VALLEY OF THE RIO DOCE CO
Form 6-K
February 28, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF1934

For the month of **February 2003**

Valley of the Doce River Company

(Translation of Registrant's name into English)

Avenida Graca Aranha, No. 26
20005-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

(Check One) Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-__)

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Companhia Vale do Rio Doce

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity, present fairly, in all material respects, the financial position of Companhia Vale do Rio Doce and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain affiliates, the investments in which total US$343 million and US$441 million at December 31, 2002 and 2001, respectively, and equity in earnings of US$60 million, US$53 million and US$213 million for 2002, 2001 and 2000, respectively. Also, we did not audit the financial statements of certain majority-owned subsidiaries as at and for the years ended December 31, 2002, 2001 and 2000, which statements reflect total assets of US$969 million and US$500 million at December 31, 2002 and 2001, respectively, and total revenues of US$426 million, US$407 million and US$480 million for 2002, 2001 and 2000, respectively. The financial statements of these affiliates and subsidiaries were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts for these affiliates and subsidiaries, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil
February 21, 2003

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Consolidated Balance Sheets
Expressed in millions of United States dollars

	As of December 31	
	2002	**2001**
Assets		
Current assets		
Cash and cash equivalents	1,091	1,117
Accounts receivable		
Related parties	121	106
Unrelated parties	539	443
Loans and advances to related parties	49	160
Inventories	292	323
Deferred income tax	211	265
Others	286	224
	2,589	**2,638**
Property, plant and equipment, net	**3,297**	**3,813**
Investments in affiliated companies and joint ventures and other investments and provision for losses on equity investments	**732**	**1,218**
Other assets		
Goodwill on acquisition of consolidated subsidiaries	412	540
Loans and advances		
Related parties	89	555
Unrelated parties	73	100
Prepaid pension cost	79	99
Deferred income tax	358	227
Judicial deposits	239	235
Unrealized gain on derivative instruments	3	7
Others	84	76
	1,337	**1,839**
TOTAL	**7,955**	**9,508**

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Consolidated Balance Sheets
Expressed in millions of United States dollars (Continued)

	As of December 31	
	2002	**2001**
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	365	296
Payroll and related charges	76	85
Interest attributed to stockholders	3	340
Current portion of long-term debt		
Related parties	-	22
Unrelated parties	717	274
Short-term debt	184	589
Loans from related parties	64	168
Others	99	147
	1,508	**1,921**
Long-term liabilities		
Employees postretirement benefits	141	173
Long-term debt		
Related parties	-	156
Unrelated parties	2,359	2,014
Loans from related parties	7	21
Provisions for contingencies (Note 15)	428	452
Unrealized loss on derivative instruments	76	40
Others	122	86
	3,133	**2,942**
Minority interests	**27**	**5**
Stockholders' equity		
Preferred class A stock - 600,000,000		
no-par-value shares authorized and 138,575,913 issued	904	820
Common stock - 300,000,000 no-par-value		
shares authorized and 249,983,143 issued	1,630	1,479
Treasury stock - 4,481 (2001 - 91) preferred and 4,715,170 common shares	(88)	(88)
Additional paid-in capital	498	498
Other cumulative comprehensive income	(5,175)	(3,465)
Appropriated retained earnings	2,230	3,212
Unappropriated retained earnings	3,288	2,184

	3,287	**4,640**
TOTAL	**7,955**	**9,508**

See notes to consolidated financial statements.

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Consolidated Statements of Income
Expressed in millions of United States dollars
(except number of shares and per-share amounts)

	Year ended December 31		
	2002	**2001**	**2000**
Operating revenues, net of discounts, returns and allowances			
Sales of ores and metals			
Iron ore and pellets	2,820	2,600	2,177
Gold	103	139	156
Manganese and ferrous-alloys	283	259	285
Potash	91	71	85
Others	35	41	42
	3,332	**3,110**	**2,745**
Revenues from logistic services	458	608	760
Aluminum products	462	284	362
Other products and services	20	75	202
	4,272	**4,077**	**4,069**
Value-added tax	(159)	(142)	(134)
Net operating revenues	**4,113**	**3,935**	**3,935**
Operating costs and expenses			
Cost of ores and metals sold	(1,569)	(1,550)	(1,423)
Cost of transportation services	(252)	(378)	(481)
Cost of aluminum products	(412)	(269)	(334)
Others	(20)	(75)	(191)
	(2,253)	**(2,272)**	**(2,429)**
Selling, general and administrative expenses	(224)	(241)	(225)
Research and development	(50)	(43)	(48)
Employee profit sharing plan	(38)	(38)	(29)
Others	(119)	(379)	(180)
	(2,684)	**(2,973)**	**(2,911)**
Operating income	**1,429**	**962**	**1,024**
Non-operating income (expenses)			
Financial income	127	135	208
Financial expenses	(375)	(335)	(315)
Foreign exchange and monetary losses, net	(580)	(426)	(240)
Gain on sale of investments	&#150	784	54

	(828)	**158**	**(293)**
Income before income taxes, equity results and minority interests	**601**	**1,120**	**731**
Income taxes			
Current	(12)	46	(10)
Deferred	161	172	42
	149	**218**	**32**
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	(87)	(53)	322
Minority interests	17	2	1
Net income	**680**	**1,287**	**1,086**
Basic earnings per Common and Preferred Class A Share	**1.77**	**3.34**	**2.82**
Weighted average number of shares outstanding (thousands of shares)			
Common shares	249,864	249,864	249,983
Preferred Class A shares	135,042	135,042	134,917

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Expressed in millions of United States dollars

	Year ended December 31		
	2002	**2001**	**2000**
Cash flows from operating activities:			
Net income	680	1,287	1,086
Adjustments to reconcile net income with cash provided by operating activities:			
Depreciation, depletion and amortization	214	212	195
Dividends received	91	132	133
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	87	53	(322)
Deferred income taxes	(161)	(172)	(42)
Provisions for contingencies	53	79	101
Loss on disposals of property, plant and equipment	62	79	47
Gain on sale of investments	-	(784)	(54)
Pension plan	11	32	41
Foreign exchange and monetary losses	1,031	460	208
Net unrealized derivative losses	28	38	&#150
Others	84	129	118
Decrease (increase) in assets:			
Accounts receivable	(123)	(49)	(63)
Inventories	(69)	(40)	(50)
Others	(105)	17	(103)
Increase (decrease) in liabilities:			
Suppliers	102	21	84
Payroll and related charges	23	42	(1)
Others	94	(18)	46
Net cash provided by operating activities	**2,102**	**1,518**	**1,424**
Cash flows from investing activities:			
Loans and advances receivable			
Related parties			
Additions	(101)	(75)	(168)
Repayments	75	79	32
Others	20	7	8
Guarantees and deposits	(78)	(85)	(98)
Additions to investments	(1)	(338)	(538)
Additions to property, plant and equipment	(766)	(595)	(447)
Proceeds from disposals of property, plant and equipment	7	3	1
Proceeds from disposal of investments	&#150	989	44
Net cash used to acquire subsidiaries	(45)	(516)	(323)
Net cash used in investing activities	**(889)**	**(531)**	**(1,489)**
Cash flows from financing activities:			
Short-term debt, net issuances	(345)	(28)	(278)
Loans			
Related parties			
Additions	54	145	8
Repayments	(75)	(44)	(42)

Perpetual notes	–	–	120
Long-term debt			
Related parties	17	66	62
Others	698	317	750
Repayments of long-term debt			
Related parties	(15)	(40)	(25)
Others	(330)	(310)	(419)
Interest attributed to stockholders	(602)	(1,066)	(246)
Treasury stock	–	(27)	–
Net cash used in financing activities	**(598)**	**(987)**	**(70)**
Increase (decrease) in cash and cash equivalents	615	–	(135)
Effect of exchange rate changes on cash and cash equivalents	(641)	(94)	(107)
Cash and cash equivalents, beginning of period	1,117	1,211	1,453
Cash and cash equivalents, end of period	**1,091**	**1,117**	**1,211**
Cash paid during the period for:			
Interest on short-term debt	(46)	(45)	(48)
Interest on long-term debt, net of interest capitalized of $ 15 in 2002, $11 in 2001, $12 in 2000	(142)	(153)	(128)
Income tax	(12)	(46)	(6)
Non-cash transactions			
Special pension plan contribution in shares of CSN	–	249	–
Exchange of loans receivable for investments	55	35	7

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity

Expressed in millions of United States dollars (except number of shares and per-share amounts)

		Year ended December 31		
	Shares	**2002**	**2001**	**2000**
Preferred class A stock (including one special share)				
Balance January 1	138,575,913	**820**	**709**	**709**
Transfer from appropriated retained earnings		**84**	**111**	
Balance December 31	**138,575,913**	**904**	**820**	**709**
Common stock				
Balance January 1	249,983,143	**1,479**	**1,279**	**1,279**
Transfer from appropriated retained earnings		**151**	**200**	
Balance December 31	**249,983,143**	**1,630**	**1,479**	**1,279**
Treasury stock				
Balance January 1	(3,666,611)	(88)	(61)	(61)
Acquisitions in 2001	(1,048,650)		(27)	
Acquisitions in 2002	(4,390)			
Balance December 31	**(4,719,651)**	**(88)**	**(88)**	**(61)**
Additional paid-in capital				
Balance January 1 and December 31		**498**	**498**	**498**
Other cumulative comprehensive income				
Amounts not recognized as net periodic pension cost				
Balance January 1			(100)	
Excess of additional minimum liability			151	(151)
Tax effect on above			(51)	51
Balance December 31				**(100)**
Cumulative translation adjustments				
Balance January 1		(3,475)	(2,972)	(2,535)
Change in the year		(1,710)	(503)	(437)
Balance December 31		**(5,185)**	**(3,475)**	**(2,972)**
Unrealized gain on available-for-sale security				
Balance January 1			24	54
Change in the year			(24)	(30)
Balance December 31				**24**

Adjustments relating to investments in affiliates				
Balance January 1		10	8	(6)
Change in the year			2	14
Balance December 31		**10**	**10**	**8**
Total other cumulative comprehensive income		**(5,175)**	**(3,465)**	**(3,040)**
Appropriated retained earnings				
Balance January 1		3,212	3,537	3,567
Transfer to retained earnings		(747)	(14)	(30)
Transfer to capital stock		(235)	(311)	
Balance December 31		**2,230**	**3,212**	**3,537**
Retained earnings				
Balance January 1		2,184	1,647	1,186
Net income		680	1,287	1,086
Interest attributed to stockholders				
Preferred class A stock ($0.84, $1.99 and $1.70 per share in 2002, 2001 and 2000)		(117)	(276)	(230)
Common stock ($0.84, $1.99 and $1.70 per share in 2002, 2001 and 2000)		(206)	(488)	(425)
Appropriation from reserves		747	14	30
Balance December 31		**3,288**	**2,184**	**1,647**
Total stockholders' equity	**383,839,405**	**3,287**	**4,640**	**4,569**
Comprehensive income is comprised as follows:				
Net income		680	1,287	1,086
Amounts not recognized as net periodic pension cost			100	(100)
Cumulative translation adjustments		(1,710)	(503)	(437)
Unrealized gain on available-for-sale security			(24)	(30)
Adjustments relating to investments in affiliates			2	14
Total comprehensive income (loss)		**(1,030)**	**862**	**533**

See notes to consolidated financial statements.

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Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

Companhia Vale do Rio Doce (CVRD) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. Our operations are carried out through CVRD and its subsidiary companies, joint ventures and affiliates, and mainly consist of mining, non-ferrous metal production and logistics, as well as energy, aluminum and steel activities. We disposed of most of our investments in pulp and paper during 2001. Further details of our operations and those of our joint ventures and affiliates are described in Note 16.

The main operating subsidiaries we consolidate during the three years ended December 31, 2002 are as follows:

Subsidiary	% ownership	Head office location	Principal activity
Ferteco Mineração S.A. - FERTECO	100	Brazil	Iron ore and pellets
Pará Pigmentos S.A.	76	Brazil	Kaolin
SIBRA - Eletrosiderúrgica Brasileira S.A.	100	Brazil	Manganese and Ferrous alloys
Navegação Vale do Rio Doce S.A. - DOCENAVE	100	Brazil	Shipping
Vale do Rio Doce Alumínio S.A. - ALUVALE	100	Brazil	Aluminum
Itabira Rio Doce Company Ltd. - ITACO	100	Cayman Island	Trading
Rio Doce International Finance Ltd. - RDIF	100	Bahamas	International finance
CELMAR S.A. - Indústria de Celulose e Papel	85	Brazil	Forestry
Florestas Rio Doce S.A.	100	Brazil	Forestry
Rio Doce Manganèse Europe - RDME	100	France	Ferrous alloys
Urucum Mineração S.A.	100	Brazil	Iron ore and Ferrous alloys
Alumina do Norte do Brasil S.A - Alunorte (as from June, 2002)	57	Brazil	Aluminum
Salobo Metais S.A. (as from June, 2002)	100	Brazil	Copper
Mineração Serra do Sossego S.A	100	Brazil	Copper

2 Summary of significant accounting policies

In preparing the consolidated financial information, we are required to use estimates to account for certain assets, liabilities, revenues and expenses. Our consolidated financial information therefore includes various estimates concerning the selection of useful lives of property, plant and equipment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee post-retirement benefits and other similar evaluations; actual results may vary from our estimates.

(a) Basis of presentation

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which differ in certain respects from the Brazilian accounting principles that we use in preparing our statutory financial information.

The U.S. dollar amounts for the period presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards 52 – "Foreign Currency Translation" (SFAS 52).

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy and accordingly, up to June 30, 1997, we adopted the U.S. dollar as both our functional currency and reporting currency.

As from July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary and changed our functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais), for Brazilian operations and extentions thereof. Accordingly, we translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R$3.5333 and R$2.3204 to US$1.00 at December 31, 2002 and 2001, respectively),

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and all accounts in the statements of income (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the period. The translation gain or loss resulting from this remeasurement process is included in the cumulative translation adjustments account in stockholders’ equity.

The net exchange transaction loss included in our statement of income was $515, $410 and $115 in 2002, 2001 and 2000, respectively, included within the line “Foreign exchange and monetary losses, net”.

(b) Basis of consolidation

All majority-owned subsidiaries where we have both share and management control are consolidated, with elimination of all significant intercompany accounts and transactions. Investments in unconsolidated affiliates and joint ventures are reported at cost less amortized goodwill plus our equity in undistributed earnings or losses. Included in this category are certain joint ventures in which we have majority ownership but, by force of shareholders’ agreements, do not have effective management control. We provide for losses on equity investments with negative stockholders’ equity where applicable (see Note 10).

We evaluate the carrying value of our listed investments relative to publicly available quoted market prices. If the quoted market price is below book value, and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall entity management, based on a shareholders agreement. We define affiliates as businesses in which we participate as a minority stockholder but with significant influence over the operating and financial policies of the investee.

(c) Business combinations

We adopt the procedures determined by SFAS 141 – “Business Combinations” to recognize acquisitions of interests in other companies. The method of accounting used in our business combination transactions is the “purchase method”, which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase to be recognized as an intangible asset. On the acquisition of assets which include the rights to mine reserves of natural resources, the establishment of values for these assets includes the placing of fair values on purchased reserves, which are classified in the balance sheet as property, plant and equipment.

Goodwill was amortized in a systematic manner over the periods estimated to be benefited through December 31, 2001. As required by SFAS 142 – “Goodwill and Other Intangible Assets” from January 1, 2002 goodwill resulting from the acquisitions is not amortized, but is tested for impairment at least annually and reduced to fair value to the extent any such impairment is identified.

(d) Inventories

Inventories are stated at the average cost of purchase or production, lower than replacement or realizable values. We record allowances for slow-moving or obsolete inventories when considered appropriate, reflecting our periodic assessment of recoverability. A write-down of inventory utilizing the allowance establishes a new cost basis for the related inventory.

Finished goods inventories include all related materials, labor and direct production expenditures, and exclude general and administrative expenses.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line basis at rates which take into consideration the useful lives of the items, principally an average of 80 years for the railroads, 20 years for ships, 25 years for buildings and improvements and between 10 to 20 years for mining and other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed until viability of mining activities is established; subsequently such costs are capitalized together with further exploration costs. We capitalize mine development costs as from the time we actually begin such development.

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(f) Available-for-sale equity securities

Equity securities classified as “available-for-sale” are recorded in accordance with SFAS 115 “Accounting for Certain Investments in Debt and Equity Securities”. Accordingly, we exclude unrealized holding gains and losses, net of taxes, if applicable, from income and recognize them as a separate component of stockholders’ equity until realized.

(g) Revenues and expenses

Revenues are recognized when title has transferred to the customer or services are rendered. Expenses and costs are recognized on the accrual basis. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from transportation services, other than shipping operations, is recognized when the service order has been fulfilled. Shipping operations are recorded on the completed voyage basis and net revenue, costs and expenses of voyages not completed at period-end are deferred. Anticipated losses on voyages are provided when probable and can be reasonably estimated.

(h) Environmental and site reclamation and restoration costs

Expenditures relating to ongoing compliance with environmental regulations are charged against earnings or capitalized as appropriate. These ongoing programs are designed to minimize the environmental impact of our activities. With respect to our two major iron ore mines at Itabira and Carajás, which have extensive remaining reserves, liabilities for final site reclamation and restoration costs will be recorded when the respective reclamation and restoration strategies can be reasonably determined and the related costs can be reasonably estimated.

(i) Compensated absences

We fully accrue the future employees compensation liability for vacations vested during the year.

(j) Income taxes

In accordance with SFAS 109 - “Accounting for Income Taxes”, the deferred tax effects of temporary differences have been recognized in the consolidated financial statements. A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recoverable in the future.

(k) Statement of cash flows

Cash flows relating to overnight financing and investment are reported net. Short-term investments that have a ready market and maturity to us, when purchased, of 90 days or less are considered cash equivalents.

(l) Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the period.

(m) Interest attributed to stockholders

As from January 1, 1996 Brazilian corporations are permitted to attribute interest on stockholders’ equity. The calculation is based on the stockholders’ equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves.

The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge equivalent to the statutory tax rate applied to such amount. Income tax is withheld from the stockholders relative to interest at the rate of 15%, except for interest due to the Brazilian Government which is exempt from tax withholdings.

We have opted to pay such tax-deductible interest to our stockholders and have therefore accrued the amounts due as of December 31, 2002 , 2001 and 2000, with a direct charge to stockholders' equity.

Under Brazilian law interest attributable to stockholders is considered as part of the annual minimum dividend (See Note 13). Accordingly such distributions are treated as dividends for accounting purposes.

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(n) Derivatives and hedging activities

As of January 1, 2001 we adopted SFAS 133 - "Accounting for Derivative Financial Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138. Those standards require that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in current earnings or in other comprehensive income, in the later case depending on whether a transaction is designated as an effective hedge.

The transition adjustment relating to the fair value of derivatives existing as of December 31, 2000 is recorded as a charge of $8 in our statement of income for the year ended December 31, 2001. In view of the immateriality of this effect of a change in accounting principle the corresponding amount was included with other non-operating expenses. Certain of our affiliated companies and joint ventures also recorded similar charges, of which our portion of $4 is included in the caption "Equity in results of affiliates and joint ventures" in the statement of income.

Further information about our derivatives and hedging activities is included in Note 19.

(o) Comprehensive income

We have disclosed comprehensive income as part of the Statement of Changes in Stockholders' Equity, in compliance with SFAS 130 – "Reporting Comprehensive Income".

(p) Recently-issued accounting pronouncements

In June 2001 and August 2001, respectively, the FASB issued SFAS 143 - "Accounting for Asset Retirement Obligations" and SFAS 144 - "Accounting for the Impairment or Disposal of Long-Lived Assets" . SFAS 143 is effective for us as from January 1, 2003 and we are still studying the potential effects that adoption may have on our financial statements.

In June 2002, FASB has issued SFAS 146 - "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We believe that the adoption of SFAS 146, will not have significant impact on our financial position or results of operations.

In November 2002 the FASB issued FIN 45 - "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation, applicable at December 31, 2002 are disclosed in Note 15. We are studying the effect that adoption of the accounting requirements of FIN 45 will have on our financial statements.

(q) Reclassification

Certain reclassifications have been made to the financial statements for 2001 and 2000 to make them comparable with the 2002 presentation.

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3 Our privatization

In May 1997, we were privatized by the Brazilian Government, which transferred voting control to Valepar S.A. (Valepar). The Brazilian Government has retained certain rights with respect to our future decisions and those of Valepar and has also caused us to enter into agreements which may affect our activities and results of operations in the future. These rights and agreements are:

- Preferred Special Share. The Brazilian Government holds a preferred special share of CVRD which confers upon it permanent veto rights over changes in our (i) name, (ii) headquarters location, (iii) corporate purpose with respect to mineral exploration, (iv) continued operation of our integrated iron ore mining systems and (v) certain other matters.

- Preferred Class A Share of Valepar. The Brazilian Government holds a preferred class A share of Valepar which confers upon it approval rights for a period of five years in respect of (i) concentration of ownership of Valepar by particular types of investors in excess of prescribed limitations and (ii) changes in the Valepar holding company structure relating to ownership of our common shares.

- Shareholder revenue interests. On July 7, 1997, we issued to shareholders of record on April 18, 1997 (including the Brazilian Government) revenue interests providing holders thereof with the right to receive semi-annual payments based on a percentage of our net revenues above threshold production volumes from identified mining resources. These instruments are not secured by the corresponding mineral reserves and deposits.

In addition to the preferred special share mentioned above, the National Treasury and the Banco Nacional de Desenvolvimento Econômico e Social BNDES, the Government owned development bank, together held 32% of our common shares and 4% of our preferred shares, which in aggregate represented 22% of our total capital at December 31, 2001. These common shares were sold through a public offering in Brazil and abroad which was completed on March 27, 2002.

4 Major acquisitions and disposals during the years presented

We made the following acquisitions during the periods presented. Pro forma information with respect to results of operations is not presented since the effects are not considered material to an understanding of our consolidated financial statements, except with respect to our acquisition of the control of Alunorte in June 2002 (see Note 4 (h)).

(a) On May 11, 2000, we acquired the entire capital of Mineração SOCOIMEX S.A., a non-public company whose main activity is production and commercialization of iron ore, for the total price of $55, being an initial cash payment of $47 and two further cash payments of $3 and $5, in 2001 and 2002, respectively. The increment of the fair value over the book value of SOCOIMEX at the date of purchase was entirely attributable to its mineral reserves, which are included in the property, plant and equipment. In August 2000 SOCOIMEX was merged into CVRD.

(b) On May 30, 2000, we became the controlling shareholder of S.A. Mineração Trinidad SAMITRI, through the acquisition of 79.27% of the voting capital and 63.06% of the total capital for $520 in cash. At the date of the purchase, SAMITRI was a publicly listed Brazilian iron ore mining company, which also owned a 51% interest in the voting capital of SAMARCO Mineração S.A., a large iron ore pellets producer (see Note 10). On June 29, 2000, we sold 1% of the voting capital of SAMARCO to BHP Brasil Ltda. (BHP), a subsidiary of The Broken Hill Proprietary Company Limited of Australia, for $8, to equalize our shareholdings in the joint venture.

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(c) The assets and liabilities acquired as a result of the above transactions and corresponding goodwill were as follows:

		Consolidated Subsidiaries	
	Unconsolidated joint venture SAMARCO	SAMITRI	SOCOIMEX
Fair value of assets	1,006	293	77
Fair value of liabilities	(450)	(144)	(22)
Net assets at fair value	**556**	**149**	**55**
Interest acquired	50.00%	63.06%	100.00%
Fair value of net assets acquired	278	94	55
Attributable to minority stockholders of SAMITRI (36.94%)	(103)		
Tax benefits	31		
Effective interest acquired	**206**	**94**	**55**
Purchase price	252	268	55
Goodwill	**46**	**174**	

The main assets for which fair values differ from book values are inventories and property, plant and equipment. We determined the fair values of inventories based on the current replacement costs for raw materials and the estimated selling prices for finished goods, net of disposal costs and a selling margin. The fair values of property, plant and equipment were determined based on current replacement costs for similar capacity and the estimated market value of purchased reserves. Deferred taxes were recorded for the differences between fair values and tax bases.

For SAMARCO, SAMITRI and SOCOIMEX inventories were valued at $36, $38 and $9, respectively, property, plant and equipment were valued at $830, $161 and $58, respectively, and the deferred tax liability was $60, $49 and $15, respectively.

We had adopted a policy to amortize the goodwill on the SAMITRI and SAMARCO purchases on the straight-line basis over a period of 6 years, starting on the date of acquisition. However, as explained in Note 2 (c), upon adoption of SFAS 142 on January 1, 2002 such straight-line amortization ceased.

(d) On September 22, 2000 we increased our ownership of SAMITRI, via public tender to 99.25% of the voting capital and 99.19% of the total capital. The cash cost of this purchase was $180 and resulted in additional goodwill of $27, all attributed to SAMARCO.

(e) In October 2000, we acquired 50% of Gulf Industrial Investment Company (GIIC), a pelletizing company located in Bahrain, for $91, including goodwill of $20, now totally amortized.

(f) On April 27, 2001 we acquired 100% of Ferteco Mineração S.A. - FERTECO, a non-public company whose main activity is production and commercialization of iron ore and pellets, for $523 in cash.

The assets and liabilities acquired and corresponding goodwill were as follows:

Fair value of assets	401
Fair value of liabilities	(251)
Net assets at fair value	150
Purchase price	523
Goodwill	**373**

For FERTECO inventories were valued at $57, property, plant and equipment were valued at $178, and the deferred tax liability was $24.

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(g) In December 2001, acting through our wholly-owned foreign subsidiary Itabira Rio Doce Company Ltd. - ITACO, we acquired 659,375,000 common shares of Caemi Mineração e Metalurgia S.A. (Caemi), corresponding to 16.82% of its total capital and 50% of its voting capital from Cayman Iron Ore Investment Co., Ltd., a wholly-owned subsidiary of Mitsui & Co., Ltd. (MITSUI) for US$ 279. Caemi is a Brazilian company headquartered in Rio de Janeiro, which operates in the iron ore, kaolin, refractory bauxite and railroad sectors and is accounted for as an equity investee.

This acquisition was approved by the European Commission subject to the commitment for Caemi to sell its equity investment in Quebec Cartier Mining Company (QCM), a Canadian producer of iron ore and pellets.

CVRD and Mitsui, each of which holds 50% of Caemi's common shares, entered into a shareholder agreement requiring both shareholders to approve all major decisions affecting Caemi.

The estimated net assets and corresponding goodwill were as follows:

	December 31, 2001
Estimated fair value of assets	1,127
Estimated fair value of liabilities	(734)
Net assets at fair value	**393**
Interest in total capital acquired	16.82%
Estimated fair value of net assets acquired	66
Purchase price	279
Goodwill	**213**

(h) On June 27, 2002 we acquired a further 12.62% of the capital of ALUNORTE for $42, increasing our participation to 57.03% (represented by 62.09% of total common stock and 19.05% of total preferred stock). ALUNORTE has been consolidated as from this date.

Unaudited pro forma information with respect to the effect on our consolidated statement of income, reflecting the consolidation of ALUNORTE as if control has been acquired as at January 1, 2001 is as follows:

			2002			**2001**
	CVRD Consolidated	**Pre-acquisition ALUNORTE**	**Pro Forma (unaudited)**	**CVRD Consolidated**	**ALUNORTE**	**Pro Forma (unaudited)**
Net operating revenues	4,113	138	4,251	3,935	294	4,229
Operating costs and expenses	(2,684)	(151)	(2,835)	(2,973)	(219)	(3,192)
Operating income	1,429	(13)	1,416	962	75	1,037
Non-operating income (expenses)	(828)	(38)	(866)	158	(83)	75
	601	(51)	550	1,120	(8)	1,112

Income before income taxes, equity results and minority interests						
Income taxes	149	–	149	218	(5)	213
Equity in results of affiliates and joint ventures	(28)	23	(5)	(49)	7	(42)
Change in provision for losses on equity investments	(59)	–	(59)	(4)	–	(4)
Minority interests	17	28	45	2	–	2
Net income	**680**	–	**680**	**1,287**	**(6)**	**1,281**

(i) On January 14, 2000 we sold 20.81% of the capital of Alumina do Norte do Brasil S.A.- ALUNORTE and a beneficial interest in 8% of the capital of Mineração Rio do Norte S.A. - MRN owned by us for an aggregate of $164, resulting in a gain of $54. The total consideration of $164 was received in cash; however, $120 was received through the issue and sale of Perpetual Notes with a fair value of $55 and this fair value continues to be reported as a liability and periodically adjusted based on an early termination formula reflecting the underlying profitability of MRN.

(j) On March 9, 2001 we transferred our 10.33% interest in Companhia Siderúrgica Nacional - CSN to VALIA, as a special pension plan contribution, for $249 (fair market value determined based on the weighted average price of the last thirty trading sessions at the São Paulo stock exchange in the period ended on March 9, 2001). This transfer resulted in a gain of $107. We have provided VALIA with a guarantee that we will make additional contributions to the pension plan if the market value of the CSN shares falls below threshold levels prior to the sale thereof by VALIA. At December 31, 2002 we have provided $5 in respect of this commitment.

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(k) On April 27, 2001 we concluded the sale of our 32.00% interest in Bahia Sul Celulose S.A. - BSC for $318, received in cash on May 7, 2001. This operation resulted in a gain of $170.

(l) On June 6, 2001 we concluded the sale of our 51.48% interest in Celulose Nipo-Brasileira S.A. - CENIBRA for $671, received in cash on September 14, 2001. This operation resulted in a gain of $507.

5 Income taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory enacted tax rates applicable in the periods presented are as follows:

	Year ended December 31 - %		
	2002	**2001**	**2000**
Federal income tax	25	25	25
Social contribution	9	9	12 to 9
Composite tax rate	**34**	**34**	**37 to 34**

The amount reported as income tax benefit in our consolidated financial statements is reconciled to the statutory rates as follows:

	Year ended December 31		
	2002	**2001**	**2000**
Income before income taxes, equity results and minority interests	**601**	**1,120**	**731**
Federal income tax and social contribution expense at statutory enacted rates	(204)	(381)	(249)
Adjustments to derive effective tax rate:			
Tax benefit on interest attributed to stockholders	99	260	222
Exempt foreign income	196	226	69
Tax-deductible goodwill in business combination	20	58	-
Tax effect related to provision for losses and write-downs	29	59	-
Tax incentives	4	26	31
Valuation allowance reversal (provision)	(12)	(44)	(51)
Other non-taxable gains	17	14	10
Federal income tax and social contribution benefit in consolidated statements of income .	**149**	**218**	**32**

We have certain tax incentives relative to our iron ore and manganese operations in Carajás and others from gold and potash operations. The incentives comprise full income tax exemption on defined production levels up to 2005 and partial exemption up to 2013. An amount equal to the tax saving must be appropriated to a reserve account within stockholders equity (Note 13) and may not be distributed in the form of cash dividends.

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The major components of the deferred tax accounts in the balance sheet are as follows:

	As of December 31	
	2002	**2001**
Net current deferred tax assets		
Accrued expenses deductible only when disbursed	211	265
	211	**265**
Long-term deferred tax assets and liabilities		
Assets		
Deferred tax relative to temporary differences	5	18
Tax-deductible goodwill in business combinations	66	134
Related to provision for losses and write-downs of investments	158	120
Additional retirement benefits provision	47	58
Tax loss carryforwards	187	220
Other temporary differences (in 2002 including $94 of Alunorte)	211	21
	674	**571**
Liabilities		
Inflationary income	(21)	(25)
Prepaid retirement benefit	(27)	(34)
Fair value adjustments in business combinations	(38)	(72)
	(86)	**(131)**
Valuation allowance		
Beginning balance	(213)	(201)
Translation adjustments	73	32
Additions (in 2002 including $92 of Alunorte)	(118)	(44)
Reversals	28	-
Ending balance	**(230)**	**(213)**
Net long-term deferred tax assets	**358**	**227**

6 Cash and cash equivalents

	As of December 31	
	2002	**2001**
Cash	51	22

Deposits in local currency	220	76
Deposits in United States dollars	820	1,019
	1,091	**1,117**

7 Accounts receivable

	As of December 31	
	2002	**2001**
Customers		
Domestic	189	170
Export, all denominated in United States dollars	525	408
	714	**578**
Allowance for doubtful accounts	(26)	(21)
Allowance for ore weight credits	(28)	(8)
Total	**660**	**549**

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Accounts receivable from customers in the steel industry amount to 28.3% and 16.3% of domestic receivables (export receivables 91.5% and 78.8%) at December 31, 2002 and 2001, respectively.

No single customer accounted for more than 10% of total revenues in any of the years presented.

8 Inventories

	As of December 31	
	2002	**2001**
Finished products		
Iron ore	86	110
Gold	2	5
Manganese	24	27
Ferrous alloys	27	28
Alumina	15	
Others	10	16
Spare parts and maintenance supplies	128	137
	292	**323**

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9 Property, plant and equipment

a) Per business area:

	As of December 31, 2002			As of December 31, 2001		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Ferrous						
Ferrous - Southern System						
Mining	728	318	410	1,000	460	540
Railroads	646	308	338	935	463	472
Marine terminals	99	60	39	194	92	102
	1,473	**686**	**787**	**2,129**	**1,015**	**1,114**
Ferrous - Northern System						
Mining	483	208	275	733	308	425
Railroads	727	292	435	1,075	408	667
Marine terminals	139	65	74	202	97	105
	1,349	**565**	**784**	**2,010**	**813**	**1,197**
Pelletizing	283	76	207	198	108	90
Ferrous-alloys	171	96	75	206	106	100
Energy	58	6	52	82	6	76
Construction in progress	406		406	569		569
	3,740	**1,429**	**2,311**	**5,194**	**2,048**	**3,146**
Non-Ferrous						
Potash	39	15	24	50	17	33
Gold	119	100	19	256	167	89
Kaolin	71	17	54	96	21	75
Research and projects	63	48	15	17	9	8
Construction in progress	288		288	35		35
	580	**180**	**400**	**454**	**214**	**240**
Logistics						
General cargo	232	109	123	353	179	174
Maritime transportation	10	8	2	238	130	108

Construction in progress	19		19	23		23
	261	**117**	**144**	**614**	**309**	**305**
Holdings						
Aluminium	248	55	193			
Others	12	2	10	72	20	52
Construction in progress	204		204	45	&	