# US GAAP

Companhia
Vale do Rio Doce

BOVESPA: VALE3, VALE5
NYSE: RIO, RIOPR
LATIBEX: XVALO, XVALP

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

*Except where otherwise indicated, the operational and financial information contained in this press release is presented based on the consolidated figures in accordance with generally accepted accounting principles in the United States of America (US GAAP). Except for the information on investments and market behavior, this information is based on quarterly financial statements reviewed by independent auditors. The main subsidiaries of CVRD that are consolidated are: Caemi, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Pará Pigmentos (PPSA), Docenave, Ferrovia Centro-Atlântica (FCA), Itaco, CVRD Overseas and Rio Doce International Finance.*


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## SALES, OPERATING INCOME AND CASH FLOW REACHING ALL TIME HIGHS

Rio de Janeiro, August 11, 2004 – Companhia Vale do Rio Doce (CVRD) achieved an extraordinary performance in the second quarter of 2004 (2Q04), marked by several new operating and financial records.

This performance was due to the good execution of CVRD´s strategy, discipline in allocation of capital and management of operations, and the strong expansion in global demand for minerals and metals.

2Q04 net earnings reached US$ 504 million, equivalent to earnings per share of US$1.31, 10.5% higher than the net earnings of US$ 456 million achieved in 2Q03, and 24.4% higher than the 1Q04 net earnings of US$ 405 million.

Return on equity (ROE) was 31.8%, higher than the 26.9% achieved in 2Q03 and the 31.4% of 1Q04.

Operating income – adjusted EBIT[1] – was a record US$ 832 million, 114.4% higher than in 2Q03 (US$ 388 million), and 42.7% higher than in 1Q04 (US$ 583 million). Operating margin, at 43.3%, was also a record, exceeding the 2Q03 operating margin of 33.2% by 1,010 basis points (bp).

Cash flow, as measured by adjusted EBITDA[2], reached the highest quarterly level in CVRD's history, at US$ 971 million, 98.2% higher than in 2Q03 and 30.7% higher than in 1Q04.

Various other records were also achieved:

- Gross revenue of US$ 2.033 billion, 66.8% higher than in 2Q03, and 17.4% higher than in 1Q04.

**2Q04**

- Shipments of iron ore and pellets totaled 55.816 million tons, an increase of 34.5% vis-à-vis 2Q03 and of 5.4% relative to 1Q04.
- Sales of kaolin were 293 thousand tons versus 285 thousand tons in 1Q04.
- The volume of general cargo (cargo excluding iron ore and pellets) transported for clients on CVRD's railroads totaled 7.632 billion net ton kilometers (ntk), compared with 6.236 billion ntk in 1Q04.

CVRD's capital expenditure in 2Q04 was US$ 488.3 million, totaling US$ 846.3 million in the first half of the year. These investments continue to position CVRD on the path to achieve profitable growth and shareholder value creation.

In June, the Company began shipping copper concentrate produced by Sossego, the mine in the Carajás mineral province in the Brazilian state of Pará, generating in the 2Q04 revenue of US$ 24 million. The implementation of the Sossego operations fully met expectations and confirmed CVRD's technical skills in the development of non-ferrous mineral projects, already proven over the years with its experience in bauxite, kaolin, gold and potash.

There was a substantial reduction in financial leverage, and an increase in interest coverage – both indicators reached excellent levels, demonstrating the Company's capacity to distribute good dividends to shareholders and finance its own growth initiatives without concern for liquidity problems in the short term.

**SELECTED FINANCIAL INDICATORS**

US$ million

| | 2Q03 (A) | 1Q04 (B) | 2Q04 (C) | Δ% (C/A) | Δ% (C/B) |
|---|---|---|---|---|---|
| Gross Revenues | 1,219 | 1,731 | 2,033 | 66.8 | 17.4 |
| Gross Margin (%) | 42.7 | 45.2 | 52.5 | - | - |
| Adjusted EBIT | 388 | 583 | 832 | 114.4 | 42.7 |
| Adjusted EBIT Margin (%) | 33.2 | 35.2 | 43.3 | - | - |
| Adjusted EBITDA | 490 | 743 | 971 | 98.2 | 30.7 |
| Net Earnings | 456 | 405 | 504 | 10.5 | 24.4 |
| Annualized ROE (%) | 26.9 | 31.4 | 31.8 | - | - |
| Total Debt/ (LTM) Adjusted EBITDA (x) [3] | 1.74 | 1.86 | 1.55 | - | - |
| Investments * | 407.3 | 358.0 | 488.3 | 19.9 | 36.4 |

* including acquisitions

## BUSINESS OUTLOOK

Global economic growth has shown itself to be resilient despite the negative impact of higher nominal oil prices. The influence of expansionist monetary and fiscal policies and the improvement in corporate profitability has allowed a solid and synchronized global recovery to take place. Leading indicators of global economic activity continue to signal expansion over the next few months.

The growth gap between the US economy and other industrialized economies appears to be narrowing, in contrast to what happened in the most recent cycles. We believe Japan is likely to register economic growth rates at least equal to those of the US, with the Japanese economy showing excellent signs of vitality, expressed, for example, in the good domestic consumption performance and the level of private investment.

Improved corporate performance, with better earnings and liquidity, is stimulating investment in capital equipment. In the US and Europe, we expect investment to substitute consumption as the principal source of GDP growth in the short term. In Japan, consumer spending behaviour appears, for the first time in many years, to be the most important element in determining the performance of its economy.

Restrictive measures put into practice by the Chinese economic authorities appear, up to now, to be having the desired result. Although it is premature to make a more fundamental diagnosis, data available thus far is pointing towards a soft landing for the Chinese economy. July was the fifth consecutive month to show a reduction in the rate of industrial production expansion, which amounted to 15.5%, compared to 23.2% in February, 19.4% in March, 19.1% in April, 17.5% in May and 16,2% in June.

In the iron ore market these measures had an impact on imports through the spot market, with a strong drop in prices and total volumes imported. In May and June, China's imports of iron ore averaged 14.7 million tons a month, compared to 18.5 million for the previous three months, a drop of 20.5%. External Chinese purchases of iron ore in the first half of 2004 amounted to 97.8 million tons, an increase of 34.9% compared to the same period a year earlier, while steel production, of 124.7 million tons, increased by 21.1%.

CVRD does not participate in transactions on the iron ore spot market - it gives priority to commercial relationships based on medium and long-term contracts.

The spot alumina price fell to 17.5% of the aluminum price on the LME (London Metal Exchange), still much higher than the price prevailing up to the middle of 2003, reflecting restrictions on credit and the rise in the cost of electricity for the Chinese aluminum industry. However, the spot price represents a quote of marginal volumes in an alumina market which is dominated by inter-company product transfers and long-term contracts. Alumina imported by China during the first half of the year amounted to 2.85 million tons, an increase of 11.1% on the same period in 2003.

One of the aims of the Chinese government in implementing a selective tightening approach to slow down its GDP growth rate is to seek higher levels of efficiency and productivity, which are key to sustainable long-term economic growth. In the case of steel, this means the consolidation of an industry which is extremely fragmented, with some 1,000 players, into a small group of companies with competitive operations. If successfully implemented, in our opinion, this would result in greater demand for imported iron ore and increasingly sophisticated buying policies, with the more frequent use of long-term contracts and joint ventures with suppliers, which will tend to benefit CVRD.

In contrast to what occurred in the period 2001/2003, the synchronized recovery in the global economy has made demand for ores and metals less dependent on Chinese expansion. For example, there are forecasts that Japanese steel production for the fiscal year 2004/2005 will be the highest since 1973/1974. In the case of copper and particularly aluminum, the premia of Comex prices relative to LME prices reflect strengthening demand in North America compared to the rest of the world.

We consider that the slowdown in the growth rate of Chinese demand for ores and metals, and the fall seen in spot market prices, to be healthy trends which will help to preserve sustainable growth in the global markets for these products. World demand for metals and their respective ore inputs continues strong, exceeding current levels of production; no reversal in this picture is expected in the short term.

## RECENT MATERIAL EVENTS

In 2Q04, a number of events occurred which were of significant importance for the future performance of the Company. Of particular note were: the start-up of operations at Sossego; the signing of contracts to form joint ventures with Chinese companies for the production of alumina, metallurgical coal and coke; the sale of the Company's stake in CST; and the signing of new long-term contracts for the supply of iron ore.

- **Inauguration of Sossego copper mine**

The Sossego mine, CVRD’s first copper project, began shipping copper concentrate on June 3, establishing a new value creation platform for shareholders.

Sossego, the only greenfield project in the world to begin operations in 2004, has proven and probable reserves of 244.7 million tons of copper ore – not including the reserves contained in satellite mines – with copper content estimated at 1%, with approximately 0.26 grams of gold per tonne as a by-product. The ore is processed by a plant which has an annual average production capacity of 467,000 tons of copper concentrate, equivalent to 140,000 tons of copper.

CVRD invested US$ 413 million in the Sossego project, which once again demonstrates the Company’s discipline in the allocation of capital. Only six years elapsed between the initial discovery of the ore deposits and the start of operations, which can be considered a record development time for the copper industry.

- **Joint ventures with Chinese companies strengthen CVRD's position in the global metals and mining markets**

At the end of May, CVRD signed contracts with Chinese companies for joint investment in alumina, metallurgical coal and coke.

In association with Chalco – Aluminum Corporation of China Limited, CVRD is planning to build an alumina refinery (ABC Refinery) in Barcarena, state of Pará, Brazil, as a greenfield project, with an initial nominal production capacity of 1.8 million tons per year. The refinery is expected to begin operations by 2007, supplied with bauxite from the Paragominas mine, currently being developed by CVRD, which will also supply stages 4 and 5 at Alunorte.

The estimated investment cost of the refinery is US$ 810 million, equivalent to US$ 450 per ton, which is extremely competitive for an alumina greenfield project.

CVRD has signed a joint venture agreement with the Shanghai Baosteel Group Corporation and the Yongcheng Coal & Electricity Group, for the production of anthracite and metallurgical coal in China. CVRD’s stake in this project will amount to 25%, involving an investment of US$ 60 million.

The Company has also entered into an agreement with the Yankuang Group, of China, and the Japanese trading company, Itochu Corporation, for the creation of the Shandong Yankuang International Coking Co. Ltd, for the production of coke. The industrial plant will be located in China, with an annual production capacity of

2 million tons of coke and 200,000 tons of methanol as a by-product. Operational start-up is planned for 2006, with investment by CVRD of around US$ 27 million, guaranteeing a 25% stake in the joint venture.

A contract has also been signed between CVRD and the Yankuang Group for the development of a coking coal mine at Zhaolou, in China, with production capacity estimated at 3 million tons a year.

These agreements strengthen CVRD's relationship with important players in the aluminum, steel and coal industries and the Company's presence in the Chinese economy, while also heralding the Company's entrance into the coal market, complementing its portfolio of products and services for the steel industry.

- **Divestiture of CST**

CVRD has signed a contract with Arcelor for the complete sale of its 28.02% stake in Companhia Siderúrgica de Tubarão (CST) for US$ 578.5 million, corresponding to US$ 40.50 per share.

This transaction is consistent with CVRD's strategy of focusing its efforts on exploiting profitable growth opportunities in the global metals and mining markets.

- **Iron ore – additional long-term supply contracts**

CVRD's long-term contracts with its clients provide support for investment in iron ore production capacity expansion while, at the same time, eliminating risks attached to the future supply of raw material to the steel industry.

Two contracts were signed in July. The first was with the Nippon Steel Corporation, Japan's largest steel producer, for the supply of 70 million tons of iron ore for 10 years, starting in 2005. The second was with COSIPA - Companhia Siderúrgica Paulista for the annual supply of 1.1 million tons of iron ore, for a period of three years.

## CONSOLIDATION OF ALBRAS IN THE FINANCIAL STATEMENTS

The consolidation of Albras, a primary aluminum producer in which CVRD holds 51% of the voting capital, in our US GAAP financial reporting starting on January 1, 2004 conforms with Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46), issued in January 2003 by the US Financial Accounting Standards Board (FASB), and revised in December 2003 (FIN 46-R).

The financial statements for the second quarter thus reflect the consolidation of Albras, as do those for 1Q04. All 1Q04 information presented herein reflects the consolidation of Albras in our restated 1Q04 US GAAP financial statements.

The consolidation required by FIN 46-R should enable market participants to obtain a more thorough assessment of the operating and financial performance of CVRD.

- **Gross revenue of US$ 2.033 billion**

CVRD's gross operating revenue in 2Q04 was US$ 2.033 billion, 66.8% higher than in 2Q03 and 17.4% higher than in 1Q04.

The increase of US$ 814 million in revenue from 2Q03 to 2Q04 was mainly due to expansion in sales volume – which contributed US$ 546 million, or 67.1%, while the increase in prices was responsible for US$ 268 million. The consolidation of Albras added US$ 61 million to the 2Q04 revenue.

The ferrous minerals businesses – iron ore, pellets, manganese and ferroalloys – generated revenue of US$ 1.426 billion, representing 70.1% of the Company's total revenue. Iron ore produced sales revenue of US$ 943 million, pellets US$ 304 million, operating service fees at the Tubarão pelletizing plants US$ 15 million, manganese ore US$ 11 million, and ferro alloys US$ 139 million.

CVRD's revenue from sales to Europe, its main market, were US$ 706 million, 34.7% of the Company's total revenue. The domestic market contributed with US$ 580 million, 28.5% of the total; China accounted for US$ 203 million, 10.0% of the total; Japan US$ 197 million, 9.7% of the total; and the rest of emerging Asia US$ 87 million, 4.3% of the total.

Shipments of iron ore and pellets totaled 55.816 million tons, a volume 34.5% greater than that of 2Q03 and 5.4% more than that of 1Q04. The increase in volume shipped, a new quarterly record, surpassing the prior record achieved in 4Q03, resulted from the growth in production in response to strong global demand. In 2Q04 CVRD produced 51.516 million tons of iron ore, an increase of 10.7% relative to 1Q04.

In 2Q04, CVRD sold 48.357 million tons of iron ore and 7.459 million tons of pellets. The Company also acquired 4.372 million tons of iron ore from mining companies operating in the Iron Quadrangle, in the state of Minas Gerais, Brazil, to complement its own production and meet the growing demand from clients for iron ore and pellets.

The average sale price of iron ore was US$ 19.50 per ton, an increase of 10.5% vis-à-vis 1Q04. The average price obtained for pellets, of US$ 40.76 per ton, was 11.9% higher than in 1Q04. The increase in average prices reflects the fact that the price increases negotiated for 2004 were in effect for a full quarter for the first time in 2Q04.

The Chinese market, with 8.4 million tons, was the principal destination of CVRD's exports of iron ore and pellets in 2Q04, accounting for 15.0% of total iron ore and pellet sales, followed by Japan with 12.2%, Germany with 11.1% and France with 5.5%. The domestic market absorbed 25.1% of CVRD's iron ore and pellet sales in the quarter.

Sales of manganese ore in the quarter reached 203 thousand tons, 13.3% less than in 2Q03, but 24.5% more than in 1Q04. Ferro alloy sales, at 137 thousand tons, were 33.0% higher than in 2Q03, and 31.1% lower than in 1Q04. The significant increase, in comparison with 2Q03, mainly reflects the operation of RDMN starting in June 2003; whereas, in 2Q04, there was a maintenance stoppage in the electric furnace of RDME, resulting in the fall in volume sold from 1Q04.

The aluminum chain products – bauxite, alumina and primary aluminum – produced revenue of US$ 289 million in 2Q04, 14.2% of the Company's total revenue. The consolidation of Albras added US$ 61 million to this amount.

The consolidation of Albras results in the reduction in the accounting figures for alumina volumes and sales revenue by an amount equal to the transactions involving the supply to Albras by Alunorte, since both are consolidated in the result. Thus, the consolidated volume of alumina sales in 2Q04 was 336 thousand tons, not considering the 212 thousand tons sold by Alunorte to Albras.

The average price obtained for alumina shipments reached US$ 244.05 per ton in 2Q04, a substantial increase of 41.7% in relation to 2Q03, and 12.0% more than in 1Q04.

Sales volume of primary aluminum totaled 119 thousand tons in 2Q04. The average sale price was US$ 1,655.46 per ton, 2.9% higher than in 1Q04.

CVRD sold 34 thousand tons of copper concentrate in the quarter, generating revenue of US$ 24 million.

Sales of potash provided revenue of US$ 31 million in 2Q04, 1.5% of the Company's total revenue, representing an increase of 34.8% vis-à-vis 1Q04, and of 47.6% relative to 2Q03. With the resumption of full activitiy at Taquari-Vassouras mine, which had been reduced in 1Q04 due to capacity expansion work, shipments in 2Q04 were 166 thousand tons, 20.3% higher than the 138 thousand tons sold in 1Q04, and 11.4% higher than the 149 thousand tons sold in 2Q03. Furthermore, the price of potash has been rising, from US$ 140.94 in 2Q03 to US$ 166.67 in 1Q04, and US$ 186.75 in 2Q04, due to excess global demand.

Kaolin sales generated revenue of US$ 39 million, 1.9% of the Company's total revenue, practically unchanged from 1Q04. The volume sold reached 293 thousand tons, an increase of 2.8% vis-à-vis the 285 thousand tons sold in 1Q04.

Logistics services provided revenue of US$ 220 million in 2Q04, 59.4% greater than the US$ 138 million generated in 2Q03, and 15.2% greater than the US$ 191 million achieved in 1Q04. Logistics services provided 10.8% of the Company's revenue in the quarter. Rail transportation for clients in the Estrada de Ferro Carajás (EFC), the Estrada de Ferro Vitória a Minas (EFVM) and Ferrovia Centro-Atlântica (FCA) contributed revenue of US$ 153 million. Revenue from port services reached US$ 45 million and revenue from coastal shipping and port support services was US$ 22 million.

CVRD's railroads transported 7.632 billion ntk of general cargo for clients in 2Q04, an increase of 10.6% vis-à-vis 2Q03 and of 22.4% relative to 1Q04, surpassing their prior record of 7.371 billion ntk established in 3Q03. The main types of cargo carried for clients were steel industry inputs and products (43.8%), agricultural products (37.1%), and fuels (9.0%).

In all three railroads, there were increases in revenue per 1,000 ntk of general cargo carried: at EFVM, from US$ 15.99 in 1Q04 to US$16.08 in 2Q04; at EFC, from US$ 13.94 to US$13.97; and at FCA from US$ 20.02 to US$ 20.62.

Due to the repressed demand in Brazil for efficient cargo transportation, the improvement in the performance of the railroads is much more a function of the increase in supply than demand. With the significant capital expenditure alocated to increase the number of wagons and locomotives, volume of cargo transported has grown rapidly in the last three years, at a compound annual growth rate of 9.1%.

The operating productivity of locomotives on CVRD's railroads has increased: EFVM carried 8.53 ntk per horse power (HP) in 2Q04, compared with 8.15 in 1Q04; EFC increased locomotive productivity from 14.97 in 1Q04 to 15.18 in 2Q04; and FCA increased it from 1.18 to 1.33.

Fuel consumption levels in CVRD railroads also improved. In EFVM, it decreased from 2.32 liters per 1,000 gross tons kilometer (gtk) in the 1Q04 to 2.28, in FCA, from 7.79 liters per 1,000 gtk to 7.55 in the 2Q04, while EFC showed a small increase, from 1.39 per gtk in the 1Q04 to 1.40.

CVRD's ports and maritime terminals handled 7.614 million tons of cargo for clients in 2Q04, an increase of 5.2% on 2Q03, and of 19.0% on 1Q04.

**VOLUME SOLD – IRON ORE AND PELLETS**

thousand tons

| | 2Q03 | % | 1Q04 | % | 2Q04 | % |
|---|---|---|---|---|---|---|
| Iron ore | 36,321 | 87.5 | 46,825 | 88.4 | 48,357 | 86.6 |
| Pellets | 5,175 | 12.5 | 6,125 | 11.6 | 7,459 | 13.4 |
| **Total** | **41,496** | **100.0** | **52,950** | **100.0** | **55,816** | **100.0** |

**IRON ORE AND PELLET SALES BY DESTINATION**

thousand tons

| | 1Q04 | % | 2Q04 | % |
|---|---|---|---|---|
| **EU** | **15,288** | **28.9%** | **17,577** | **31.5%** |
| Germany | 5,087 | 9.6% | 6,199 | 11.1% |
| France | 2,616 | 4.9% | 3,088 | 5.5% |
| Belgium | 1,669 | 3.2% | 2,047 | 3.7% |
| Italy | 2,165 | 4.1% | 1,883 | 3.4% |
| Others | 3,751 | 7.1% | 4,360 | 7.8% |
| **China** | 8,632 | 16.3% | **8,400** | **15.0%** |
| **Japan** | 5,698 | 10.8% | **6,818** | **12.2%** |
| **South Korea** | 2,501 | 4.7% | **1,823** | **3.3%** |
| **Middle East** | 1,866 | 3.5% | **1,136** | **2.0%** |
| **USA** | 995 | 1.9% | **1,755** | **3.1%** |
| **Rest of World** | 4,830 | 9.1% | **4,322** | **7.7%** |
| **Brazil** | 13,140 | 24.8% | **13,985** | **25.1%** |
| **Total** | **52,950** | **100,0%** | **55,816** | **100.0%** |

**VOLUME SOLD - MINERALS AND METALS**

thousand tons

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| Manganese ore | 234 | 163 | 203 |
| Ferro alloy | 103 | 199 | 137 |
| Alumina | 604 | 482 | 336 |
| Primary aluminum | 51 | 97 | 119 |
| Bauxite | 262 | 545 | 365 |
| Potash | 149 | 138 | 166 |
| Kaolin | 84 | 285 | 293 |
| Copper concentrate | 0 | 0 | 34 |

| LOGISTICS SERVICES | | | |
|---|---|---|---|
| | 2Q03 | 1Q04 | 2Q04 |
| Railroads (million ntk) | 6,900 | 6,236 | 7,632 |
| Ports (thousand tons) | 7,237 | 6,396 | 7,614 |

GROSS REVENUES BY PRODUCT

US$ million

| | 2Q03 | % | 1Q04 | % | 2Q04 | % |
|---|---|---|---|---|---|---|
| **Ferrous Minerals** | **850** | **69.7** | **1,192** | **68.9** | **1,426** | **70.1** |
| Iron Ore | 593 | 48.6 | 826 | 47.7 | 943 | 46.4 |
| Pellet plant operation services | 11 | 0.9 | 12 | 0.7 | 15 | 0.7 |
| Pellets | 157 | 12.9 | 223 | 12.9 | 304 | 15.0 |
| Manganese ore | 16 | 1.3 | 9 | 0.5 | 11 | 0.5 |
| Ferro-alloys | 62 | 5.1 | 114 | 6.6 | 139 | 6.8 |
| Others | 11 | 0.9 | 8 | 0.5 | 14 | 0.7 |
| **Logistics Services** | **138** | **11.3** | **191** | **11.0** | **220** | **10.8** |
| Railroads | 79 | 6.5 | 133 | 7.7 | 153 | 7.5 |
| Ports | 38 | 3.1 | 38 | 2.2 | 45 | 2.2 |
| Shipping | 21 | 1.7 | 20 | 1.2 | 22 | 1.1 |
| **Aluminum Chain** | **188** | **15.4** | **280** | **16.2** | **289** | **14.2** |
| Primary Aluminum | 70 | 5.7 | 156 | 9.0 | 197 | 9.7 |
| Alumina | 104 | 8.5 | 105 | 6.1 | 82 | 4.0 |
| Bauxite | 6 | 0.5 | 15 | 0.9 | 8 | 0.4 |
| Others | 8 | 0.7 | 4 | 0.2 | 2 | 0.1 |
| **Non-ferrous Minerals** | **42** | **3.4** | **62** | **3.6** | **94** | **4.6** |
| Gold | 7 | 0.6 | - | - | - | - |
| Potash | 21 | 1.7 | 23 | 1.3 | 31 | 1.5 |
| Kaolin | 14 | 1.1 | 39 | 2.3 | 39 | 1.9 |
| Copper | 0 | - | 0 | - | 24 | 1.2 |
| **Others** | **1** | **0.1** | **6** | **0.3** | **4** | **0.2** |
| **Total** | **1,219** | **100.0** | **1,731** | **100.0** | **2,033** | **100.0** |

GROSS REVENUES BY DESTINATION

US$ million

| | 2Q03 | % | 1Q04 | % | 2Q04 | % |
|---|---|---|---|---|---|---|
| **Domestic market** | **405** | 33.2 | **488** | 28.2 | **580** | 28.5 |
| **External market** | **814** | 66.8 | **1,243** | 71.8 | **1,453** | 71.5 |
| USA | 42 | 3.4 | 79 | 4.6 | 58 | 2.9 |
| Europe | 375 | 30.8 | 522 | 30.2 | 706 | 34.7 |
| Japan | 122 | 10.0 | 171 | 9.9 | 197 | 9.7 |
| Emerging Asia | 50 | 4.1 | 97 | 5.6 | 87 | 4.3 |
| China | 93 | 7.6 | 171 | 9.9 | 203 | 10.0 |
| Rest of the World | 132 | 10.8 | 203 | 11.7 | 202 | 9.9 |
| **Total** | **1,219** | **100.0** | **1,731** | **100.0** | **2,033** | **100.0** |

- **Record operating income: US$ 832 million**

In 2Q04, CVRD's operating income, as measured by adjusted EBIT, reached US$ 832 million, the highest quarterly operating income in its history and 42.7% higher than the prior record of US$ 583 million achieved in 1Q04, and an increase of 114.4% in relation to the US$ 338 million achieved in 2Q03. The consolidation of

Albras starting in January 2004 added US$ 74 million to CVRD's operating income in 2Q04, and US$ 54 million in 1Q04.

Adjusted EBIT margin was 43.3%, another record, 1,010 and 810 bps higher than the margins of 33.2% in 2Q03 and 35.2% in 1Q04, respectively.

The consolidation of Albras added 250 bp to the 2Q04 operating margin, and 230 bp to the 1Q04 operating margin.

The increase of US$ 750 million in CVRD's net operating revenue was a key element in the improvement of adjusted EBIT from 2Q03 to 2Q04.

Cost of goods sold (COGS) increased US$ 242 million vis-à-vis 2Q03 in spite of the fact that the consolidation of Albras reduced COGS by US$ 20 million.

The main causes of the increase in COGS from 2Q03 to 2Q04 were: (a) an increase of US$ 76 million in outsourced services, mainly expenditures on rail transportation of the iron ore produced by Caemi; (b) growth of US$ 52 million in the cost of materials resulting from the increased volume of activity; (c) increase of US$ 40 million in the cost of electricity due to the increase in electricity tariffs; (d) an additional US$ 38 million in depreciation and amortization due to the expansion of the asset base with the consolidation of Caemi, FCA and Albras; (e) increase of US$ 33 million in expenses on acquisition of iron ore from third parties – the purchase of 4.4 million tons in 2Q04 compared to 2.3 million tons in 2Q03. A factor which reduced COGS were the decrease of US$ 42 million in purchases of other products, mainly due to the consolidation of Albras, removing the volume of alumina that Albras purchases from Alunorte from the financial statements.

Net operating revenue was US$ 264 million higher than in 1Q04, while cost of goods sold increased by only US$ 4 million, explaining the increase in operating income.

Demurrage expenses, which are an indicator of global iron ore market tightness, totaled US$ 14 million, an increase of US$ 2 million from 1Q04. In the second quarter of 2003, US$ 12 million was spent on such penalties for delays in ship loading.

**COGS BREAKDOWN**

US$ million

| | 2Q03 | % | 1Q04 | % | 2Q04 | % |
|---|---|---|---|---|---|---|
| Personnel | 63 | 9.4 | 88 | 9.7 | 92 | 10.1 |
| Material | 97 | 14.5 | 103 | 11.3 | 149 | 16.3 |
| Fuel | 83 | 12.4 | 97 | 10.7 | 102 | 11.2 |
| Outsourced Services | 102 | 15.2 | 194 | 21.4 | 178 | 19.5 |
| Acquisition of Iron Ore and Pellets | 83 | 12.4 | 102 | 11.2 | 116 | 12.7 |
| Acquisition of Other Products | 125 | 18.7 | 116 | 12.8 | 83 | 9.1 |
| Depreciation and Exhaustion | 47 | 7.0 | 95 | 10.5 | 85 | 9.3 |
| Energy | 28 | 4.2 | 64 | 7.0 | 68 | 7.5 |
| Others | 42 | 6.3 | 49 | 5.4 | 39 | 4.3 |
| **Total** | **670** | **100.0** | **908** | **100.0** | **912** | **100.0** |

The adjusted EBIT margin of the ferrous minerals division in 2Q04 reached 45.8%, an increase of 890 bp, from 36.9% in 1Q04, and of 730 bp higher than the 38.5% reached in 2Q03. This increase in operating margin mainly reflects the inclusion of the full 2004 increase in the iron ore and pellet prices for a whole quarter for the first time this year.

The adjusted EBIT margin of logistics services continues to improve, reaching 28.1% in 2Q04, 340 bp higher than the 24.7% obtained in 1Q04, though still lower than the 32.0% EBIT margin of 2Q03. The increase from 1Q04 is explained by the improvement in the performance of FCA, due to cost reduction and price increases.

The adjusted EBIT margin of the aluminum businesses in 2Q04 reached 47.5%, an increase of 750 bp from the 40.0% adjusted EBIT margin of 1Q04. This high figure reflects the full capture of the performance of the primary aluminum operations and increased prices resulting from strong world demand and declining inventories.

| OPERATING MARGINS BY SEGMENT - EBIT MARGIN | | | |
|---|---|---|---|
| | 2Q03 | 1Q04 | 2Q04 |
| Ferrous Minerals | 38.5% | 36.9% | 45.8% |
| Aluminum | 11.8% | 40.0% | 47.5% |
| Logistics | 32.0% | 24.7% | 28.1% |
| **Total** | **33.2%** | **35.2%** | **43.3%** |

## RECORD CASH FLOW GENERATION: US$ 971 MILLION

Cash flow generation as measured by adjusted EBITDA reached US$ 971 million, the highest quarterly amount in CVRD's history – the previous record was US$ 743 million established in 1Q04. The 2Q04 adjusted EBITDA surpassed the prior record by 30.7% and was 98.2% higher than the 2Q03 adjusted EBITDA.

Adjusted EBITDA in the 12 months to the end of June 2004 was US$ 2.912 billion. 2Q04 is the ninth consecutive quarter of growth in CVRD's LTM adjusted EBITDA. From 1Q02 to 2Q04, LTM adjusted EBITDA grew at a compound annual rate of 33.7%, providing a clear illustration of the success of the strategy adopted, its good execution, and the Company's focus on profitable growth.

The US$ 228 million increase in adjusted EBITDA from 1Q04 to 2Q04 is primarily due to a US$ 249 million increase in adjusted EBIT. The consolidation of Albras added US$ 77 million and US$ 58 million, respectively, to 2Q04 and 1Q04 adjusted EBITDA.

Dividends received by CVRD in 2Q04 totaled US$ 60 million, of which US$ 30 million were paid by Samarco, US$ 20 million by MRN, US$ 7 million by Valesul, and US$ 3 million by other companies.

By business area, 2Q04 adjusted EBITDA was generated as follows: ferrous minerals 69.8%, aluminum 16.9%, logistics 10.2%, non-ferrous minerals 2.9% and other businesses – corresponding to dividends received from steel companies – 0.2%.

| ADJUSTED EBITDA | | | |
|---|---|---|---|
| | | | US$ million |
| | 2Q03 | 1Q04 | 2Q04 |
| Net Operating Revenues | 1,170 | 1,656 | 1,920 |
| COGS | (670) | (908) | (912) |
| S,G &A | (45) | (101) | (106) |
| Research and Development | (12) | (23) | (27) |
| Other Operational Expenses | (55) | (41) | (43) |
| **Adjusted EBIT** | **388** | **583** | **832** |
| | | | |
| Depreciation, Amortization & Exhaustion | 54 | 99 | 79 |
| Dividends Received | 36 | 61 | 60 |
| | | | |
| Adjustment for Non-recurring Items (asset impairment) | 12 | - | - |
| | | | |
| **Adjusted EBITDA** | **490** | **743** | **971** |

| ADJUSTED EBITDA BY BUSINESS AREA | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | US$ million |
| | 2Q03 | % | 1Q04 | % | 2Q04 | % |
| Ferrous Minerals | 392 | 80.0 | 506 | 68.1 | 678 | 69.8 |
| Non-Ferrous Minerals | - | 0.0 | 8 | 1.1 | 28 | 2.9 |
| Logistics | 58 | 11.8 | 75 | 10.1 | 99 | 10.2 |
| Aluminum | 27 | 5.5 | 141 | 19.0 | 164 | 16.9 |
| Others | 13 | 2.7 | 13 | 1.7 | 2 | 0.2 |
| **Total** | **490** | **100.0** | **743** | **100.0** | **971** | **100.0** |

## NET INCOME OF US$ 504 MILLION

2Q04 net income of US$ 504 million, represented an increase of 10.5% vis-à-vis the US$ 456 million achieved in 2Q03 and of 24.4% relative to the 1Q04 net income of US$ 405 million.

The earnings growth from 2Q03 to 2Q04 had two basic causes: (a) improvement of US$ 444 million in operating income; and (b) increase of US$ 115 million in results from shareholdings in spite of the consolidation of Albras.

The 6.8% depreciation of the Real against the US dollar, which occurred between the end of March and the end of June 2004, produced a negative effect of US$ 245 million on the 2Q04 net income via foreign exchange losses. 2Q03 net income was positively impacted by the Real appreciation of 14.3% against the US Dollar on that quarter when US$ 257 million in gains in foreign exchange were achieved.

There were two reasons the result from shareholdings was US$ 115 million higher in 2Q04 than in 2Q03. There were no provisions for losses in 2Q04, while US$ 66 million was provisioned in 2Q03. In 2Q03, provisions for losses were made in FCA (US$ 73 million) and CFN (US$ 2 million), while US$ 9 million was reversed.

Equity income was US$ 49 million higher in 2Q04 relative to 2Q03.

The strong equity income reflects an increase of US$ 76 million in the contribution from steel companies and an increase of US$ 80 million in the contribution from the logistics companies. The result of the aluminum companies fell by US$ 29 million, mainly as a result of the consolidation of Albras. Equity income from iron ore and pellet companies fell US$ 10 million, basically due to the consolidation of Caemi.

The US$ 53 million increase in interest from minority shareholdings, mainly due to the consolidation of Albras, and the US$ 52 million increase in net financial expenses, also negatively affected 2Q04 income in comparison to 2Q03.

In the 2Q04 gains in the amount of US$ 23 million were realized in derivatives transactions to protect against market risks (exchange rate, interest rate and commodity price volatility). In the 2Q03, the financial result from these transactions was a gain of US$ 4 million.

**RESULTS FROM SHAREHOLDINGS**

US$ million

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| Steel | 16 | 34 | 92 |
| Aluminum, Alumina and Bauxite | 47 | 14 | 18 |
| Logistics | (72) | 6 | 8 |
| Iron Ore and Pellets | 42 | 33 | 32 |
| Others | 2 | (1) | - |
| **Total** | **35** | **86** | **150** |

## DEBT: LEVERAGE AND COVERAGE INDICATORS AT EXCELLENT LEVELS

CVRD's total debt on June 30, 2004 was US$ 4.514 billion, a small reduction from the position at March 31, 2004, of US$ 4.526 billion. The consolidation of Albras added US$ 295 million to the total debt in 2Q04. Without the consolidation, the total debt would have been US$ 4.219 billion at the end of June 2004.

Short-term debt was reduced by US$ 40 million from the end of March 2004, while long-term debt increased by US$ 28 million. The debt average life rose to 6.43 years at the end of 2Q04, more than double the level at the end of 2002. The lengthening of the maturity profile of the debt was achieved without any significant increase in average cost, which remains below 7% per year.

Net debt[4] increased slightly, from US$ 3.442 billion at the end of March 2004, to US$ 3.455 billion at the end of June 2004.

The value of guarantees given to non-consolidated affiliates and joint ventures totaled only US$ 8 million (Samarco, US$ 7 million and Valesul, US$ 1 million), given that out of the US$ 260 million in guarantees existing at March 31, 2004, US$ 252 million was related to Albras, now consolidated.

Reflecting the strong expansion of LTM adjusted EBITDA, to US$ 2.912 billion, total debt/LTM adjusted EBITDA fell to 1.55x. Also, it is important to consider that this ratio is still artificially inflated, since its numerator takes into account all the debt of Albras, Caemi and FCA, while the denominator includes only the adjusted EBITDA generated by these companies from their respective consolidation dates (September 2003 for Caemi and FCA, January 2004 for Albras). Total debt/enterprise value[6] at the end of 2Q04 was 21.7%.

There was a strong improvement in interest coverage, as measured by LTM adjusted EBITDA/LTM interest payments[5], which increased from 11.51x at the end of 2003 to 12.94x at the end of 2Q04.

At the end of July 2004, Alunorte obtained a syndicated loan of US$ 310 million, with total tenor of 10 years, average life of 7.3 years, at a cost of six-month Libor plus 2% p.a. This cost will be changed to six-month Libor plus 3% p.a. upon the completion of the construction of stages 4 and 5 of the refinery which the loan was obtained to finance.

| FINANCIAL EXPENSES | | |
|---|---|---|
| | | US$ million |
| **Financial Expenses on:** | **1Q04** | **2Q04** |
| Local Debt | (13) | (12) |
| External Debt | (43) | (67) |
| Debt with Related Parties | (2) | (5) |
| **Total Debt-related Financial Expenses** | **(58)** | **(84)** |
| | | |
| **Gross Interest on:** | **1Q04** | **2Q04** |
| Tax and Labour Contingencies | (6) | (9) |
| Tax on Financial Transactions (CPMF) | (4) | (14) |
| Derivatives | (59) | 23 |
| Others | (15) | (22) |
| **Total Gross Interest** | **(84)** | **(22)** |
| | | |
| **Total** | **(142)** | **(106)** |

| DEBT INDICATORS | | | |
|---|---|---|---|
| | | | US$ million |
| | **2Q03** | **1Q04** | **2Q04** |
| Gross Debt | 3,282 | 4,526 | 4,514 |
| Net Debt | 2,316 | 3,442 | 3,455 |
| Gross Debt / LTM Adjusted EBITDA (x) | 1.74 | 1.86 | 1.55 |
| LTM Adjusted EBITDA / LTM Interest Expenses (x) | 9.36 | 11.69 | 12.94 |
| Gross Debt / EV (x) | 0.24 | 0.19 | 0.22 |

*Enterprise Value = market capitalization + net debt*

## CONTINUING TO POSITION THE COMPANY ON A PROFITABLE GROWTH PATH: INVESTMENT OF US$ 488.3 MILLION IN THE 2Q04

During the second quarter of 2004, CVRD carried out investments of approximately US$ 488.3 million, accumulating a total of US$ 846.3 million in the first half of the year.

In 2Q04, investment in organic growth (growth capex) amounted to US$ 311.3 million, while investment in the maintenance of existing operations (stay-in-business capex) amounted to US$ 177.0 million.

Of the amount invested in growth, US$ 22 million was spent on mineral exploration, of which 84% in Brazil and 16% in other countries, mainly Chile, Peru, Gabão, Angola and Mongólia. Mineral exploration focused on the search for copper, nickel, gold, kaolin, bauxite, manganese and metals of the platinum group.

All projects are within budget and running according to schedule. In 2004, the Sossego copper mine and the Carajás iron ore mine expansion for 70 million tons per year were concluded. In addition to these two projects, all the remaining expansion projects in the iron ore and alumina businesses are supported by medium and long-term supply contracts.

**Status of the main ongoing projects**

| Area | Project | Amount invested US$million | | | Status |
|---|---|---|---|---|---|
| | | 1Q04 | 2Q04 | 1H04 | |
| Ferrous Minerals | Expansion of iron ore mines in Carajás to 85 Mtpa – Northern System | 2 | 24 | 26 | 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 construction work of Phase II of Pier III at the Ponta da Madeira Maritime Terminal is scheduled for July 2005. Work on the beneficiation plant is already ongoing. |
| Ferrous Minerals | Iron ore mine of Brucutu Phase I – Southern System | 2 | 10 | 12 | 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. The building of the foundation is already complete and building construction is underway. Around 90% of the equipment purchasing and service contracting has already been completed, or is in the process of being carried out. |
| Ferrous Minerals | Iron ore mine at Fábrica Nova – Southern System | 3 | 7 | 10 | First phase scheduled for completion in 2005, 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 production of 15 million tons a year. The project is in the electro-mechanical assembly stage in its installations and equipment. |
| Ferrous Minerals | Expansion of the iron ore mines at Itabira – Southern System | 4 | 4 | 8 | Production capacity expansion of 3 million tons a year and modernization of the operations in the mines at Itabira, 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 | 21 | About 72% of the expansion works have already been carried out. Operational start-up for the expansion is scheduled for the second half of 2005. |
| Aluminum | Paragominas I | 2 | 2 | 4 | Environmental licences have been obtained for the development of the mine and the construction of an ore pipeline, 230km in length, which will transport the bauxite to the Alunorte refinery. Operation is scheduled to begin at the end of 2006, with annual production capacity of 9.0 million tons of bauxite. The basic project for the plant and for the ore pipeline have already been completed and the pilot plant has already seen its start-up. The total cost of the project is US$ 353 million. |
| Aluminum | Alunorte Stages 4 and 5 | 23 | 36 | 59 | Stages 4 and 5 will increase the refinery production capacity to 4.2 million tons of alumina per year. The start-up is scheduled for 2006. The project total cost is US$ 582.7 million |
| Logistics | Purchase of locomotives and wagons–EFVM/EFC/FCA | 85 | 100 | 185 | In 1H04, 2,572 wagons – 1,531 for the transportation of iron ore and 1,041 for general cargo – and 38 locomotives were delivered. The total budgeted for the year is 3,178 wagons and 88 locomotives. |
| Power Generation | Aimorés Hydroelectric Power Plant | 11 | 5 | 16 | The plant is located on the Rio Doce river, in the state of Minas Gerais, Brazil, and will have a generation capacity of 330MW, with start-up scheduled for July 2005. |
| Power Generation | Candonga Hydroelectric Power Plant | 2 | 1 | 3 | The plant is in the commissioning phase with commercial operations scheduled to begin in August this year. The plant's generation capacity is 140MW. CVRD´s take will be used to supply energy to the Southern System operations. |

| | | | | | |
|---|---|---|---|---|---|
| | Capim Branco I & II Hydroelectric Power Plants | 6 | 9 | 15 | Both plants are located on the Araguari river, 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 AFFILIATES AND JOINT VENTURES

Selected financial indicators for the Company's main non-consolidated affiliates and joint ventures are available on CVRD’s Quarterly Financial Statements, on the Company’s website, www.cvrd.com.br, investor relations.

## CONFERENCE CALL/WEBCAST

On Friday, August 13, CVRD will be holding a conference call/webcast at 12:00 pm, local time (Rio de Janeiro, Brazil), 11:00 am United States Eastern Standard Time and 4:00 pm British Standard Time. Instructions to participate in these events are available on CVRD's website, www.cvrd.com.br, investor relations. A recording of CVRD's conference call/webcast will be available for a period of 90 days after August 13, 2004.

# US GAAP

| FINANCIAL STATEMENTS | | | |
|---|---|---|---|
| | | | US$ million |
| | 2Q03 | 1Q04 | 2Q04 |
| Gross operating revenues | 1,219 | 1,731 | 2,033 |
| Taxes | (49) | (75) | (113) |
| **Net Operating Revenue** | **1,170** | **1,656** | **1,920** |
| Cost of Goods Sold | (670) | (908) | (912) |
| **Gross Profit** | **500** | **748** | **1,008** |
| Gross Margin (%) | 42.7 | 45.2 | 52.5 |
| Selling, General and Administrative Expenses | (45) | (101) | (106) |
| Research and Development Expenses | (12) | (23) | (27) |
| Employee Profit-Sharing | (9) | (13) | (17) |
| Others | (46) | (28) | (26) |
| **Operating Profit** | **388** | **583** | **832** |
| Financial Revenues | 29 | 12 | 19 |
| Financial Expenses | (64) | (142) | (106) |
| Monetary Variation | 257 | (42) | (245) |
| Gains on Sale of Affiliates | - | - | - |
| Tax and Social Contribution (Current) | (135) | (97) | (41) |
| Tax and Social Contribution (Deferred) | (25) | 32 | (23) |
| Equity Income and Provision for Losses | 35 | 86 | 150 |
| Accounting Changes for Asset Write-offs | - | - | - |
| Minority Shareholding Participation | (29) | (27) | (82) |
| **Net Earnings** | **456** | **405** | **504** |
| **Earnings per Share (US$)** | **1.19** | **1.06** | **1.31** |

| BALANCE SHEET | | | |
|---|---|---|---|
| | | | US$ million |
| | 06/30/03 | 03/31/04 | 06/30/04 |
| **Assets** | | | |
| Current | 2,482 | 3,117 | 3,069 |
| Long-term | 1,727 | 1,574 | 1,527 |
| Fixed | 5,574 | 7,971 | 7,838 |
| **Total** | **9,783** | **12,662** | **12,434** |
| **Liabilities** | | | |
| Current | 2,044 | 2,301 | 1,980 |
| Long Term | 3,177 | 5,262 | 5,275 |
| Shareholders' Equity | 4,562 | 5,099 | 5,179 |
| Paid-up Capital | 3,367 | 3,367 | 3,707 |
| Reserves | 1,195 | 1,732 | 1,472 |
| **Total** | **9,783** | **12,662** | **12,434** |

| CASH FLOW STATEMENT | | | |
|---|---|---|---|
| | | | US$ million |
| | 2Q03 | 1Q04 | 2Q04 |
| **Cash flows from operating activities:** | | | |
| Net income | 456 | 405 | 504 |
| Adjustments to reconcile net income with cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 54 | 99 | 79 |
| Dividends received | 36 | 61 | 60 |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (35) | (86) | (150) |
| Deferred income taxes | 25 | (32) | 23 |
| Provisions for contingencies | - | - | - |
| Impairment of property, plant and equipment | 12 | - | - |
| Gain on sale of investment | - | - | - |
| Change in accounting practice for asset retirement obligations | - | - | - |
| Pension plan | 2 | 3 | 3 |
| Foreign exchange and monetary losses | (258) | 45 | 291 |
| Net unrealized derivative losses | (1) | 54 | (22) |
| Minority interest | 29 | 27 | 82 |
| Others | (3) | (35) | 51 |
| Decrease (increase) in assets: | | | |
| Accounts receivable | 65 | (23) | (132) |
| Inventories | (27) | (15) | (67) |
| Others | 23 | (25) | 67 |
| Increase (decrease) in liabilities: | | | |
| Suppliers | 28 | (25) | (59) |
| Payroll and related charges | 13 | (3) | (18) |
| Others | 39 | 147 | (12) |
| **Net cash provided by operating activities** | **459** | **597** | **700** |
| Cash flows from investing activities: | | | |
| Loans and advances receivable | (53) | 56 | 3 |
| Guarantees and deposits | (152) | (24) | (18) |
| Additions to investments | (61) | (9) | (6) |
| Additions to property, plant and equipment | (305) | (381) | (416) |
| Proceeds from disposals of investment | - | - | - |
| Proceeds from disposals of property, plant and equipment | 37 | - | - |
| Net cash used to acquire subsidiaries | - | - | - |
| **Net cash used in investing activities** | **(534)** | **(358)** | **(437)** |
| Cash flows from financing activities: | | | |
| Short-term debt, net issuances (repayments) | 60 | 44 | (44) |
| Loans | (6) | (3) | 2 |
| Long-term debt | 40 | 665 | 227 |
| Repayments of long-term debt | (179) | (470) | (201) |
| Interest attributed to stockholders | (215) | - | (269) |
| **Net cash used in financing activities** | **(300)** | **236** | **(285)** |
| Increase (decrease) in cash and cash equivalents | (375) | 475 | (22) |
| Effect of exchange rate changes on cash and cash equivalents | 57 | (3) | (2) |
| Cash and cash equivalents, beginning of period | 1,284 | 611 | 1,083 |
| **Cash and cash equivalents, end of period** | **966** | **1,083** | **1,059** |
| Cash paid during the period for: | | | |
| Interest on short-term debt | (1) | (2) | - |
| Interest on long-term debt | (33) | (80) | (51) |
| Income tax | (27) | - | - |
| Non-cash transactions | | | |
| Conversion of loans receivable to investments | 76 | - | - |
| Income tax paid with credits | 0 | - | - |

## Reconciliation of “non-GAAP” information with corresponding US GAAP figures

(1) Adjusted EBIT

US$ million

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| Net operating revenues | 1,170 | 1,656 | 1,920 |
| COGS | (670) | (908) | (912) |
| SG&A | (45) | (101) | (106) |
| Research & Development | (12) | (23) | (27) |
| Other operating expenses | (55) | (41) | (43) |
| **Adjusted EBIT** | **388** | **583** | **832** |

(2) Adjusted EBITDA

The term "EBITDA" refers to a financial measure that is defined as earnings (losses) before interest, taxes, depreciation and amortisation; we use the term "Adjusted EBITDA" to reflect that our financial measure also excludes monetary gains/losses, equity in results of affiliates and joint ventures less dividends received from those companies, changes in provision for losses on equity investments, adjustments for changes in accounting practices, minority interests and non-recurring expenses. However, Adjusted EBITDA is not a measure determined under GAAP in the United States of America and may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA should not be construed as a substitute for operating income or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with GAAP. We have presented Adjusted EBITDA to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. The following schedule reconciles Adjusted EBITDA to net cash provided by (used in) operating activities reported on our Consolidated Statements of Cash Flows, which we believe is the most directly comparable GAAP measure:

RECONCILIATION BETWEEN ADJUSTED EBITDA VS. OPERATING CASH FLOW

US$ million

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| **Operating cash flow** | **459** | **597** | **700** |
| Income tax | 135 | 97 | 41 |
| Monetary and Foreign Exchange Losses | - | (3) | (46) |
| Financial Expenses | 32 | 144 | 60 |
| Net Working Capital | (141) | (56) | 221 |
| Others | 5 | (36) | (5) |
| **Adjusted EBITDA** | **490** | **743** | **971** |

(3) Gross Debt / last 12 months’ Adjusted EBITDA

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| Gross Debt / LTM Adjusted EBITDA (x) | 1.74 | 1.86 | 1.55 |
| Gross Debt / LTM Operating cash flow (x) | 1.65 | 2.27 | 2.01 |

(4) Net Debt

| RECONCILIATION BETWEEN GROSS DEBT VS. NET DEBT | | | |
|---|---|---|---|
| | | | US$ million |
| | 2Q03 | 1Q04 | 2Q04 |
| Gross Debt | 3,282 | 4,526 | 4,514 |
| Cash and cash equivalents | 966 | 1,084 | 1,059 |
| Net Debt | 2,316 | 3,442 | 3,455 |

(5) LTM Adjusted EBITDA / LTM interest expenses

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| LTM Adjusted EBITDA / LTM interest expenses (x) | 9.36 | 11.69 | 12.94 |
| LTM Operating income / LTM interest expenses (x) | 7.68 | 8.96 | 10.26 |

(6) Gross Debt / *Enterprise Value*

| | 2Q03 | 1Q04 | 2Q04 |
|---|---|---|---|
| Gross Debt / EV (x) | 0.24 | 0.19 | 0.22 |
| Gross Debt / Total Assets (x) | 0.34 | 0.36 | 0.36 |

*Entreprise Value* = net debt + market capitalization