VALLEY OF THE RIO DOCE CO
Form 6-K
August 18, 2003

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant To Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934

For the month of

August 2003

Valley of the Rio Doce 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-_____.)

Table of Contents

COMPANHIA VALE DO RIO DOCE
INDEX TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Back to Contents

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying unaudited condensed consolidated balance sheet of Companhia Vale do Rio Doce and subsidiaries as of June 30, 2003, and the unaudited condensed consolidated statements of income, of cash flows and of changes in stockholders equity for the three-month periods ended June 30, 2003, March 31, 2003 and June 30, 2002 and for the six-month periods ended June 30, 2003 and 2002. This financial information is the responsibility of the Company's management. The unaudited financial information of certain affiliates, the investments in which total US$ 260 million at June 30, 2003 and equity in earnings (losses) which total US$ 9 million, US$ 10 million, US$ (23) million, US$ 19 million and US$ 4 million for the three-month periods ended June 30, 2003, March 31, 2003 and June 30, 2002 and for the six-month periods ended June 30, 2003 and 2002, respectively, and that of certain subsidiaries, which statements reflect total revenues of US$ 72 million and US$ 143 million for the three-month and six-month periods ended June 30, 2002, respectively, were reviewed by other independent accountants whose reports thereon have been furnished to us.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the reports of other accountants, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Companhia Vale do Rio Doce and subsidiaries as of December 31, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein). In our report dated February 21, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 4 to the financial statements, the Company changed its method of accounting for asset retirement obligations, as from January 1, 2003.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil
August 7, 2003

Back to Contents

Condensed Consolidated Balance Sheets

Expressed in millions of United States dollars

	June 30, 2003	December 31, 2002
Assets	**(unaudited)**	
Current assets		
Cash and cash equivalents	966	1,091
Accounts receivable		
Related parties	111	121
Unrelated parties	504	539
Loans and advances to related parties	55	49
Inventories	347	292
Deferred income tax	141	211
Others	358	286
	2,482	**2,589**
Property, plant and equipment, net	**4,502**	**3,297**
Investments in affiliated companies and joint ventures and other investments and provision for losses on equity investments	**1,072**	**732**
Other assets		
Goodwill on acquisition of subsidiaries	507	412
Loans and advances		
Related parties	78	89
Unrelated parties	79	73
Prepaid pension cost	100	79
Deferred income tax	418	358
Judicial deposits	462	239
Unrealized gain on derivative instruments	1	3
Others	82	84
	1,727	**1,337**
TOTAL	**9,783**	**7,955**

Back to Contents

Condensed Consolidated Balance Sheets

Expressed in millions of United States dollars **(Continued)**

	June 30, 2003	December 31, 2002
Liabilities and stockholders' equity	(unaudited)	
Current liabilities		
Suppliers	354	325
Payroll and related charges	99	76
Interest attributed to stockholders	136	3
Current portion of long-term debt - unrelated parties	1,021	717
Short-term debt	131	184
Loans from related parties	64	64
Others	239	139
	2,044	**1,508**
Long-term liabilities		
Employees post-retirement benefits	181	141
Long-term debt - unrelated parties	2,061	2,359
Loans from related parties	5	7
Provisions for contingencies (Note 9)	577	428
Unrealized loss on derivative instruments	77	76
Others	197	122
	3,098	**3,133**
Minority interests	**79**	**27**
Stockholders' equity		
Preferred class A stock - 600,000,000 no-par-value shares authorized and 138,575,913 issued	1,055	904
Common stock - 300,000,000 no-par-value shares authorized and 249,983,143 issued	1,902	1,630
Treasury stock - 4,235 (2002 - 4,481) preferred and 4,715,170 common shares	(88)	(88)
Additional paid-in capital	498	498
Other cumulative comprehensive income	(4,378)	(5,175)
Appropriated retained earnings	2,292	2,230
Unappropriated retained earnings	3,281	3,288
	4,562	**3,287**
TOTAL	**9,783**	**7,955**

See notes to condensed consolidated financial information.

F - 4

Back to Contents

Condensed Consolidated Statements of Income

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

	Quarter			Six months ended June 30	
	2nd 2003	**1st 2003**	**2nd 2002**	**2003**	**2002**
Operating revenues, net of discounts, returns and allowances					
Sales of ores and metals					
Iron ore and pellets	761	746	704	1,507	1,370
Gold	7	9	35	16	69
Manganese and ferroalloys	89	75	59	164	124
Potash	21	21	24	42	40
Others	14	16	9	30	20
	892	**867**	**831**	**1,759**	**1,623**
Revenues from logistic services	138	115	131	253	242
Aluminum products	188	167	98	355	166
Other products and services	1	4	5	5	13
	1,219	**1,153**	**1,065**	**2,372**	**2,044**
Value-added tax	(49)	(43)	(44)	(92)	(78)
Net operating revenues	**1,170**	**1,110**	**1,021**	**2,280**	**1,966**
Operating costs and expenses					
Cost of ores and metals sold	(438)	(428)	(411)	(866)	(813)
Cost of logistic services	(73)	(70)	(74)	(143)	(133)
Cost of aluminum products	(157)	(142)	(95)	(299)	(160)
Others	(2)	(1)	(8)	(3)	(14)
	(670)	**(641)**	**(588)**	**(1,311)**	**(1,120)**
Selling, general and administrative expenses	(45)	(49)	(60)	(94)	(108)
Research and development	(12)	(11)	(12)	(23)	(21)
Employee profit sharing plan	(9)	(12)	3	(21)	(6)
Others	(46)	(34)	(30)	(80)	(82)
	(782)	**(747)**	**(687)**	**(1,529)**	**(1,337)**
Operating income	**388**	**363**	**334**	**751**	**629**
Non-operating income (expenses)					
Financial income	29	28	44	57	77
Financial expenses	(64)	(82)	(117)	(146)	(179)
Foreign exchange and monetary gains (losses), net	257	50	(326)	307	(331)

	222	**(4)**	**(399)**	**218**	**(433)**
Income before income taxes, equity results and minority interests	**610**	**359**	**(65)**	**969**	**196**
Income taxes					
Current	(135)	(6)	3	(141)	(4)
Deferred	(25)	(65)	126	(90)	114
	(160)	**(71)**	**129**	**(231)**	**110**
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	35	94	(82)	129	(48)
Change in accounting pratice for asset retirement obligations (note 4)	-	(10)	-	(10)	-
Minority interests	(29)	(18)	4	(47)	3
Net income (loss)	**456**	**354**	**(14)**	**810**	**261**
Basic earnings(losses) per Preferred Class A Share	**1.19**	**0.92**	**(0.04)**	**2.11**	**0.68**
Basic earnings(losses) per Common Share	**1.19**	**0.92**	**(0.04)**	**2.11**	**0.68**
Weighted average number of shares outstanding (thousands of shares)					
Common shares	245,268	245,268	245,268	245,268	245,268
Preferred Class A shares	138,571	138,571	138,575	138,571	138,575

See notes to condensed consolidated financial information.

Back to Contents

Condensed Consolidated Statements of Cash Flows

Expressed in millions of United States dollars (Unaudited)

	Quarter			Six months ended June 30	
	2nd 2003	**1st 2003**	**2nd 2002**	**2003**	**2002**
Cash flows from operating activities:					
Net income (loss)	456	354	(14)	810	261
Adjustments to reconcile net income with cash provided by operating activities:					
Depreciation, depletion and amortization	54	43	61	97	127
Dividends received	36	36	30	72	55
Equity in results of affiliates and joint ventures and change in provision or losses on equity investments	(35)	(94)	82	(129)	48
Deferred income taxes	25	65	(126)	90	(114)
Current income taxes	108	-	-	108	-
Provisions for contingencies	-	9	46	9	69
Impairment of property, plant and equipment	12	-	49	12	76
Change in accounting pratice for asset retirement obligations (note 4)	-	10	-	10	-
Pension plan	2	3	3	5	6
Foreign exchange and monetary losses (gains)	(258)	(142)	467	(400)	466
Net unrealized derivative losses (gains)	(1)	3	7	2	13
Minority interests	29	18	(4)	47	(3)
Others	(7)	6	68	(1)	63
Decrease (increase) in assets:					
Accounts receivable	65	64	(16)	129	(82)
Inventories	(25)	24	(26)	(1)	(25)
Others	(26)	(1)	(39)	(27)	(30)
Increase (decrease) in liabilities:					
Suppliers	18	(93)	(5)	(75)	(14)
Payroll and related charges	13	(6)	7	7	5
Others	(14)	57	22	43	6
Net cash provided by operating activities	**452**	**356**	**612**	**808**	**927**
Cash flows from investing activities:					
Loans and advances receivable					
Related parties					
Additions	(54)	(23)	(6)	(77)	(29)
Repayments	-	29	26	29	29
Others	1	16	1	17	2
Guarantees and deposits	(152)	(12)	(29)	(164)	(39)
Additions to investments	(61)	-	-	(61)	(1)
Additions to property, plant and equipment	(308)	(198)	(172)	(506)	(317)
	37	-	1	37	1

Proceeds from disposals of property, plant and equipment					
Net cash used to acquire subsidiaries	-	-	(45)	-	(45)
Net cash used in investing activities	**(537)**	**(188)**	**(224)**	**(725)**	**(399)**
Cash flows from financing activities:					
Short-term debt, net issuances (repayments)	60	(93)	(166)	(33)	211
Loans					
Related parties					
Additions	-	-	-	-	12
Repayments	(6)	(16)	(4)	(22)	(19)
Issuances of long-term debt					
Related parties	-	2	1	2	11
Others	40	177	71	217	513
Repayments of long-term debt					
Related parties	(4)	-	-	(4)	(15)
Others	(175)	(101)	(79)	(276)	(140)
Interest attributed to stockholders	(215)	-	(329)	(215)	(329)
Net cash used in financing activities	**(300)**	**(31)**	**(506)**	**(331)**	**244**
Increase (decrease) in cash and cash equivalents	(385)	137	(118)	(248)	772
Effect of exchange rate changes on cash and cash equivalents	67	56	(318)	123	(317)
Cash and cash equivalents, beginning of period	1,284	1,091	2,008	1,091	1,117
Cash and cash equivalents, end of period	**966**	**1,284**	**1,572**	**966**	**1,572**
Cash paid during the period for:					
Interest on short-term debt	(1)	(6)	(10)	(7)	(16)
Interest on long-term debt, net of interest capitalized	(28)	(49)	(33)	(77)	(68)
Interest capitalized	5	4	5	9	10
Income tax	(27)	(6)	(4)	(33)	(4)
Non-cash transactions					
Conversion of loans receivable to investments	76	11	-	87	20

See notes to condensed consolidated financial information.

Back to Contents

Condensed Consolidated Statements of Changes in Stockholders' Equity

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

		Quarter		Six months ended June 30	
	2nd 2003	**1st 2003**	**2nd 2002**	**2003**	**2002**
Preferred class A stock (including one special share)					
Beginning of the period	**904**	**904**	**820**	**904**	**904**
Transfer from appropriated retained earnings	**151**	-	**84**	**151**	-
End of the period	**1,055**	**904**	**904**	**1,055**	**904**
Common stock					
Beginning of the period	**1,630**	**1,630**	**1,479**	**1,630**	**1,630**
Transfer from appropriated retained earnings	**272**	-	**151**	**272**	-
End of the period	**1,902**	**1,630**	**1,630**	**1,902**	**1,630**
Treasury stock					
End of the period	**(88)**	**(88)**	**(88)**	**(88)**	**(88)**
Additional paid-in capital					
End of the period	**498**	**498**	**498**	**498**	**498**
Other cumulative comprehensive income					
Cumulative translation adjustments					
Beginning of the period	(4,999)	(5,185)	(3,477)	(5,185)	(3,475)
Change in the period	593	186	(776)	779	(778)
End of the period	**(4,406)**	**(4,999)**	**(4,253)**	**(4,406)**	**(4,253)**
Unrealized gain on available-for-sale security					
Beginning of the period	13	-	-	-	-
Change in the period	5	13	-	18	-
End of the period	**18**	**13**	-	**18**	-
Adjustments relating to investments in affiliates					
Beginning of the period	10	10	10	10	10
Change in the period	-	-	-	-	-
End of the period	**10**	**10**	**10**	**10**	**10**
Total other cumulative comprehensive income	**(4,378)**	**(4,976)**	**(4,243)**	**(4,378)**	**(4,243)**

Appropriated retained earnings					
Beginning of the period	2,351	2,230	3,207	2,230	3,212
Transfer to retained earnings	364	121	(547)	485	(552)
Transfer to capital stock	(423)	-	(235)	(423)	(235)
End of the period	**2,292**	**2,351**	**2,425**	**2,292**	**2,425**
Retained earnings					
Beginning of the period	3,321	3,288	2,328	3,288	2,184
Net income	456	354	(14)	810	261
Interest attributed to stockholders					
Preferred class A stock ($0.87 and $0.39 per share in 2003 and 2002)	(48)	(72)	(5)	(120)	(54)
Common stock ($0.87 and $0.39 per share in 2003 and 2002)	(84)	(128)	(10)	(212)	(97)
Appropriation from reserves	(364)	(121)	547	(485)	552
End of the period	**3,281**	**3,321**	**2,846**	**3,281**	**2,846**
Total stockholders' equity	**4,562**	**3,640**	**3,972**	**4,562**	**3,972**
Comprehensive income is comprised as follows:					
Net income	456	354	(14)	810	261
Cumulative translation adjustments	593	186	(776)	779	(778)
Unrealized gain on available-for-sale security	5	13	-	18	-
Total comprehensive income	**1,054**	**553**	**(790)**	**1,607**	**(517)**
Shares					
Preferred class A stock (including one special share)	**138,575,913**	**138,575,913**	**138,575,913**	**138,575,913**	**138,575,913**
Common stock	**249,983,143**	**249,983,143**	**249,983,143**	**249,983,143**	**249,983,143**
Treasury stock (1)					
Beginning of the period	(4,719,635)	(4,719,651)	(4,719,921)	(4,719,651)	(4,715,261)
Acquisitions	-	-	-	-	(4,390)
Sales	230	16	-	246	-
End of the period	**(4,719,405)**	**(4,719,635)**	**(4,719,921)**	**(4,719,405)**	**(4,719,651)**
	383,839,651	**383,839,421**	**383,839,135**	**383,839,651**	**383,839,405**

(1) As of June 30, 2003, 4,715,170 common shares and 4,235 preferred shares were purchased, which are held in treasury in the amount of US$ 88. The 4,715,170 commom shares guarantees an loan given to our subsidiary Alunorte.

See notes to condensed consolidated financial information.

Back to Contents

Notes to the Condensed Consolidated Financial Information
Expressed in millions of United States dollars, unless otherwise stated (unaudited)

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. Further details of our operations and those of our joint ventures and affiliates are described in Note 8.

The main operating subsidiaries we consolidate 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 Ferroalloys
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	100	Brazil	Forestry
Florestas Rio Doce S.A.	100	Brazil	Forestry
Rio Doce Manganèse Europe - RDME	100	France	Ferroalloys
Urucum Mineração S.A.	100	Brazil	Iron ore and Ferroalloys
Alumina do Norte do Brasil S.A - Alunorte	57	Brazil	Aluminum
Salobo Metais S.A. (1)	100	Brazil	Copper
Mineração Serra do Sossego S.A. (1)	100	Brazil	Copper
Rio Doce Manganese Norway - RDMN	100	Norway	Ferroalloys

(1) - Development stage companies

2 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 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 8).

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.

Back to Contents

3 Summary of significant accounting policies

Our condensed consolidated interim financial information as of June 30, 2003 for the three-month periods ended June 30, 2003, March 31, 2003 and June 30, 2002 and for the six month periods ended June 30, 2003 and 2002 is unaudited. However, in our opinion, such condensed consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for interim periods. The results of operations for the six-month period ended June 30, 2003 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2003.

This condensed interim financial information should be read in conjunction with our consolidated financial statements for the year ended December 31, 2002.

The provision for losses on equity investments relates to our investments in affiliates which have reported negative stockholders equity in their financial information prepared in accordance with US GAAP and in circumstances where we have assumed commitments to fund our share of the accumulated losses, if necessary, through additional capital contributions or other means. Accordingly we (a) first reduce the value of the investment to zero and (b) subsequently provide for our portion of negative equity.

Other current assets includes $30 related to ships held for sale, at June 30, 2003.

4 Change in accounting practice

In June 2001, the FASB issued SFAS 143 - "Accounting for Asset Retirement Obligations". We adopted SFAS 143 as from January 1, 2003, as a consequence an additional $26 for asset retirement obligations was recorded as "Others - long-term liabilities", a net increase of $11 in mine development costs was registered within "Property, plant and equipment" and a resulting change of $10 was registered as "Change in Accounting Practice for Asset Retirement Obligations" on the Statement of Income, net of income tax ($15 gross of deferred income tax). Over time the liabilities will be accreted for the change in their present value and initial capitalized costs will be depleted over the useful lives of the related assets.

5 Recently-issued accounting pronouncements

In June 2002, the 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 adopted SFAS 146 as from January 1, 2003. We have not committed to disposal of or disposed of any significant activities since adoption.

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 information. 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 as from December 31, 2002 are disclosed in Note 9. We have not issued any material guarantees sinc e December 31, 2002.

Back to Contents

In January 2003, FASB issued Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. FIN 46 provides guidance on when certain entities should be consolidated or the interests in those entities should be disclosed by enterprises that do not control them through majority voting interest. This interpretation applies immediately to variable interest entities created after January 31, 2003. We do not have any entities or transactions which are subject to the requirements of FIN 46 and does not expect FIN 46 to have a material impact on our financial statements.

In April 2003, FASB issued Statement of Financial Accounting Standards No. 149, an amendment of SFAS 133 on Derivative Instruments and Hedging Activities (SFAS 149). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. This statement is effective for contracts entered into or modified after June 30, 2003, except as stated in the following sentence and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. We are evaluating the impact of this standard.

In May 2003. FASB issued SFAS No. 150, Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150) this Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Board decided to make this statement effective shortly after issuance for contracts created or modified after it is issued and for existing contracts at the beginning of the first interim period beginning after June 15, 2003. We have not created or modified any such contracts since June 15, 2003.

6 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:

	Six months ended June 30 - %	
	2003	**2002**
Federal income tax	25	25
Social contribution	9	9
Composite tax rate	**34**	**34**

F - 10

Back to Contents

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

	Quarter			Six months ended June 30	
	2nd 2003	**1st 2003**	**2nd 2002**	**2003**	**2002**
Income before income taxes, equity results and minority interests	**610**	**359**	**(65)**	**969**	**196**
Federal income tax and social contribution expense at statutory enacted rates	(207)	(122)	22	(329)	(67)
Adjustments to derive effective tax rate:					
Tax benefit on interest attributed to stockholders	59	63	(3)	122	43
Exempt foreign income (expenses)	(26)	(16)	75	(42)	92
Tax incentives	40	-	(5)	40	2
Valuation allowance	-	9	(3)	9	6
Other non-taxable gains (losses)	(26)	(5)	13	(31)	10
Adjustment to reflect expected annual effective tax rate	-	-	30	-	24
Federal income tax and social contribution expense in consolidated statements of income	**(160)**	**(71)**	**129**	**(231)**	**110**

We have certain tax incentives relative to our iron ore and manganese operations in Carajás and relative to alumina in Barcarena. The incentives relative to iron ore and manganese comprise full income tax exemption on defined production levels up to 2005 and partial exemption up to 2013. Both incentives relative to alumina expires in 2010. An amount equal to the tax saving must be appropriated to a reserve account within stockholders equity and may not be distributed in the form of cash dividends

7 Inventories

	June 30, 2003	**December 31, 2002**
Finished products		
Iron ore and pellets	94	86
Manganese	19	24
Ferroalloys	42	27
Alumina	23	15
Others	16	12
Spare parts and maintenance supplies	153	128
	347	**292**

Back to Contents

8 Investments

		June 30, 2003			Investments		Goodwill		Equity Adjustments					Dividends receive				
									Quarter			Six months ended June 30		Quarter			Six month ended Jun 3	
	Participation in capital(%)		Net equity	Net income for the period	June 30, 2003	December 31, 2002	June 30, 2003	December 31, 2002	2nd 2003	1st 2003	2nd 2002	2003	2002	2nd 2003	1st 2003	2nd 2002	2003	200
Investments in affiliated companies and joint ventures, unless otherwise started	voting	total																
Steel																		
Usinas Siderúrgicas de Minas Gerais S.A - USIMINAS	22.99	11.46	175	174	20	-	-	-	10	10	(11)	20	(8)	-	-	-	-	
Companhia Siderúrgica de Tubarão - CST (1)	24.93	28.02	368	47	103	27	-	-	6	6	2	12	(5)	-	5	-	5	
California Steel Industries Inc. - CSI	50.00	50.00	212	5	106	107	-	-	-	3	7	3	6	3	-	-	3	
SIDERAR (costs $24) - available for sale investments	4.85	4.85	-	-	48	30	-	-	-	-	-	-	-	-	-	-	-	
					277	**164**	-	-	**16**	**19**	**(2)**	**35**	**(7)**	**3**	**5**	-	**8**	
Aluminum and bauxite																		
Mineração Rio do Norte S.A. - MRN	40.00	40.00	417	24	167	162	-	-	6	4	15	10	19	-	5	10	5	2
Valesul Alumínio S.A. - VALESUL	54.51	54.51	92	9	50	39	-	-	1	4	3	5	4	3	-	-	3	
Alumínio Brasileiro S.A. - ALBRAS	51.00	51.00	172	156	88	-	-	-	40	39	(9)	79	-	-	-	-	-	
Alumina do Norte do Brasil S.A. -ALUNORTE (Consolidated as from June 30, 2002, after acquisition of control)	62.09	57.03			-	-	-	-	-	-	(28)		(23)	-	-	-	-	
					305	**201**	-	-	**47**	**47**	**(19)**	**94**	-	**3**	**5**	**10**	**8**	**2**
Iron ore and pellets																		
Caemi Mineração e Metalurgia S.A.	50.00	16.86	635	71	107	77	-	-	7	5	-	12	1	-	-	3	-	
Companhia Nipo-Brasileira de Pelotização NIBRASCO	51.11	51.00	28		14	12	-	-	(1)	1	2	-	1	-	-	-	-	
	51.00	50.89	34	5	17	14	-	-	2	1	2	3	3	-	2	-	2	

Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS																	
Companhia Coreano-Brasileira de Pelotização - KOBRASCO	50.00	50.00			-	-	-	-	-	-	(3)	-	(2)	-	-	-	-
Companhia Ítalo-Brasileira de Pelotização - ITABRASCO	51.00	50.90	23	3	12	9	-	-	1	-	1	1	2	1	-	-	1
Gulf Industrial Investment Company - GIIC	50.00	50.00	75	11	38	37	-	-	4	2	1	6	3	-	5	-	5
SAMARCO Mineração S.A. - SAMARCO	50.00	50.00	395	84	198	154	37	30	23	19	(3)	42	8	25	14	17	39	1
Minas da Serra Gera S.A - MSG	51.00	51.00	27	4	14	9	-		1	1	2	2	3	1	-	-	1
Others	-	-	-	-	15	12	-				1	-	1	-	-	-	-
					415	**324**	**37**	**30**	**37**	**29**	**3**	**66**	**20**	**27**	**21**	**20**	**48**	**2**
Others																	
Fertilizantes Fosfatados S.A. - FOSFERTIL (2)	10.96	11.12	264	48	29	25	-	-	2	3	-	5	2	2	5	-	7
Others	-	-			26	15	-	-	(1)	3	(26)	2	(25)	1	-	-	1
					55	**40**	-	-	**1**	**6**	**(26)**	7	**(23)**	**3**	**5**	-	**8**
					1,052	**729**	**37**	**30**	**101**	**101**	**(44)**	**202**	**(10)**	**36**	**36**	**30**	**72**	**5**
Balance / Change in provision for losses on equity investments:																	
Alumínio Brasileiro S.A. - ALBRAS					-	(1)	-	-	-	1	(18)	1	(12)	-	-	-	-
Companhia Ferroviária do Nordeste - CFN					-	-	-	-	(2)	-	(1)	(2)	(2)	-	-	-	-
Companhia Coreano-Brasileira de Pelotização - KOBRASCO					(10)	(16)	-	-	6	3	(5)	9	(5)	-	-	-	-
Ferroban - Ferrovias Bandeirantes S.A.					-	-	-	-	-	-	-	-	(2)	-	-	-	-
Ferrovia Centro-Atlântica S.A. - FCA					-	-	-	-	(73)	(11)	(7)	(84	(10)	-	-	-	-
MRS Logística S.A					(2)	(6)	-	-	3	1	(7)	4	(7)	-	-	-	-
CSN Aceros					(5)	(4)	-	-		(1)	-	(1)	-	-	-	-	-
					(17)	**(27)**	-	-	**(66)**	**(7)**	**(38)**	**(73)**	**(38)**	-	-	-	-