion of US$ 4 million through a reduction in our provision for losses on equity investments. Alunorte reported a loss, of which we recognized our portion of US$ 6 million through equity accounting. In the same period of 2000, our portion of gains reported by Albras and Alunorte were US$ 66 million and US$ 11 million, respectively.

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

Albras - Aluminum sales volume decreased 9.3% to 332,000 tons in 2001 from 366,000 tons in 2000 and average sales prices decreased 5.3% to US$ l,428.99 per ton in 2001 from US$ 1,508.42 per ton in 2000.

Alunorte - Alumina sales volume decreased 3.5% to 1,540,000 tons in 2001 from 1,596,000 tons in 2000 and the average sales prices decreased by 5.7% to US$ 185.51 per ton in 2001 as compared to US$ 196.63 per ton in 2000.

MRN - Bauxite sales volume decreased 2.6% to 10,952,000 tons in 2001 from 11,242,000 tons in 2000 and average sales prices increased 1.1% to US$ 20.95 per ton in 2001 from US$ 21.18 per ton in 2000.

Paper and Pulp. During 2001, we sold our respective interests in Bahia Sul and Cenibra, which had jointly contributed US$ 108 million to our 2000 consolidated net income. Through the date of their respective sales in 2001, these two companies jointly contributed US$ 11 million to our 2001 consolidated net income. 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).

Others. As for our railroad affiliate, FCA, we recorded an equity loss of US$ 95 million (which included a write-off of goodwill in the amount of US$ 74 million) against a loss of US$ 30 million in 2000. 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 to lower results of operations of these affiliates as a result of difficult trading conditions in the markets for their respective products.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal uses of funds are for capital expenditures, dividend payments and repayment of debt. We have historically met these requirements by using cash generated from operating activities and also short-term and long-term debt. We believe these sources of funds, together with our cash and cash equivalents on hand, will continue to be adequate to meet our currently anticipated capital requirements.

In addition, from time to time, we review acquisition and investment opportunities and will, if a suitable opportunity arises, make selected acquisitions and investments to implement our business strategy. We generally make investments either directly or through subsidiaries, joint ventures or affiliated companies, and fund these investments through internally generated funds, the issuance of debt or a combination of these methods.

In 2003, our major cash needs include announced expected capital expenditures of US$ 1.7 billion, an announced minimum cash dividend of US$ 400 million, and repayment or refinancing of US$ 717 million in long-term debt that matures in 2003. In addition, we have signed an agreement to acquire, subject to fulfillment or waiver of certain conditions, the remaining 50% of Caemi from Mitsui for US$ 426 million. We expect to meet our cash needs for 2003 primarily through a combination of operating cash flow and new long-term debt.

Sources of Funds

Our principal sources of liquidity are cash and cash equivalents on hand and cash flow from operating activities. In 2002, we generated a net increase in cash and cash equivalents, excluding the effect of exchange rate changes, of US$ 615 million compared to no net change in 2001 and a net decrease of US$ 135 million in 2000. Exchange rate changes decreased our cash and cash equivalents by US$ 641 million in 2002, US$ 94 million in 2001 and US$ 107 in 2000. At December 31, 2002, we had cash and cash equivalents of US$ 1,091 million.

Operating activities provided net cash flows of US$ 2,102 million in 2002, US$ 1,518 million in 2001 and US$ 1,424 million in 2000. The amount in 2002 includes $1,031 million in non-cash expenses relating to foreign exchange and monetary losses.

In addition to the above sources of liquidity, we believe we are well-positioned to raise additional capital in the debt markets to the extent needed. We are among the most highly rated Brazilian corporate borrowers, which we believe enhances our ability to access the debt markets.

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Uses of Funds

Budgeted Capital Expenditures

We have budgeted a total of US$ 1,708 million for capital expenditures in 2003, an amount that exceeds our total capital expenditures in the two previous years combined. The following table sets forth our capital expenditures budget for 2003. These amounts include expenditures on new construction projects as well as expenditures for maintenance and exploration.

	2003 Budgeted Expenditures		
	(In millions of US$)		
Ferrous minerals	US$	563.3(1)	33.0%
Logistics		281.9	16.5
Non-ferrous minerals		352.2(1)	20.6
Aluminum-related		236.4	13.8
Energy		72.6	4.2
Metallic and semi-finished		29.0	1.7
Corporate areas		105.4	6.2
Other		67.5	4.0
Total	US$	1,708.3	100.0%

(1) Under the Mineral Risk Contract, BNDES will pay an aggregate of approximately US$ 25.7 million of the 2003 ferrous minerals and non-ferrous minerals capital expenditures which are included in this budget. *See Item 4. Lines of Business Mining Current Copper Prospects Mineral Risk Contract.*

Budgeted capital expenditures in the ferrous minerals, logistics, non-ferrous minerals, aluminum-related, energy and corporate areas include the following:

Our ferrous minerals projects for 2003 are designed to increase our iron ore production capacity and logistical capabilities for the delivery of iron ore and pellets, and include US$ 69.8 million to expand three mines in the Southern System and US$ 45 million to expand mines in the Northern System. In addition, to improve our logistical capabilities, we have budgeted US$ 16.4 million in 2003 for the construction of Pier III at the port of Ponta da Madeira, which is expected to increase the port s capacity from its current 56 million tons to 70 million tons. Part of the remainder of the capital expenditures for ferrous minerals relates to maintenance, refurbishment and modernization activities.

Our total capital expenditure budget for 2003 also includes an aggregate of US$ 72 million for exploration activities related to ferrous minerals, bauxite, copper, gold and nickel. BNDES, under the Mineral Risk Contract, will participate with approximately US$ 25.7 million. See note 15(e) to our financial statements.

Our non-ferrous mineral projects for 2003 include the Sossego copper project, for which we have budgeted US$ 253.1 million for 2003, the completion of which is expected for the first half of 2004. We have also budgeted US$ 29.4 million for expanding the capacity of the Taquari Vassouras potash mine from 600,000 to 850,000 tons per year.

Budgeted logistics capital expenditures for 2003 are focused primarily on the purchase of wagons and locomotives for the transport of general cargo, principally of agricultural products, fuel, steel products and building materials.

In the aluminum-related businesses, our principal budgeted capital expenditures relate to the development of bauxite mines of MVC in Paragominas (US$ 70.0 million) and expansion of Alunorte s production capacity (US$ 153.9 million).

In the energy business, we plan to continue to invest in our power generation projects. In 2003, US$ 15.2 million, US$ 16.7 million and US$ 18.5 million have been budgeted for our share of the construction costs of the Candonga, Aimores and Estreito power plants, respectively. Candonga is

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expected to begin operations in November 2003, while Aimores is expected to come on stream in December.

Our principal corporate center capital expenditures relate to information technology initiatives, including the implementation of enterprise resource planning software for US$ 36.8 million and new hardware for US$ 29.5 million.

Dividends

Dividends paid totaled US$ 602 million in 2002, US$ 1,066 million in 2001 and US$ 246 million in 2000. Our board of directors has approved a proposal to distribute in 2003 a minimum dividend (in the form of dividends and/or interest on shareholders equity) of US$ 400 million. This amount will be paid in two equal installments, on April 30 and October 31, 2003, respectively.

Contractual cash obligations

The following table summarizes our contractual cash obligations at December 31, 2002.

	Payments due by Period (In millions of US$)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**Thereafter**
Long-term debt obligations	US$ 3,076	US$ 717	US$ 1,223	US$ 742	US$ 394
Total contractual cash obligations	US$ 3,076	US$ 717	US$ 1,223	US$ 742	US$ 394

In July 2002, we entered into a US$ 100 million Export Prepayment Agreement with a final maturity of July 2006. The lender under this agreement has the right to demand payment of the entire amount outstanding in July 2004, subject to compliance with certain notice provisions.

Debt

At December 31, 2002, our aggregate outstanding debt was US$ 3,331 million, consisting of short-term debt of US$ 965 million, including US$ 717 million of current portion of long-term debt, US$ 64 million in loans from joint ventures and affiliated companies and long-term debt (excluding current portion) of US$ 2,366 million outstanding, including US$ 7 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. At December 31, 2002, approximately US$ 465 million of our debt was secured by liens on some of our assets. We describe the average interest rates on our long-term debt in note 12 to our financial statements.

Our major categories of indebtedness are as follows:

U.S. dollar-denominated foreign loans and financing (US$ 1,465 million at December 31, 2002). These loans primarily include export financing lines, import finance from export credit agencies, loans from commercial banks and multilateral organizations. The loans generally bear floating rate interest at spreads over LIBOR.

U.S. dollar-denominated fixed rate notes (US$ 800 million at December 31, 2002). We have issued two series of fixed rate bonds which bear interest at 10% and 9.375% respectively. The 9.375% bonds mature in 2003 and the 10% bonds mature in 2004. In addition, in 2002, our wholly-owned subsidiary Vale Overseas Limited issued US$ 300 million 8.625% Notes Due 2007 that benefit from an unconditional guarantee from us and a mechanism to protect the investors from political risk events.

U.S. dollar-denominated export securitizations (US$ 300 million at December 31, 2002). We have a $300 million securitization program based on existing and future receivables generated by our subsidiary CVRD Overseas Ltd that relates to exports of iron ore and pellets to six of our customers in Europe, Asia and the United States. The securitization transaction was divided into two fixed rate tranches and one floating rate tranche.

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Perpetual notes (US$ 63 million at December 31, 2002). We have issued perpetual notes that are exchangeable for 48 billion preferred shares of MRN. Interest is payable on the notes in an amount equal to dividends paid on the underlying preferred shares relating to periods beginning with the 2000 fiscal year.

Local debt (US$ 396 million at December 31, 2002). We have a series of Brazilian loans, principally from BNDES, most of which are indexed to U.S. dollars, and the remainder of which are linked to baskets of currencies or floating rates in Brazil.

Some of our long-term debt instruments contain financial covenants. Our principal covenants require us to maintain certain ratios, such as debt to equity, net debt to EBITDA and interest coverage. We were in full compliance with our financial covenants as of December 31, 2002, and we believe that our existing covenants will not significantly restrict our ability to borrow additional funds as needed to meet our capital requirements. We believe we will be able to operate within the terms of our financial covenants for the foreseeable future. None of these covenants directly restricts our ability to pay dividends on equity securities at the parent company level.

We use derivative instruments to manage our exposure to interest rate fluctuations. See *Item 11. Quantitative and Qualitative Disclosures About Market Risk*.

Off-Balance Sheet Arrangements

At December 31, 2002, our off-balance sheet arrangements consisted solely of guarantees. At December 31, 2002, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of US$ 516 million, of which US$ 405 million is denominated in U.S. dollars and the remaining US$ 111 million is denominated in local currency. We expect no losses to arise as a result of these guarantees. We have made no charges for extending these guarantees, except in the case of Albras and Samarco. The following table summarizes our guarantees on behalf of affiliates and joint ventures at December 31, 2002.

Affiliate or Joint Venture	Amount of Guarantee (In millions of US$)	Currency	Final Maturity	Counter-guarantees
Albras	302	US$	2007	None
	44	R$	2010	None
FCA	51	US$	2009	None
	62	R$	2012	None
Kobrasco	13	US$	2003	None
Nibrasco	6	US$	2004	Collateral Pledge
Samarco	14	US$	2020	None
Sepetiba Tecon	19	US$	2005	None
	4	R$	2012	None
Valesul	1	R$	2006	None

We do not have (i) any retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements; (ii) any obligations under derivative instruments that are indexed to our common shares and classified in stockholders equity; or (iii) any obligations arising out of a variable interest in an unconsolidated entity.

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Item 6. Directors, Senior Management and Employees

BOARD OF DIRECTORS

Overview

Our *Conselho de Administração,* or board of directors, sets general guidelines and policies for our business and monitors the implementation of those guidelines and policies by our executive officers. 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 eleven members. Our current employees have the right to appoint one director and an alternate. Under the Brazilian Corporation Law, members of the board of directors must be shareholders of CVRD. Members of the board of directors are elected for two-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.

Nine of our current directors and nine of our current alternate directors were appointed to their positions directly by Valepar, our principal shareholder, pursuant to Valepar s shareholders agreement and the provisions of the Brazilian Corporation Law. For a description of the procedures under which our directors are appointed, see *Item 10. Additional Information Memorandum and Articles of Incorporation Common Shares and Preferred Shares General.*These appointments were approved at our annual shareholders meeting held in April 2003. For a description of Valepar s shareholders agreement, see *Item 7. Major Shareholders and Related Party Transactions Major Shareholders Principal Shareholder*.

Directors of CVRD

The table below lists the current members of the board of directors. All of our directors were elected in 2003, and their terms will expire in 2005.

	Year First Elected	Position	Age
Sérgio Ricardo Silva Rosa(1)	2003	Chairman	44
João Moisés de Oliveira(1)	2000	Director	58
Erik Persson(1)	2001	Director	49
Ricardo Carvalho Giambroni(1)	2001	Director	46
Arlindo Magno de Oliveira(1)	2003	Director	51
Luiz Alexandre Bandeira de Mello(1)	2003	Director	55
Renato da Cruz Gomes(1)	2001	Director	50
Mário da Silveira Teixeira Júnior(1)	2003	Vice-Chairman	57
Rômulo de Mello Dias(1)	2001	Director	41
Claudio Bernardo Guimarães de Moraes(3)	2003	Director	41
Francisco Valadares Póvoa(2)	1997	Director	53

(1) Appointed by Valepar and approved at the annual shareholders meeting.
(2) Appointed by our employees and approved at the annual shareholders meeting.
(3) Informally nominated by BNDESPAR and approved at the annual shareholders meeting.

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

	Year First Elected	Position	Age
Ivan Luiz Modesto Schara(1)	2003	Director	36
Gerardo Xavier Santiago(1)	2003	Director	43
Octávio Mauro Muniz Freire Alves(1)	2001	Director	42
Jorge Luiz Pacheco(1)	2003	Director	48
Alcio Ferreira Passos(1)	2003	Director	56
Luiz Carlos de Freitas(1)	2003	Director	50
Vacant			
Luiz Maurício Leuzinger(1)	2003	Director	61
Marcelo Amaral Moraes(1)	2003	Director	35
Ana Marta Horta Veloso(3)	2003	Director	34
Otto de Souza Marques Júnior(2)	1997	Director	56

(1) Appointed by Valepar and approved at the annual shareholders meeting.
(2) Appointed by our employees and approved at the annual shareholders meeting.
(3) Informally nominated by BNDESPAR and approved at the annual shareholders meeting.

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

Sérgio Ricardo Silva Rosa. Mr. Rosa joined our board of directors in April 2003 and was designated as Chairman in May 2003. Mr. Rosa is currently the chief executive officer of PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil, or Previ, where he has been an executive officer since 2000. He is also a director of Valepar S.A., or Valepar, and an executive officer of Litel Participações S.A., or Litel. Prior to joining Previ, Mr. Rosa served as President of the Confederação Nacional dos Bancários from June 1994 to May 2000. From January 1995 to December 1996, Mr. Rosa was a legislator of the municipality of São Paulo. Mr. Rosa has been a director of Brasil Telecon Participações since December 2000, and of Sauípe S.A. since May 2001.

João Moisés de Oliveira. Mr. Oliveira joined our board of directors in 2000. Mr. Oliveira has been an executive officer at Bradespar S.A. since 2000. He is also an executive officer of Eletron S.A. From 1962 to 2000, he worked at Banco Bradesco S.A. and at several companies in which Banco Bradesco S.A. has a direct or indirect ownership interest. He has served as an executive officer of several companies in which Banco Bradesco or Bradespar has or had a direct or indirect ownership interest, including Companhia Siderúgica Belgo Mineira, CSN and São Paulo Alpargatas S.A.

Erik Persson. Mr. Persson joined our board of directors in April 2001. Mr. Persson has been a planning officer at Previ since June 2000, and has worked at Previ since 1977. Mr. Persson has also served as a director of Valepar and Litel since April 2001, and has held a position as director of SEEB Porto Alegre and FEEB Rio Grande do Sul since 1990.

Ricardo Carvalho Giambroni. Mr. Giambroni joined our board of directors in April 2001. In March 2003, he was nominated CEO of Litela Participações S.A., or Litela, and in April 2003, director of Valepar. Mr. Giambroni is a manager of the equity division at Previ. From June 1999 to December 2002, he has been an executive officer of Litel. From June 1997 to April 2001, he was a director of Paranapanema Group and, from April 2001 to December 2002, of Valepar.

Arlindo Magno de Oliveira. Mr. Magno joined our board of directors in April 2003. Since 1996, he has served in a variety of positions at Previ, including among others: member of the *conselho fiscal*, customer service manager, officer for deliberations and executive officer for planning. From April to October 2002, Mr. Magno was the executive officer in charge of finance and management at CEDAE Companhia Estadual de Água e Esgoto. He has also acted as a director of several companies, including Companhia de Eletricidade do Estado da Bahia COELBA, Companhia Energética do Rio Grande do

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Norte COSERN, CPFL Energia S.A., CPFL Geração de Energia S.A. and ENERCAN Campos Novos Energia S.A.

Luiz Alexandre Bandeira de Mello. Mr. Bandeira de Mello joined our board of directors in April 2003. He has been an officer of Investvale since December 1994, and an employee of CVRD since 1972, when he first began work at CVRD s pelletizing complex in Tubarão. Mr. Bandeira de Mello acted as the superintendent officer for a pelletizing complex from 1991 to 1997 and as executive officer of our Hispanobrás, Itabrasco, Nibrasco and Kobrasco affiliates from 1991 to 2000, and as CEO of our pelletizing affiliate Gulf Industrial Investment Co. from October 2000 through January 2003. From 1993 to 1997, Mr. Bandeira de Mello was a member of the board of trustees (*conselho de curadores*) of Fundação Vale do Rio Doce de Seguridade Social (Valia).

Renato da Cruz Gomes. Mr. Gomes joined our board of directors in April 2001. Mr. Gomes has been an executive officer of Bradespar S.A. since 2000. He is also a director of Bradesplan S.A. and Eletron 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, Globo Cabo, Aracruz, Iochpe, Bahia Sul and Latasa. He was also a member of the consulting board of Factor Sinergia Fundo de Investimento de Valores Mobiliários em Ações and the investments committee of Bradesco Templeton Value and Liquidity Fund. Mr. Gomes has been an executive officer of Valepar since April 25, 2001.

Mário da Silveira Teixeira Júnior. Mr. Teixeira joined our board of directors in April 2003 as vice-chairman. Mr. Teixeira has worked at Banco Bradesco S.A. since 1971, serving in a variety of positions in several companies in which Banco Bradesco holds a direct or indirect ownership interest, including Fundação Bradesco. Currently, he is a director of Banco Bradesco S.A., Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição, CPFL Geração de Energia S.A., Valepar, Companhia Paulista de Força e Luz - CPFL and CPFL Energia S.A., BES Investimento do Brasil S.A. - Banco de Investimento, Banco Espírito Santo de Investimento, S.A. He is president of VBC Participações S.A. He also served as a director of many companies, including Bradespar S.A., Companhia de Energia Semesa, COFAP Companhia Fabricadora de Peças, and CSN. He was also a member of the consulting board and *conselho fiscal* of Newtechnos Catalisadores Automotivos Ltda., vice-president of ANBID - Associação Nacional dos Bancos de Investimento and director of ABRASCA Associação das Companhias Abertas.

Rômulo de Mello Dias. Mr. Dias joined our board of directors in April 2001. Since 2000, he has been business development officer and investor relations officer of Bradespar. He is also a director of Net Serviços de Telecomunicações S.A. From 1980 to 2000, he occupied a variety of positions in several companies, among others, Banco do Brasil S.A., Previ, Citibank and Albion Alliance.

Claudio Bernardo Guimarães de Moraes. Mr. Moraes joined our board of directors in April 2003. From 1984 until the present, he has served in a variety of positions at BNDES. From April 2002 to April 2003, Mr. Moraes was a member of our *conselho fiscal*.

Francisco Valadares Póvoa. Mr. Póvoa joined our board of directors in May 1997. He is also a director of Valepar and CSI and a member of Valia s board of trustees. He is also the CEO of Investvale. Until March 2001, he was also a director of CSN and was previously an alternate director of CSN. Mr. Póvoa joined us as a mining engineer in 1972 and has held a variety of positions within the CVRD Group.

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Directors of Vale Overseas

Vale Overseas directors are as follows:

	Position	Age
Gabriel Stoliar	Director	49
Tito Botelho Martins	Director	40

Mr. Stoliar also serves as Vale Overseas principal executive officer and Mr. Martins also serves as Vale Overseas principal financial and accounting officer. Mr. Stoliar s experience is summarized below under *Executive Officers*.

Tito Botelho Martins. Since August 1999, Mr. Martins has been our corporate finance officer. Currently, Mr. Martins is also a director of Vale Overseas Limited, Caemi, Samarco, GIIC, FCA and chairman of the board of trustees of VALIA. He started to work at CVRD in 1985 as a trainee and held various positions in different departments of CVRD s financial division. In December 2002, he was also appointed as financial officer of FCA. Mr. Martins has a degree in economics from the Universidade Federal de Minas Gerais (UFMG), and obtained an MBA from IEAD/UFRJ.

The business address of the directors is Avenida Graça Aranha, 26, 17th floor, 20030-900 Rio de Janeiro, RJ, Brazil.

EXECUTIVE OFFICERS

Overview

The executive officers are our legal representatives and are responsible for 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 nine executive officers. The board of directors appoints executive officers for two-year terms and may remove them at any time. According to the Brazilian Corporation Law, executive officers must be Brazilian residents. The executive officers hold regularly scheduled meetings on a bi-weekly basis and hold additional meetings when called by any executive officer.

On December 27, 2002, our general shareholders meeting approved an amendment to our by-laws to increase the number of the executive officers. As a result, we now have one CEO (chief executive officer) and up to eight executive officers, each responsible for business areas that the board of directors assigns to them.

Executive Officers

The table below lists our current executive officers. The term of each of our executive officers expires in 2005.

	Year of Appointment	Position	Age
Roger Agnelli	2002	Chief Executive Officer	44
Armando de Oliveira Santos	2002	Executive Officer (Ferrous Minerals)	53
Antonio Miguel Marques	2002	Executive Officer (Holdings and Business Development)	46
Guilherme Rodolfo Laager	2002	Executive Officer (Logistics)	46
Fabio de Oliveira Barbosa	2002	Executive Officer (Finance, Accounting and Investor Relations)	42
Gabriel Stoliar	2002	Executive Officer (Planning and Control)	49
Diego Hernández	2002	Executive Officer (Non-Ferrous Minerals)	54
Carla Grasso	2002	Executive Officer (Human Resources and Corporate Services)	41

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

Roger Agnelli. Mr. Agnelli was appointed as our CEO in July 2001. He made his career with the Bradesco group from 1981 through 2001, where he served as executive officer of Banco Bradesco, from 1998 through 2000. He also served as CEO of Bradespar S.A., from March 2000

to July 2001. During that time, he served as chairman of our board of directors and also served as a director of several major Brazilian companies, such as Companhia Paulista de Força e Luz, CSN, Latas de Alumínio S.A. LATASA, VBC Energia S.A., Brasmotor S.A., Mahle Metal Leve S.A., Rio Grande Energia S.A. and Serra da Mesa Energia S.A. He was also a director of UGB Participações S.A. and vice-president of the National Investment Banks Association (*Associação Nacional dos Bancos de Investimento).* Currently, Mr. Agnelli is a director of Asea Brown Boveri (ABB) and chairs the Business Cooperation Committee (CCE *Comitê de Cooperação Empresarial)* at the Getúlio Vargas Foundation (FGV). He also is a member of the Economic and Social Development Council, advisory organ to the presidency of Brazil. He holds a degree in Economics from the Armando Álvares Penteado Foundation, São Paulo.

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Armando de Oliveira Santos. Mr. Santos was appointed as an executive officer of our ferrous minerals area in October 2001. Currently, Mr. Santos is also a director of Caemi, CPFL, Samarco and Sibra. Since 1970, Mr. Santos has held many different positions within the CVRD Group, including trainee at the railway division, assistant to the CEO and marketing manager and executive officer 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, commercial officer and executive officer of RDA and director of CSI. Mr. Santos has a degree in civil engineering from the Universidade Federal do Espírito Santo (UFES).

Antonio Miguel Marques. Mr. Marques was appointed as an executive officer of our holdings and business development area in October 2001. Currently, Mr. Marques is CEO of Aluvale and director of Caemi, CST, Fosfértil, MRN, Alunorte, Albras, Valesul and Usiminas, and CEO of Vale do Rio Doce Energia S.A. Prior to that, Mr. Marques has held various positions at Caraíba Metais S.A. Indústria e Comércio, DuPont do Brasil S.A., Billiton Metais S.A., Paranapanema Group and Votarantim Group. Mr. Marques has a degree in engineering from the Universidade Federal de Ouro Preto. He received his postgraduate degree in Mineral Treatment at the Universidade Federal de Minas Gerais (UFMG) and obtained an MBA from COPPEAD, at the 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. From 1982 until 1988, Mr. Laager worked for Andersen Consulting and, from 1979 until 1981, for IESA, International de Engenharia S.A. 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.

Fabio de Oliveira Barbosa. Mr. Barbosa was appointed as our chief financial officer in May 2002. He is also an officer of Docepar S.A. Prior to that, Mr. Barbosa served as a member of our board of directors from April 2000 to March 2002. Previously, he served as chairman of the board of directors of BANESPA Banco do Estado de São Paulo S.A., and also served as a board member of the following companies: Banco do Brasil S.A., Caixa Econômica Federal, CST and TELESP Telecomunicações de São Paulo. Prior to joining us, Mr. Barbosa has served as secretary of the National Treasury Secretariat at the Ministry of Finance since July 1999, after serving as assistant secretary in the previous four years. From 1992 to 1995, he served as adviser to the Executive Board of the World Bank, in Washington D.C. From 1990 to 1992, he was Deputy and Head of the Fiscal Policy Unit at the Ministry of Economy and Finance. From 1988 to 1990, he was economic advisor and head of the Economic Analysis Unit, both at the Ministry of Planning. 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.

Gabriel Stoliar. Since October 2001, Mr. Stoliar has served as the chief planning and control officer of CVRD. In September 1997, he was originally 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 of BNDESPAR. He was appointed 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 (UFRJ), a post graduate degree in production engineering and an MBA from PDG/EXE-SDE in Rio de Janeiro.

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Diego Hernández. Mr. Hernández has been appointed executive officer of the non-ferrous minerals area in 2002. A Chilean mining engineer, Mr. Hernández obtained his degree from École des Mines de Paris France in 1973. In December 2001, he joined CVRD to look after the non-ferrous minerals area. From 1996 to 2001, Mr. Hernández was executive president and CEO of Cia. Minera Doña Ines de Collahuasi, the US$ 1.8 billion Copper Megaproject in northern Chile. From 1988 to 1996, he worked for Anglo American Group in Chile as CEO at Mantos Blancos Copper Company, Development Manager Manto Verde and Santa Barbara Copper Projects and CEO of Cia. Minera Tres Cruces. From 1985 to 1988, Mr. Hernández worked for Rio Tinto in Brazil at Morro do Ouro Gold Project. Prior to that, he held various positions at mining operations and engineering companies in Chile and Brazil. Through 2000 to 2001, Mr. Hernández was President of Consejo Minero (Chilean Chambers of Mines).

Carla Grasso. Ms. Grasso was appointed as an executive officer of the human resources and corporate services area in October 2001. Prior to joining us, Ms. Grasso served as the 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. Ms. Grasso has both a degree in Economics and a master in Economics from Universidade de Brasilia (UNB).

FISCAL COUNCIL

Under the Brazilian Corporation Law, we may appoint a *conselho fiscal*, a fiscal council, as a corporate body independent of our management and external auditors. The primary responsibility of the fiscal council is to review management s activities and the financial statements, and report its findings to the shareholders. We have established a permanent fiscal council, which may have from three to five members. On April 16, 2003, the shareholders appointed the current members and their respective alternates. Holders of preferred class A shares, including the golden share, may elect one member of the fiscal council 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 fiscal council and the respective alternate. The terms of the members of the fiscal council expire at the next ordinary annual shareholders meeting following their election.

The table below lists the current members of the fiscal council.

	First Year of Appointment
Joaquim Vieira Ferreira Levy(1)	2003
Wilson Risolia Rodrigues(2)	2003
Luiz Octavio Nunes West(3)	1998
Vicente Barcelos(3)	2001
Pedro Carlos de Mello(3)	2002

(1) Appointed by the preferred shareholders.
(2) Informally nominated by the non-controlling shareholders.
(3) Appointed by Valepar.

The table below lists the alternate members of the fiscal council.

	First Year of Appointment
Tarcísio José Massote de Godoy(1)	2003
Marcelo Bragagnolo Bonini(2)	2003
Ricardo Wiering de Barros(3)	2003
Helder Zenóbio(3)	2003
Aldo Bastos Alfano(3)	2003

(1) Appointed by the preferred shareholders.
(2) Informally nominated by the non-controlling shareholders.
(3) Appointed by Valepar.

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ADVISORY COMMITTEES

Our bylaws establish five technical and advisory committees to the board of directors, as follows: Executive Development, Strategic, Finance, Audit and Governance and Ethics. Some committee members are not members of the board of directors.

The Executive Development Committee is responsible for reporting on general human resources policies; recommending compensation levels for our executive officers; and establishing guidelines for evaluating the performance of our executive officers. The members of the executive development committee are: Francisco Valadares Póvoa, João Moisés de Oliveira, Arlindo Magno de Oliveira and Olga Loffredi.

The Strategic Committee is responsible for reviewing and making recommendations to the board of directors concerning the strategic guidelines and strategic plan submitted annually to the board by our executive officers; the company s annual and multi-annual investment budgets; investment and/or divestiture opportunities submitted by executive officers, and mergers and acquisitions. The members of the strategic committee are: Roger Agnelli, Gabriel Stoliar, Samir Zraick, José Roberto Mendonça de Barros and Cláudio Roberto Frischtak.

The Finance Committee is responsible for reviewing and making recommendations to the board of directors concerning: the financial policies and the internal financial control systems of the company, compatibility between the level of distributions to shareholders and the parameters established in the annual budget; and consistency with the general policy on dividends and the capital structure of the company. The members of the finance committee are: Roger Agnelli, Fabio de Oliveira Barbosa, Rômulo de Mello Dias and Luiz Carlos Siqueira Aguiar.

The Audit Committee is responsible for recommending the appointment of the independent auditors and the employee responsible for internal auditing of the company to the board of directors; reporting on the policies and the company s annual auditing plan submitted by the employee responsible for internal auditing, and on its execution; tracking the results of the company s internal auditing, and identifying, prioritizing, and submitting actions to be accompanied by the executive officers; and analyzing the annual report, as well as the financial statements of the company and making recommendations to the board of directors. The members of the audit committee are: Marcos Fábio Coutinho, Antonio José Figueiredo Ferreira and Ricardo Wiering de Barros.

The Governance and Ethics Committee is responsible for evaluating our corporate governance practices and the workings of the board of directors, and recommending improvements to the code of ethics and our system of management in order to avoid conflicts of interests between the company and its shareholders or administrators; issuing reports on policies relating to corporate responsibility, such as the environment, health, safety and social responsibility of the company submitted by the executive officers; and issuing reports on potential conflicts of interest between the company and its shareholders or administrators. The members of the governance and ethics committee are: Renato da Cruz Gomes, Ricardo Carvalho Giambroni and Ricardo Simonsen.

COMPENSATION OF DIRECTORS, EXECUTIVE OFFICERS AND FISCAL COUNCIL MEMBERS

General

Under 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 annual 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

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aggregate compensation individually in compliance with our by-laws. The executive development committee of our board of directors makes recommendations to the board concerning the annual aggregate compensation.

For the year ended December 31, 2002, we paid approximately R$8.2 million 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. For the year ended December 31, 2002, 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.

The total number of common shares owned by our directors and executive officers as of May 30, 2003, was 10,547. The total number of preferred shares owned by our directors and executive officers as of May 30, 2003, was 402. None of our directors or executive officers beneficially owns one percent or more of any class of our shares.

Incentive Plans

In addition to fixed compensation, our executive officers are also eligible for bonuses and long-term incentive payments of preferred stock. Each executive officer may receive a bonus based on his or her individual performance and our performance during the fiscal year. The board of directors determines and the shareholders meeting approves the total annual amount of compensation. Long-term incentive payments of preferred stock are then based on a portion of the bonus received. The long-term incentive vests over a three-year period and is paid only after the end of three years of service. After the stock is paid in respect of a long term incentive payment, it remains subject to a further holding period during which it may not be sold, but the executive officer will be entitled to dividends paid during the holding period.

Fiscal Council

During 2002, the monthly amount we paid to the members of the fiscal council was the higher of (1) R$4,200 or (2) the equivalent of 10% of the amount paid on average to an executive officer, excluding benefits. We paid an aggregate of US$ 57,000 to members of the fiscal council in 2002. In addition, the members of the fiscal council are reimbursed for travel expenses related to the performance of their functions.

EMPLOYEES

General

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

	At December 31,		
	2000	**2001**	**2002**
Ferrous Minerals	4,948	6,584	6,746
Logistics	4,525	4,725	4,275
Non-Ferrous Minerals	1,066	1,159	920
Aluminum, Steel and Fertilizers and Business Development			83
Administrative	903	1,152	1,949
Total	11,442	13,620	13,973

Wages and Benefits

We establish our annual wage and benefits programs in July of each year following negotiations with our unions. In July 2002, our final proposals to our unions included a 7% 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.

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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 was funded by monthly contributions we and our employees made, calculated based on periodic actuarial appraisals and administered by Valia. Sponsored by CVRD, Valia is a closed, nonprofit, complementary social security plan with financial and administrative autonomy. With 27 sponsoring companies and over 45 thousand participants (active, retired and pensioners), its overall profitability reached 23.62% in 2002, with a surplus of US$ 29 million, making for an accrued surplus of US$ 83 million.

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, known as the new plan, and offered our active employees the 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.

All employees and their dependants are entitled to supplementary medical assistance, which offers coverage for outpatient and in-hospital treatment, dental care and prescription drug costs. Beneficiaries have free choice of care providers, with part of expenses being reimbursed. Other important fringe benefits offered to employees are an annual amount for school materials, group life insurance, funeral assistance and reimbursement of nursery school costs for employees children up to the age of three years.

Equity Ownership

Our employees have an equity stake in our business through Investvale, an association of our current and retired employees. During 2002, Investvale contributed all of its shares to in us in exchange for an interest in Valepar S.A., our principal shareholder. At December 31, 2002, Investvale owned 11,120,369 common shares, representing approximately 8.5% of the total capital of Valepar.

Our by-laws authorize us to establish stock option plans, but to date we have not done so.

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Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

Overview

The table below sets forth certain information regarding beneficial ownership of our common and preferred shares as of May 30, 2003, by each person we know to be the beneficial owner of more than 5% of any class of our outstanding capital stock, and by all directors and executive officers as a group.

	Shares Owned	Percent of Class
Common Shares		
Valepar S.A(1)	130,715,711	52.3%
Litel Participações S.A.(2)	130,715,711	52.3%
Previ(3)	130,715,711	52.3%
Bradespar S.A.(4)	130,715,711	52.3%
BNDESPAR(5)	17,667,640	7.1%
Directors and executive officers as a group	10,547	*
Preferred Shares(6)		
Directors and executive officers as a group	402	*
Golden Share		
Brazilian government	1	100.0%

(1) See the table below for more information on Valepar s shareholders.
(2) Represents shares owned by Valepar, which may be viewed as beneficially owned by Litel Participações S.A. under the rules of the Securities and Exchange Commission. In general, a person who has or shares voting power or investment power with respect to securities is treated as a beneficial owner of those securities. It does not necessarily imply that the named person has the economic or other benefits of ownership.
(3) Represents shares owned by Valepar, which may be viewed as beneficially owned by Previ through its equity interest in Litel Participações S.A and Litela Participações S.A.
(4) Represents shares owned by Valepar, which may be viewed as beneficially owned by Bradespar S.A., directly and through its equity interests in Eletron S.A., Bradesplan Participações S.A. and Millenium Security Holdings Corp. Bradespar S.A. is controlled by a control group consisting of Cidade de Deus Cia Comercial Participações, Fundação Bradesco, NCF Participações S.A. and Nova Cidade de Deus Participações S.A.
(5) Excludes common shares owned directly by Valepar, in which BNDESPAR has an ownership interest.
(6) The Brazilian government (National Treasury) owns 5,075,341 preferred shares representing 3.7% of the outstanding preferred shares, and BNDESPAR owns 1,401,978 preferred shares representing 1% of the outstanding preferred shares.
(*) Represents less than 1% of the outstanding shares of the class.

The tables below set forth information as of May 31, 2003 regarding Valepar S.A. share ownership and as of May 23, 2003 regarding Litel Participações S.A. share ownership.

	Shares Owned	Percent of Total Shares Owned
Valepar S.A.		
Litel Participações S.A(1)	69,258,590	52.98%
Litela Participações S.A.(2)	6,643,814	5.08
Eletron S.A.(3)	21,875,000	16.74
Bradespar S.A.(3)	721,275	0.55
Bradesplan Participações S.A.(3)	14,298,346	10.94
Millennium Security Holdings Corp.(3)	5,543,686	4.24
BNDESPAR	1,254,631	0.96
Investvale(4)	11,120,369	8.51

Total	130,715,711	100.00%

(1) Litel owns 16,594,824 preferred Class B shares of Valepar, which represents 71.41% of this class of shares.
(2) Litela owns 6,643,814 preferred Class B shares of Valepar, which represents 28.59% of this class of shares.
(3) Eletron, Bradesplan and Millennium are affiliated companies of Bradespar S.A.
(4) Investvale is an investment club owned by our employees.

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Litel Participações S.A.		
BB Carteira Ativa 0(1)	202,753,508	73.59%
BB Carteira Ativa II(1)	53,388,022	19.38
BB Renda Fixa IV(1)	19,371,990	7.03
Others	822	
Directors and Executive Officers as a group	7	
Total	275,514,349	100.00%

(1) Each of BB Carteira Ativa 0, BB Carteira Ativa II and BB Renda Fixa IV is a Brazilian investment fund. BB Carteira Ativa 0 is 100% owned by Previ. BB Carteira Ativa II is 59.36% owned by Funcef, 35.8% owned by Petros and 4.84% owned by Fundação Cesp. BB Renda Fixa IV is 100% owned by Previ. Each of Previ, Petros, Funcef and Fundação Cesp is a Brazilian pension fund.

In March 2003, Bradespar announced an agreement with Mitsui under which Mitsui will acquire 15% of the outstanding common shares of Valepar. Under the agreement, Bradespar will sell all of the shares representing this 15% stake unless Litel and Litela exercise an option to take part in the transaction by selling shares equal to 5% of Valepar s common shares. In the event Litel and Litela exercise this right, Bradespar will sell shares amounting to 10% of Valepar s common shares. This agreement is subject to certain conditions.

Our Privatization

General

In 1997 we were privatized by the Brazilian government, which transferred voting control to Valepar. As part of the privatization process, the National Treasury and BNDES, the government-owned development bank, together retained 32% of our common shares and 4% of our preferred shares. On March 20, 2002, as the final step of the privatization process, the Brazilian government and BNDES each sold 39,393,919 shares, in the form of common shares or American depositary shares, which together represented 32.1% of our outstanding common shares. Following this offering, BNDESPAR, a wholly-owned subsidiary of BNDES, retained common shares representing approximately 4.8% of our outstanding common shares. The Brazilian government now owns outstanding preferred shares, and a golden share in us, which gives it veto powers over certain actions that we could propose to take, and BNDES owns 5,727 of our common shares. For a detailed description of the veto powers granted to the Brazilian government by virtue of its ownership of the golden share, see *Item 10. Additional Information Common and Preferred Shares General*.

Shareholder Debentures

At the time of the first stage of our privatization in 1997, we issued debentures to our shareholders. The terms of the debentures, which are described below, were established to ensure that our pre-privatization shareholders, including the Brazilian government, would participate alongside us in potential future financial benefits that we derive from exploiting certain mineral resources that were not taken into account in determining the minimum purchase price of our shares in the privatization.

A total of 388,559,056 debentures were issued at a par value of R$ 0.01 (one cent of *real*), whose value is to be restated in accordance with the variation in the IGP-M as set forth in the Issue Deed. At the time of the privatization, the debentures were distributed, on a one-for-one basis, as a payment for the redemption of the preferred class B shares, which had previously been issued as a bonus to the holders of our common shares and preferred Class A shares through a capital increase. The debentures are not redeemable or convertible. Since October 28, 2002, the debentures have been authorized for trading in the secondary market of the SND - Sistema Nacional de Debêntures (the National Debenture System).

Under Central Bank of Brazil regulations, pre-privatization foreign shareholders that held their shares through our ADR program, and institutional investors that held their shares through Annex V of Central Bank of Brazil Rule 1.289/87 (Annex V), were not allowed to hold or receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank of Brazil to (i) allow the depositary to hold the debentures on behalf of the ADR holders and the institutional investors, and transfer any financial benefits relating to the debentures as soon as they begin to trade; and (ii) contribute these debentures to a Brazilian investment fund to be created by the depositary, which stocks would be distributed to the ADR holders. The Central Bank of Brazil rejected our request. Following the CVM s October 2002 decision allowing public trading of the debentures, we renewed our request, but we cannot assure you that the Central Bank of Brazil will approve it. Unless the Central

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Bank of Brazil approves our request, the debentures will not have any value for any foreign shareholder or Annex V institutional investors.

Under the debentures, holders have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax, transport fee and insurance expenses related to the trading of the products) from certain identified mineral resources that we owned at the time of the privatization, to the extent that we exceed defined thresholds of sales volume relating to certain mineral resources, and from the sale of mineral rights that we owned at that time. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted. See note 15(f) to our consolidated financial statements for a description of the terms of the debentures.

In June 2002, gold sales from our Fazenda Brasileiro mine reached the 26 ton threshold set forth for gold under the Deed for the shareholders debentures. However, because the amount of the associated premium was determined to be only approximately R$2 million, or less than R$ 0.01 per debenture, we have not yet made any payments under the debentures.

Principal Shareholder

Our principal shareholder is Valepar. The shareholders of Valepar have entered into a shareholders agreement, ending in 2017. This agreement:

- grants rights of first refusal on any transfer of Valepar shares and preemptive rights on any new issue of Valepar shares;
- prohibits the direct acquisition of CVRD shares by Valepar s shareholders unless authorized by the other shareholders;
- 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, unless the rights of first refusal mentioned above are observed;
- allocates Valepar s and our board seats; and
- establishes super-majority voting requirements for certain significant actions relating to Valepar or to us.

Golden Share

The Brazilian government holds one golden share, which gives the Brazilian government 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 *Item 10. Additional Information Common Shares and Preferred Shares*Since our privatization, the Brazilian government has not exercised its veto rights.

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American Depositary Shares

As of April 30, 2003, American depositary shares represented 23.5% of our common shares and 49.2% of our preferred shares.

RELATED PARTY TRANSACTIONS

At December 31, 2002, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of US$ 516 million of which US$ 405 million is denominated in U.S. dollars and the remaining US$ 111 million in Brazilian currency. See note 15(a) to our consolidated financial statements.

We have commercial relationships in the ordinary course of our business with a number of companies that are affiliated with Previ and Bradespar S.A., which may be deemed to beneficially own the shares owned by Valepar, our principal shareholder. The most significant of these is our relatinship with CST, in which both we and Previ hold an interest. In 2002, CST accounted for approximately 3.8% of our total sales, 4% of our iron ore and pellet sales, 4% of our manganese and ferro alloys sales and 8.7% of our logistics sales. All of our sales to CST are made on arms length terms.

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.

Item 8. Financial Information

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 legal counsel, we believe that the provision made against contingent losses is sufficient to cover probable losses in connection with such actions.

We are currently involved in 23 proceedings before the *Conselho Administrativo de Defesa Econômica*, or CADE, which is the primary Brazilian antitrust regulator. Most of these proceedings involve post-transaction review of acquisition or joint venture transactions, which is required for nearly all of our acquisitions and joint ventures. The remaining are administrative proceedings alleging that we have engaged in illegal anticompetitive conduct in connection with our logistics and aluminum-related businesses. We intend to defend these claims vigorously. If CADE were to determine that undue concentration exists in any of our industries, it could impose measures to safeguard competition, which could include requirements that we divest operations or respect price restrictions. If CADE were to find that we have engaged in anticompetitive conduct, it could order us to cease the conduct and / or to pay fines. The Caemi transaction is also being reviewed by the European Commission.

Numerous lawsuits challenging the legality of our privatization are pending, including a number of class action lawsuits. Recently, the lower courts issued favorable decisions in these lawsuits. 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 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, which was first filed in 1998, is still in its initial stages and we believe that the claim is without merit.

We are currently a defendant in two separate actions brought by the municipality of Itabira, in the state of Minas Gerais. It alleges that our Itabira iron ore mining operations have caused environmental and social damages. In one of the actions, filed in August 1996, the municipality of Itabira alleges that our Itabira iron ore mining operations have caused environmental and social damages and claims damages with respect to the degradation of the site of one of our mines, as well as the immediate restoration of the affected ecological complex and the performance of compensatory environmental programs in the region. The damages sought, as adjusted from the date of the claim, amount to approximately US$ 633 million. We believe that this amount is significantly higher than the amount we would actually be responsible for in the event that we were found liable. We have requested the annulment of this action as it represents no actual controversy. In fact, on June 5, 2000, the local environmental authorities granted an

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operating license to our Itabira iron ore mining operations. This license sets forth conditions regarding the environmental restoration of the degraded site and the performance of compensatory environmental programs. We intend to continue to comply with these conditions. In the other action, the municipality of Itabira 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. The damages sought, as adjusted from the date of the claim, amount to approximately US$ 633 million. We believe that this action is without merit. We are vigorously defending both pending actions.

We are obligated to indemnify the seller from which we purchased our interest in Caemi against certain liabilities in connection with the transaction. In a pending arbitration, other former shareholders of Caemi who also sold their shares in the transaction have alleged that the seller should have closed the transaction earlier, and that certain actions by the seller resulted in a lower sale price for their shares. The former shareholders have requested damages of US$ 74 million plus interest (both compensatory and late-payment interest) plus an unspecified amount of moral damages. Hearings in the arbitration were held in May 2003, and the parties expect that post-hearings briefing will be completed by August 2003. We are unable to predict the outcome of the arbitration or the timing of its resolution.

DIVIDENDS AND INTEREST ON SHAREHOLDERS EQUITY

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. For a discussion on dividend distribution provisions in our by-laws, see *Item 10. Additional Information*.

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 net income for distribution with respect to each fiscal year.

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 Brazilian withholding tax at varying rates. Distributions of interest on shareholders equity to shareholders, including holders of American depositary receipts, are currently subject to Brazilian withholding tax of 15%.

We are required to hold an annual 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. See *Item 10. Additional Information Common Shares and Preferred Shares Payments on Shareholders' Equity*.

In November 2002, our board of directors approved a new dividend policy. Under the policy, the board will determine by January 31 of each year a minimum value per share, expressed in U.S. dollars, that will be distributed in that year to our shareholders. The dividend will be paid in *reais*, equivalent to the value announced in U.S. dollars, in two semi-annual installments, in the form of dividends and/or interest on shareholders equity. This minimum value will be established as a function of our expected performance in the year of distribution. The two semi-annual installments will be paid in the months of April and October. The Executive Board can also propose to the board of directors, depending on our actual performance, a further payment to shareholders of an additional amount per share over and above the minimum payout value initially established. The payment of any additional dividend will occur on the same dates fixed for the payment of the minimum dividend. For 2003, the board of directors has approved a minimum dividend of US$ 1.04 per share.

We make cash distributions on the common shares and preferred class A shares underlying the American depositary shares in Brazilian currency to the custodian on behalf of the depositary. The custodian then converts such proceeds into U.S. dollars and causes such U.S. dollars to be delivered to the depositary for distribution to holders of American depositary receipts. For more information on Brazilian tax policies regarding dividend distributions, see *Item 10. Additional Information Taxation Brazilian Tax Considerations.*

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The table below sets forth the cash distributions we paid to holders of common shares and preferred shares for the periods indicated. We have calculated U.S. dollar conversions using the commercial market rate in effect on the date of payment. We stated amounts gross of any applicable withholding tax.

Year	Payment Date	*Reais* per Share at Payment Date	U.S. Dollars per Share at Payment Date
1998	May 8	1.08	