

# **Companhia Brasileira de Alumínio**

**Financial statements December 31, 2003 and 2002  
and report of independent auditors**

## Report of independent auditors

To the Management and Stockholders of  
Companhia Brasileira de Alumínio

- 1 We have audited the accompanying balance sheets of Companhia Brasileira de Alumínio as of December 31, 2003 and 2002 and the related statements of income, changes in stockholders' equity and changes in financial position for the years then ended, prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The audits of the financial statements as of December 31, 2003 of the affiliated companies Mineração Rio do Norte S.A. and Petrocoque S.A. Indústria e Comércio and the indirect affiliate VBC Participações S.A. and as of December 31, 2003 the affiliated companies BAESA - Energética Barra Grande S.A. and Machadinho Energética S.A. - Maesa, referred to in Note 8, whose investments are valued by the equity investment method, were carried out by other independent auditors, and our opinion, as it refers to the value of these investments and the related losses produced by them, in the amounts of R\$ 288,484 thousand (2002 - R\$ 75,485 thousand) and R\$ 1,007 thousand (2002 – profit of R\$ 8.161 thousand), respectively, is based exclusively on the reports of those other independent auditors.
- 2 Our audits were conducted in accordance with generally accepted auditing standards in Brazil, which require that the audits be carried out with the objective of verifying an adequate presentation of the financial statements in all their relevant aspects. Consequently, our audits included, amongst other procedures: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) the examination, on a test basis, of documentary evidence and the accounting records that support the amounts and disclosures in the financial statements (c) an assessment of the accounting practices used and significant estimates made by Company management, as well as an evaluation of the overall financial statements.

Companhia Brasileira de Alumínio

- 3 Based on our audits and the report of other independent auditors, we are of the opinion that the financial statements referred to in the first paragraph present fairly, in all material aspects, the financial position of Companhia Brasileira de Alumínio at December 31, 2003 and 2002 and the results of their operations, the changes in their shareholders' equity and changes in their financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.
- 4 The financial statements as of December 31, 2003 and 2002 of the subsidiary Companhia Luz e Força Santa Cruz and the indirect affiliate VBC Participações S.A. include net accounts receivable arising from the sale of electric power in the Wholesale Electric Power Market - MAE, based on the amounts provided by MAE itself. The net effect on the Company, determined on the basis of the equity pickup method, represents approximately R\$ 3,372 thousand (2002 - R\$ 21,820 thousand), with R\$ 59 thousand (2002 - R\$ 2,676 thousand) of the subsidiary Companhia Luz e Força Santa Cruz and R\$ 3,313 thousand (2002 - R\$ 19,144 thousand) of the indirect affiliate VBC Participações S.A. The realization of these amounts depends on receiving from the debtor companies that did not carry out the financial settlement determined by ANEEL and conclusion of the discussion about interpretations of market rules, which have defined the amounts involved.

São Paulo, March 15, 2004

PricewaterhouseCoopers  
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CRC 2SP000160/O-5

Paulo Cesar Estevão Netto  
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Accountant CRC 1SP217518/O-7

# Companhia Brasileira de Alumínio

## Balance sheet at December 31

In thousands of reais

<b>Assets</b>	<b>2003</b>	<b>2002</b>	<b>Liabilities and shareholders' equity</b>	<b>2003</b>	<b>2002</b>
Current assets			Current liabilities		
Cash	17,639	8,392	Loans and financing	400,470	322,698
Short-term investments	869,484	804,018	Trade accounts payable	81,617	75,441
Trade accounts receivable	240,267	251,758	Salaries and social charges payable	13,476	11,005
Inventories	314,218	293,297	Taxes payable	92,965	8,357
Recoverable taxes	51,679	52,098	Accrued interest on net equity	170,000	175,337
Affiliated company	196,847		Provision for vacations pay and social charges	16,599	13,928
Other receivables	22,078	33,021	Related parties	30,466	
	<u>1,712,212</u>	<u>1,442,584</u>	Other payables	34,851	39,576
				<u>840,444</u>	<u>646,342</u>
Noncurrent assets			Noncurrent liabilities		
Receivables from related parties	22,095	113,242	Loans and financing	353,474	299,532
Recoverable taxes	23,444	23,284	Related parties	41,280	51,011
Deferred income tax and social contribution	27,175	24,972	Provision for contingencies	22,204	22,204
Future capital advances	35,075	28,181	Taxes payable		38,612
Vendor advances	5,889	12,379	Other payables	8,085	5,831
Tax Incentives	1,384	7,884		<u>425,043</u>	<u>417,190</u>
Other receivables	15,840	1,205			
	<u>130,902</u>	<u>211,147</u>	Shareholders' equity		
Permanent assets			Capital	2,320,000	2,200,000
Investments	595,591	591,455	Revaluation reserve	3,179	3,240
Property, plant and equipment	1,385,692	1,182,266	Income reserves	103,498	84,565
Deferred charges	57,468	73,791	Retained earnings	189,701	149,906
	<u>2,038,751</u>	<u>1,847,512</u>		<u>2,616,378</u>	<u>2,437,711</u>
Total assets	<u><u>3,881,865</u></u>	<u><u>3,501,243</u></u>	Total liabilities and shareholders' equity	<u><u>3,881,865</u></u>	<u><u>3,501,243</u></u>

Managements' notes are an integral part of the financial statements.

# Companhia Brasileira de Alumínio

## Statements of income

Years ended December 31

Thousands of reais, except where indicated

	<u>2003</u>	<u>2002</u>
<b>Gross sales</b>		
Domestic Market	1,215,773	1,124,637
Foreign Market	<u>737,935</u>	<u>422,066</u>
	1,953,708	1,546,703
<b>Sales deductions</b>		
Tax on sales and services	(279,687)	(249,751)
Returns and discounts	<u>(23,738)</u>	<u>(25,063)</u>
<b>Net sales</b>	1,650,283	1,271,889
Cost of goods sold	<u>(1,156,948)</u>	<u>(810,096)</u>
<b>Gross profit</b>	493,335	461,793
<b>Operating income (expense)</b>		
Selling expenses	(54,932)	(49,625)
General and administrative expenses	(58,653)	(69,624)
Financial expenses	(24,703)	(204,769)
Financial income	108,979	276,725
Equity pickup	<u>48,322</u>	<u>(53,058)</u>
<b>Operating income</b>	<u>512,348</u>	<u>361,442</u>
Nonoperating income (expense)		
Capital gain (loss) on investments	(15,824)	1,847
Equity pickup		6,724
Other nonoperating expenses, net	<u>(51,245)</u>	<u>(3,350)</u>
	<u>(67,069)</u>	<u>5,221</u>
<b>Income before income and social contribution taxes</b>	<u>445,279</u>	<u>366,663</u>
<b>Income and social contribution taxes</b>		
Current	(68,815)	(62,853)
Deferred	<u>2,203</u>	<u>1,815</u>
	<u>(66,612)</u>	<u>(61,038)</u>
<b>Controlling shareholder equity interest</b>	<u>378,667</u>	<u>305,625</u>
Earnings per share – in reais	<u>0.53</u>	<u>0.43</u>

Management's explanatory notes are an integral part of the financial statements.

## Companhia Brasileira de Alumínio

### Statement of changes in shareholders' equity

In thousands of reais

	Capital Reserve		Income Reserves		Total	
	Capital	Tax Incentives	Revaluation Reserve	Legal Reserve		Retained Earnings
<b>December 31, 2001</b>	1,850,000	11,699	3,308	69,284	372,795	2,307,086
Capitalization of reserves per AGO April 30, 2002	350,000	(11,699)			(338,301)	
Realization of revaluation reserve			(68)		68	
Net income for the year					305,625	305,625
Appropriation of income						
Appropriation to legal reserve				15,281	(15,281)	
Interest on shareholders' equity					(175,000)	(175,000)
<b>December 31, 2002</b>	2,200,000		3,240	84,565	149,906	2,437,711
Capitalization of reserves per AGO/AGE April 30, 2003	120,000				(120,000)	
Realization of revaluation reserve			(61)		61	
Net income for the year					378,667	378,667
Appropriation of income						
Appropriation to legal reserve				18,933	(18,933)	
Interest on shareholders' equity					(200,000)	(200,000)
<b>December 31, 2003</b>	<u>2,320,000</u>		<u>3,179</u>	<u>103,498</u>	<u>189,701</u>	<u>2,616,378</u>

Management's explanatory notes are an integral part of the financial statements.

# Companhia Brasileira de Alumínio

## Statements of changes in financial position

Years ended December 31

Thousands of reais

	<u>2003</u>	<u>2002</u>
<b>Source of working capital</b>		
From operations		
Net income for the year	378,667	305,625
Items that do not affect working capital		
Deferred income and social contribution taxes	(2,203)	(1,815)
Accrued tax incentive investments	6,500	12,000
Equity pickup	(48,322)	46,334
Loss (gain) on capital in equity investments	15,824	(1,847)
Accrued loss on investments	2,007	840
Residual value on disposal of investments	255,586	
Residual value on disposal of property, plant and equipment	952	868
Accrued private pension plan	2,254	
Depreciation, amortization and depletion	175,678	82,754
Accrued contingencies and long-term taxes		21,821
Long-term liabilities currency variations	4,070	28,865
	<u>791,013</u>	<u>495,445</u>
From third parties		
Reduction of related parties	81,416	298,980
Decrease in long-term assets	6,490	
Received and proposed dividends	24,987	29,550
Increase in long-term liabilities	149,366	179,731
	<u>1,053,272</u>	<u>1,003,706</u>
<b>Applications of working capital</b>		
Long-term assets	21,689	3,888
Permanent assets		
Investment acquisitions	254,218	244,931
Property, plant and equipment acquisitions	363,504	352,465
Additions to deferred charges	229	34,006
Decrease in long-term liabilities	38,612	
Transfer from long-term to current financing	99,494	75,416
Interest on shareholders' equity	200,000	175,000
	<u>977,746</u>	<u>885,706</u>
<b>Working capital increase</b>	<u>75,526</u>	<u>118,000</u>

# Companhia Brasileira de Alumínio

## Statements of changes in financial position

Years ended December 31

Thousands of reais

(continued)

	<u>2003</u>	<u>2002</u>
<b>Change in working capital</b>		
<b>Current assets</b>		
At end of year	1,712,212	1,442,584
At beginning of year	<u>1,442,584</u>	<u>1,177,677</u>
	<u>269,628</u>	<u>264,907</u>
<b>Current liabilities</b>		
At end of year	840,444	646,342
At beginning of year	<u>646,342</u>	<u>499,435</u>
	<u>194,102</u>	<u>146,907</u>
<b>Working capital increase</b>	<u><u>75,526</u></u>	<u><u>118,000</u></u>

Management's explanatory notes are an integral part of the financial statements.

# Companhia Brasileira de Alumínio

## Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

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### 1 Operations

The Company is an integral part of the Votorantim Group, with main operations of exploring and operating bauxite mines in the national territory, producing and trading, domestically and abroad, primary and fabricated aluminum, with a comprehensive product line, such as ingots, billets, bars, plates, coils, roof tiles, rolled products, extrusions, wires and cables.

The Company commenced in the year 2000 and concluded in 2003 the project of increasing production capacity from 240 thousand to 340 thousand tons per year, which includes investments of approximately US\$ 350 million in equipment purchasing, plant production increase, power plant construction in Piraju, by the River Paranapanema, as well as participating, through a venture, in the Machadinho power plant construction project, by the River Pelotas – in Santa Catarina State. The production capacity expansion has as a goal an increase in the Company's participation in the domestic and international markets, and, optimizing economies of scale, enhancing competitiveness. The project was financed with both its own sources and those obtained from the BNDES – National Bank for Economic and Social Development.

Having concluded the expansion to 340,000 tons, the Company started in 2003, a further production increase, that will take its productive capacity to 400,000 tons per year, expecting to conclude in the second semester of 2005. Also in 2003, the Company initiated new projects in the area of electric power, with the acquisition of an equity participation in the companies of BAESA - Energética Barra Grande S.A., Energética Campos Novos S.A. - ENERCAN and Ourinhos Energia S.A. - OESA, who are in a construction phase. The objective is to increase the power generating capacity, bearing in mind the future needs to increase the production capacity.

### 2 Principal accounting practices

The financial statements were prepared in accordance with generally accepted accounting practices in Brazil.

When preparing the financial statements, it is necessary to use estimates to account for certain assets, liabilities and other transactions. The financial statements of the Company include, consequently, various estimates related to the selection of useful lives for fixed assets; necessary accruals for losses on receivables; property, plant and equipment; contingent liabilities; and other liabilities; in relation to which the real results may present variations with respect to the estimates.

## Companhia Brasileira de Alumínio

### Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

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#### (a) Operating income and expenses

These are recognized on the accrual basis. The accrual for income tax is made considering the amount for tax incentives. Deferred taxes were recognized on the basis of ruling rates for income tax and social contribution on temporary differences, to the extent their realization is probable (Note 11).

#### (b) Current assets and long-term receivables

The allowance for losses on collection of accounts receivable is calculated on the basis of estimated losses in an amount considered sufficient to cover possible losses on receivables.

Inventories are stated their at average purchase or production cost, not exceeding replacement or realizable value. Imports in transit are shown at accumulated cost by import.

Remaining assets are presented at cost or receivable amount, including the yields, when applicable, the variations in the exchange rates and currency.

#### (c) Permanent assets

Demonstrated at monetarily corrected cost at December 31, 1995, combined with the following:

- . Investments in subsidiary and affiliate companies are stated by the equity method, including premium. The remaining investments are stated at acquisition cost monetarily corrected. All investments are reduced by reserves when necessary.
- . Amortization of premium paid on acquisition of investments is based on estimated future return, limited to ten years. The discount will be amortized if disposed of or the assets perish.
- . Property, plant and equipment include revalued assets of affiliated companies.
- . Depreciation of property, plant and equipment is computed by the straight-line method, at rates mentioned in Note 9, and taking into account estimated useful life.
- . The amortization of deferred assets is computed by the straight-line method, over five years, as from the beginning of benefits generation.

## Companhia Brasileira de Alumínio

### Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

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(d) **Current and non-current liabilities**

They are stated at known or estimated values increased by related charges and monetary and exchange variations.

**3 Financial investments**

	<u>2003</u>	<u>2002</u>
Financial investment funds	859,391	785,884
Bank deposit certificates	10,093	18,134
	<u>869,484</u>	<u>804,018</u>

**4 Trade accounts receivable**

	<u>2003</u>	<u>2002</u>
Domestic market	176,678	181,075
Foreign market	81,688	86,993
	258.366	268.068
Reserve for collection losses	<u>(18,099)</u>	<u>(16,310)</u>
	<u>240,267</u>	<u>251,758</u>

**5 Inventories**

	<u>2003</u>	<u>2002</u>
Finished goods	138,582	83,760
Work in process	86,488	120,420
Raw materials	42,812	33,340
Storerooms	33,315	40,907
Import in transit	3,884	6,744
Others	9,137	8,126
	<u>314,218</u>	<u>293,297</u>

## Companhia Brasileira de Alumínio

### Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

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#### 6 Recoverable taxes

	<u>2003</u>	<u>2002</u>
ICMS and IPI (*)	57.220	35.367
Tax withholdings and advances	<u>17.903</u>	<u>40.015</u>
	75.123	75.382
Long-term	<u>(23.444)</u>	<u>(23.284)</u>
Short-term	<u><u>51.679</u></u>	<u><u>52.098</u></u>

(\*) Includes ICMS tax credits arising from the purchase of property, plant and equipment, in accordance with Complementary Law Nr. 102/2000.

# Companhia Brasileira de Alumínio

Management's notes to financial statements:  
December 31, 2003 and 2002  
In thousands of reais

## 7 Transactions and account balances with related parties

Description	Balances at December 31, 2003				Balances at December 31, 2002				Transactions				
	Assets		Liabilities		Assets		Liabilities		Revenue		Expenses		
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	2003	2002	2003	2002	
<b>Financial investments</b>													
Banco Votorantim S.A.	862,333				792,787					81,502	220,897		
<b>Accounts receivable</b>													
Votorantim Metais Ltda.	196,847								202,734		254,631		
Companhia Mineira de Metais	887								6,617	3,964	82		
Companhia Nitro Química Brasileira	305				209				3,466	2,745	20,989	14,060	
Companhia Paraibuna de Metais	331								3,962		177		
Companhia Cimento Portland Itau											4,232	3,805	
Siderúrgica Barra Mansa S.A.	274				47				466	676	3,713	6,135	
Indústria e Comércio Metalúrgica Atlas S.A.	213								4	206	150,703	54,624	
Companhia Luz e Força Santa Cruz									1,807	958	654	34	
Votorantim Participações S.A.	1,071												
Other	381								1,257	761	1,874	534	
	200,309				256				220,313	9,310	437,055	79,192	
<b>Vendor Advances</b>													
Indústria e Comércio Metalúrgica Atlas S.A.	39,589				12,544								
<b>Vendors</b>													
Indústria e Comércio Metalúrgica Atlas S.A.			252				4,448				252	4,448	
Machadinho Energética S.A.			39,412				11,760				83,598	38,248	
Petrocoque S.A.			3,282				1,983				73,252	51,150	
Other			1,743				1,006						
			44,689				19,197				157,102	93,846	
<b>Interest on shareholders' equity</b>													
Votorantim Participações S.A.			169,553				174,876				169,553	174,876	
Other			447				461				447	461	
			170,000				175,337				170,000	175,337	

# Companhia Brasileira de Alumínio

## Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

Description	Balances at December 31, 2003				Balances at December 31, 2002				Transactions			
	Assets		Liabilities		Assets		Liabilities		Revenue		Expenses	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	2003	2002	2003	2002
<b>Accounts payable - other</b>												
Indústria e Comércio Metalúrgica Atlas S.A.			1,071									
CBA Overseas Trading CO Ltd.			640									
FUNSEJEM				8,085				5,831			4,867	4,546
Other			17									
			<u>1,728</u>	<u>8085</u>				<u>5.831</u>			<u>4,867</u>	<u>4,546</u>
<b>Advances for future capital increase</b>												
BAESA - Energética Barra Grande S.A.		86										
Votorantim Energia S.A.						28,181						
Ourinhos Energia S.A.		34,989										
		<u>35.075</u>				<u>28,181</u>						
<b>Mutual</b>												
Indústria e Comércio Metalúrgica Atlas S.A.				40,296				7,271			3,039	1,434
Votorantim Energia Ltda.								529			36	55
Energética Barra Grande S.A.		11,649										
Companhia Luz e Força Santa Cruz								10,545			847	3,007
Votorantim Comercial Exportadora e Importadora Ltda.			30,466									
Votorantim Participações S.A.		10,446				113,242		30,493				35
Others				984				2,173				
		<u>22,095</u>	<u>30,466</u>	<u>41,280</u>		<u>113,242</u>		<u>51,011</u>			<u>3,922</u>	<u>4,531</u>

## Companhia Brasileira de Alumínio

### Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

#### 8 Investments in subsidiaries and affiliates

								2003
	Information of the subsidiaries/affiliated companies		Shares/quotas held (thousands)	Ownership - %	Equity pickup	Equity gain (loss)	Premium (discount)	Investment balances
	Shareholders' equity	Net income (loss) for the year						
Subsidiaries								
CBA Overseas Trading CO Ltd.	2,046	1,748	150	100.00	1,683			2,046
Companhia Luz e Força Santa Cruz	122,228	1,436	511,277	99.99	1,436			122,216
Companhia Paraibuna de Metais				99.78	19,519			
Indústria e Comércio Metalúrgica Atlas S.A.	52,998	13,536	396,301	99.86	13,517			52,924
Mineração Morro Agudo S.A.				100.00	(105)			
Ourinhos Energia S.A.	4,099		4,099	100.00		(1,080)		4,099
Affiliated								
BAESA - Energética Barra Grande S.A.	398,381		59,757	15.00			9,334	59,757
Campos Novos Energia S.A.	387,153		62,206	16.07			18,607	62,206
MAESA - Machadinho Energética S.A.	343,114	87,655	98,911	29.11	25,516			99,880
Mineração Rio do Norte S.A.	796,407	325,122	60,000	10.00	33,111			79,640
Petrocoque S.A. Indústria e Comércio	53,166	25,041	5,100	15.00	3,665			7,975
Votorantim Energia Ltda.	117,971	(178,862)	225,394	27.93	(50,020)	(15,824)		32,949
					<u>48,322</u>	<u>(15,824)</u>	<u>26,861</u>	<u>523,692</u>
Other investments at cost								<u>45,038</u>
							<u>26,861</u>	<u>568,730</u>
							<u>595,591</u>	

## Companhia Brasileira de Alumínio

### Management's notes to financial statements:

December 31, 2003 and 2002

In thousands of reais

	<b>2002</b>						
	<b>Information of subsidiaries /affiliated companies</b>						
	<b>Shareholders' equity</b>	<b>Net income for the year</b>	<b>Ownership - %</b>	<b>Equity pickup</b>	<b>Equity gain (loss)</b>	<b>Premium</b>	<b>Investment balances</b>
<b>Subsidiaries</b>							
CBA Overseas Trading CO Ltda.	363	(155)	100,00	(113)			363
Companhia Luz e Força Santa Cruz	121,133	(33,911)	99,99	(33,908)			121,120
Companhia Paraibuna de Metais	81,504	(44,991)	99,78	(7,952)	1,847	153,787	81,325
Indústria e Comércio Metalúrgica Atlas S.A.	39,462	8,861	99,86	8,849			39,407
Mineração Morro Agudo S.A.	990		100,00				990
<b>Affiliated</b>							
CBA – Alussuisse Componentes Automotivos Ltda.	23	(244)	50,00	(122)			12
MAESA - Machadinho Energética S.A.	255,459	(84,349)	29,11	(29,682)			74,364
Mineração Rio do Norte S.A.	672,323	270,635	10,00	37,490			67,232
Petrocoque S.A. Indústria e Comércio	55,022	29,788	15,00	4,403			8,253
Votorantim Energia Ltda.	(88,231)	(170,187)	30,00	(25,299)			
				<u>(46,334)</u>	<u>1,847</u>	<u>153,787</u>	<u>393,066</u>
Other investments at cost							<u>44,602</u>
						<u>153,787</u>	<u>437,668</u>
						<u>591,455</u>	

## **Companhia Brasileira de Alumínio**

### **Management's notes to financial statements:**

**December 31, 2003 and 2002**

**In thousands of reais**

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**(a) Companhia Luz e Força Santa Cruz**

Has a direct ownership of 8.20% (2002 - 10,00%) in Votorantim Energia Ltda.

**(b) Companhia Paraibuna de Metais**

In April, 2002, the Company acquired from Paranapanema S.A. the stock ownership of Companhia Paraibuna de Metais (96.91%), for R\$ 235,346. On November 30, 2002, through a Public Offering Auction, the Company acquired 2.87% of the capital of Companhia Paraibuna de Metais, for R\$ 5,870. The premium incurred in the acquisitions, of R\$ 153.787 was based on future expectations of profitability.

In December, 2003, the investment of the Companhia Paraibuna de Metais was sold to the affiliate Votorantim Metais Ltda., for a value of R\$ 202,734, which was valued by independent appraisers, who determined a loss of R\$ 51,897 in this operation. The value of the sale will be received during 2004.

**(c) Mineração Morro Agudo S.A.**

In October, 2003, the investment in Mineração Morro Agudo S.A. was sold to the affiliated company Votorantim Metais Ltda., for the book value of R\$ 885.

**(d) Ourinhos Energia S.A.**

In June, 2003, the Company acquired 100% ownership of Ourinhos Energia S.A., for a value of R\$ 3,019. The discount computed at acquisition, of R\$ 1,080, will only be amortized if sold or assets are disposed of.

**(e) BAESA - Energética Barra Grande S.A.**

In 2003, the Company acquired from Barra Grande Energia S.A., the participation of 15.00% in the company BAESA - Energética Barra Grande S.A., for a value of R\$ 55,427. The premium at acquisition, of R\$ 9,334, based on the expectation of future profitability will be amortized over ten years, commencing when the power plant starts operating. In 2003, the Company paid in capital of R\$ 13,664, without altering company ownership.

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**(f) Campos Novos Energia S.A.**

In August, 2003, the Company acquired from CPFL - Geração de Energia S.A., a participation of 16.07% of Campos Novos Energia S.A., for a total cost of R\$ 80,813. The premium paid at acquisition, of R\$ 18,607, based on the expectancy of future profitability, will be amortized over ten years, commencing when the power plant starts operating. In November, 2003, the Company exercised its preference rights and acquired a 6.55% participation held by Copel Participações S.A. - COPEL PAR, in the amount of R\$ 35,324, and made an advance payment of R\$ 7,065. To carry out the acquisition, together with the settlement of the remaining balance, one is waiting for the approval of the transfer of stock by ANEEL – Electric Power National Agency.

**(g) Mineração Rio do Norte S.A.**

Mineração Rio do Norte S.A. had an additional tax assessment due to the capital reduction made on July 22, 1999. On April 16, 2003, the affiliated company received a subpoena from the Tax Department for the payment of the Infringement. In order to call off the tax credit, the affiliate made a judicial deposit of R\$ 316.011 in May, 2003, in order to follow on the matter judicially. Based on legal counsel from their lawyers, management expects to win this suit and, therefore, the corresponding contingent liability has not been recorded.

**(h) Votorantim Energia Ltda.**

It has a 33.33% interest in VBC Participações S.A., whose financial statements are audited by other auditors. Inasmuch as Votorantim Energia Ltda. has an uncovered liability of R\$ 88,231, at December 31, 2002, the Company has its investment accounted for at zero.

Management of the Company has not registered an accrual to cover the uncovered liability of the investment of Votorantim Energia Ltda., as it was due to non permanent factors: Programa Emergencial de Redução do Consumo de Energia Elétrica (Emergency Program to Reduce Consumption of Electric Energy) in the power distributors and generators, in which Votorantim Energia Ltda. participates indirectly through the VBC Participações S.A., and the elevated exchange devaluation which occurred in 2002.

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In December, 2003, the stockholders of Votorantim Energia S.A. paid in capital using part of the account payable "Advances for Future Capital Increases", distributing to the stockholders new social quotas. With the increase made by the Company of R\$ 98,793, its participation was changed from 30.00% to 27.93%, and a loss of R\$ 15,824 was computed on this operation.

#### (i) Other information

Due to the investments acquisition during 2002, a change was made in the valuation criteria of the affiliates Mineração Rio do Norte, Petrocoque S.A. Indústria e Comércio and Machadinho Energética S.A. - MAESA, which were valued by the equity pickup method, due to the relevancy gain in the group of investments in relation to the shareholders' equity of the Company, as provided in articles 247 and 248 of the Corporations Law. The equity pickup method refers to a change in criteria of valuation registered in non-operational results.

The investments in the following subsidiaries and affiliated companies were audited by other independent auditors: Mineração Rio do Norte S.A. Petrocoque S.A. Indústria e Comércio, Machadinho Energética S.A. and BAESA - Energética Barra Grande S.A.

## 9 Property, plant and equipment

	2003		2002		Annual Depreciation
	Corrected Cost	Accumulated depreciation	Net property, plant and equipment	Net property, plant and equipment	Rate - %
Land	65,174		65,174	64,071	
Buildings and improvements	577,636	(247,725)	329,911	235,988	4
Machinery and equipment	1,580,652	(778,240)	802,412	553,373	15 and 20
Installations	117,375	(92,708)	24,667	28,264	10
Furniture and fixtures	4,805	(2,825)	1,980	1,841	10
Vehicles	33,367	(19,570)	13,797	8,429	20 and 25
Mines with authorization to work(*)	34,821	(192)	34,629	34,597	
Construction in progress	47,221		47,221	188,477	
Vendor advances	53,313		53,313	54,247	
Other	14,815	(2,227)	12,588	12,979	
	<u>2,529,179</u>	<u>(1,143,487)</u>	<u>1,385,692</u>	<u>1,182,266</u>	

(\*) Depletion computed on the basis of production in relation to total holding.

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Property, land and equipment include investments for the construction of power plants for R\$ 63,672, whose environmental licenses are pending approval and liberation. Company management expects that the operations of using the electric power of those units will be initiated in the medium-term.

By initiating these operations, Company management, based on the opinion of its legal counsel, expects to obtain favorable conclusions on the environmental processes related to these units. These processes at December 31, 2003 amounted to R\$ 73,402.

#### 10 Deferred charges

			<u>2003</u>	<u>2002</u>	<b>Annual amortization rates - %</b>
	<b>Corrected cost</b>	<b>Accumulated amortization</b>	<b>Net value</b>	<b>Net value</b>	
Pre-operating expenses	75,178	(19,750)	55,428	70,391	20
Others	6,051	(4,011)	2,040	3,400	20
	<u>81,229</u>	<u>(23,761)</u>	<u>57,468</u>	<u>73,791</u>	

Deferred assets include investments in pre-operating expenses relating to the construction of power plants for R\$ 15,637, whose environmental licenses are pending approval and liberation. Management expects the use of these units electric power will be initiated in the medium-term (Note 9).

Pre-operational expenses are administrative and conservation expenses during the construction of the power plants.

#### 11 Income and social contribution taxes

Following is the reconciliation of nominal and effective income and social contribution taxes:

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	<u>2003</u>	<u>2002</u>
Income before income and social contribution taxes	445,279	366,663
Effective rate - %	<u>34</u>	<u>34</u>
Income and social contribution taxes at nominal rate	(151,395)	(124,665)
Reconciliation		
Interest on shareholders' equity	68,000	59,500
Equity pickup	11,049	(15,125)
Exempt income	7,938	21,800
Recomposition of social contribution losses	3,550	6,543
Timing differences	(7,381)	(8,358)
Others	<u>1,627</u>	<u>(733)</u>
Income and social contribution taxes charge	<u>(66,612)</u>	<u>(61,038)</u>
Income and social contribution taxes at effective rate - %	<u>15</u>	<u>17</u>

### Deferred taxes on timing differences

Deferred income and social contribution taxes, stated in non-current assets receivable, were computed at nominal realization rates on the following items:

	<u>2003</u>	<u>2002</u>
Provision for contingencies	7,549	7,549
Social contribution losses		3,550
Provision for PIS and COFINS	12,949	9,653
Provision for private pension plan - FUNSEJEM	2,749	1,982
Provision for tax incentive losses	1,665	1,080
Other timing provisions	<u>2,263</u>	<u>1,158</u>
	<u>27,175</u>	<u>24,972</u>

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### 12 Loans and financing

Modality/purpose	Annual financial charges	2003		2002	
		Current	Non-current	Current	Non-current
Prepayment of exports	US\$ + LIBOR + spread	126,210	85,071	54,208	59,624
Advances on exchange contracts	US\$ + spread	232,150		252,879	
Permanent assets acquisition (property, land and equipment)					
BNDES UHE Canoas I and II	TJLP + spread	11,980	64,321	11,562	72,202
BNDES UHE Pirajú	TJLP + spread	11,412	55,747	2,823	61,783
BNDES Industrial expansion	TJLP + spread	18,718	148,335	1,226	105,923
		<u>400,470</u>	<u>353,474</u>	<u>322,698</u>	<u>299,532</u>

The spread of foreign currency financing varies between 2.83% to 3.02% per annum and in local currency between 3.00% to 3.30% per annum.

	2003	2002
Years when long-term financing is due		
2004		91,575
2005	102,053	40,638
2006	88,910	40,638
2007	52,795	40,638
2008 on	109,716	86,043
	<u>353,474</u>	<u>299,532</u>

The loans are guaranteed by promissory notes, guaranteed by Votorantim Participações S.A. company and by the assets acquired.

#### (a) Restrictive clauses

The BNDES financing contracts for the purchase of property, land and equipment have restrictive clauses in relation to (i) a change in the investments direction to others not approved, (ii) sale of the Company, or any act of incorporation, assignment, or merger which indicates the change of the proceeds of the loan to other activities, (iii) sale of the financed asset, (iv) non-utilization of the proceeds for construction within a minimum period after its liberation and (v) commercial negotiation of closing of the market with competitors which impedes Company growth.

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#### (b) Bank guarantees

The Company maintains signed banking guarantee contracts granted to third parties, which result from trade operations, as follows:

Description	Due date	Amount
Investments in affiliates		
Concession contract of Ourinhos Energia S.A.	March 10, 2006	5,200
ANEEL auction – acquisition of Serra do Facão Power Plant	April 7, 2008	3,923
Concession contract of Energética Barra Grande S.A.	February 14, 2008	6,000
ONS – transmission cost of Machadinho Energética S.A.	March 18, 2005	1,129
		16,252
Commercial operations with third parties		
Supply contract with customer Camargo Correa	August 31, 2005	3,268
Supply contract with customer Enelpower	May 30, 2005	2,489
ONS - consumption transmission cost of the energy market	March 18, 2005	1,197
Others		2,952
		9,906
		26,158

#### (c) Other commitments

The Company is guarantor of loans contracted by affiliates, as follows:

	2003	2002
Companhia Níquel Tocantins		
Guarantee letter for BNDES	5,234	5,234
Sureties in Export Prepayment Agreement with ING Bank NV Curaçao Branch	57,784	57,784
Ourinhos Energia S.A.		
Guarantee letter for Banco BNL do Brasil S.A.	10,500	
Siderúrgica Barra Mansa		
Promissory note for ACE credit	33,515	33,515
Campos Novos Energia S.A.		
Intervention in financing contract with BNDES	460,624	
Barra Grande Energética S.A.		

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	<u>2003</u>	<u>2002</u>
Intervention in financing contract with BNDES	619,872	
Companhia Mineira de Metais		
Guarantee letter for BNDES	112,000	112,000
ANEEL concession contract	4,560	4,560
Indústria e Comércio Metalúrgica Atlas S.A.		
Guarantee letter for Alunorte - Alumina do Norte S.A.	3,470	3,470
Machadinho Energética S.A.		
Intervention in financing contract with BNDES	76,200	76,200
Guarantee letter for BNDES	<u>232,339</u>	<u>232,339</u>
	<u>1.616.098</u>	<u>525.102</u>

The Company also has electric power and fuel oil vendor contracts with the following restrictions:

- . minimum consumption of electric power with CESP - São Paulo Energetic Company, of 284 MW, of which 147 MW is until 2011 and 137 MW until 2005. This last consumption expects reduction to 110 MW commencing January, 2006, with an extension of the due date to December, 2011.
- . minimum consumption of fuel oil with Petrobrás Distribuidora S.A. of 600 thousand tons in 60 months, through March, 2006.

### 13 Contingencies

The Company established a provision for the cases where the Company's legal counsel deemed that an unfavorable outcome is likely, summarized as follows:

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	<u>2003</u>	<u>2002</u>
Nature of the lawsuits		
Taxation	788	788
Environmental	712	712
Labor	5,528	5,528
Civil	<u>15,176</u>	<u>15,176</u>
	<u>22,204</u>	<u>22,204</u>

In accordance with current legislation, the tax records of the Company are subject to examination by the Tax authorities, retroactively, for the period of up to ten years, in relation to federal and state taxes. Contingencies which may arise from possible tax examinations are not readily determinable at this time, consequently, the Company has not provided a reserve for these eventual contingencies.

#### **14 Shareholders' equity**

##### **(a) Capital**

Subscribed and paid-in capital, is represented by 713,208,967 ordinary shares, belonging to individuals and companies resident in this Country. The shareholders have the right to receive, as statutory dividend, the portion of 10% of net income determined by law.

In a General and Extraordinary Shareholders Meeting, carried out on April 30, 2003, the shareholders approved a capital increase from R\$ 2,200,000 to R\$ 2,320,000 through a capitalization of retained earnings.

##### **(b) Interest on shareholders' equity and dividends**

The Company is proposing the payment of R\$ 200,000 (2002 - R\$ 175,000) as interest on shareholders' equity, chargeable to the statutory dividend of the year.

After statutory dispositions, the balance of retained earnings at December 31, 2003, amounting to R\$ 189,701 (2002 – 149,906), remains at disposal of the General Shareholders Meeting.

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#### 15 Other non-operating expenses - net

	<u>2003</u>	<u>2002</u>
Loss on disposal of investment in Companhia Paraibuna de Metais (Note 8(b))	(51,897)	
Others	<u>652</u>	<u>(3,350)</u>
	<u>(51,245)</u>	<u>(3,350)</u>

#### 16 Private pension plan of defined contribution

##### (a) Normal pension plan

In July, 2001, the Company joined FUNSEJEM - Senator José Ermírio de Moraes Foundation, a private non-profit pension fund, offering a sharing opportunity to all the employees of the Votorantim Group. Under the statutory dispositions of the fund, the Company equals the employee contributions to those of FUNSEJEM in accordance with the employee remuneration level. For employees with compensation lower than a certain amount, the Company equals the contributions which represent up to 1.5% of the monthly compensation of the employee. For employees with a remuneration greater than a certain amount, the Company equals the contributions of the employee that represent up to 6% of the monthly remuneration. One may also make voluntary contributions to FUNSEJEM. The contributions made by the Company in 2003 totaled R\$ 4,550 (2002 - R\$ 2,702).

##### (b) Special pension fund

Additionally, the Company assumed in July, 2001, as a special contribution, the cost of past service corresponding to 6% of the base salary, multiplied by the number of continuous service years of certain participants that met the conditions established by the plan's dispositions, as follows:

- . minimum of ten years of continuous service;
- . age of continuous service equal or superior to 55 years;
- . applicable salary equal or superior to 15 times the value of the URA (Aluminum Reference Unit).

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At December 31, 2003, the reserve amounted to R\$ 8,085 (2002 - R\$ 5,831). The values are paid monthly to FUNSEJEM, together with the normal contributions to the defined contribution plan. In 2003, they totaled R\$ 841 (2002 - R\$ 713). Also in 2003, the Company made the contribution to FUNSEJEM in the amount of R\$ 1,463 relating to the participants that left and had completed 55 years of age, becoming eligible for withdrawal.

#### **17 Insurance coverage**

The Company, bearing in mind cost-benefit, has not maintained insurance coverage to cover eventual risks of its own property, plant and equipment. This policy was implemented by management in agreement with the shareholders, as the Company did not have a history related to relevant losses of assets. Also, the Company has insurance for materials stocked at the branches, as also the materials transported for the customers and between branches.

#### **18 Financial instruments**

##### **(a) "Swap" deals**

The Company carries out "swap" deals with the objective of protecting the effects of foreign currency variations. Additionally, temporary cash excesses, are applied lined up with the treasury policies reassessed periodically.

At December 31, 2003 and 2002, the "swap" contracts, made by financial applications in investment funds, managed by the Banco Votorantim S.A., so as to hedge the obligations with financing not yet due, totaled R\$ 85,989 (2002 - R\$ 326,270). These contracts were due in 2004. The "swap" transactions, which are related to U.S. dollar denominated liabilities, were made to protect oneself from exchange losses.

The operations and the administration of these instruments through the investment exclusive fund are carried out by the financial operations area by means of a controls policy and operation strategy establishment, previously approved by the Company administration.

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#### **(b) Other financial assets and liabilities**

Cash, accounts receivable, other current assets, accounts payable and other provisions: the amounts recorded are approximately the receivable values of the respective assets.

The financial investments are registered on the basis of the remuneration rates effectively contracted, as the Company has the objective of maintaining the investments until their effective realization.

Investments: registered by the equity pickup method or by corrected cost, consisting principally of subsidiaries and affiliates, who have strategic interest for the Company operations. The Company does not have an interest in disposing of these assets in the short-term.

Loans and financing are registered on the basis of interest contracted for each operation.

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