

(A free translation of the original report in Portuguese  
on financial statements prepared in accordance with  
accounting practices adopted in Brazil)

# **Companhia Brasileira de Alumínio**

**Financial Statements at  
December 31, 2002 and 2001  
and Report of Independent Accountants**

(A free translation of the original opinion in Portuguese expressed on financial statements prepared in accordance with accounting practices adopted in Brazil)

## **Report of Independent Accountants**

March 24, 2003

To the Board of Directors and Stockholders  
Companhia Brasileira de Alumínio

- 1 We have audited the accompanying balance sheet of Companhia Brasileira de Alumínio as of December 31, 2002 and the related statements of income, of changes in stockholders' equity and of changes in financial position for the year then ended. These financial statements are the responsibility of company management. Our responsibility is to express an opinion on these financial statements. The audits of the financial statements of direct associated companies Mineração Rio do Norte S.A. and Petrocoque S.A. Indústria e Comércio and indirect associated company VBC Participações S.A., referred to in Note 8 to the financial statements, recorded on the equity method of accounting, were conducted by other independent accountants, and our opinion, in so far as it relates to the amount of these investments and the results produced by them of R\$ 75,485 thousand and R\$ 8,161 thousand, respectively, at December 31, 2002, is based solely on the reports issued by these other independent accountants.

March 24, 2003  
Companhia Brasileira de Alumínio

- 2 We conducted our audit in accordance with approved Brazilian auditing standards which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements and (c) assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 Based on our audit and on the reports issued by the other independent accountants, in our opinion the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Companhia Brasileira de Alumínio at December 31, 2002 and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the year then ended, in accordance with accounting practices adopted in Brazil.
- 4 The December 31, 2002 financial statements of direct subsidiary Companhia Luz e Força Santa Cruz and indirect associated company VBC Participações S.A. include net amounts receivable arising from the sale of electric energy in the Wholesale Electric Energy Market (MAE) based on amounts informed by MAE. The net effect on the company, determined on the equity method of accounting, amounts to approximately R\$ 21,820 thousand, of which R\$ 19,144 thousand from VBC Participações S.A. and R\$ 2,676 thousand from Companhia Luz e Força Santa Cruz. Realization of these amounts requires a prior audit, the receipt of outstanding debts from companies who did not make partial financial settlement in December 2002 in the form required by the Brazilian Electricity Regulatory Agency (ANEEL) Resolution 763, and final processing and authorization for financial settlement with MAE. Also, VBC Participações S.A. has an excess of current liabilities over current assets of R\$ 155 million at December 31, 2002. Management of VBC Participações S.A. is analyzing the options for the recomposition of stockholders' equity. The net effect of this emphasis on the results of the company is R\$ 21 million.

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- 5 The audit of the December 31, 2001 financial statements, presented for comparison purposes, was conducted by other independent accountants, who issued a report thereon dated March 28, 2002, with an emphasis of matter paragraph on the financial statements of direct subsidiary Companhia Luz e Força Santa Cruz and of indirect associated company VBC Participações S.A., which presented net amounts receivable arising from the Electric Energy Consumption Reduction Emergency Program, which effect on the company, determined on the equity method of accounting, amounted to R\$ 56,014 thousand for Companhia Luz e Força Santa Cruz and R\$ 62,748 thousand for VBC Participações S.A. These amounts represented the best estimates of these companies, based on Provisional Measure 14, Resolution 90 of ANEEL, Resolution 91 of the Electric Energy Crisis Management Chamber and information made available by the Electricity Market Services Administrator (ASMAE). Also, deferred tax credits, the maintenance of which was conditioned to the generation of future taxable income, were included in the December 31, 2001 financial statements of VBC Participações S.A. The net effect of this emphasis on the investment of the company amounted to R\$ 21,076 thousand.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Rogério P. Calderón Peres  
Partner  
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# Companhia Brasileira de Alumínio

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

## Balance Sheet at December 31

In thousands of reais

Assets	2002	2001	Liabilities and stockholders' equity	2002	2001
Current assets			Current liabilities		
Cash and banks	8,392	29,444	Financings	322,698	205,723
Financial investments	804,018	620,487	Suppliers	58,001	45,214
Trade accounts receivable	268,068	188,612	Salaries and social charges	11,005	9,418
Allowance for doubtful accounts	(16,310)	(9,002)	Taxes and contributions payable	8,357	7,366
Inventories	293,297	268,108	Interest on own capital	175,337	186,051
Taxes recoverable	52,098	58,047	Provision for vacation pay and related charges	13,928	11,391
Other accounts receivable	33,021	21,981	Other accounts payable	57,016	34,272
	<u>1,442,584</u>	<u>1,177,677</u>		<u>646,342</u>	<u>499,435</u>
Long-term receivables			Long-term liabilities		
Related company	113,242	440,382	Financings	299,532	171,306
Taxes recoverable	23,284	8,428	Related companies	51,011	47,901
Deferred income tax and social contribution	24,972	23,157	Provision for contingencies	22,204	14,979
Advance for future capital increase	28,181	21	Taxes and contributions payable	38,612	24,015
Advances to suppliers	12,379	23,273	Other accounts payable	5,831	3,988
Fiscal incentives	7,884	19,884		<u>417,190</u>	<u>262,189</u>
Other accounts receivable	1,205	1,279			
	<u>211,147</u>	<u>516,424</u>	Stockholders' equity		
Permanent assets			Capital	2,200,000	1,850,000
Investments	591,455	421,401	Capital reserve		11,699
Property, plant and equipment	1,182,266	910,313	Revaluation reserve	3,240	3,308
Deferred charges	73,791	42,895	Revenue reserve	84,563	69,282
	<u>1,847,512</u>	<u>1,374,609</u>	Retained earnings	149,908	372,797
Total assets	<u><u>3,501,243</u></u>	<u><u>3,068,710</u></u>		<u>2,437,711</u>	<u>2,307,086</u>
			Total liabilities and stockholders' equity	<u><u>3,501,243</u></u>	<u><u>3,068,710</u></u>

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

**Companhia Brasileira de Alumínio**

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

**Statement of Income**  
**Years Ended December 31**  
**In thousands of reais**

	<u>2002</u>	<u>2001</u>
<b>Gross sales</b>		
Local	1,124,637	891,110
Foreign	<u>422,066</u>	<u>340,592</u>
	1,546,703	1,231,702
<b>Sales deductions</b>		
Taxes on sales and services	(249,751)	(194,776)
Returns and rebates	<u>(25,063)</u>	<u>(27,504)</u>
	1,271,889	1,009,422
<b>Net sales</b>		
Cost of sales	<u>(810,096)</u>	<u>(617,362)</u>
	461,793	392,060
<b>Gross profit</b>		
<b>Operating (expenses) income</b>		
Selling	(49,625)	(35,692)
General and administrative	(69,624)	(41,396)
Financial expenses	(204,769)	(127,852)
Financial income	276,725	148,950
Equity in the results of subsidiary and associated companies	(53,058)	86,435
Other operating income, net	<u>                    </u>	<u>19,148</u>
	361,442	441,653
<b>Operating profit</b>		
Non-operating results		
Capital gain (loss) on corporate investments	1,847	(502)
Equity in the results of subsidiary and associated companies	6,724	
Other non-operating (expenses) income, net	<u>(3,350)</u>	<u>653</u>
	5,221	151
	366,663	441,804
<b>Income before taxation</b>		
<b>Income tax and social contribution</b>		
Current	(62,853)	(25,826)
Deferred	<u>1,815</u>	<u>13,147</u>
	<u>(61,038)</u>	<u>(12,679)</u>
	305,625	429,125
<b>Net income for the year</b>		
Net income share at the end of the year - R\$	<u>0.43</u>	<u>0.60</u>

# Companhia Brasileira de Alumínio

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

## Statement of Changes in Stockholders' Equity

In thousands of reais

	Capital reserve		Revenue reserve		Retained earnings	Total
	Capital	Fiscal incentives	Revaluation reserve	Legal		
At December 31, 2000	1,780,000		3,367	47,826	263,412	2,094,605
Capitalization of retained earnings - Ordinary General Meeting of April 30, 2001	70,000				(70,000)	
Dividends paid					(18,343)	(18,343)
Fiscal incentives reserve		11,699				11,699
Realization of revaluation reserve			(59)		59	
Net income for the year					429,125	429,125
Appropriation of net income						
Legal reserve				21,456	(21,456)	
Interest on own capital paid					(23,949)	(23,949)
Interest on own capital provisioned					(186,051)	(186,051)
At December 31, 2001	1,850,000	11,699	3,308	69,282	372,797	2,307,086
Capitalization of reserve and retained earnings - Ordinary General Meeting of 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 net income						
Legal reserve				15,281	(15,281)	
Interest on own capital provisioned					(175,000)	(175,000)
At December 31, 2002	<u>2,200,000</u>	<u></u>	<u>3,240</u>	<u>84,563</u>	<u>149,908</u>	<u>2,437,711</u>

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

**Companhia Brasileira de Alumínio**

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

**Statement of Changes in Financial Position  
Years Ended December 31****In thousands of reais**

	<u>2002</u>	<u>2001</u>
<b>Financial resources were provided by</b>		
Operations		
Net income for the year	305,625	429,125
Items not affecting working capital, net		
Depreciation, amortization and depletion	82,754	66,005
Residual value of permanent asset disposals	868	766
Sale of investments		484,713
Decrease in capital of subsidiary		43,483
Equity in the results of subsidiary and associated companies	46,334	(86,435)
Capital loss (gain) on corporate investments	(1,847)	502
Provision for losses on fiscal incentives	12,000	
Deferred income tax and social contribution	(1,815)	(13,147)
Provision for loss on investments	840	
Provision for contingencies and taxes payable - long-term	21,821	12,331
Monetary variations of long-term liabilities	28,865	23,951
	<u>495,445</u>	<u>961,294</u>
Third parties		
Decrease of related company	298,980	
Dividends received	29,550	25,871
Increase in long-term liabilities	179,731	8,560
	<u>1,003,706</u>	<u>995,725</u>
<b>Financial resources were used for</b>		
Long-term receivables		
Related company		397,106
Other increases	3,888	2,891
Permanent assets		
Investments	244,931	130,241
Property, plant and equipment	352,465	219,019
Deferred charges	34,006	10,518
Transfer from long-term to current financings	75,416	97,127
Dividends and interest on own capital	175,000	228,343
	<u>885,706</u>	<u>1,085,245</u>
<b>Total funds used</b>	<u>885,706</u>	<u>1,085,245</u>
<b>Increase (decrease) in working capital</b>	<u>118,000</u>	<u>(89,520)</u>

# Companhia Brasileira de Alumínio

## Statement of Changes in Financial Position Years Ended December 31

In thousands of reais

(continued)

	<u>2002</u>	<u>2001</u>
<b>Change in working capital</b>		
<b>Current assets</b>		
At the end of the year	1,442,584	1,177,677
At the beginning of the year	<u>1,177,677</u>	<u>1,129,294</u>
	<u>264,907</u>	<u>48,383</u>
<b>Current liabilities</b>		
At the end of the year	646,342	499,435
At the beginning of the year	<u>499,435</u>	<u>361,532</u>
	<u>146,907</u>	<u>137,903</u>
<b>Increase (decrease) in working capital</b>	<u><u>118,000</u></u>	<u><u>(89,520)</u></u>

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

# **Companhia Brasileira de Alumínio**

## **Notes to the Financial Statements At December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

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(A free translation of the original notes in Portuguese to financial statements prepared in accordance with accounting practices adopted in Brazil)

### **1 Operations**

The company is a member of the Votorantim Group. Its main activities are the exploration and utilization of bauxite ore bodies in Brazil, producing and selling primary and processed aluminum to the local and foreign markets, with a wide range of products, such as, ingots, billets, rods, plates, reels, tiles, sheets, extruded products, wire and cables. In 2000 it started the project to increase production capacity from 240 thousand to 340 thousand tons/year, which includes investments of approximately US\$ 350 million for the purchase of equipment, amplification of the industrial plant, construction of a hydroelectric power plant in Piraju on the Paranapanema river, as well as a participation, through a consortium, in the project for the construction of the Machadinho power plant on the Pelotas river in the State of Santa Catarina.

The expansion of production capacity aims to increase its participation in the local and foreign markets and, with a larger scale of production, to increase competitiveness. The project is financed with own resources and resources obtained from the National Bank for Economic and Social Development (BNDES), and is expected to be concluded at the end of 2003.

During 2002, the hydroelectric power plants of Machadinho and Piraju started operations. As regards the increase in aluminum production capacity at the industrial plant, the company has been progressively increasing production and 50% of the projected increase was already in operation at the end of 2002.

### **2 Significant Accounting Practices**

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil.

In the preparation of financial statements, it is necessary to use estimates to record certain assets, liabilities and other transactions. The company's financial statements therefore include various estimates in relation to the selection of the useful lives of property, plant and equipment, provisions necessary for losses on accounts receivable, property, plant and equipment, contingent liabilities and others. Actual results may differ from those estimated.

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

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### (a) Determination of results, current and long-term assets and liabilities

Results of operations are determined on the accrual basis of accounting.

Assets are stated at realizable amounts and include, when applicable, accrued earnings and monetary and exchange variations.

- . Financial investments include the earnings accrued up to the balance sheet date.
- . The allowance for doubtful accounts is set up in an amount considered sufficient by management to cover eventual losses on realization of amounts receivable.
- . Inventories are stated at average cost of purchase or production, lower than replacement cost of realizable amounts. Imports in transit are stated at the accumulated cost of each import.
- . Liabilities are stated at known or estimated amounts including, when applicable, accrued charges and monetary and exchange variations.
- . The provisions for income tax and social contribution are made based on current tax legislation.

### (b) Permanent assets

These assets are stated at cost, monetarily restated up to December 31, 1995, combined with the following aspects:

- . Relevant investments in subsidiary companies are evaluated on the equity method of accounting, plus goodwill. The other investments are carried at cost of purchase, monetarily restated. All investments are reduced by provisions for loss, when necessary.

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

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- . Amortization of goodwill paid on purchase of investments, based on future projected profitability, over periods of up to 10 years.
- . Property, plant and equipment includes revalued assets of merged companies.
- . Depreciation of property, plant and equipment on the straight-line basis at the annual rates listed in Note 9 which take into consideration the economic useful lives of the assets.
- . Amortization of deferred charges on the straight-line basis over a period of 5 years, as from the date benefits start to be generated.

### 3 Financial Investments

	<u>2002</u>	<u>2001</u>
Financial investment funds	785,884	592,613
Bank Deposit Certificates	18,134	4,359
Debentures		<u>23,515</u>
	<u>804,018</u>	<u>620,487</u>

### 4 Inventories

	<u>2002</u>	<u>2001</u>
Finished products	83,760	64,536
Products in process	120,420	90,563
Raw materials	33,340	30,008
Warehouse materials	40,907	64,869
Imports in transit	6,744	8,692
Other	<u>8,126</u>	<u>9,440</u>
	<u>293,297</u>	<u>268,108</u>

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

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### 5 Taxes Recoverable

	<u>2002</u>	<u>2001</u>
Value-Added Tax on Sales and Services (ICMS) and Excise Tax (IPI) (*)	35,367	14,574
Taxes withheld and prepaid	<u>40,015</u>	<u>51,901</u>
	75,382	66,475
Long-term	<u>(23,284)</u>	<u>(8,428)</u>
Current	<u><u>52,098</u></u>	<u><u>58,047</u></u>

(\*) Includes ICMS credits arising from the purchases of fixed assets in conformity with Complementary Law 102/2000.

### 6 Income Tax and Social Contribution

The reconciliation between income tax and social contribution, nominal and effective, is shown as follows:

#### (a) Reconciliation of income tax and social contribution expenses

	<u>2002</u>	<u>2001</u>
Income before taxation	366,663	441,804
Effective rate (%)	<u>34</u>	<u>34</u>
Income tax and social contribution at nominal rate	<u>(124,665)</u>	<u>(150,213)</u>
Reconciliation		
Interest on own capital	59,500	71,400
Equity accounting	(15,125)	29,217
Non-taxable income	21,800	9,084
Recomposition of negative social contribution basis	6,543	22,653
Temporary differences	(8,358)	(1,122)

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

	<u>2002</u>	<u>2001</u>
Dividends received		6,512
Other	(733)	(210)
Income tax and social contribution expense	<u>(61,038)</u>	<u>(12,679)</u>

**(b) Composition of deferred income tax and social contribution**

Deferred income tax and social contribution, recorded in long-term receivables, were calculated at the nominal rates of realization on the following items:

	<u>2002</u>	<u>2001</u>
Provision for contingencies	7,549	4,943
Negative social contribution bases	3,550	8,973
Provision for Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	9,653	7,925
Provision for losses on fiscal incentives	1,080	
Other temporary provisions	3,140	1,316
	<u>24,972</u>	<u>23,157</u>

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

### 7 Transactions and Balances with Related Companies

Description	Balances							
	Asset		Liability		Income		Expenses	
	2002	2001	2002	2001	2002	2001	2002	2001
<b>Accounts receivable</b>								
Companhia Mineira de Metais		294			3,964	3,803		
Companhia Nitro Química Brasileira	209	286			2,745	1,859	14,060	9,779
Cimento Poty S.A.		10						
Cimento Poty da Paraíba S.A.		11						
Siderúrgica Barra Mansa S.A.	47				676	16	6,135	4,729
Indústria e Comércio Metalúrgica Atlas S.A.					206	5	54,624	38,312
Companhia Luz e Força Santa Cruz					958	1,593	34	
Votorantim Participações S.A.						3		302
Companhia Niquel Tocantins					265	121	13	26
Other					496	258	4,326	2,201
	<u>256</u>	<u>601</u>			<u>9,310</u>	<u>7,658</u>	<u>79,192</u>	<u>55,349</u>
<b>Advances to suppliers</b>								
Indústria e Comércio Metalúrgica Atlas S.A.	<u>12,544</u>	<u>41,288</u>						
<b>Suppliers</b>								
Indústria e Comércio Metalúrgica Atlas S.A.			4,448	507				
Companhia Nitro Química Brasileira			399	490				
Cimento Rio Branco S.A.			25	400				
Companhia de Cimento Portland Itaú			142	82				
Siderúrgica Barra Mansa S.A.			389	831				
Votocel Filmes Flexíveis Ltda.			51					
			<u>5,454</u>	<u>2,310</u>				
<b>Advance for future capital increase</b>								
Votorantim Energia Ltda.	<u>28,181</u>	<u>21</u>						
<b>Loan agreements</b>								
Indústria e Comércio Metalúrgica Atlas S.A.			7,271	6,342			1,434	611
Votorantim Energia Ltda.			529	475			55	27
Votorantim Comercial Exportadora Importadora Ltda.			30,493				35	
Companhia Luz e Força Santa Cruz			10,545	38,911			3,007	4,558
Votorantim Participações S.A.	113,242	440,382						
Other companies			2,173	2,173				
	<u>113,242</u>	<u>440,382</u>	<u>51,011</u>	<u>47,901</u>			<u>4,531</u>	<u>5,196</u>

Transactions with related companies are carried out at normal market conditions and include, in addition to the above mentioned operations, financial investments of R\$ 792,787 (2001 - R\$ 616,128) in an exclusive investment fund, managed by Banco Votorantim S.A.

## Companhia Brasileira de Alumínio

### Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

#### 8 Investments in Subsidiary and Associated Companies

	Information on subsidiary/associated companies				Capital gain (loss) on corporate investment	Balances of investments	
	2002		Holding - %	Result of equity accounting		2002	2001
	Net equity	Results of the year					
Companhia Luz e Força Santa Cruz (i)	121,133	(33,911)	99.99	(33,908)		121,120	155,028
Companhia Paraibuna de Metais (iii)	81,504	(44,991)	99.78	(7,952)	1,847	81,325	
Indústria e Comércio Metalúrgica Atlas S.A.	39,462	8,861	99.86	8,849		39,407	30,558
MAESA - Machadinho Energética S.A. (iv)	255,459	(84,349)	29.11	(29,682)		74,364	104,046
Votorantim Energia Ltda. (ii)	(88,231)	(170,187)	30.00	(25,299)			25,299
Mineração Morro Agudo S.A.	990		100.00			990	990
CBA - Alussuisse Componentes Automotivos	23	(244)	50.00	(122)		12	134
CBA - Overseas Trading Co. Ltda.	363	(155)	100.00	(113)		363	
Mineração Rio do Norte S.A. (iv)	672,323	270,635	10.00	37,490		67,232	54,191
Petrocoque S.A. Indústria e Comércio (iv)	55,022	29,788	15.00	4,403		8,253	8,953
				(46,334)	1,847	393,066	379,199
Goodwill on acquisition of investment (iii)						153,787	15,438
Provision for loss on investments						(840)	(15,438)
Other investments carried at cost						45,442	42,202
						591,455	421,401

## **Companhia Brasileira de Alumínio**

### **Notes to the Financial Statements**

**At December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

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- (i) Direct holding of 10% in Votorantim Energia Ltda.
- (ii) Holding of 33.33% in VBC Participações S/A, whose financial statements were audited by other independent accountants. Since Votorantim Energia Ltda. has a net capital deficiency of R\$ 88,231, at December 31, 2002, the company records a zero balance for this investment.

Management did not record a provision to cover the net capital deficiency of Votorantim Energia Ltda., since it arises from non-permanent factors such as the Electric Energy Consumption Reduction Emergency Program that affects companies that distribute and generate energy in which Votorantim Energia Ltda. participates indirectly through VBC Participações S.A., and the high exchange devaluation during 2002.

- (iii) On April 8, 2002, the company acquired share control of Companhia Paraibuna de Metais (96.91%) for R\$ 235,346 from Paranapanema S.A. On November 30, 2002, through a Public Offering Auction, it acquired a further 2.87% of the capital for R\$ 5,870. The goodwill of R\$ 153,787 paid on the acquisitions, based on expectations of future profitability, will be amortized over 10 years.
- (iv) Because of the acquisition of investments during 2002, there was a change in the criteria for evaluating associated companies Mineração Rio do Norte, Petrocoque S.A Indústria e Comércio and Machadinho Energética S.A. - MAESA, which started to be evaluated on the equity method of accounting, due to the increased relevance of these investments in relation to stockholders' equity of the company, in compliance with articles 247 and 248 of Corporate Law. The equity accounting result relating to the change in the evaluation criteria was recorded in non-operating results.

The financial statements of the associated companies Mineração Rio do Norte S.A. and Petrocoque S.A. Indústria e Comércio were audited by other independent accountants.

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

### 9 Property, Plant and Equipment

	Restated cost	Accumulated depreciation	2002 Net	2001 Net	Annual depreciation rate - %
Land	64,528	(457)	64,071	62,743	
Buildings and civil works	465,350	(229,362)	235,988	196,845	4
Machinery and equipment	1,256,335	(648,715)	607,620	470,303	15 and 20
Installations	117,534	(89,270)	28,264	29,034	10
Furniture and fixtures	4,384	(2,543)	1,841	1,938	10
Vehicles	24,506	(16,077)	8,429	2,974	20 and 25
Mining rights (*)	34,784	(187)	34,597	32,335	
Constructions in progress	188,477		188,477	79,953	
Other	14,209	(1,230)	12,979	34,188	
	2,170,107	(987,841)	1,182,266	910,313	

(\*) Depletion is calculated proportionally to the production in relation to ore reserves.

Includes investments for the construction of hydroelectric power plants amounting to R\$ 65 million for which environmental licenses are pending approval and liberation. Management expects that operations for the use of electric energy of these units will start in the short and medium term.

With the start of operations, management, based on the opinion of its legal advisors, expects a favorable outcome to the environmental lawsuits concerning the units. These lawsuits amounted to R\$ 75 million at December 31, 2002.

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### 10 Financings

Type/purpose	Annual financial charges	2002		2001	
		Current	Long-term	Current	Long-term
Prepayments	US\$ + Libor + spread	54,208	59,624	157,147	5,414
Advances on export contracts	US\$ + spread	252,879		35,924	
Purchases of property, plant and equipment					
BNDES UHE Canoas I and II	TJLP + spread	11,562	72,202	11,166	80,471
BNDES UHE Pirajú	TJLP + spread	2,823	61,783	715	37,434
BNDES Industrial Expansion	TJLP + spread	1,226	105,923	480	47,987
Government Agency for Machinery and Equipment Financing (FINAME)	TJLP + spread			291	
		<u>322,698</u>	<u>299,532</u>	<u>205,723</u>	<u>171,306</u>

	2002	2001
Long-term installments fall due in		
2003		17,686
2004	91,575	21,739
2005	40,638	25,552
2006	40,638	25,552
2007	40,638	25,552
2008 onwards	<u>86,043</u>	<u>55,225</u>
	<u>299,532</u>	<u>171,306</u>

Obligations are guaranteed by promissory notes and the assets which are being financed.

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### 11 Contingencies and Commitments

#### (a) Contingencies

The company sets up provisions to cover any losses arising from those cases where the legal advisors consider remote the possibilities of a favorable outcome, as summarized below:

	<u>2002</u>	<u>2001</u>
Nature of the lawsuits		
Tax	788	1,249
Environmental	712	
Labor	5,528	6,515
Civil	<u>15,176</u>	<u>7,215</u>
	<u>22,204</u>	<u>14,979</u>

#### (b) Commitments

The company has guaranteed loans contracted by Votorantim Group companies, as follows:

	<u>2002</u>	<u>2001</u>
Companhia Mineira de Metais		
Letter of Guarantee to BNDES	112,000	112,000
Contract of Concession from ANEEL	4,560	4,560
Indústria e Comércio Metalúrgica Atlas S.A.		
Letter of Guarantee to Alunorte - Alumina do Norte S.A.		5,162
Machadinho Energética S.A.		
Letter of Guarantee to BNDES	232,339	36,561

# **Companhia Brasileira de Alumínio**

## **Notes to the Financial Statements**

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### **12 Stockholders' Equity**

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

Fully subscribed and paid-up capital comprises 713,208,967 common nominative shares with no nominal value, held by individuals and corporate entities domiciled in Brazil. Stockholders are assured of an obligatory dividend of 10% of net income calculated as required by law.

#### **(b) Interest on own capital and dividends**

The company is proposing the payment of R\$ 175,000 (2001 - R\$ 186,051) as interest on own capital, attributable to the obligatory dividend for the year.

Complying with statutory provisions, the balance in retained earnings at December 31, 2002 of R\$ 149,908, remains at the disposal of the Stockholders' Ordinary General Meeting.

### **13 Other Operating Income, Net**

In 2001, mainly represented by the receipt of dividends from associated companies, which in 2001 were carried at cost.

### **14 Private Pension Plan - Defined Contribution**

In July 2001, the company adhered to FUNSEJEM - Fundação Senador José Ermírio de Moraes, a private non-profit closed pension fund, which offers the opportunity of participation to all employees of Votorantim Group companies. According to the regulations, the company matches the contributions from the employees to FUNSEJEM, based on the level of the employee's remuneration. For employees with remuneration lower than a certain amount, the company matches the contributions that represent up to 1.5% of the employee's monthly remuneration. For employees with remuneration higher than a certain amount, the company matches the contributions of the employee that represent up to 6% of the employee's monthly remuneration. Spontaneous contributions may be made to FUNSEJEM. Contributions by the company during 2002 amounted to R\$ 2,702 (2001 - R\$ 1,189).

# **Companhia Brasileira de Alumínio**

## **Notes to the Financial Statements**

**At December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

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### **15 Insurance Coverage**

In view of the cost-benefits, the company does not have insurance coverage against possible damages to its assets. This policy was implemented by management in common agreement with the stockholders, since the company has no history of material losses on assets.

### **16 Financial Instruments**

The company realizes swap operations for protection against the effects of variations of its exposure in foreign currency. Also, temporary cash surpluses are invested in line with treasury policies which are reviewed periodically.

At December 31, 2002 and 2001, the swap contracts effected by means of financial investments in an exclusive investment fund managed by Banco Votorantim S.A. to hedge the obligations with financings falling due, amounted to R\$ 326,270 (2001 - R\$ 147,354). There are variable maturity dates from 2003 to 2007. Swap transactions, related to debts in U.S. dollars, were entered into to protect against foreign exchange effects.

The operations and the management of these instruments through the exclusive fund are carried out by the financial operation area through control policies and the establishment of an operating strategy previously approved by management.

- (i) Cash and banks, accounts receivable, other current assets, accounts payable and sundry provisions: the amounts recorded approximate the realization amount of the respective assets and liabilities.
- (ii) The financial investments are recorded based on contracted remuneration rates, since the company intends to keep the investments until redemption.

# Companhia Brasileira de Alumínio

## Notes to the Financial Statements

At December 31, 2002 and 2001

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- (iii) Investments recorded on the equity method of accounting or at restated cost, mainly comprise subsidiary and associated companies which are of strategic interest to company operations. The company has no intention of selling these investments in the short-term.
- (iv) Financings are recorded based on the contractual interest of each operation.

### 17 Subsequent Event

On January 22, 2003, the company acquired 15% of the quotas of BAESA - Energética Barra Grande S.A. from CPFL - Companhia Paulista de Força e Luz for R\$ 56 million. BAESA is a concessionaire of electric energy generation, responsible for the construction of the Barra Grande power plant, located in the municipalities of Esmeralda, State of Rio Grande do Sul, and Anita Garibaldi, in the State of Santa Catarina, with installed potential of 690 MW and assured energy of 3,334,056 MWh/year.

Start-up of operation of the first machine is expected for October 2005. The energy generated by BAESA will be used by the company proportionally to its participation, exclusively for own use in the production of aluminum.

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