US GAAP

Companhia Vale do Rio Doce

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

# PERFORMANCE OF COMPANHIA VALE DO RIO DOCE IN 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 the Company's independent accountants. The main subsidiaries of CVRD that are consolidated are: Caemi, PPSA, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Docenave, Ferrovia Centro-Atlântica (FCA), Itaco, CVRD Overseas and Rio Doce International Finance.*


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## 2004, A RECORD-BREAKING YEAR

Rio de Janeiro, March 21, 2005 – Companhia Vale do Rio Doce (CVRD) posted net income of US$ 2.573 billion in 2004, 66.2% higher than its previous record income of US$ 1.548 billion, in 2003. Earnings per share was US$ 2.23. Return on equity (ROE) was 34.8%, exceeding the 31.7% ROE of 2003.

A combination of three factors made it possible for CVRD to break new records while creating substantial value for its shareholders: (a) strong growth in global demand for ores and metals; (b) expansion of capacity in all the Company's operational activities, resulting from implementation of highly competitive projects and successful acquisitions; (c) important efficiency gains.

Total shareholder return over the period 2001-2004 reached, on average, 38.9% per year. In 2004 it was 45.9%.

The operating performance was excellent: Adjusted EBIT[(1)] (earnings before interest and taxes) almost doubled, from US$ 1.644 billion in 2003 to US$ 3.123 billion in 2004. The adjusted EBIT margin, of 38.7%, was the highest in CVRD´s history.

Cash flow measured by adjusted EBITDA[(2)] (earnings before interest, taxes, depreciation and amortization) was US$ 3.722 billion, compared to US$ 2.130 billion in 2003.

Several other records were attained in 2004:

- Gross revenue, US$ 8.479 billion, was 52.9% higher than in 2003.
- Volume of iron ore and pellets sold, 231.043 million tons, was 24.0% higher than in 2003.
- Sales of manganese ore exceeded the 1-million-ton mark for the first time (vs. 885 thousand tons sold in 2003).
- Shipments of ferro alloys were 616 thousand tons, 22.7% up from 2003.

4Q04

- Bauxite sales increased 41.0%, from 1.472 million tons in 2003 to 2.076 million tons in 2004.
- CVRD's railroads carried 28.743 billion ntk of general cargo for clients in 2004, compared to 26.295 billion ntk in 2003.

Four important projects were completed in 2004: the Sossego copper mine, the expansion of iron ore production capacity at Carajás to 70 million tons per year, the Pier III of the Ponta da Madeira maritime terminal, and the Candonga hydroelectric power plant.

The Company invested US$ 1.956 billion in the year, the second highest annual figure in its history, in real terms. From this amount, US$ 1.245 billion was spent on organic growth, US$ 568 million on sustaining existing business, and US$ 143 million on acquisitions.

In 2004 CVRD distributed US$ 0.68 per share in dividends to its shareholders, 15.7% more than in 2003 and 29.7% more than in 2002.

**Highlights of the fourth quarter 2004 (4Q04) result**

- Net income of US$ 721 million, the second largest ever on a quarterly basis, representing an increase of 167.0% in relation to 4Q03.
- Adjusted EBITDA of US$ 1.001 billion, also the second highest quarterly EBITDA in the Company's history.
- Record gross revenues, US$ 2.428 billion, 43.7% higher than in 4Q03.
- Record sales volume of iron ore and pellets, 61.824 million tons, 11.0% higher than in 4Q03.
- Record shipments of manganese ore: 323 thousand tons, vs. 207 thousand tons in 4Q03.
- Record volume of sales of primary aluminum, 113 thousand tons.

SELECTED FINANCIAL INDICATORS

US$ million

| | 4Q03 (A) | 3Q04 (B) | 4Q04 (C) | % (C/A) | % (C/B) | 2003 (D) | 2004 (E) | % (E/D) |
|---|---|---|---|---|---|---|---|---|
| Gross revenues | 1,690 | 2,287 | 2,428 | 43.7 | 6.2 | 5,545 | 8,479 | 52.9 |
| Gross margin (%) | 38.6 | 51.5 | 47.9 | | | 41.5 | 49.4 | |
| Adjusted EBIT | 392 | 886 | 822 | 109.7 | (7.2) | 1,644 | 3,123 | 90.0 |
| Adjusted EBIT margin (%) | 23.9 | 40.8 | 35.5 | | | 39.8 | 46.1 | |
| Adjusted EBITDA | 568 | 1,007 | 1,001 | 76.2 | (0.6) | 2,130 | 3,722 | 74.7 |
| Net earnings | 270 | 943 | 721 | 167.0 | (23.5) | 1,548 | 2,573 | 66.2 |
| Annualized ROE (%) | 31.7 | 32.7 | 34.8 | | | 31.7 | 34.8 | |
| Total debt/Adjusted LTM EBITDA (x) | 1.89 | 1.34 | 1.10 | | | 1.89 | 1.10 | |
| Capex * | 871.6 | 424.0 | 685.7 | (21.3) | 61.7 | 1987.9 | 1956.0 | (1.6) |

* including acquisitions

## BUSINESS OUTLOOK

In spite of the slowdown in the second half, the world economy is estimated to have grown by 4.8% in 2004, the highest rate in the last 20 years, while international trade grew by 18.6% in the year – the highest expansion since 1995.

The recovery was led by the United States, with GDP growth of 4.4%. A 9.5% expansion of the Chinese economy was also extremely important for the excellent performance of the world economy. In broad terms it was a synchronized recovery, though with reasonable variance between regions: 1.7% growth in the Euro zone, 2.6% in Japan, and 6% in Latin America, with the Brazilian economy showing its best performance since 1994 with GDP growth of 5.2%.

As well as the natural cyclical effect of the global economy recovery, the strong growth of China, faster than its already high average annual growth rate over the last 20 years (9.2%), and the fact that its economy is an intensive user of industrial raw materials at this stage of economic development, contributed to considerable demand pressure for ores and metals.

In response to the acceleration of demand, world steel production exceeded one billion tons for the first time, reaching 1.055 billion in the year, 8.8% higher than 2003, and almost double the average annual growth rate of 4.5% in the post-Asian-crisis period (1998-2003). In spite of this significant supply reaction, for the second year running there was a substantial increase in the prices of steel products.

Also as a result of this movement, seaborne iron ore trade grew to 602 million tons in 2004, 12.1% more than in 2003. Part of the disequilibrium between supply and demand was satisfied by the emergence of a spot market of considerable scale, in which prices reached multiples of the benchmark prices.

We expect the world economy to continue to grow at a rate above average long-term trend, although more slowly than in the first half of 2004. Together with the good outlook for the performance of the Chinese economy this tends to support up cycle of  ores and metals prices.

Although investments by the global metals and mining industry are firmly expanding, indicating that in 2005 they could reach twice their amount of 2002, we believe that, at least for the next two years, reasonably large-scale imbalances between supply and demand in several markets continue to exist, especially iron ore, alumina and aluminum.

Capacity utilization levels are extremely high, resulting in higher operational costs and problems in the supply chain. Inventories, both in absolute terms and also in relation to consumption, are at historically low levels, while a considerable portion of the increase in the value of investments programmed is due to the increase in the cost of equipment. Further, the average time between the decision to invest and the conclusion of a project is relatively long, and has increased, worldwide, due to the increase in requirements for approval.

In the specific case of iron ore, we estimate an increase of global seaborne demand of 50 million tons. This increase, of 8.3%, would be lower than in 2004, but still shows significant vigor, as this expansion is stonger than the growth trend of the last 10 years – of 5% since the beginning of the 90s. In view of the relative rigidity of supply expansion in the short term, with operation at full capacity and virtual non-existence of inventories, persistence of very tight market conditions can be foreseen.

Although CVRD's programmed iron ore production for this year is more than 10% greater than in 2004, the Company still faces excess demand.

In 2004 the Company signed contracts for supply of iron ore and pellets totaling approximately 750 million tons with about 40 clients in the Americas, Asia and Europe, with weighted average maturity of seven years. The shipments under these new contracts will provide support for investments in expansion of production capacity.

According to estimates by the *International Copper Study Group* there was a 705,000-ton deficit in copper in 2004, after an imbalance between demand and production of 368,000 tons in 2003. Further more, the known inventories of copper are at their lowest level for the last 18 years. For this year, there is a forecast of balance between supply and demand starting in the third quarter, but without short-term availability for the necessary rebuilding of inventories.

We expect the Brazilian economy to continue to recover from the period of low growth in 2002 and 2003, while exports will continue to increase, resulting in favorable conditions for the logistics services offered by CVRD in Brazil.

## IMPORTANT RECENT EVENTS

- **Iron ore and pellets: prices for 2005**

On February 22, 2005 CVRD and Nippon Steel agreed a 71.5% increase in prices of iron ore fines from Carajás and Southern System.

On March 3, CVRD completed agreement with Arcelor on prices for blast furnace pellets for 2005: an increase of 86.67% for the Tubarão product and 86.43% for the São Luís product.

The agreement with Nippon Steel marked the first time that CVRD agreed the reference price with an Asian client. This can be explained by the fact that Asia is responsible for more than two thirds of the global seaborne iron ore imports and for approximately 80% of the demand growth in recent years.

- **Fostering growth**

CVRD has announced a capital expenditure budget of US$ 3.332 billion for 2005. Of the total budgeted, 22.1% will be allocated to sustain the existing business, and 77.9% to investment in organic growth.

The amount for organic growth is made up of US$ 2.221 billion to be invested in brownfield and greenfield projects, and US$ 375 million in research and development. This is the largest annual Capex in CVRD’s history, in both nominal and real terms. Over the period 2003-2005, 74% of the Company’s total investment was directed to organic growth, projects, and research and development.

The Company has won several international tenders for exploration of mineral deposits that strengthen its growth potential in the long term.

One was an international tender by the government of Mozambique for exploration of coal deposits in the Moatize region, the world´s largest unexplored coal reserve. The Company paid US$ 122.8 million for the concession. Feasibility studies for exploration of these reserves are currently in progress.

In Argentina, CVRD obtained a license for research, evaluation and exploration of a potash deposit in a region on the Colorado River, in the province of Neuquén.

In Brazil, CVRD won an international tender, for US$ 20.0 million, for research, evaluation and exploration of a bauxite deposit in the region of Pitinga, in the Brazilian state of Amazonas.

In Peru, CVRD obtained the rights to exploration of the Bayóvar phosphates deposit, in the department of Piura.

- **Copper processing plant**

CVRD will build a semi-industrial plant to process copper by the hydrometallurgical route, to test this new technological option for production of the metal from sulphide copper concentrate. The investment is estimated at US$ 58 million and the plant will have production capacity of 10 million tons of copper cathode per year. If the technology is approved, a larger-scale plant will be built for processing of copper from other deposits, such as Salobo.

- **Repurchase of debt securities**

In December 2004 CVRD completed the repurchase of US$ 186.996 million of its US$ 300 million debt issue with political risk insurance (PRI) and maturity in 2007.

- **Minimum dividend to shareholders of US$ 1 billion**

CVRD's senior management will submit a proposal to the Board of Directors for payment of minimum dividend of US$ 1 billion to shareholders for 2005, corresponding to US$ 0.87 per share outstanding.

## SALES VOLUME AND REVENUE

- **A new order of magnitude**

CVRD's gross operating revenue in 2004 was US$ 8.479 billion, 52.9% more than in 2003 – when it was US$ 5.545 billion. This is not only a new record, but indicates a change in the Company´s size – until 2002 its annual revenue has usually been on a level close to US$ 4 billion.

The US$ 2.934 billion increase in revenue in 2004 is primarily the result of expansion in sales volume – which contributed US$ 1.585 billion, or 54.0%, of the growth.

Europe continued to be the main destination of CVRD's sales, providing revenue of US$ 2.552 billion in 2004, or 30.1% of the Company's total revenue. Sales to Brazil were in second place, with US$ 2.367 billion, 27.9% of the total, followed by China with US$ 996 million (11.7%), Japan with US$ 788 million (9.3%), and emerging Asia (excluding China) with US$ 405 million (4.8%). Year-on-year growth was highest in sales to the US, at 105.8%, growing from US$ 189 million to US$ 389 million – followed by Japan, with year-on-year growth of 88.1%, from US$ 419 to US$ 788 million; and China, with growth of 71.7%, from US$ 580 to US$ 996 million.

Revenue in 4Q04, also a record, at US$ 2.428 billion, was 43.7% higher than in 4Q03. The increase in prices was responsible for 65.2% of this growth.

- **Ferrous mineral sales reached an all-time high**

Ferrous minerals – iron ore, pellets, manganese and ferro alloys – produced revenues of US$ 5.844 billion, 68.9% of the Company's total revenue. Shipments of iron ore generated US$ 3.995 billion, pellets US$ 1.095 billion, operational services at the Tubarão pelletizing plants US$ 53 million, manganese ore US$ 76 million and ferro alloys US$ 590 million.

In 2004, CVRD's shipments of iron ore and pellets totaled 231.043 million tons, a record, and 24.0% more than the 186.309 million tons of 2003. This enabled CVRD to maintain its leadership in the world seaborne market, with 32.1% of the volume of iron ore and pellets traded in 2004, compared to around 20% at the late 1990s.

Total sales volume of iron ore was 203.536 million tons, and in pellets, 27.507 million tons.

In view of the disequilibrium between global iron ore supply and demand, the Company acquired 15.926 million of iron ore from small mining companies that operate in the "Iron Quadrangle", in the Brazilian state of Minas Gerais, to complement its own production and satisfy the growing demand from its clients. These purchases of iron ore from third parties increased by 73.1% – from 9.200 million tons in 2003.

In 2004, CVRD's shipments to the Chinese market totaled 41.045 million tons, or 17.8% of the total volume sold. This gave CVRD 19.8% market share in the Chinese iron ore imports. The second largest consumer of CVRD´s iron ore and pellets was Germany, with 10.6% of the Company's 2004 sales, Japan, with 9.0%, France with 4.9%, and Belgium with 3.5%. The high quality of CVRD's iron ore products enables it to maintain the position of an important supplier of the Asian steelmakers even with the comparative disadvantage of the longer distance.

The Company sold 55.676 million tons of iron ore in the Brazilian market, consisting of 35.893 million to the steel industry and pig iron producers, and 19.784 million to the pelletizing joint ventures of Tubarão (Nibrasco, Itabrasco, Hispanobras and Kobrasco). The pellet feed sold to these companies is transformed into pellets, which are totally exported.

In 4Q04 CVRD's sales of iron ore and pellets reached a new record volume, of 61.824 million tons, 11.0% more than the 55.676 million tons sold in 4Q03. The revenue from the sales of these products – another record, US$ 1.420 billion – was 33.8% greater than in 4Q03.

The average sale price of iron ore in 2004 was US$ 19.63 per ton, and the average sale price of pellets was US$ 39.81 per ton – respectively, increases of 20.0% and 18.6% over 2003. In 4Q04 average price of iron ore was US$ 20.69 per ton, and pellets, US$ 40.56 per ton.

CVRD's sales of manganese ore were a new record in 2004, at 1.002 million tons, 13.2% more than in 2003. The strong expansion of demand caused a substantial increase of prices of this product – the average price in 2004 was US$ 75.85/ton, 37.0% more than in 2003.

The Company shipped 323 thousand tons of manganese ore in 4Q04, 56.0% more than in 4Q03, and a quarterly record.

Shipments of ferro alloys in 2004 were 22.7% higher than in 2003, at 616 thousand tons – also a new record. This was achieved in spite of a maintenance stoppage in RDME, in the second quarter of the year. Volume sold in 4Q04 was 124 thousand tons, 18.4% less than in 4Q03.

The considerable growth in demand for ferro alloys, derived from steel production, contributed to a strong increase in prices. In 4Q04 the average price of CVRD's sales was US$ 1,346.77 per ton, 135.3% higher than the price realized in 4Q03. In

2004 the average sale price of manganese ferro alloys, which involve a range of types (MC FeMn, HC FeMn, SiMn) with differentiated prices, was US$ 957.14 per ton, compared to US$ 547.81 in 2003.

The price of manganese ore continues to increase in 2005, following the trend in prices of iron ore. By contrast, the prices of alloys have begun to fall as a result of the increase in production caused by reactivation of furnaces with high operational costs.

- **Aluminum products generate revenue of US$ 1.250 billion**

In 2004 the products of the aluminum chain – bauxite, alumina and primary aluminum – generated revenue of US$ 1.250 billion, 46.7% more than in 2003, and representing 14.7% of CVRD's total revenue.

The volume of bauxite sold in 2004 was 2.076 million tons, 41.0% more than in 2003. This increase in shipment volume, giving rise to another record, was made possible by the expansion of production capacity at Trombetas (MRN), concluded in 2Q03.

The average sale price of bauxite in 2004 was US$ 25.53 per ton, slightly higher than the average price for the previous year, US$ 25.14.

In 4Q04 the Company sold 514 thousand tons of bauxite, 13 thousand tons more than in 4Q03.

Consolidation of Albras starting as of January 2004 produced some changes in the statistics for sales of products in the alumina chain. As a result of this, there is a reduction in the quantities of aluminum sold, due to the elimination of the sales of Alunorte (alumina refinery) to Albras (aluminum smelter). On the other hand, the figures show higher volumes of sales of primary aluminum, since 100% of the sales of Albras are now included, whereas last year only the sales made by CVRD in relation to its take from the smelter were included.

Sales of alumina totaled 1.788 million tons in 2004, compared to 2.653 million in 2003. The volume sold in 4Q04 reached 462 million tons, compared to 756 million tons in 4Q03. Reflecting the strong scarcity of alumina in the global market, the average price realized on CVRD's shipments was US$ 256.15 per ton in 2004, equivalent to 14.9% of the average price of aluminum at LME, 37.3% higher than in 2003. In 4Q04, the average realization price was US$ 305.19 per ton, corresponding to 16.7% of the average aluminum price.

In 2004 CVRD's sales of primary aluminum were 430 thousand tons, an increase of 104.8% from 2003. These sales were made at an average price of US$ 1,688.37 per ton, 19.8% higher than in 2003.

CVRD's sales of aluminum in 4Q04 were 113 thousand tons, vs. 56 thousand tons in 4Q03, for an average price of US$ 1,725.66 per ton. Due to the existence of considerable stocks in 2003, aluminum prices reacted slowly to the impact on demand caused by the global economic recovery, playing the role of a late cycle commodity.

CVRD's aluminum businesses as a whole generated revenue of US$ 354 million in the fourth quarter of 2004, 39.4% more than in 4Q03.

- **Copper: good timing**

Sossego was the only greenfield copper project in the world to start operating in 2004. The first shipments of copper concentrate took place in June, and totaled 269 thousand tons in the year, for revenue of US$ 201 million.

Sossego came into operation at a very good moment, since copper prices increased 57.0% in 2004, much more than expected. Currently, in the first quarter of 2005, copper prices are at their highest since the end of 1988.

The rate of expansion of global demand, the weakness of the US dollar and the low level of inventories brought together a very favorable environment for copper prices. For the profitability of a copper concentrate producer, two other factors are also important: the price of gold, which tends to reduce the production cost of copper, and the TC/RC charges charged for processing and refining by the smelters. The latter, due to the growth of supply of copper concentrate, practically doubled in 2005, reaching their highest level since the mid-1990s, contributing to a reduction in the profit margins of concentrate producers such as CVRD. However, the negative effect of this factor is more than offset by the current levels of gold prices, around US$ 430 per ounce, and copper, around US$ 1.50 per pound.

In 4Q04 CVRD sold 139 thousand tons of copper concentrate, 44.8% more than in 3Q04, with a substantial increase in revenue, from US$ 70 million in 3Q04 to US$ 107 million in 4Q04. The average realization sale price of copper concentrate was US$ 769.78 in 4Q04, compared to US$ 729.17 in 3Q04 and US$ 705.88 in 2Q04.

- **Industrial minerals: record kaolin sales**

In 2004 CVRD's sales revenues of potash amounted to US$ 124 million, 31.9% more than in 2003. The growth mainly reflected the increase in prices, since volumes sold in fact fell, from 674 thousand tons in 2003 to 630 thousand tons in 2004, due to the execution of the capacity expansion project at the Taquari-Vassouras mine.

The average price of potash sales was US$ 196.83 per ton, 41.1% higher than in 2003.

CVRD sold 165 thousand tons of potash in 4Q04, almost equal to its 4Q03 sales of 169 thousand tons, generating revenue of US$ 35 million.

Kaolin sales generated revenue of US$ 164 million in 2004, 70.8% more than in 2003. Sales volume increased 84.6%, to 1.207 million tons – on two factors: (a) the consolidation of Cadam for 12 months in 2004, compared to only four months in 2003; and (b) increases of production in 2004 at both PPSA and Cadam.

In 4Q04, CVRD sold 311 thousand tons of kaolin, 11.1% more than in 4Q03. Revenue from these sales was 9.8%, higher, at US$ 45 million in 4Q04, compared to US$ 41 million for 4Q03.

The average price of kaolin in 2004, US$ 136.70 per ton, was 6.9% lower than in 2003, and in 4Q04, at US$ 144.69 per ton, showed a recovery from the previous quarters – US$ 128.53 in 3Q04, and US$ 133.11 in 2Q04.

- **Logistics: new records in railway transportation, port services and coastal shipping**

CVRD's logistics services provided revenue of US$ 877 million in 2004, 45.2% more than in 2003, contributing 10.3% of the Company's total revenue for the year.

Railway transportation of general cargo for clients, on the Carajás, Vitória-Minas, and Centro-Atlântica railroads (EFC, EFVM, FCA) produced revenue of US$ 612 million. Port services added US$ 173 million, and coastal shipping and port support services US$ 92 million.

CVRD's railroads transported 28.743 billion ntk of general cargo for clients, 9.3% more than in 2003, a new all-time record. The main cargos transported were steel industry inputs and products (46.6%), agricultural products (32.2%) and fuels (9.8%).

On all three railroads the revenue per thousand ntk (kntk) of general cargo increased: on EFVM, from US$ 13.94 in 2003 to US$ 16.83 in 2004; on EFC, from US$ 12.48 to US$ 14.57; and on FCA from US$ 16.82 to US$ 21.56.

Volume transported in 4Q04, at 6.907 billion ntk, was higher than in 4Q03 (6.402 billion ntk), though volume carried in 4Q04 was lower than in the two previous quarters, a seasonal effect reflecting the grain harvests: the peak is usually in the third quarter, with a decline in the fourth quarter and the subsequent first quarter, recovering in the second quarter.

Reduction of accidents is one of CVRD's main goals in the operation of its railroads. Even operating at full capacity, the Company has succeeded in reducing the number of accidents in recent years. Between 2001 and 2004 the Company was able to reduce the number of accidents in its railways at an average annual rate of 13.1%.

The Company's ports and maritime terminals handled 28.741 million tons of cargo for clients, 7.2% more than in 2003. Volume in 4Q04 was 7.097 million tons, compared to 5.288 million tones in 4Q03.

**VOLUME SOLD – IRON ORE AND PELLETS**

thousand tons

| | 4Q03 | % | 3Q04 | % | 4Q04 | % | 2003 | % | 2004 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Iron ore | 48,839 | 87.7 | 53,606 | 88.7 | 54,748 | 88.6 | 162,683 | 87.3 | 203,536 | 88.1 |
| Pellets | 6,837 | 12.3 | 6,847 | 11.3 | 7,076 | 11.4 | 23,626 | 12.7 | 27,507 | 11.9 |
| **Total** | **55,676** | **100.0** | **60,453** | **100.0** | **61,824** | **100.0** | **186,309** | **100.0** | **231,043** | **100.0** |

**IRON ORE AND PELLET SALES BY DESTINATION**

thousand tons

| | 2003 | % | 2004 | % |
|---|---|---|---|---|
| **EU** | **49,681** | **26.7** | **69,558** | **30.1** |
| Germany | 19,753 | 10.6 | 24,512 | 10.6 |
| France | 8,842 | 4.7 | 11,364 | 4.9 |
| Belgium | 6,743 | 3.6 | 8,022 | 3.5 |
| Italy | 5,587 | 3.0 | 8,151 | 3.5 |
| Others | 8,756 | 4.7 | 17,509 | 7.6 |
| **China** | **29,460** | **15.8** | **41,045** | **17.8** |
| **Japan** | **18,126** | **9.7** | **20,773** | **9.0** |
| **South Korea** | **7,538** | **4.0** | **9,614** | **4.2** |
| **Middle East** | **5,780** | **3.1** | **7,073** | **3.1** |
| **USA** | **3,849** | **2.1** | **5,467** | **2.4** |
| **Brazil** | **47,084** | **25.3** | **55,677** | **24.1** |
| Steel mills and pig iron producers | 27,976 | 15.0 | 35,893 | 15.5 |
| Pelletizing joint ventures[a] | 19,108 | 10.3 | 19,784 | 8.6 |
| **RoW** | **24,791** | **13.3** | **21,837** | **9.5** |
| **Total** | **186,309** | **100.0** | **231,044** | **100.0** |

[a] The JVs buy pellet feed from CVRD. All JV´s pellet production is exported.

| VOLUME SOLD - MINERALS AND METALS | | | | | |
|---|---|---|---|---|---|
| | | | | | thousand tons |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Manganese ore | 207 | 313 | 323 | 885 | 1,002 |
| Ferro-alloys | 152 | 156 | 124 | 502 | 616 |
| Alumina | 756 | 508 | 462 | 2,653 | 1,788 |
| Primary aluminum | 56 | 101 | 113 | 210 | 430 |
| Bauxite | 501 | 652 | 514 | 1,472 | 2,076 |
| Potash | 169 | 161 | 165 | 674 | 630 |
| Kaolin | 280 | 319 | 311 | 654 | 1,207 |
| Copper concentrates | 0 | 96 | 139 | 0 | 269 |

| LOGISTICS SERVICES | | | | | |
|---|---|---|---|---|---|
| | | | | | thousand tons |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Railroads (million ntk) | 6,402 | 7,968 | 6,907 | 26,295 | 28,743 |
| Ports | 5,288 | 7,634 | 7,097 | 26,803 | 28,741 |

| GROSS REVENUES BY PRODUCT | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | US$ million |
| | 4Q03 | % | 3Q04 | % | 4Q04 | % | 2003 | % | 2004 | % |
| **Ferrous minerals** | **1,179** | **69.8** | **1,579** | **69.0** | **1,647** | **67.8** | **3,849** | **69.4** | **5,844** | **68.9** |
| Iron ore | 821 | 48.6 | 1.093 | 47.8 | 1.133 | 46.7 | 2.662 | 48.0 | 3.995 | 47.1 |
| Pellet plant operation services | 14 | 0.8 | 12 | 0.5 | 14 | 0.6 | 45 | 0.8 | 53 | 0.6 |
| Pellets | 240 | 14.2 | 281 | 12.3 | 287 | 11.8 | 793 | 14.3 | 1,095 | 12.9 |
| Manganese ore | 11 | 0.7 | 20 | 0.9 | 36 | 1.5 | 49 | 0.9 | 76 | 0.9 |
| Ferro-alloys | 87 | 5.1 | 169 | 7.4 | 167 | 6.9 | 275 | 5.0 | 590 | 7.0 |
| Others | 6 | 0.4 | 4 | 0.2 | 10 | 0.4 | 25 | 0.5 | 35 | 0.4 |
| **Non ferrous minerals** | **65** | **3.8** | **146** | **6.4** | **187** | **7.7** | **190** | **3.4** | **489** | **5.8** |
| Potash | 24 | 1.4 | 35 | 1.5 | 35 | 1.4 | 94 | 1.7 | 124 | 1.5 |
| Kaolin | 41 | 2.4 | 41 | 1.8 | 45 | 1.9 | 96 | 1.7 | 164 | 1.9 |
| Copper concentrates | 0 | - | 70 | 3.1 | 107 | 4.4 | - | - | 201 | 2.4 |
| **Aluminum products** | **254** | **15.0** | **327** | **14.3** | **354** | **14.6** | **852** | **15.4** | **1,250** | **14.7** |
| Primary aluminum | 82 | 4.9 | 177 | 7.7 | 195 | 8.0 | 296 | 5.3 | 726 | 8.6 |
| Alumina | 149 | 8.8 | 130 | 5.7 | 141 | 5.8 | 495 | 8.9 | 458 | 5.4 |
| Bauxite | 14 | 0.8 | 17 | 0.7 | 13 | 0.5 | 37 | 0.7 | 53 | 0.6 |
| Others | 9 | 0.5 | 3 | 0.1 | 5 | 0.2 | 24 | 0.4 | 13 | 0.1 |
| **Logistics services** | **192** | **11.4** | **232** | **10.2** | **234** | **9.6** | **604** | **10.9** | **877** | **10.3** |
| Railroads | 127 | 7.5 | 164 | 7.2 | 162 | 6.7 | 373 | 6.7 | 612 | 7.2 |
| Ports | 38 | 2.2 | 43 | 1.9 | 47 | 1.9 | 144 | 2.6 | 173 | 2.0 |
| Shipping | 27 | 1.6 | 25 | 1.1 | 25 | 1.0 | 87 | 1.6 | 92 | 1.1 |
| **Others** | **0** | **-** | **3** | **0.1** | **6** | **0.2** | **50** | **0.9** | **19** | **0.2** |
| **Total** | **1,690** | **100.0** | **2,287** | **100.0** | **2,428** | **100.0** | **5,545** | **100.0** | **8,479** | **100.0** |

| GROSS REVENUES BY DESTINATION | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | US$ million |
| | 4Q03 | % | 3Q04 | % | 4Q04 | % | 2003 | % | 2004 | % |
| Europe | 614 | 36,3 | 699 | 30,6 | 625 | 25,7 | 1.784 | 32,2 | 2.552 | 30,1 |
| Brazil | 481 | 28,5 | 621 | 27,2 | 678 | 27,9 | 1.705 | 30,7 | 2.367 | 27,9 |
| China | 190 | 11,2 | 277 | 12,1 | 345 | 14,2 | 580 | 10,5 | 996 | 11,7 |
| Japan | 98 | 5,8 | 200 | 8,7 | 220 | 9,1 | 419 | 7,6 | 788 | 9,3 |
| Emerging Asia (ex-China) | 86 | 5,1 | 87 | 3,8 | 134 | 5,5 | 251 | 4,5 | 405 | 4,8 |
| USA | 37 | 2,2 | 118 | 5,2 | 134 | 5,5 | 189 | 3,4 | 389 | 4,6 |
| Rest of the World | 184 | 10,9 | 285 | 12,5 | 292 | 12,0 | 617 | 11,1 | 982 | 11,6 |
| **Total** | **1.690** | **100,0** | **2.287** | **100,0** | **2.428** | **100,0** | **5.545** | **100,0** | **8.479** | **100,0** |

| AVERAGE PRICES REALIZED | | | | | |
|---|---|---|---|---|---|
| | | | | | US$/ton |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Iron ore | 16.81 | 20.39 | 20.69 | 16.36 | 19.63 |
| Pellets | 35.10 | 41.04 | 40.56 | 33.56 | 39.81 |
| Manganese ore | 53.14 | 63.90 | 111.46 | 55.37 | 75.85 |
| Ferro Alloys | 572.37 | 1,083.33 | 1,346.77 | 547.81 | 957.14 |
| Alumina | 197.09 | 255.91 | 305.19 | 186.58 | 256.15 |
| Aluminum | 1,464.29 | 1,752.48 | 1,725.66 | 1,409.52 | 1,688.37 |
| Bauxite | 27.94 | 26.07 | 25.29 | 25.14 | 25.53 |
| Potash | 142.01 | 217.39 | 212.12 | 139.47 | 196.83 |
| Kaolin | 146.43 | 128.53 | 144.69 | 146.79 | 136.70 |
| Copper concentrates | - | 729.17 | 769.78 | - | 747.21 |

## OPERATIONAL EXCELLENCE AMID COST INFLATION

Worldwide, the metals and mining industry has been undergoing cyclical pressures from costs of labor, energy and equipment.

In addition, the currencies of the main producing countries, such as the Brazilian Real, the Chilean Peso, the Canadian Dollar, the South African Rand and the Australian Dollar, have appreciated significantly against the US Dollar (USD). While this stimulates high prices in USD for ores and metals, it also leads to increases in mining companies' costs. In the case of the Brazilian Real (BRL), the nominal appreciation against the USD was 26.6% between December 2002 and February 2005.

Finally, operation at full capacity eventually has the effect of increasing costs – examples are expenses on demurrage, and a larger number of maintenance stoppages.

In this adverse environment CVRD has, thanks to rigorous costs controls, succeeded in working with a high level of operational efficiency. To optimize its performance, in 2005 it launched an operational excellence program, made up of dozens of small projects to reduce costs and achieve productivity gains.

Operational profit in 2004, measured by adjusted EBIT, was US$ 3.123 billion, the highest in the Company's history, and 90.0% higher than in 2003, US$ 1.644 billion. Adjusted EBIT margin was 38.7%, 800 basis points more than the 30.7% of 2003.

The higher margin is basically due to a lower ratio between cost of goods sold (COGS) and net revenues, which fell from 58.5% in 2003 to 50.6% in 2004. While net revenues increased by 50.7%, from US$ 5.350 billion in 2003 to US$ 8.066 billion in 2004, COGS grew by only 30.5%, from US$ 3.128 billion to US$ 4.081 billion.

In absolute terms, the main item in the increase in COGS was outsourced services, US$ 239 million higher than in 2003. This component was strongly affected by the consolidation of Caemi, which contracts transportation services to carry its iron ore to the Guaíba island maritime terminal. Also, there was a US$ 206 million increase in the account line of *materials* due to: (i) inflation-linked increases in prices in Brazil; (ii) consolidation of Caemi, FCA and Albras; and (iii) nominal appreciation of the BRL against the USD.

The increase in demurrage expenses – expressing the effect of the enormous pressure of demand for iron ore on the logistics infrastructure, of 80.4% from US$

46 million in 2003 to US$ 83 million in 2004, was another factor in the growth of COGS. The Company is implementing a program to reduce ships´ waiting time in ports, and consequently demurrage expenses.

Another important cost increase was due to research and development expenditure growth. R&D expenditure was 86.6% higher, at US$ 153[1] million in 2004 than its level of US$ 82 million in 2003 – reflecting CVRD's decision to intensify efforts to find new mineral deposits in Brazil, South America, Africa and Asia, and studies for the development of projects to increase capacity in several sectors. These investments are preparing for the Company's future growth and are in line with its strategy of focus on organic growth.

SG&A expenses increased from US$ 265 million to US$ 452 million. The main factors in this increase were: (i) a US$ 57 million increase in personnel expenses, due to wages increases of 17% in July 2003 and 4.5% in July 2004, and the increase in headcount due to the consolidation of new companies; (ii) an increase of US$ 48 million in selling expenses; (iii) an increase of US$ 29 million in consultancy expenses; and (iv) an increase of US$ 21 million in contingencies.

Adjusted EBIT margins of all the segments of CVRD's business increased from 2003 to 2004. In ferrous minerals it rose from 36.7% in 2003 to 42.3% in 2004; in non-ferrous minerals from 28.6% to 41.9%; in aluminum from 16.4% to 41.7%; and in logistics from 21.7% to 21.9%.

Adjusted EBIT in 4Q04, at US$ 822 million, was more than double its value of US$ 392 million in 4Q03, and was 7.2% lower than in 3Q04 (US$ 886 million).

The year-on-year change of US$ 430 million in adjusted EBIT from 4Q03 to 4Q04 is mainly due to an increase of US$ 679 million in net operating revenues, partially offset by additional costs of US$ 203 million

The components of COGS which most grew were: (i) materials, US$ 67 million higher, caused by deferral of expenditures from 3Q04 to 4Q04 due to implementation of the enterprise resources planning system (ERP) and to material prices increases due to inflation; (ii) an increase of US$ 59 million in purchase of iron ore and pellets from third parties - volumes reached 4.217 million tons in 4Q04 from 2.088 million tons in 4Q03; and (iii) an increase of US$ 60 million in expenses on electricity, mainly due to the consolidation of Albras, reflecting the fact that aluminum production is electricity intensive. It is important to point out that energy cost at Albras in 4Q04 includes provisions of US$ 18 million relative to legal pending issues. Recurring cost of electric energy to produce primary aluminum in 4Q04 was US$ 42 million.

Other factors with a negative impact on adjusted EBIT in 4Q04, as compared with 4Q03, were a US$ 30 million increase in expenses on R&D, and an increase of US$ 13 million in provisions for employee bonuses.

Relative to 3Q04, adjusted EBIT decreased by US$ 64 million, leading also to a lower adjusted EBIT margin, that decreased to 35.5% from 40.8%.

Part of the reduction in adjusted EBIT, US$ 47 million, is explained by non-recurring factors: (a) provision of US$ 18 million in Albras; (b) several provisions in SG&A of US$ 11 million; (c) increase of US$ 18 million in material costs generated by deferral of expenses due to the implementation of the ERP, as previously explained.

[1] The value of the investments in research and development of 2004, informed in the press release concerning the investment program for 2005 - of January 18, 2005 - was US$ 184 million. This amount refers to the actual disbursement during 2004.

The increase in prices of primary aluminum on the London Metal Exchange (LME) has a counterpart in the increase of prices of alumina and electricity used in its production, since both are indexed to the final prices of the metal. Albras has long-term contracts for the supply of alumina and electricity based on these standards and consequently its costs has been growing. In 4Q04, as a consequence of the increase in the price of primary aluminum, the electricity cost of the smelter increased US$ 10 million relatively to 3Q04.

There was also an increase in COGS caused by higher demurrage expenses, which increased by US$ 29 million, vessel chartering for coastal shipping, US$ 12 million, research and development, US$ 31 million, and provisions for payment of employee bonus, US$ 5 million.

**COGS BREAKDOWN**

US$ million

| | 4Q03 | % | 3Q04 | % | 4Q04 | % | 2003 | % | 2004 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Personnel | 100 | 10.0 | 98 | 9.3 | 108 | 8.9 | 291 | 9.3 | 386 | 9.5 |
| Material | 124 | 12.3 | 173 | 16.4 | 191 | 15.8 | 410 | 13.1 | 616 | 15.1 |
| Fuels | 108 | 10.7 | 119 | 11.3 | 128 | 10.6 | 350 | 11.2 | 446 | 10.9 |
| Electric energy | 56 | 5.6 | 67 | 6.4 | 116 | 9.6 | 143 | 4.6 | 315 | 7.7 |
| Outsourced services | 239 | 23.8 | 224 | 21.3 | 217 | 18.0 | 574 | 18.4 | 813 | 19.9 |
| Acquisition of iron ore and pellets | 66 | 6.6 | 123 | 11.7 | 125 | 10.3 | 356 | 11.4 | 466 | 11.4 |
| Acquisition of other products | 169 | 16.8 | 102 | 9.7 | 110 | 9.1 | 604 | 19.3 | 411 | 10.1 |
| Depreciation and exhaustion | 77 | 7.7 | 95 | 9.0 | 100 | 8.3 | 228 | 7.3 | 375 | 9.2 |
| Others | 66 | 6.6 | 52 | 4.9 | 113 | 9.4 | 172 | 5.5 | 253 | 6.2 |
| **Total** | **1,005** | **100.0** | **1,053** | **100.0** | **1,208** | **100.0** | **3,128** | **100.0** | **4,081** | **100.0** |

**ADJUSTED EBIT MARGIN**

%

| 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| **23.9** | **29.8** | **23.5** | **24.4** | **34.7** | **30.7** | **38.7** |

## RECORD CASH GENERATION: US$ 3.7 BILLION

CVRD’s 2004 cash generation as measured by adjusted EBITDA was another all-time record: US$ 3.722 billion, 74.7% more than the 2003 EBITDA of US$ 2.130 billion, and 2.1 times 2002 adjusted EBITDA of US$ 1.780 billion.

4Q04 was the eleventh consecutive quarter of growth in last-twelve-month adjusted EBITDA.

The main source of the increase in adjusted EBITDA in 2004 was the growth of US$ 1.479 billion in adjusted EBIT. Additionally, depreciation and amortization increased by US$ 161 million, reflecting the expansion of the asset base, while dividends received from joint ventures and affiliates grew by US$ 3 million. On the other hand, write-offs of assets computed in 2003, which had improved that year’s cash flow by US$ 51 million, did not recur in 2004.

Of the total US$ 200 million in dividends received by CVRD in 2004, US$ 100 million were paid by Samarco, and US$ 54 million by MRN.

Cash flow by business area in 2004 was as follows: ferrous minerals 70.6%, aluminum 16.3%, logistics 9.2% and non-ferrous minerals 3.4%.

Adjusted EBITDA in 4Q04 was US$ 1,001 billion, 76.2% more than in 4Q03. The main factor leading to that, again, was adjusted EBIT, US$ 430 million higher than in 4Q03. Depreciation in 4Q04 was US$ 119 million – US$ 41 million higher than in 4Q03 – and dividends received were US$ 60 million, practically unchanged from US$ 59 million in 4Q03.

In 4Q04 ferrous minerals contributed with 71.9% of the cash generation, aluminum 14.9%, logistics 6.7% and non-ferrous minerals 5.9%. Copper was the main factor in the increased contribution of non-ferrous minerals to adjusted EBITDA in 4Q04.

**ADJUSTED EBITDA**

US$ million

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Net operating revenues | 1,638 | 2,173 | 2,317 | 5,350 | 8,066 |
| COGS | (1,005) | (1,053) | (1,208) | (3,128) | (4,081) |
| SG&A | (97) | (112) | (133) | (265) | (452) |
| Research and development | (37) | (36) | (67) | (82) | (153) |
| Other operational expenses | (107) | (86) | (87) | (231) | (257) |
| **Adjusted EBIT** | **392** | **886** | **822** | **1,644** | **3,123** |
| | | | | | |
| Depreciation, amortization & exhaustion | 78 | 102 | 119 | 238 | 399 |
| Dividends received | 59 | 19 | 60 | 197 | 200 |
| | | | | | |
| Adjustment for non-recurring items (asset impairment) | 39 | - | - | 51 | - |
| | | | | | |
| **Adjusted EBITDA** | **568** | **1007** | **1001** | **2,130** | **3,722** |

**ADJUSTED EBITDA BY BUSINESS AREA**

US$ million

| | 4Q03 | % | 3Q04 | % | 4Q04 | % | 2003 | % | 2004 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Ferrous minerals | 446 | 78.5 | 722 | 71.7 | 720 | 71.9 | 1,646 | 77.3 | 2,626 | 70.6 |
| Non- ferrous minerals | 2 | 0.4 | 33 | 3.3 | 59 | 5.9 | 32 | 1.5 | 128 | 3.4 |
| Logistics | 31 | 5.5 | 100 | 9.9 | 67 | 6.7 | 180 | 8.5 | 341 | 9.2 |
| Aluminum | 75 | 13.2 | 152 | 15.1 | 149 | 14.9 | 199 | 9.3 | 606 | 16.3 |
| Others | 14 | 2.5 | - | 0.0 | 6 | 0.6 | 73 | 3.4 | 21 | 0.6 |
| **Total** | **568** | **100.0** | **1,007** | **100.0** | **1,001** | **100.0** | 2,130 | **100.0** | 3,722 | **100.0** |

## RECORD NET INCOME: US$ 2.6 BILLION

CVRD's net income in 2004, US$ 2.573 billion, was 66.2% higher than in 2003, US$ 1.548 billion. This is the first time that CVRD has posted net earnings in excess of US$ 2 billion.

There was a non-recurring gain in 2004 of US$ 404 million derived from the sale of CVRD stake in CST. Part of this amount, US$ 314 million, was accounted in 3Q04. The remaining US$ 90 million was accounted in 4Q04 on the financial settlement of the second tranche of the sale transaction.

The sale of the stake in Fosfértil had produced a positive result of US$ 17 million in 4Q03. Hence, gains on sales of assets were responsible for US$ 387 million of the total growth of US$ 1.025 billion in earnings in 2004.

There were two other important factors in the increase in net earnings: (a) an improvement of US$ 1.479 billion in operating income; and (b) an increase of US$ 236 million in equity income from subsidiaries.

The equity income from holdings in the steel industry, US$ 271 million in 2004 compared to US$ 81 million in 2003, was one of the main reasons for the increase in CVRD's total equity income.

Among the pelletizing joint ventures, the star performer was Samarco, which increased its contribution to CVRD net earnings from US$ 70 million in 2003 to US$ 117 million in 2004.

Logistics made a positive contribution of US$ 33 million in 2004, compared to negative equity income of US$ 52 million in the previous year.

Equity income from the aluminum area was lower, falling from US$ 147 million in 2003 to US$ 71 million in 2004, the main reason being the consolidation of Albras starting in January 2004, which had provided equity income of US$ 104 million in 2003. Excluding this effect, the contribution from CVRD's holdings in MRN and Valesul increased by US$ 28 million in 2004.

The following were negative factors in the 2004 result: (a) an increase of US$ 340 million in net financial expenses; (b) a decrease of US$ 177 million in positive monetary variation (c) an increase of US$ 452 million in provisions for income tax and social contribution; and (c) an increase of US$ 118 million in minority interests.

Financial expenses in 2004 were US$ 320 million greater than in 2003. US$ 176 million of this total resulted from the consolidation of Albras, Caemi and FCA, US$ 24 million from losses on derivatives for hedge against commodity price volatility, and US$ 22 million from the repurchase of CVRD 2007 bonds. From the amount derived from consolidations, US$ 98 million are relative to losses on derivatives contracted for hedging against volatility in aluminum prices.

The Company's net income in 4Q04 was US$ 721 million, 167.0% higher than in 4Q03.

Operating income in 4Q03 was US$ 430 million higher than in 4Q03. US$ 283 million of this amount came from monetary variation and US$ 91 million from equity income.

By the same year-on-year comparison, gains on sales of assets were US$ 73 million higher, and the net result of adjustments in minority interest was US$ 17 million lower. On the other hand there was a substantial increase in provisions for income tax and social contribution, of US$ 330 million.

| RESULTS FROM SHAREHOLDINGS | | | | | |
|---|---|---|---|---|---|
| | | | | | US$ million |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Iron ore and pellets | 23 | 50 | 55 | 134 | 170 |
| Aluminum, alumina and bauxite | 24 | 20 | 19 | 146 | 71 |
| Logistics | 36 | 8 | 11 | (50) | 33 |
| Steel | 21 | 50 | 95 | 82 | 271 |
| Others | (16) | (1) | (1) | (6) | (3) |
| **Total** | **88** | **127** | **179** | **306** | **542** |

## DEBT: LOWER LEVERAGE, HIGHER INTEREST COVERAGE, LOWER RISK PROFILE

CVRD's total debt on December 31, 2004 was US$ 4.088 billion, US$ 330 million lower than on September 30, 2004, US$ 4.418 billion. Part of the reduction on debt was due to repurchase of 62.33% of the US$ 300 million PRI bonds outstanding issued in 2002 and due in 2007. The purpose of this transaction was the improvement of cash management with the buyback of securities that did not fully reflect the Company's level of risk.

Net debt at the end of December 2004 was US$ 2.839 billion, compared to US$ 2.479 billion at the end of September, and US$ 3.443 billion at the end of December 2003.

The Company's leverage indicators improved substantially: gross debt/adjusted EBITDA fell from 1.89x as of December 31, 2003 to 1.10x as of December 31, 2004. Total debt/enterprise value fell from 16.0% to 11.8%. Interest coverage measured as adjusted EBITDA/interest paid increased, from 11.51x at the end of 2003 to 12.41x at the end of 2004. These changes are in line with the Company's strategy of preserving a sound balance sheet.

CVRD has also been successful in reducing the implicit risk of its debt portfolio. Average debt maturity was increased, from 3.60 years at December 2003 to 6.83 years at December 2004, helping reduce refinancing risks. One of the main factors in this change was the issue of a 30-year bond, CVRD 2034. At the same time the percentage of debt with floating interest rates decreased from 71% in December 2002 to 56% in December 2004, reducing interest rate risk. The change in the risk profile took place with an increase in the average cost of debt of less than 100 basis points.

The Company contracted committed credit lines totaling US$ 500 million, contributing to efficiency in cash management and reducing risks of liquidity.

CVRD is rated *Ba1* by Moody's, only one notch below investment grade, with a positive outlook. In view of the importance of cost of capital for its growth projects and creation of value for the shareholders, obtaining the investment grade rating is one of the Company's main targets.

**FINANCIAL EXPENSES**

US$ million

| Financial Expenses on: | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Debt with third parties | (50) | (61) | (63) | (182) | (259) |
| Debt with related parties | (2) | (3) | - | (14) | (10) |
| **Total debt-related financial expenses** | **(52)** | **(64)** | **(63)** | **(196)** | **(269)** |
| | | | | | |
| **Gross Interest on:** | **4Q03** | **3Q04** | **4Q04** | **2003** | **2004** |
| Tax and labour contingencies | (24) | (11) | (11) | (46) | (37) |
| Tax on financial transactions (CPMF) | (8) | (9) | (11) | (23) | (38) |
| Derivatives | 5 | (36) | (67) | (12) | (139) |
| Others | (43) | (45) | (106) | (74) | (188) |
| **Total gross interest** | **(70)** | **(101)** | **(195)** | **(155)** | **(402)** |
| | | | | | |
| **Total** | **(122)** | **(165)** | **(258)** | **(351)** | **(671)** |

**DEBT INDICATORS**

US$ million

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Gross debt | 4,028 | 4,418 | 4,088 | 4,028 | 4,088 |
| Net debt | 3,443 | 2,479 | 2,839 | 3,443 | 2,839 |
| Gross debt / Adjusted LTM EBITDA (x) | 1.89 | 1.34 | 1.10 | 1.89 | 1.10 |
| Adjusted LTM EBITDA / LTM interest expenses (x) | 11.51 | 13.00 | 12.41 | 11.51 | 12.41 |
| Gross debt / EV (x) | 0.16 | 0.16 | 0.12 | 0.16 | 0.12 |

EV = enterprise value = market capitalization + net debt

## CONFERENCE CALL AND WEBCAST

A conference call and webcast will be held on March 23 – Wednesday – at noon Rio de Janeiro time, 10:00 a.m. US Eastern Standard time and 3:00 p.m. UK time. Instructions for participation are available on CVRD's website www.cvrd.com.br, *Investor Relations* section. A recording of the conference call and webcast will be available on the site for 90 days after March 23, 2004.

**FINANCIAL STATEMENTS**

US$ million

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Gross operating revenues | 1,690 | 2,287 | 2,428 | 5,545 | 8,479 |
| Taxes | (52) | (114) | (111) | (195) | (413) |
| **Net operating revenue** | **1,638** | **2,173** | **2,317** | **5,350** | **8,066** |
| Cost of goods sold | (1,005) | (1,053) | (1,208) | (3,128) | (4,081) |
| **Gross profit** | **633** | **1,120** | **1,109** | **2,222** | **3,985** |
| Gross margin (%) | 38.6 | 51.5 | 47.9 | 41.5 | 49.4 |
| Selling, general and administrative expenses | (97) | (112) | (133) | (265) | (452) |
| Research and development expenses | (37) | (36) | (67) | (82) | (153) |
| Employee profit-sharing | (9) | (17) | (22) | (32) | (69) |
| Others | (98) | (69) | (65) | (199) | (188) |
| **Operating profit** | **392** | **886** | **822** | **1,644** | **3,123** |
| Financial revenues | 18 | 10 | 41 | 102 | 82 |
| Financial expenses | (122) | (165) | (258) | (351) | (671) |
| Monetary variation | (8) | 77 | 275 | 242 | 65 |
| Gains on sale of affiliates | 17 | 314 | 90 | 17 | 404 |
| Tax and social contribution (Current) | 10 | (285) | (10) | (90) | (433) |
| Tax and social contribution (Deferred) | (76) | 61 | (386) | (207) | (316) |
| Equity income and provision for losses | 88 | 127 | 179 | 306 | 542 |
| Accounting changes for asset write-offs | - | - | - | (10) | - |
| Minority shareholding participation | (49) | (82) | (32) | (105) | (223) |
| **Net earnings** | **270** | **943** | **721** | **1,548** | **2,573** |
| **Earnings per share (US$)** | **0.23** | **0.82** | **0.63** | **1.34** | **2.23** |

**BALANCE SHEET**

US$ million

| | 12/31/03 | 09/30/04 | 12/31/04 |
|---|---|---|---|
| **Assets** | | | |
| Current | 2,474 | 4,246 | 3,890 |
| Long-term | 1,442 | 1,694 | 1,603 |
| Fixed | 7,518 | 8,780 | 10,222 |
| **Total** | **11,434** | **14,720** | **15,715** |
| **Liabilities** | | | |
| Current | 2,253 | 2,600 | 2,455 |
| Long term | 4,297 | 5,640 | 5,869 |
| Shareholders' equity | 4,884 | 6,480 | 7,391 |
| Paid-up capital | 3,367 | 3,707 | 3,707 |
| Reserves | 1,517 | 2,773 | 3,684 |
| **Total** | **11,434** | **14,720** | **15,715** |

# US GAAP

| CASH FLOW STATEMENT | | | | | US$ million |
|---|---|---|---|---|---|
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| **Cash flows from operating activities:** | | | | | |
| Net income | 270 | 943 | 721 | 1,548 | 2,573 |
| Adjustments to reconcile net income with cash provided by operating activities: | | | | | |
| Depreciation. depletion and amortization | 78 | 102 | 119 | 238 | 399 |
| Dividends received | 59 | 19 | 60 | 197 | 200 |
| Equity in results of affiliates and joint ventures and change in provision for losses on equity investments | (88) | (127) | (179) | (306) | (542) |
| Deferred income taxes | 76 | (61) | 386 | 207 | 316 |
| Provisions for contingencies | 30 | 53 | 42 | 9 | 137 |
| Impairment of property. plant and equipment | 39 | - | - | 51 | 0 |
| Gain on sale of investment | (17) | (314) | (90) | (17) | (404) |
| Change in accounting practice for asset retirement obligations | - | - | - | 10 | 0 |
| Pension plan | 0 | - | 0 | 0 | 0 |
| Foreign exchange and monetary losses | 4 | (118) | (106) | (382) | 112 |
| Net unrealized derivative losses | 20 | 36 | 66 | 43 | 134 |
| Minority interest | 49 | 82 | 32 | 105 | 223 |
| Juros pagáveis. líquidos | 43 | 42 | 38 | 24 | 93 |
| Others | (62) | 10 | (66) | (27) | (89) |
| Decrease (increase) in assets: | | | | | |
| Accounts receivable | (68) | - | 57 | 37 | (98) |
| Inventories | 6 | (39) | (95) | (22) | (216) |
| Others | (36) | (44) | (76) | (9) | (78) |
| Increase (decrease) in liabilities: | | | | | |
| Suppliers | 59 | 26 | 288 | (18) | 230 |
| Payroll and related charges | (17) | 27 | 22 | (25) | 28 |
| Income Tax | 0 | 370 | (22) | 0 | 348 |
| Others | 69 | 96 | (126) | 94 | 105 |
| **Net cash provided by operating activities** | **514** | **1,103** | **1,071** | **1,757** | **3,471** |
| Cash flows from investing activities: | | | | | |
| Loans and advances receivable | (56) | (9) | (14) | (51) | 36 |
| Guarantees and deposits | (13) | (48) | (21) | (99) | (111) |
| Additions to investments | 1 | (4) | (15) | (68) | (34) |
| Additions to property. plant and equipment | (594) | (348) | (877) | (1,543) | (2,022) |
| Proceeds from disposals of investment | 83 | 415 | 164 | 83 | 579 |
| Proceeds from disposals of property. plant and equipment | - | 4 | 7 | 58 | 11 |
| Net cash used to acquire subsidiaries | - | - | - | (380) | 0 |
| **Net cash used in investing activities** | **(579)** | **10** | **(756)** | **(2,000)** | **(1,541)** |
| Cash flows from financing activities: | | | | | |
| Short-term debt. net issuances (repayments) | (1) | 40 | (100) | (38) | (60) |
| Loans | 22 | 13 | (18) | 46 | (6) |
| Long-term debt | 41 | 43 | 116 | 1,039 | 1,051 |
| Repayments of long-term debt | (351) | (225) | (390) | (770) | (1,286) |
| Interest attributed to stockholders | (427) | - | (518) | (675) | (787) |
| **Net cash used in financing activities** | **(716)** | **(129)** | **(910)** | **(398)** | **(1,088)** |
| Increase (decrease) in cash and cash equivalents | (781) | 984 | (595) | (641) | 842 |
| Effect of exchange rate changes on cash and cash equivalents | 26 | (104) | (95) | 135 | (204) |
| Initital cash in new consolidated subsidiaries | 0 | 0 | 0 | 0 | 26 |
| Cash and cash equivalents. beginning of period | 1,340 | 1,059 | 1,939 | 1,091 | 585 |
| **Cash and cash equivalents. end of period** | **585** | **1,939** | **1,249** | **585** | **1,249** |
| Cash paid during the period for: | | | | | |
| Interest on short-term debt | 0 | 0 | (3) | (7) | (5) |
| Interest on long-term debt | (38) | (82) | (82) | (178) | (295) |
| Income tax | (16) | - | (108) | (55) | (108) |
| Non-cash transactions | | | | | |
| Conversion of loans receivable to investments | (91) | (43) | (67) | (187) | (192) |
| Income tax paid with credits | - | - | 0 | 0 | (81) |
| Interest capitalized | (6) | (11) | (9) | (19) | (31) |

APPENDIX

## Reconciliation of "non-GAAP" information with corresponding US GAAP figures

(1) Adjusted EBIT

| | | | | | US$ million |
|---|---|---|---|---|---|
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Net operating revenues | 1,638 | 2,173 | 2,317 | 5,350 | 8,066 |
| COGS | (1,005) | (1,053) | (1,208) | (3,128) | (4,081) |
| SG&A | (97) | (112) | (133) | (265) | (452) |
| Research & development | (37) | (36) | (67) | (82) | (153) |
| Other operating expenses | (107) | (86) | (87) | (231) | (257) |
| **Adjusted EBIT** | **392** | **886** | **822** | **1,644** | **3,123** |

(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 |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| **Operating cash flow** | **514** | **1,103** | **1,071** | **1,763** | **3,471** |
| Income tax | 0 | 285 | 0 | 94 | 423 |
| Income tax paid | (10) | - | 10 | (4) | 10 |
| Monetary and foreign exchange losses | 4 | 41 | (169) | 140 | (177) |
| Financial expenses | 61 | 113 | 179 | 196 | 496 |
| Net working capital | (13) | (436) | (48) | (59) | (319) |
| Others | 12 | (99) | (42) | (1) | (182) |
| **Adjusted EBITDA** | **568** | **1,007** | **1,001** | **2,129** | **3,722** |

(3) Gross debt / last 12 months adjusted EBITDA

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Total debt / adjusted LTM EBITDA (x) | 1.89 | 1.34 | 1.10 | 1.89 | 1.10 |
| Total debt / LTM operating cash flow (x) | 2.26 | 1.51 | 1.18 | 2.26 | 1.18 |

(4) Net debt

| RECONCILIATION BETWEEN GROSS DEBT VS, NET DEBT | | | | | |
|---|---|---|---|---|---|
| | | | | | US$ million |
| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
| Gross debt | 4,028 | 4,418 | 4,088 | 4,028 | 4,088 |
| Cash and cash equivalents | 585 | 1,939 | 1,249 | 585 | 1,249 |
| Net debt | 3,443 | 2,479 | 2,839 | 3,443 | 2,839 |

(5) Total debt / *enterprise value*

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Total debt / EV (x) | 15.98 | 16.16 | 11.77 | 15.98 | 11.77 |
| Total debt / total assets (x) | 35.23 | 30.01 | 26.01 | 35.23 | 26.01 |

*Entreprise Value* = net debt + market capitalization

(6) Adjusted LTM EBITDA / LTM interest expenses

| | 4Q03 | 3Q04 | 4Q04 | 2003 | 2004 |
|---|---|---|---|---|---|
| Adjusted LTM EBITDA / LTM interest expenses (x) | 11.51 | 13.00 | 12.41 | 11.51 | 12.41 |
| LTM operating income / LTM interest expenses (x) | 8.89 | 10.64 | 10.41 | 8.89 | 10.41 |