# BR GAAP

# PERFORMANCE OF COMPANHIA VALE DO RIO DOCE IN THE THIRD QUARTER 2004

*The financial and operating information contained in this press release, except otherwise indicated, refers to the Parent Company and was calculated in accordance with Brazilian Generally Accepted Accounting Principles (Brazilian GAAP). This information, with the exception of that which refers to investment and market behaviour, is based on the quarterly financial statements, which have been reviewed by independent auditors.*

## NEW OPERATING AND FINANCIAL RECORDS

Rio de Janeiro, November 10, 2004 – Companhia Vale do Rio Doce (CVRD) obtained a new earnings record in the third quarter 2004 (3Q04) of R$ 2.296 billion, corresponding to R$ 1.99 per share. This amount is 79.5% higher than the same quarter of last year, and 36.4% higher than the earnings reported in 2Q04, of R$ 1.683 billion.

Accumulated net earnings in the first nine months of 2004 amounted to R$ 4.933 billion, representing a YoY increase of 32.7% as well as being greater than 2003 net earnings, of R$ 4.509 billion.

Return on equity (ROE) for the 12-month period ended September 30, 2004, amounted to 30.7%.

The Company also set a new record for gross revenues, which amounted to R$ 3.742 billion in the quarter, 35.3% higher than in 3Q03, and 4.6% higher than in 2Q04. Accumulated revenues in the first nine months of 2004 amounted to R$ 10.051 billion, 34.2% higher than the same period in 2003.

Quarterly cash generation, as measured by EBITDA (earnings before interest, tax, depreciation and amortization) amounted to R$ 1.538 billion, representing an increase of 2.1% compared to that of 3Q03, but a drop of 11.0% compared to the record achieved in 2Q04, of R$ 1.729 billion. In the first nine months of 2004, the Company generated cash of R$ 4.609 billion, an increase of 26.7% in relation to the same period last year.

In the year 2004, dividend of R$ 2.253 billion was distributed to shareholders, being R$ 1.96 per share, an increase of 16.7% on the amount distributed in 2003.

Exports accumulated in the first nine months of the year amounted to US$ 3.929 billion, a 43.3% increase on the value exported in the same period in 2003. Between January and September 2004, CVRD's net exports amounted to US$ 3.285 billion, representing 13.1% of Brazil's trade balance surplus in the period.

Shipments of iron ore and pellets amounted to 48.893 million tons, exceeding the previous record of 45.894 million tons sold in 2Q04. From January to September


**www.cvrd.com.br**
**rio@cvrd.com.br**

**Departamento de Relações com Investidores**

Roberto Castello Branco
Rafael Campos
Barbara Geluda
Daniela Tinoco
Eduardo Mello Franco
Rafael Azevedo
Tel: (5521) 3814-4540

2004, CVRD shipped 138.043 million tons of iron ore and pellets, an increase of 22.0% in relation to the same period a year earlier.

The volume of general cargo transported by Vitória a Minas (EFVM) and Carajás (EFC) railroads, of 5.034 billion net ton kilometres (ntk), was also the largest in the Company's history. The previous record for volume of general cargo transported was set in 2Q04, of 4.879 billion ntk. In the first nine months of 2004, CVRD's railroads transported a total of 13.872 billion ntk, an increase of 13.1% on the 12.261 billion ntk transported in the same period in 2003.

CVRD’s capital expenditure in 3Q04 totaled US$256 million, and in the first nine months of the year totaled US$1.043 billion. In the quarter, US$168.9 million was spent in growth capex – on mineral exploration and projects. All these projects are on schedule and will become new platforms of value creation over the next two years.

The reduction of financial leverage and interest coverage ratios, even with significant capital expenditure and dividend distribution, shows the company’s financial strength.

The continued profitable growth has been made possible by the good execution of the Company’s strategy, appropriate financial policy, and rigid cost control, while also being facilitated by the favorable world market for mineral products.

**SELECTED FINANCIAL INDICATORS**

R$ million

| | 3Q03 | 2Q04 | 3Q04 | 9M04 |
|---|---|---|---|---|
| Gross Operating Revenues | 2,766 | 3,578 | 3,742 | 10,051 |
| Gross Margin (%) | 49.6 | 47.5 | 47.5 | 46.4 |
| Operating Income | 1,102 | 1,304 | 1,212 | 3,209 |
| Operating Margin (%) | 41.1 | 38.5 | 34.3 | 33.7 |
| EBITDA | 1,506 | 1,729 | 1,538 | 4,609 |
| Net Earnings | 1,278 | 1,683 | 2,296 | 4,933 |
| ROE (annualized) (%) | 36.2 | 28.2 | 30.7 | 30.7 |
| Investments (US$ million) * | 831.0 | 481.0 | 256.0 | 1,043.0 |

*including acquisitions

ROE = return on equity = LTM earnings / equity

## BUSINESS OUTLOOK

The global economy has been growing at a rate of 5% a year, the highest rate since 1976. This synchronized expansion has been accompanied by considerable pressure on the supply of ore-based products and logistics infrastructure, particularly due to the pace of consumption in China.

The United States continues to lead the recovery in the global economy, with GDP growth in 3Q04 again starting to accelerate, reaching an annualized rate of 3.7% a year. After a brief period of slowdown, industrial production in Japan has again started to show signs of increasing vitality in recent months. The Japan´s Ministry for Economy, International Commerce and Industry has forecast steel production in 4Q04 of 28.9 million tons, which amounts to a total of 112.8 million tons for the year, the highest volume produced since 1974.

In the Euro Zone, the recovery, in contrast to other regions, is extremely modest and is still dependent on export performance.

Consistent with the government's objective of correcting the imbalances in its economy, China's main macroeconomic performance indicators are suggesting a process of soft landing.

The rate of growth in bank credit continues to fall, having reached 14% in August after registering a maximum of 23.9% in August 2003. Growth in fixed asset investment has also been declining after having reached the highest level of the last five years in January 2004. Inflation, as measured by the behaviour of the consumer price index in the last 12 months, is showing signs of stabilization, at around 5.2% a year. Finally, annualized GDP growth in 3Q04, although still very high at 9.1%, is the lowest since 1Q03.

The recent increase in interest rates, in our opinion, was aimed at influencing expectations, demonstrating to economic agents that the People's Bank of China continues strongly committed to promoting stability in the Chinese economy, hence making its task easier. There are no significant reasons to change our expectations with regard to the future behaviour of the Chinese economy and the demand for ores and metals as a consequence of this movement.

Brazil has been registering annualized GDP growth rates of over 6% since 4Q03. In contrast to what occurred in the period 1995-2002, during which the economy endured a series of shocks that damaged its performance, up to now the Brazilian economy has been benefiting from a benign global scenario. A more stable domestic environment, as a result of sound macroeconomic policy, is creating the basis for a sustainable recovery.

The global economy is currently suffering from an oil price shock, apparently accompanied by a change in the long-term equilibrium price level. A reversal in this picture will depend on conservation and development of alternative sources of energy, which cannot be expected to produce results in the short term. However, we expect the impact on global GDP growth and inflation to be extremely limited in comparison with the impact caused by similar shocks in the past. The credibility gained by the world's principal central banks in the combat of inflation removes the stimulus to pass-through cost increases to prices, and to use tight monetary policies, which are capable of producing recessionary effects in the short term.

As is characteristic of economic cycles, the current expansion cycle in the global economy, having undergone a strong acceleration phase, is now entering a phase of consolidation. Leading indicators of economic activity suggest lower growth rates in the future, but nonetheless at a sufficient level to maintain buoyant demand for ores and metals.

Global steel production continues to expand significantly, increasing by 8.3% in the first nine months of this year, compared to the same period in 2003. In 3Q04, production was 9.2% higher than in 3Q03.

Chinese steel production for the first nine months of 2004, of 191.6 million tons according to data from the International Iron and Steel Institute (IISI), was 20% higher than that obtained between January and September last year .

In the same period, its iron ore imports amounted to 151 million tons, an increase of 40.4 million tons – 36.5% – relative to the volume imported in the first nine months of 2003 and 2.8 million tons more than the imports for the whole of 2003 .

There are no signs of slowing down in global demand - quite the contrary. Pressure on existing production capacity is stronger than last year. The market for ore fines, lumps and pellets continues firm and strongly in demand in Asia, Europe and South America.

At the same time, the imbalance between global demand and supply in the alumina market continues, where prices in the spot market have returned to the level of US$400 per tonne FOB. In addition to the strong demand from China, which in the first nine months of the year imported 4.43 million tons, there have been problems on the supply side, increasing the relative scarcity of the product. For 2005, our forecast is still for a deficit, which if it materializes, will contribute to maintaining a satisfactory price level for producers.

## RECENT MATERIAL EVENTS

A number of important events have occurred in the recent period. The Company's shares have undergone a forward split and the registry of shareholders debentures owned by foreign investors has been regularized.

Long term contracts for the supply of iron ore and manganese ferro-alloys have been signed. In terms of the assets managed, the important events were the start-up of operations at the Candonga hydroelectric plant and the sale of CVRD's equity stake in PPSA. Finally, a cooperation agreement has been signed with JBIC.

- **Stock split and Shareholders Debentures**

The Extraordinary General Shareholders Meeting, held on August, 18, approved the proposal to split the Company's shares. As a result, each CVRD share was split into three. The aim was to reposition the Company's share price after substantial appreciation, and at the same time making transactions more accessible for retail investors. As a consequence of the share split, the Company's capital is now composed of 1,165,677,168 shares, being 749,949,429 ordinary shares and 415,727,739 preferred shares.

The Central Bank of Brazil has issued authorization granting the registration of the debentures issued and given to holders of American Depository Receipts (ADRs) as of the record date of April 18, 1997. This measure allows the owners of ADRs in CVRD of the pre- privatization phase to use these assets, thus respecting the rights of these investors.

- **Long term contracts**

In this quarter, CVRD signed three new long-term contracts for the supply of iron ore:

(1) Shougang Group, of China – 11.3 million tons of iron ore between 2004 and 2012.
(2) JFE Steel Corporation, of Japan – 70 million tons of iron ore between 2005 and 2014.
(3) Sumitomo Metals, of Japan – 20 million tons of iron ore between 2005 and 2014.

In the last 12 months, CVRD has signed a number of contracts for the total supply of 555 million tons of iron ore and pellets for contract terms of up to 10 years. This has helped to increase predictability in the behaviour of the Company's future sales, thereby enabling production capacity to be expanded with greater confidence.

The Company also signed a sales contract with Corus, for the supply of 30,000 tons of manganese ferro-alloys per year for a period of three years.

This contract represents a paradigm shift in commercial relationship in the global ferro-alloys market. Previously, the supply of this raw material was carried out through transactions effected in the spot market. This change is extremely positive for both suppliers and consumers, permitting the optimization of production planning.

- **Candonga hydroelectric plant begins operations**

The Candonga hydroelectric plant, which has an installed capacity of 140 MW and generation capacity of 64.5 average MW, equivalent to 565,020 MWh/year, has begun commercial generation of electricity. CVRD's quota of electric power is the same as its 50% stake in the consortium which built the plant, and is supplying energy needs of the Company's operational units in the states of Minas Gerais and Espírito Santo.

This is CVRD's fourth project to begin operations in 2004: the others being Píer III at the Ponta da Madeira maritime terminal, the conclusion of the expansion of iron ore production capacity at Carajás to 70 million tons a year, and the Sossego copper mine.

- **Sale of PPSA**

CVRD has sold for US$ 117.8 million its entire equity stake in PPSA to its subsidiary Caemi. The shares sold correspond to 85.6% of PPSA´s voting capital and 82.0% of its total capital. The transaction had the aim of consolidating the Company's kaolin businesses within Caemi, which operates in the sector through Cadam. The conclusion of the sale is still subject to precedent conditions.

- **Cooperation agreement with JBIC**

The Company has signed a cooperation agreement with the Japan Bank for International Cooperation (JBIC) whose aim is to stimulate the information flow concerning CVRD's expansion projects in the areas of infrastructure and mining. JBIC has already taken part in the financing of a number of the Company's significant expansion projects and is now firmly established as an important source of long term funding for this purpose.

## SALES VOLUME AND REVENUES

CVRD's total gross revenues in 3Q04, of R$ 3.742 billion, set a new record, exceeding the previous record of R$ 3.578 billion achieved in 2Q04. This figure was 35.3% higher than 3Q03 and 4.6% higher than 2Q04. This result was obtained despite the 2.3% appreciation in the Brazilian Real against the US Dollar, between 2Q04 and 3Q04, which had a negative effect on revenues of R$ 83 million.

**Record shipments of iron ore and pellets**

Revenues from the sale of iron ore and pellets, of R$ 2.982 billion, also represented a new record. This figure was 31.7% higher than 3Q03 and 1.6% higher 2Q04. Revenues in 3Q04 consisted of R$ 2.214 billion from the sale of iron ore and R$ 768 million from the shipment of pellets.

The volume sold of iron ore and pellets also reached a record level in 3Q04, amounting to 48.893 million tons, compared to 45.894 million tons in the previous quarter. Global demand continues to be very strong. Reaching this latest level was possible due to increased capacity at Carajás, which is now producing at a rate of 73.6 million tons a year, having produced 18.4 million tons this quarter, compared to 16.2 million tons in 2Q04.

The volume sold of iron ore amounted to 41.791 million tons, an increase of 18.0% in relation to 3Q03, and of 8.1% vis-à-vis the previous record achieved in 2Q04. The Company sold 7.102 million tons of pellets, practically the same of 7.231 million tons sold in the previous quarter, but 45.9% higher than the volume sold in 3Q03.

Of the iron ore sold by the Company in 3Q04, 74.7% consisted of ore fines, 10.8% lumps, and 14.5% pellets.

Exports accounted for 75.5% of the iron ore and pellets shipped in 3Q04. China continues to gain importance as a sales destination for CVRD, having been responsible for 21.7% of iron ore exports, 8.0 million tons. In second place was Germany, which bought 5.7 million tons, followed by Japan with 3.4 million tons and France and South Korea, with 2.4 million tons each. Of the 12.0 million tons sold to the domestic market, 4.9 million tons were sold to the pelletizing joint ventures at Tubarão, whose production is almost entirely exported.

**Rising shipments of copper**

In 3Q04, the Company shipped 96,000 tons of copper concentrate, generating R$ 196 million in revenues. This volume represents an increase of 182.4% in relation to the previous quarter, which saw only one month of shipments, while revenues were up 172.2%. The Sossego mine continues its production ramp-up process which should be concluded in the fourth quarter of this year.

**Good potash sales performance despite limitations**

Sales of potash amounted to 161 thousand tons, a drop of 3.0% vis-à-vis 2Q04 and down 18.7% compared to 3Q03. This decline in sales was due to the temporary restrictions on production capacity as a result of the expansion projects being implemented in the Taquari-Vassouras mine. Revenues obtained from potash sales, of R$ 103 million, were up 27.1% in relation to 3Q03 and up 7.3% in relation to 2Q04.

**New record achieved in the transportation of general cargo, gains in productivity and reductions in fuel consumption**

The volume of general cargo (freight other than iron ore and pellets) transported for clients through our railroads (Vitória a Minas and Carajás) amounted to 5.0 billion ntk, exceeding the previous record of 4.9 billion ntk reported in 2Q04, an increase of 10.1% compared to 3Q03, and of 3.2% vis-à-vis 2Q04. Most of the cargo transported consisted of inputs and products for the steel industry (43.5%), agricultural products (35.5%) and fuel (9.8%).

Productivity on CVRD's railroads continue to improve in 2004. EFVM carried 9.11 ntk per HP (*horse power*), an indicator of productivity for locomotives, compared to 8.53 in 2Q04 and 8.15 in 1Q04, while EFC transported 16.57 ntk per HP, compared to 15.18 in 2Q04 and 14.97 in 1Q04.

In terms of fuel efficiency, there has also been a progressive improvement. In 3Q04, EFVM consumed 2.24 litres of fuel per gross 1,000 ton kilometre (kgtk) transported while EFC consumed 1.40 litres per kgtk, compared to 2.28 and 1.41, respectively in 2Q04.

Revenues generated from logistics services, of R$ 422 million, represented an increase of 17.5% and 2.9% compared to 3Q03 and 2Q04, respectively, amounting to 11.3% of the Company's total revenues. Of this total, R$ 333 million were generated by railroad transportation and R$ 89 million by port services.

| SALES VOLUME | | | | |
|---|---|---|---|---|
| | | | | '000 tons |
| | 3Q03 | 2Q04 | 3Q04 | 9M04 |
| Iron Ore and Pellets | 40,297 | 45,894 | 48,893 | 138,043 |
| Iron Ore | 35,430 | 38,663 | 41,791 | 117,355 |
| Fines | 31,597 | 34,321 | 36,530 | 103,461 |
| Lumps | 3,833 | 4,342 | 5,261 | 13,894 |
| Pellets | 4,867 | 7,231 | 7,102 | 20,688 |
| Potash | 198 | 166 | 161 | 465 |
| Copper Concentrate | - | 34 | 96 | 130 |
| Port Services | 6,515 | 6,896 | 6,654 | 19,185 |

| SALES OF IRON ORE AND PELLETS- BY DESTINATION | | | | |
|---|---|---|---|---|
| | | | | Million tons |
| FOREIGN MARKET | 3Q03 | 2Q04 | 3Q04 | 9M04 |
| **ASIA** | | | | |
| China | 7.1 | 7.1 | 8.0 | 20.9 |
| South Korea | 1.7 | 1.4 | 2.4 | 5.5 |
| Philippines | 0.6 | 1.0 | 0.9 | 2.7 |
| Japan | 4.1 | 4.1 | 3.4 | 11.5 |
| Taiwan | 0.5 | 0.5 | 0.8 | 2.0 |
| Others | - | 0.5 | - | 0.9 |
| **Total** | **14.0** | **14.6** | **15.5** | **43.5** |
| **EUROPE** | | | | |
| Germany | 4.4 | 5.7 | 5.7 | 16.0 |
| Spain | 0.4 | 1.1 | 0.9 | 2.9 |
| France | 1.7 | 2.9 | 2.4 | 7.6 |
| Italy | 1.2 | 1.1 | 1.7 | 4.3 |
| United Kingdom | 0.6 | 0.4 | 0.8 | 1.7 |
| Others | 3.6 | 3.9 | 4.1 | 11.5 |
| **Total** | **11.9** | **15.1** | **15.6** | **44.0** |
| **THE AMERICAS** | | | | |
| Argentina | 0.7 | 0.8 | 1.0 | 2.7 |
| United States | 1.0 | 0.9 | 0.8 | 2.7 |
| Other | 0.7 | 0.8 | 1.1 | 3.2 |
| **Total** | **2.4** | **2.5** | **2.9** | **8.6** |
| **Others** | | | | |
| Bahrein | 1.0 | 0.6 | 1.1 | 2.7 |
| Others | 0.5 | 1.3 | 1.8 | 4.2 |
| **Total** | **1.5** | **1.9** | **2.9** | **6.9** |
| **TOTAL** | **29.8** | **34.1** | **36.9** | **103.0** |
| DOMESTIC MARKET | 3Q03 | 2Q04 | 3Q04 | 9M04 |
| Steel Mills | 5.7 | 7.0 | 7.1 | 20.4 |
| Pelletizing Joint Ventures | 4.7 | 4.8 | 4.9 | 14.6 |
| **Total** | **10.4** | **11.8** | **12.0** | **35.0** |
| **TOTAL** | **40.2** | **45.9** | **48.9** | **138.0** |

| GENERAL CARGO TRANSPORTED BY RAILROAD | | | | |
|---|---|---|---|---|
| | | | | Million ntk |
| | 3Q03 | 2Q04 | 3Q04 | 9M04 |
| Vitória a Minas Railroad | 3,497 | 3,563 | 3,724 | 10,349 |
| Carajás Railroad | 1,077 | 1,316 | 1,310 | 3,523 |
| **Total** | **4,574** | **4,879** | **5,034** | **13,872** |

| GROSS REVENUE BY PRODUCT | | | | | |
|---|---|---|---|---|---|
| | | | | | R$ million |
| | 3Q03 | 2Q04 | 3Q04 | 9M04 | % |
| **Iron Ore** | **1,777** | **2,072** | **2,214** | **5,983** | **59.5** |
| Domestic Market | 410 | 524 | 543 | 1,495 | 14.9 |
| Export Market | 1,367 | 1,548 | 1,671 | 4,488 | 44.6 |
| **Pellets** | **488** | **863** | **768** | **2,225** | **22.1** |
| Domestic Market | 87 | 158 | 157 | 430 | 4.3 |
| Export Market | 400 | 705 | 611 | 1,795 | 17.9 |
| **Pelletizing Plants Operation Services** | **36** | **47** | **34** | **116** | **1.2** |
| **Railroad Transport** | **281** | **319** | **333** | **913** | **9.1** |
| **Port Services** | **78** | **91** | **89** | **251** | **2.5** |
| **Potash** | **81** | **96** | **103** | **265** | **2.6** |
| **Copper Concentrate** | **-** | **72** | **196** | **268** | **2.7** |
| **Others** | **26** | **18** | **6** | **30** | **0.3** |
| **Total** | **2,766** | **3,578** | **3,742** | **10,052** | **100.0** |

## A NEW EARNINGS RECORD: R$ 2.296 BILLION

In 3Q04, the company obtained net earnings of R$ 2.296 billion, exceeding the previous record achieved in 2Q04, of R$ 1.683 billion by 36.4%. In addition, this amount represents an increase of 79.6% on that obtained in 3Q03.

3Q04 earnings were positively influenced by a R$ 463 million profit on the sale of the 20.11% interest in CST (4.42% of CST's voting stock and 29.96% of its non-voting stock). The sale of CVRD's remaining 7.91% stake in CST will take place until May 2005, as announced in the press released published on June 28, 2004.

The principal factors behind the R$ 613 million increase in net earnings in 3Q04, compared to that obtained in 2Q04, were:

(i) An increase of R$ 768 million in positive monetary variation, bearing in mind the appreciation of the Brazilian Real versus the US Dollar in 3Q04, compared to the depreciation that occurred in 2Q04;

(ii) Profit on the sale of CST, of R$ 463 million;

(iii) An increase in the Company's net operating revenues of R$ 149 million;

(iv) Reduction of R$ 10 million in sales and administrative expenses.

On the other hand, the effect of these factors was partially offset by:

(i) An increase of R$ 80 million in the cost of goods sold (COGS), which was due basically to the general growth in the Company's production activity, including the build-up of operations in the Sossego copper mine, which caused an increase of R$ 83 million in COGS, and the annual employee salary increase (R$ 26 million);

(ii) An increase of R$ 149 million in other net operating expenses, due to provisions made for tax due and profit-sharing, as well as the booking of pre-operating costs at Sossego of R$ 24 million;

(iii) A drop of R$ 233 million in the equity income result, basically due to the effect of the appreciation of the Brazilian Real against the US dollar on net assets in foreign currency owned by subsidiaries and affiliates based abroad (generating a negative variation of R$ 397 million between 2Q04 and 3Q04 ). In addition, as a result of the sale just mentioned, the contribution of CST to CVRD's equity income result dropped by R$ 136 million.

On the other hand, the following companies had a positive contribution to the Company's results: Samarco's earnings contribution increased by R$ 42 million, Usiminas' by R$ 38 million, Alunorte's by R$ 34 million, Rio Doce Manganês's by R$ 25 million and Pará Pigmentos and MRN, each contributed with an increase of R$ 17 million.

**EQUITY INCOME RESULTS BY BUSINESS AREA**

R$ million

| Business Area | 3Q03 | 2Q04 | 3Q04 |
|---|---|---|---|
| **Ferrous Minerals** | **202** | **596** | **496** |
| Iron Ore and Pellets | 158 | 452 | 324 |
| Manganese and Ferro-Alloys | 44 | 144 | 172 |
| **Non-Ferrous Minerals** | **(26)** | **(2)** | **16** |
| **Logistics** | **9** | **17** | **36** |
| **Steel** | **135** | **302** | **125** |
| **Aluminum** | **130** | **228** | **235** |
| **Others** | **37** | **(5)** | **(5)** |
| **Total** | **487** | **1,136** | **903** |

**COMPOSITION OF COGS**

R$ million

| | 3Q03 | % | 2Q04 | % | 3Q04 | % |
|---|---|---|---|---|---|---|
| Personnel | 144 | 10.7 | 165 | 9.3 | 191 | 10.3 |
| Material | 214 | 15.8 | 336 | 18.9 | 350 | 18.9 |
| Fuel Oil and Gases | 162 | 12.0 | 195 | 11.0 | 204 | 11.0 |
| Contracted Services | 210 | 15.5 | 269 | 15.2 | 269 | 14.5 |
| Contracted Transportation | 19 | 1.4 | 71 | 4.0 | 73 | 3.9 |
| Energy | 43 | 3.2 | 54 | 3.0 | 69 | 3.7 |
| Acquisition of products | 294 | 21.8 | 341 | 19.2 | 346 | 18.7 |
| Depreciation and Amortization | 185 | 13.7 | 222 | 12.5 | 247 | 13.3 |
| Others | 80 | 5.9 | 122 | 6.9 | 106 | 5.7 |
| **Total** | **1,351** | **100.0** | **1,775** | **100.0** | **1,855** | **100.0** |

## CASH GENERATION OF R$ 1.538 BILLION

CVRD generated cash, as measured by EBITDA, of R$ 1.538 billion in 3Q04, an increase of 2.1% on 3Q03, but down 11.0% on 2Q04.

Net operating revenues in 3Q04 increased by R$ 149 million compared to the previous quarter, contributing positively to EBITDA.

On the other hand, the principal factors behind the drop in cash generated compared to 2Q04 were the increase in other operating expenses of R$ 149 million and on COGS of R$ 80 million, as previously explained. There was also a reduction of R$ 124 million in dividends received from subsidiaries and affiliates, bearing in mind that MRN and Valesul did not distribute dividends this period and the amount paid by Samarco, R$ 54 million, decreased by R$ 43 million. The total amount of dividends received by CVRD during 3Q04 was R$ 68 million.

**EBITDA CALCULATION**

R$ million

| | 3Q03 | 2Q04 | 3Q04 |
|---|---|---|---|
| Net Operating Revenues | 2,679 | 3,384 | 3,534 |
| COGS | (1,351) | (1,775) | (1,855) |
| Sales Expenses | (56) | (7) | (8) |
| Administrative Expenses | (97) | (134) | (123) |
| Research & Development | (64) | (76) | (99) |
| Other Operational Expenses | (9) | (88) | (237) |
| | | | |
| **EBIT** | **1,102** | **1,304** | **1,212** |
| | | | |
| Depreciation and Amortization | 192 | 233 | 258 |
| Dividends Received | 212 | 192 | 68 |
| | | | |
| **EBITDA** | **1,506** | **1,729** | **1,538** |

## DEBT: LEVERAGE AND COVERAGE INDICES CONTINUE TO IMPROVE

Our discussion of debt is in accordance with generally accepted accounting principles in the Unites States of America (US GAAP) since such information enables a more precise analysis of the consolidated leverage position of the Company.

CVRD's total debt on September 30, 2004 was US$4.418 billion, US$96 million less than the US$4.514 billion outstanding as of June 30, 2004.

Short-term debt was reduced by US$43 million from the end of 2Q04, and long-term debt by US$53 million. In percentage terms short-term debt was significantly reduced from 32.0% of total debt at the end of 3Q03, to 22.2% at the end of 3Q04.

Net debt fell substantially, from US$3.455 billion at the end of June to US$2.479 billion on September 30, 2004. This was due to the increase in cash balance which was generated by the strong operating cash flow during the quarter, of US$1.1 billion, and the proceeds from the sale of shares of CST, US$ 415 million. Such cash position should change as a result of the disbursement of dividends at the end of October 2004.

Due to the considerable increase in the last twelve month adjusted EBITDA, which was US$3.289 billion at the end of September, the leverage ratio total debt / LTM adjusted EBITDA fell to 1.34x at end of 3Q04, and total debt / enterprise value was 16.2%, vis-à-vis 21,7% at the end of 2Q04.

There was a strong improvement in interest coverage as well, measured as LTM adjusted Ebitda / LTM interest payments, from 11.51x at the end of 2003 to 13.00x at the end of 3Q04.

| FINANCIAL EXPENSES | | |
|---|---|---|
| | | US$ million |
| **Breakdown of Financial Expenses:** | **2Q04** | **3Q04** |
| Local Debt | (12) | (12) |
| External Debt | (67) | (49) |
| Debt with Related Parties | (5) | (3) |
| **Total Financial Expenses Related to Debt** | **(84)** | **(64)** |
| | | |
| **Breakdown of Gross Interest:** | **2Q04** | **3Q04** |
| Tax and Labour Contingencies | (9) | (11) |
| Taxes on Financial Transactions CPMF | (14) | (9) |
| Derivatives | 23 | (36) |
| Others | (22) | (45) |
| **Total of Gross Interest** | **(22)** | **(101)** |
| | | |
| **Total** | **(106)** | **(165)** |

| LEVERAGE INDICATORS | | | |
|---|---|---|---|
| | | | US$ million |
| | **3Q03** | **2Q04** | **3Q04** |
| Gross Debt | 4,304 | 4,514 | 4,418 |
| Net Debt | 2,964 | 3,455 | 2,479 |
| Gross Debt / LTM Adjusted EBITDA (x) | 2.15 | 1.55 | 1.34 |
| LTM Adjusted EBITDA / LTM Interest Expenses (x) | 10.15 | 12.94 | 13.00 |
| Gross Debt / EV (x) | 0.24 | 0.22 | 0.16 |

*Enterprise Value = Market Capitalization + Net Debt*

## INVESTMENTS OF US$ 256 MILLION

In the third quarter of 2004, CVRD invested US$ 256 million, out of which US$ 169 million were allocated to growth capex and US$ 87 million to the maintenance of the current operations (stay in business capex).

In the first nine month of the year, CVRD invested US$ 1.043 billion, representing 67.9% of the capex budget for the year.

Due to the implementation of an enterprise resource planning system, as informed on the 2003 Form 20F, investment data is still preliminary and subject to future review.

From the US$ 169 million spent with growth initiatives during 3Q04, US$ 22 million were dedicated to mineral exploration. This amount was partially invested in Brazil - 73% - and partially abroad - 27%. Most of the mineral exploration efforts were on the prospecting for copper, gold, nickel, manganese and bauxite.

Investments in brownfield and greenfield projects accounted for US$ 147 million. The main projects under development are described in the chart bellow.

| Area | Project | Realized US$ million | | | | Status |
|---|---|---|---|---|---|---|
| | | 1Q04 | 2Q04 | 3Q04 | 9M04 | |
| Ferrous Minerals | Expansion of iron ore mines in Carajás to 85 Mtpa – Northern System | 2 | 24 | 10 | 36 | This project will add 15 million tons a year to CVRD's production capacity and is scheduled for completion by 2006. The conclusion of the Phase II of Pier III at the Ponta da Madeira maritime terminal, which consists of the implementation of a shiploader, is scheduled for July 2005. Work on the beneficiation plant is already ongoing. |
| | Iron ore mine Brucutu - Phase I – Southern System | 2 | 10 | 7 | 19 | Brucutu is not a modular project and is likely to produce 4 million tons this year. Phase I will be concluded in 2006, when it will reach nominal production capacity of 12 million tons a year. |
| | Iron ore mine Fábrica Nova –Southern System | 3 | 7 | 9 | 19 | The first phase is scheduled for completion in 2Q05, when the mine will have a nominal production capacity of 10 million tons a year. The start-up of the second phase is scheduled for 2007, when the mine is expected to reach nominal production capacity of 15 million tons a year. |
| | Expansion of the iron ore mines at Itabira – Southern System | 4 | 4 | 4 | 12 | Expansion and modernization of the operations in the mines at Itabira will increase production capacity by 3 million tons a year, raising nominal production capacity to 46 million tons a year. Completion scheduled for 2006. |
| Non-ferrous minerals | Expansion of Taquari-Vassouras potash mine | 16 | 5 | 5 | 26 | About 81% of the expansion work has already been carried out. Operational start-up for the expansion is scheduled for the second half of 2005. |
| Aluminum | Paragominas I | 2 | 2 | 6 | 10 | Operation is scheduled to begin at the end of 2006, with annual production capacity of 9.0 million tons of bauxite. The basic projects for the plant and for the ore pipeline have already been completed and the pilot plant has already started-up. The environmental licenses for the opening of the mine and construction of the pipeline were already obtained. 40,000 tons of pipes for the pipeline were bought. The levelling of the ground for the area where the beneficiation plant and the support for the operations will be, already started. The total cost of the project is US$ 353 million. |
| Logistics | Purchase of locomotives and wagons – EFVM/EFC | 75 | 78 | 36 | 189 | In the first nine months of 2004, EFVM and EFC received 2,259 wagons – 1,546 for the transportation of iron ore and 713 for general cargo - and 38 locomotives. |
| Power Generation | Aimorés Hydroelectric Power Plant | 11 | 5 | 4 | 20 | The plant is located on the Rio Doce, in the state of Minas Gerais, Brazil, and will have a generation capacity of 330MW, with start-up scheduled for July 2005. |
| | Capim Branco I & II Hydroelectric Power Plants | 6 | 9 | 13 | 28 | Both plants are located on the Rio Araguari, in the state of Minas Gerais, Brazil, and will have a generation capacity of 240MW and 210MW respectively. Operational start-up for both projects is scheduled for 2006. |

## SELECTED FINANCIAL INDICATORS FOR THE MAIN SUBSIDIARIES AND AFFILIATES

Selected financial indicators for the Company's main subsidiaries and affiliates are available on the Company's website, www.cvrd.com.br, investor relations.

## CONFERENCE CALL/*WEBCAST*

On Friday, November 12, CVRD will be holding a conference call and webcast at 12 pm (Rio de Janeiro time), 9 am US Eastern Standard Time and 2pm, British Standard Time. Instructions for participating in this conference call will be available on CVRD's website, www.cvrd.com.br, investor relations. A recording of the conference call will be available on the Company´s website for 90 days following November 12, 2004.

**FINANCIAL STATEMENTS**

R$ million

| | 3Q03 | 2Q04 | 3Q04 |
|---|---|---|---|
| **Gross Operating Revenues** | **2,766** | **3,578** | **3,742** |
| Taxes | (87) | (194) | (208) |
| **Net Operating Revenues** | **2,679** | **3,384** | **3,534** |
| Cost of Goods Sold | (1,351) | (1,775) | (1,855) |
| **Gross Earnings** | **1,328** | **1,609** | **1,679** |
| Gross Margin (%) | 49.6 | 47.5 | 47.5 |
| **Operational Expenses** | **(226)** | **(305)** | **(467)** |
| Sales | (56) | (7) | (8) |
| Administrative | (97) | (134) | (123) |
| Research and Development | (64) | (76) | (99) |
| Other Operational Expenses | (9) | (88) | (237) |
| **Operating Earnings** | **1,102** | **1,304** | **1,212** |
| **Result from Shareholdings** | **487** | **1,136** | **903** |
| Equity Income | 246 | 1.247 | 970 |
| Goodwill Amortization | (113) | (80) | (10) |
| Provision for Losses | 354 | (31) | (57) |
| **Financial Result** | **(273)** | **(703)** | **(54)** |
| Financial Expenses | (145) | (153) | (277) |
| Financial Revenues | 60 | 20 | 25 |
| Monetary Variation | (188) | (570) | 198 |
| **Disposal of Assets** | - | - | 463 |
| Income Tax and Social Contribution | (38) | (54) | (228) |
| **Net Earnings** | **1,278** | **1,683** | **2,296** |
| **Earnings per share (R$)** | **1.11** | **1.46** | **1.99** |

**BALANCE SHEET**

R$ million

| | 09/30/03 | 06/30/04 | 09/30/04 |
|---|---|---|---|
| **Asset** | | | |
| Current | 5,617 | 3,925 | 5,818 |
| Long Term | 2,562 | 2,686 | 2,734 |
| Fixed | 22,177 | 26,416 | 27,163 |
| **Total** | **30,356** | **33,026** | **35,715** |
| **Liabilities** | | | |
| Current | 6,392 | 4,453 | 6,012 |
| Long Term | 9,431 | 11,895 | 11,082 |
| Shareholders' Equity | 14,533 | 16,678 | 18,621 |
| Paid-up Capital | 6,300 | 7,300 | 7,300 |
| Reserves | 8,233 | 9,378 | 11,321 |
| **Total** | **30,356** | **33,026** | **35,715** |

"This communication may include declarations which represent the expectations of the Company's Management about future results or events. All such declarations, when based on future expectations and not on historical facts, involve various risks and uncertainties. The Company cannot guarantee that such declarations turn out to be correct. Such risks and uncertainties include factors relative to the Brazilian economy and capital markets, which are volatile and may be affected by developments in other countries; factors relative to the iron ore business and its dependence on the steel industry, which is cyclical in nature; and factors relative to the high degree of competitiveness in industries in which CVRD operates. To obtain additional information on factors which could cause results to be different from those estimated by the Company, please consult the reports filed with the Comissão de Valores Mobiliários (CVM - Brazilian stock exchange regulatory authority) and the U.S. Securities and Exchange Commission - SEC, including the most recent Annual Report - CVRD Form 20F."