Companhia Vale do Rio Doce
Form 6-K
March 05, 2008

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
March 2008
Companhia Vale do Rio Doce
Avenida Graça 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 þ Form 40-F o

(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 o No þ

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

COMPANHIA VALE DO RIO DOCE
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers
Rua da Candelária, 65 11° - 15°
20091-020 Rio de Janeiro, RJ - Brasil
Caixa Postal 949
Telefone (21) 3232-6112
Fax (21) 2516-6319
www.pwc.com/br

Report of Independent Registered
Public Accounting Firm

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

In our opinion, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits (which were integrated audits in 2007 and 2006). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 18 to the consolidated financial statement, the Company changed the manner in which its accounts for defined benefit pension and other retirement plans in 2006.

PricewaterhouseCoopers
Auditores Independentes
Rio de Janeiro, Brazil
February 28, 2008

Management s Report on Internal Control over Financial Reporting

The management of Companhia Vale do Rio Doce VALE is responsible for establishing and maintaining adequate internal control over financial reporting.

The company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Vale s management has assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2007 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission COSO. Based on such assessment and criteria, Vale s management has concluded that the company s internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the company s internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

By:
Name: Roger Agnelli
Title: Chief Executive Officer

By:
Name: Fabio de Oliveira Barbosa
Title: Chief Financial Officer

Date: February 28, 2008

Consolidated Balance Sheets
Expressed in millions of United States Dollars

	As of December 31,	
	2007	**2006**
Assets		
Current assets		
Cash and cash equivalents	1,046	4,448
Accounts receivable		
Related parties	281	675
Unrelated parties	3,671	2,929
Loans and advances to related parties	64	40
Inventories	3,859	3,493
Deferred income tax	603	410
Recoverable taxes	1,159	414
Others	697	531
	11,380	**12,940**
Property, plant and equipment, net, and intangible assets	**54,625**	**38,007**
Investments in affiliated companies, joint ventures and other investments	**2,922**	**2,353**
Other assets		
Goodwill on acquisition of subsidiaries	3,791	4,484
Loans and advances		
Related parties	3	5
Unrelated parties	127	109
Prepaid pension cost	1,009	977
Prepaid expenses	200	360
Judicial deposits	1,124	852
Advances to suppliers energy	574	443
Recoverable taxes	199	305
Unrealized gains on derivative instruments	673	22
Others	90	69
	7,790	**7,626**
TOTAL	**76,717**	**60,926**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets
Expressed in millions of United States Dollars
(Except number of shares)

(Continued)

	As of December 31,	
	2007	**2006**
Liabilities and stockholders equity		
Current liabilities		
Suppliers	2,430	2,382
Payroll and related charges	734	451
Minimum annual dividends attributed to stockholders	2,683	1,494
Current portion of long-term debt unrelated parties	1,249	711
Short-term debt	167	723
Loans from related parties	6	25
Provision for income taxes	1,198	817
Taxes payable and royalties	322	149
Employees post retirement benefits	131	107
Sub-concession North South Railroad	210	
Unrealized losses on derivative instruments	346	
Provisions for asset retirement obligations	64	
Others	543	453
	10,083	**7,312**
Long-term liabilities		
Employees post retirement benefits	2,204	1,841
Long-term debt unrelated parties	17,608	21,122
Provisions for contingencies (Note 19 (c))	2,453	1,641
Unrealized losses on derivative instruments	5	705
Deferred income tax	5,725	4,527
Provisions for asset retirement obligations	911	676
Sub-concession North South Railroad	210	
Others	1,687	618
	30,803	**31,130**
Minority interests	**2,555**	**2,811**
Commitments and contingencies (Note 19)		
Stockholders equity (Note 16)		
Preferred class A stock 7,200,000,000 no-par-value shares authorized and 1,919,516,400 issued	4,953	4,702
Common stock 3,600,000,000 no-par-value shares authorized and 2,999,797,716 issued	7,742	3,806
Treasury stock 30,341,144 preferred and 56,582,040 common shares	(389)	(389)

Additional paid-in capital	498	498
Mandatory convertible notes in common shares	1,288	
Mandatory convertible notes in preferred shares	581	
Other cumulative comprehensive income (deficit)	1,655	(1,004)
Undistributed retained earnings	15,317	9,555
Unappropriated retained earnings	1,631	2,505
	33,276	**19,673**
TOTAL	**76,717**	**60,926**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income
Expressed in millions of United States Dollars
(Except per share amounts)

	Three-month period ended (unaudited)			Year ended December 31,		
	December 31, 2007	**September 30, 2007**	**December 31, 2006**	**2007**	**2006**	**2005**
Operating revenues, net of discounts, returns and allowances						
Sales of ores and metals	7,213	6,927	6,451	28,441	16,511	10,767
Revenues from logistic services	389	391	342	1,525	1,376	1,216
Aluminum products	672	677	674	2,722	2,381	1,408
Other products and services	138	129	27	427	95	14
	8,412	**8,124**	**7,494**	**33,115**	**20,363**	**13,405**
Taxes on revenues	(249)	(226)	(181)	(873)	(712)	(613)
Net operating revenues	**8,163**	**7,898**	**7,313**	**32,242**	**19,651**	**12,792**
Operating costs and expenses						
Cost of ores and metals sold	(3,687)	(3,053)	(3,760)	(13,628)	(7,946)	(4,620)
Cost of logistic services	(231)	(207)	(204)	(853)	(777)	(705)
Cost of aluminum products	(486)	(419)	(392)	(1,705)	(1,355)	(893)
Others	(100)	(106)	(31)	(277)	(69)	(11)
	(4,504)	**(3,785)**	**(4,387)**	**(16,463)**	**(10,147)**	**(6,229)**
Selling, general and administrative expenses	(424)	(287)	(269)	(1,245)	(816)	(583)
Research and development	(262)	(206)	(175)	(733)	(481)	(277)
Others	(290)	(190)	(302)	(607)	(570)	(271)
	(5,480)	**(4,468)**	**(5,133)**	**(19,048)**	**(12,014)**	**(7,360)**
Operating income	**2,683**	**3,430**	**2,180**	**13,194**	**7,637**	**5,432**
Non-operating income (expenses)						
Financial income	58	39	181	295	327	123
Financial expenses	(227)	(198)	(708)	(1,592)	(1,338)	(560)
Foreign exchange and monetary gains, net	304	553	204	2,559	529	299

Gain on sale of investments		103	311	777	674	126
	135	**497**	**(12)**	**2,039**	**192**	**(12)**
Income before income taxes, equity results and minority interests	**2,818**	**3,927**	**2,168**	**15,233**	**7,829**	**5,420**
Income taxes						
Current	(610)	(975)	(314)	(3,901)	(1,134)	(754)
Deferred	394	28	(237)	700	(298)	(126)
	(216)	**(947)**	**(551)**	**(3,201)**	**(1,432)**	**(880)**
Equity in results of affiliates and joint ventures and other investments	136	165	183	595	710	760
Minority interests	(165)	(205)	(227)	(802)	(579)	(459)
Net income	**2,573**	**2,940**	**1,573**	**11,825**	**6,528**	**4,841**
Basic and diluted earnings per share						
Earnings per preferred share	0.52	0.59	0.33	2.41	1.35	1.05
Earnings per common share	0.52	0.59	0.33	2.41	1.35	1.05
Earnings per convertible notes linked to prefered share (*)	0.79	0.86		3.30		
Earnings per convertible notes linked to common share (*)	0.85	0.94		3.51		

(*) Basic earnings per share only as dulition assumes conversion.

The accompanying notes are an integral part of these consolidated financial statements.

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

	Three-month period ended (unaudited)			Year ended December 31,		
	December 31, 2007	**September 30, 2007**	**December 31, 2006**	**2007**	**2006**	**2005**
Cash flows from operating activities:						
Net income	2,573	2,940	1,573	11,825	6,528	4,841
Adjustments to reconcile net income to cash provided by operating activities:						
Depreciation, depletion and amortization	737	532	379	2,186	997	619
Dividends received	112	39	64	394	516	489
Equity in results of affiliates and joint ventures	(136)	(165)	(183)	(595)	(710)	(760)
Deferred income taxes	(394)	(28)	237	(700)	298	126
Loss on sale of property, plant and equipment	104	3	57	168	106	26
Gain on sale of investments		(103)	(311)	(777)	(674)	(126)
Foreign exchange and monetary losses (gains), net	(266)	(565)	(576)	(2,827)	(917)	(237)
Unrealized derivative losses (gains), net	(326)	(338)	94	(917)	116	101
Minority interests	165	205	227	802	579	459
Interest payable (receivable), net	(23)	9	79	102	36	62
Others	46	68	(123)	115	(93)	(132)
Decrease (increase) in assets:						
Accounts receivable	135	489	37	235	(438)	(416)
Inventories	(558)	(194)	865	(343)	859	(138)
Others	80	(467)	124	(292)	(12)	(639)
Increase (decrease) in liabilities:						
Suppliers	429	95	189	998	(47)	279
Payroll and related charges	106	121	(72)	170	(86)	40
Income taxes	(582)	526	(25)	393	84	413
Others	260	(327)	208	75	90	154
Net cash provided by operating activities	**2,462**	**2,840**	**2,843**	**11,012**	**7,232**	**5,161**
Cash flows from investing activities:						
Loans and advances receivable						
Related parties						
Additions	(32)		(10)	(33)	(18)	(27)
Repayments				10	11	115
Others	(1)	3	(49)	1	(16)	
Judicial deposits	(50)	(12)	(17)	(125)	(78)	(59)
Additions to investments	(230)		(46)	(324)	(107)	(103)
Additions to property, plant and equipment	(2,747)	(1,367)	(1,781)	(6,651)	(4,431)	(3,977)
Proceeds from disposal of investments		134	405	1,042	837	126
Proceeds from disposals of property, plant and equipment					49	16

Cash used to acquire subsidiaries, net of cash acquired			(13,195)	(2,926)	(13,201)	(737)
Net cash used in investing activities	**(3,060)**	**(1,242)**	**(14,693)**	**(9,006)**	**(16,954)**	**(4,646)**
Cash flows from financing activities:						
Short-term debt, additions	2,021	472	1,151	4,483	4,912	763
Short-term debt, repayments	(1,877)	(472)	(670)	(5,040)	(4,233)	(849)
Loans						
Related parties						
Additions	1	5		259	10	10
Repayments	(39)		(22)	(273)	(50)	(43)
Issuances of long-term debt						
Related parties			14		14	15
Others	646	54	20,630	7,212	21,993	1,757
Treasury stock					(301)	
Repayments of long-term debt						
Others	(114)	(871)	(6,908)	(11,130)	(7,635)	(884)
Proceeds from mandatory convertible notes				1,869		
Interest attributed to stockholders	(1,050)		(650)	(1,875)	(1,300)	(1,300)
Dividends to minority interest	(429)		(9)	(714)	(65)	
Net cash provided by (used in) financing activities	**(841)**	**(812)**	**13,536**	**(5,209)**	**13,345**	**(531)**
Increase (decrease) in cash and cash equivalents	(1,439)	786	1,686	(3,203)	3,623	(16)
Effect of exchange rate changes on cash and cash equivalents	(23)	(52)	(129)	(199)	(216)	(192)
Cash and cash equivalents, beginning of period	2,508	1,774	2,891	4,448	1,041	1,249
Cash and cash equivalents, end of period	**1,046**	**2,508**	**4,448**	**1,046**	**4,448**	**1,041**
Cash paid during the period for:						
Interest on short-term debt	(8)	(1)	(1)	(49)	(9)	(9)
Interest on long-term debt	(361)	(324)	(252)	(1,289)	(565)	(243)
Income tax	(732)	(691)	(121)	(3,284)	(586)	(481)
Non-cash transactions						
Interest capitalized	(15)	(20)	(30)	(78)	(126)	(86)
Issuance of preferred stock for the acquisition of Caemi, net of cash acquired					(2,552)	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders Equity
Expressed in millions of United States Dollars
(except number of shares and per-share amounts)

	Three-month period ended (unaudited)			Year ended December 31,		
	December 31, 2007	**September 30, 2007**	**December 31, 2006**	**2007**	**2006**	**2005**
Preferred class A stock (including twelve special shares)						
Beginning of the period	4,953	4,953	4,702	4,702	2,150	1,176
Capital increase					2,552	
Transfer from undistributed retained earnings				251		974
End of the period	**4,953**	**4,953**	**4,702**	**4,953**	**4,702**	**2,150**
Common stock						
Beginning of the period	7,742	7,742	3,806	3,806	3,806	2,121
Transfer from undistributed retained earnings				3,936		1,685
End of the period	**7,742**	**7,742**	**3,806**	**7,742**	**3,806**	**3,806**
Treasury stock						
Beginning of the period	(389)	(389)	(389)	(389)	(88)	(88)
Acquisitions					(301)	
End of the period	**(389)**	**(389)**	**(389)**	**(389)**	**(389)**	**(88)**
Additional paid-in capital						
Beginning and end of the period	**498**	**498**	**498**	**498**	**498**	**498**
Mandatory convertible notes in common shares						
Beginning and end of the period	1,288	1,288				
Change in the period				1,288		

	1,288	**1,288**		**1,288**		
Mandatory convertible notes in preferred shares						
Beginning and end of the period	581	581				
Change in the period				581		
	581	**581**		**581**		
Other cumulative comprehensive income (deficit)						
Cumulative translation adjustments						
Beginning of the period	1,003	(464)	(1,862)	(1,628)	(2,856)	(3,869)
Change in the period	337	1,467	234	2,968	1,228	1,013
End of the period	**1,340**	**1,003**	**(1,628)**	**1,340**	**(1,628)**	**(2,856)**
Unrealized gain on available-for-sale securities						
Beginning of the period	229	205	130	271	127	95
Change in the period	(18)	24	141	(60)	144	32
End of the period	**211**	**229**	**271**	**211**	**271**	**127**
Superavit (deficit) accrued pension plan						
Beginning of the period	540	472	460	353	460	
Change in the period	(465)	68	(107)	(278)	(107)	
End of the period	**75**	**540**	**353**	**75**	**353**	
Cash flow hedge						
Beginning of the period	23	14				
Change in the period	6	9		29		

End of the period	**29**	**23**		**29**		
Total other cumulative comprehensive income (deficit)	**1,655**	**1,795**	**(1,004)**	**1,655**	**(1,004)**	**(2,729)**
Undistributed retained earnings						
Beginning of the period	6,560	6,233	4,646	9,555	4,357	4,143
Transfer from unappropriated retained earnings	8,757	327	4,909	9,949	5,198	2,873
Transfer to capital stock				(4,187)		(2,659)
End of the period	**15,317**	**6,560**	**9,555**	**15,317**	**9,555**	**4,357**
Unappropriated retained earnings						
Beginning of the period	10,524	7,952	7,349	2,505	3,983	3,315
Net income	2,573	2,940	1,573	11,825	6,528	4,841
Interest attributed to mandatory covertible debt						
Preferred class A stock	(8)	(14)		(22)		
Common stock	(18)	(27)		(45)		
Dividends and interest attributed to stockholders						
Preferred class A stock	(1,049)		(585)	(1,049)	(1,098)	(469)
Common stock	(1,634)		(923)	(1,634)	(1,710)	(831)
Appropriation to reserves	(8,757)	(327)	(4,909)	(9,949)	(5,198)	(2,873)
End of the period	**1,631**	**10,524**	**2,505**	**1,631**	**2,505**	**3,983**
Total stockholders equity	**33,276**	**33,552**	**19,673**	**33,276**	**19,673**	**11,977**
Preferred class A stock (including twelve special shares)	1,919,516,400	1,919,516,400	1,919,516,400	1,919,516,400	1,919,516,400	1,662,910,956
Common stock	2,999,797,716	2,999,797,716	2,999,797,716	2,999,797,716	2,999,797,716	2,999,797,716

Treasury stock						
Beginning of the period	(86,923,184)	(86,923,328)	(86,927,072)	(86,927,072)	(56,627,872)	(56,629,844)
Acquisitions					(30,299,200)	
Sales		144		3,888		1,972
End of the period	**(86,923,184)**	**(86,923,184)**	**(86,927,072)**	**(86,923,184)**	**(86,927,072)**	**(56,627,872)**
	4,832,390,932	4,832,390,932	4,832,387,044	4,832,390,932	4,832,387,044	4,606,080,800
Dividends and interest attributed to stockholders (per share):						
Preferred class A stock (including twelve special shares)	0.56		0.31	0.56	0.58	0.29
Common stock	0.56		0.31	0.56	0.58	0.29

The accompanying notes are an integral part of these consolidated financial statements.

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

1 The Company and its operation

Companhia Vale do Rio Doce (Vale) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. The operations are carried out through Vale and our 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.

On December 31, 2007 the main operating subsidiaries we consolidate are as follows:

Subsidiary	% ownership	% voting capital	Head office location	Principal activity
Alumina do Norte do Brasil S.A. Alunorte (Alunorte)	57.03	61.74	Brazil	Alumina
Alumínio Brasileiro S.A. Albras (Albras)	51.00	51.00	Brazil	Aluminum
CADAM S.A (CADAM)	61.48	100.00	Brazil	Kaolin
CVRD International S.A.	100.00	100.00	Swiss	Trading
CVRD Overseas Ltd.	100.00	100.00	Cayman Islands	Trading
Vale Inco Limited (1)	100.00	100.00	Canada	Nickel
Ferrovia Centro-Atlântica S. A.	100.00	100.00	Brazil	Logistics
Minerações Brasileiras Reunidas S.A. MBR (5)	92.99	92.99	Brazil	Iron ore
Mineração Onça Puma Ltda	100.00	100.00	Brazil	Nickel
Pará Pigmentos S.A. (PPSA)	86.17	85.57	Brazil	Kaolin
PT International Nickel Indonesia Tbk (PT Inco) (2)	61.16	61.16	Indonesia	Nickel
Rio Doce Manganês S.A.	100.00	100.00	Brazil	Manganese and Ferroalloys
Rio Doce Manganèse Europe RDME	100.00	100.00	France	Ferroalloys
Rio Doce Manganese Norway RDMN	100.00	100.00	Norway	Ferroalloys
Valesul Aumínio S.A. (3)	100.00	100.00	Brazil	Aluminum
Vale Australia Pty Ltd. (4)	100.00	100.00	Australia	Coal

(1) Subsidiary consolidated as from October 2006 (Note 13);

(2) Through Vale Inco Limited;

(3) Subsidiary consolidated as from July 2006

(Note 13);

(4) Subsidiary consolidated as from april de 2007 (Note 6); and

(5) See Note 6.

2 Basis of consolidation

All majority-owned subsidiaries in which we have both share and management control are consolidated. All significant intercompany accounts and transactions are eliminated. Our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are accounted for by the equity method (Note 13).

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.

Our condensed consolidated interim financial information for the three-month periods ended December 31, 2007, September 30, 2007, and December 31, 2006 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.

Our investments in hydroelectric projects are made via consortium contracts under which we have an undivided interest in assets and are liable for our proportionate share of liabilities and expenses, which are based on our proportionate share of power output. We do not have joint liability for any obligations, and all our recorded costs, income, assets and liabilities relate to the entities within our group. Since there is no separate legal entity for the project, there are no separate financial statements, income tax return, net income or shareholders equity. As confirmed by our external legal counsel, Brazilian corporate law explicitly states that no separate legal entity arises from consortium contract. Accordingly, we recognize our proportionate share of costs and our undivided interest in assets relating to hydroelectric projects (Note 12 (c)).

3 Summary of significant accounting policies

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, 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 could differ from those estimates.

(a) Basis of presentation

We have prepared our 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 accounting practices adopted in Brazil that we use in preparing our statutory financial statements.

As from July 1, 1997, when we concluded that the Brazilian economy had ceased to be highly inflationary, we changed our functional currency from the reporting currency (U.S. Dollars) to the Brazil currency (Brazilian Reais), for Brazilian operations and extensions 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.

For the Brazilian operations, the U.S. Dollar amounts for the periods and years presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards (SFAS) 52 Foreign Currency Translation (SFAS 52).

We have remeasured all assets and liabilities into U.S. Dollars at the exchange rate at each balance sheet date (2007- R$1.7713 and 2006- R$2.1342 to US$1.00 or the first available exchange rate if exchange on December 31, was not available), and all accounts in the statements of income (including amounts exchange gains and losses 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 gain (loss) included in our statement of income was US$1,639, US$452 and US$227 in 2007, 2006 and 2005, respectively, included within the line Foreign exchange and monetary gains (losses), net .

(b) 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 on 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 determination of fair values on purchased reserves, which are classified in the balance sheet as Property, plant and equipment .

Through December 31, 2001, goodwill was amortized in a systematic manner over the periods estimated to be benefited. As required by SFAS 142 Goodwill and Other Intangible Assets from January 1, 2002 goodwill resulting from the acquisitions is no longer amortized, but is tested for impairment at least annually and reduced to fair value to the extent any such impairment is identified.

(c) 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.

We classify proven and probable reserve quantities attributable to stockpiled inventory as inventory and account for them as processed when they are removed from the mine. These reserve quantities are not included in the total proven and probable reserve quantities used in the units of production, depreciation, depletion and amortization calculations.

(d) 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 annual average rates which take into consideration the useful lives of the assets, as follows: 3.03% for railroads, 3.65% for buildings, 3.78% for installations and 3.25% for mining development costs and 7.30% for 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. After economic viability of mining activities is established, subsequent development costs are capitalized. We capitalize mine development costs as from the time the development phase commences.

(e) 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, net of tax effects, as a separate component of stockholders equity until realized.

(f) Revenues and expenses

Revenues are recognized when title has transferred to the customer or services are rendered. 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 is recognized when the service order has been fulfilled. Expenses and costs are recognized on the accrual basis.

(g) Asset retirement obligations

Retirement of long-lived assets is accounted for in accordance with SFAS 143 Accounting for Asset Retirement Obligations . Our retirement obligations consist primarily of estimated closure costs, the initial measurement of which is recognized as a liability discounted to present values and subsequently accreted through earnings. An asset retirement cost equal to the initial liability is capitalized as part of the related asset s carrying value and depreciated over the asset s useful life.

(h) Compensated absences

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

(i) Income taxes

The deferred tax effects of tax loss carryforwards and temporary differences have been recognized in the consolidated financial statements pursuant to SFAS 109 Accounting for Income Taxes . 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.

(j) Statement of cash flows

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

(k) 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.

(l) Interest attributable to stockholders

Brazilian corporations are permitted to distribute interest attributable to 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 50% of net income for the year nor 50% of retained earnings plus revenue reserves.

The amount of interest attributed to stockholders is deductible for purposes of taxes on income. Accordingly, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge. Income tax of 15% is withheld on behalf of the stockholders relative to the interest distribution. Under Brazilian law, interest attributable to stockholders is considered as part of the annual minimum dividend (Note 16). This notional interest distribution is treated for accounting purposes as a deduction from stockholders equity in a manner similar to a dividend.

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