

Companhia Brasileira de Alumínio

**Financial Statements at
December 31, 2005 and 2004
and Report of Independent Auditors**

Report of Independent Auditors

To the Board of Directors and Stockholders
Companhia Brasileira de Alumínio

- 1 We have audited the accompanying balance sheets of Companhia Brasileira de Alumínio as of December 31, 2005 and 2004 and the related statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The audits of the financial statements of the associated companies BAESA - Energética Barra Grande S.A., Machadinho Energética S.A., Mineração Rio do Norte S.A. and Petrocoque S.A. Indústria e Comércio and of the indirect associated company VBC Participações S.A., referred to in Note 8 to the financial statements, which are recorded on the equity method of accounting, were conducted by other auditors. The audit opinions on the financial statements of the indirect associated company VBC Participações S.A. and of the associated company Machadinho Energética S.A. were issued with matters of emphasis paragraphs, related to the matters described in paragraph 4 below and in Note 8(c) to the financial statements, respectively. Our opinion, insofar as it relates to the amount of these investments and the net income derived therefrom, of R\$ 314,495 thousand (2004 - R\$ 313,839 thousand) and R\$ 74,803 thousand (2004 - R\$ 68,760 thousand), respectively, is based solely on the reports of these other auditors.
- 2 We conducted our audits 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 practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Companhia Brasileira de Alumínio

- 3 In our opinion, based on our audits and on the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Companhia Brasileira de Alumínio at December 31, 2005 and 2004 and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the years then ended, in accordance with accounting practices adopted in Brazil.
- 4 The financial statements of the indirect associated company VBC Participações S.A. at December 31, 2005 and 2004 and of the subsidiary Companhia Luz e Força Santa Cruz at December 31, 2004, include matters of emphasis paragraphs relating to the ratification of the tariff adjustment by the National Electric Energy Agency (ANEEL). The financial statements at December 31, 2005 and 2004 do not include possible adjustments that may arise as a result of any alterations in the definitive tariff.

São Paulo, March 31, 2006

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Marcelo Orlando
Contador CRC 1SP217518/O-7

Companhia Brasileira de Alumínio

Balance Sheets at December 31

In thousands of reais

Assets	2005	2004	Liabilities and stockholders' equity	2005	2004
Current assets			Current liabilities		
Cash and banks	57,450	9,669	Financing (Note 12)	309,868	195,485
Financial investments (Note 3)	1,075,702	933,793	Suppliers	200,355	167,212
Trade accounts receivable (Note 4)	249,864	295,162	Salaries and social charges	18,467	15,626
Inventories (Note 5)	366,263	333,163	Taxes and contributions payable	104,750	119,018
Taxes recoverable (Note 6)	55,548	26,720	Interest on capital	213,444	60,376
Other	124,963	74,276	Provision for vacation pay	20,778	17,908
	<u>1,929,790</u>	<u>1,672,783</u>	Other	162,013	39,286
				<u>1,029,675</u>	<u>614,911</u>
Long-term receivables			Long-term liabilities		
Taxes recoverable (Note 6)	53,571	27,581	Financing (Note 12)	607,534	510,868
Deferred income tax and social contribution (Note 11)	38,682	33,232	Provision for contingencies (Note 14)	19,060	22,204
Advances to suppliers	10,793		Other	72,539	54,826
Other	8,115	10,000		<u>699,133</u>	<u>587,898</u>
	<u>111,161</u>	<u>70,813</u>			
Permanent assets			Stockholders' equity		
Investments (Note 8)	700,492	684,762	Capital	2,800,000	2,500,000
Property, plant and equipment (Note 9)	2,361,645	1,740,656	Revaluation reserve	3,027	3,100
Deferred charges (Note 10)	85,296	66,511	Revenue reserve	175,408	139,315
	<u>3,147,433</u>	<u>2,491,929</u>	Retained earnings	481,141	390,301
				<u>3,459,576</u>	<u>3,032,716</u>
Total assets	<u><u>5,188,384</u></u>	<u><u>4,235,525</u></u>	Total liabilities and stockholders' equity	<u><u>5,188,384</u></u>	<u><u>4,235,525</u></u>

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

Companhia Brasileira de Alumínio

Statements of Income

Years Ended December 31

In thousands of reais, unless otherwise indicated

	<u>2005</u>	<u>2004</u>
Gross sales		
Local	1,956,936	1,784,565
Foreign	<u>855,528</u>	<u>936,294</u>
	2,812,464	2,720,859
Sales deductions		
Taxes on sales and services	(486,828)	(481,447)
Returns and rebates	<u>(34,985)</u>	<u>(23,483)</u>
Net sales	2,290,651	2,215,929
Cost of sales	<u>(1,527,049)</u>	<u>(1,394,427)</u>
Gross profit	<u>763,602</u>	<u>821,502</u>
Operating (expenses) income		
Selling	(86,227)	(78,024)
Administrative	(55,435)	(76,827)
Financial expenses	(162,574)	(93,733)
Financial income	206,563	155,522
Equity in the results of subsidiary and associated companies	<u>150,030</u>	<u>119,264</u>
	<u>52,357</u>	<u>26,202</u>
Operating profit	<u>815,959</u>	<u>847,704</u>
Non-operating results		
Capital gain on corporate investments	10,976	
Other non-operating income, net	<u>5,793</u>	<u>5,785</u>
	<u>16,769</u>	<u>5,785</u>
Income before taxation	<u>832,728</u>	<u>853,489</u>
Income tax and social contribution		
Current	(116,318)	(143,208)
Deferred	<u>5,450</u>	<u>6,057</u>
	<u>(110,868)</u>	<u>(137,151)</u>
Net income for the year	<u>721,860</u>	<u>716,338</u>
Net income per share at the end of the year - R\$	<u>1.01</u>	<u>1.00</u>

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

Companhia Brasileira de Alumínio

Statements of Changes in Stockholders' Equity

In thousands of reais, unless otherwise indicated

	<u>Capital</u>	<u>Revaluation reserve</u>	<u>Revenue reserve</u> <u>Legal</u>	<u>Retained earnings</u>	<u>Total</u>
December 31, 2003	2,320,000	3,179	103,498	189,701	2,616,378
Capitalization of reserves - Ordinary General Meeting of April 30, 2004	180,000			(180,000)	
Realization of revaluation reserve		(79)		79	
Net income for the year				716,338	716,338
Appropriation of net income					
Legal reserve			35,817	(35,817)	
Interest on capital (R\$ 0.42 per share)				(300,000)	(300,000)
December 31, 2004	2,500,000	3,100	139,315	390,301	3,032,716
Capitalization of reserves - Ordinary General Meeting of April 29, 2005	300,000			(300,000)	
Realization of revaluation reserve		(73)		73	
Net income for the year				721,860	721,860
Appropriation of net income					
Legal reserve			36,093	(36,093)	
Interest on capital (R\$ 0.41 per share)				(295,000)	(295,000)
December 31, 2005	<u>2,800,000</u>	<u>3,027</u>	<u>175,408</u>	<u>481,141</u>	<u>3,459,576</u>

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

Companhia Brasileira de Alumínio

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

	<u>2005</u>	<u>2004</u>
Financial resources were provided by		
Operations		
Net income for the year	721,860	716,338
Expenses (income) not affecting working capital		
Deferred income tax and social contribution	(5,450)	(6,057)
Provision for losses on tax incentives		(939)
Equity in the results of subsidiary and associated companies	(150,030)	(119,264)
Capital gain on investments	(10,976)	
Provision for losses on property, plant and equipment		2,674
Provision for sundry losses	13,830	
Residual value on the sale of property, plant and equipment	1,389	453
Provision for special private pension plan	739	829
Depreciation, amortization and depletion	224,317	225,707
Realization of negative goodwill of merged subsidiary		(1,080)
Interest and monetary variation on long-term items	<u>20,782</u>	<u>1,262</u>
Resources arising from operations	866,461	819,923
Third parties		
Increase in net working capital of merged subsidiary		18,183
Decrease in related parties		22,918
Decrease in long-term receivables		5,961
Dividends from subsidiary and associated companies	160,176	83,247
Increase in long-term liabilities	<u>325,023</u>	<u>284,808</u>
Total funds obtained	<u>1,351,660</u>	<u>1,235,040</u>
Financial resources were used for		
Long-term receivables	36,938	41,883
Permanent assets		
Investments	12,860	45,787
Property, plant and equipment	883,771	528,209
Deferred charges	31,709	8,190
Decrease in long-term liabilities		45,771
Transfer from long-term to current financing	249,139	79,096
Interest on capital	<u>295,000</u>	<u>300,000</u>
Total funds used	<u>1,509,417</u>	<u>1,048,936</u>
Increase (decrease) in working capital	<u>(157,757)</u>	<u>186,104</u>

Companhia Brasileira de Alumínio

Statements of Changes in Financial Position

Years Ended December 31

In thousands of reais

(continued)

	<u>2005</u>	<u>2004</u>
Changes in working capital		
Current assets		
At the end of the year	1,929,790	1,672,783
At the beginning of the year	<u>1,672,783</u>	<u>1,712,212</u>
	<u>257,007</u>	<u>(39,429)</u>
Current liabilities		
At the end of the year	1,029,675	614,911
At the beginning of the year	<u>614,911</u>	<u>840,444</u>
	<u>414,764</u>	<u>(225,533)</u>
Increase (decrease) in working capital	<u>(157,757)</u>	<u>186,104</u>

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

Companhia Brasileira de Alumínio

Notes to the Financial Statements at December 31, 2005 and 2004 In thousands of reais, unless otherwise indicated

1 Operations

The Company is a member of the Votorantim Group. Its main activities are the extraction and processing 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 2005 the Company launched an expansion project to increase its aluminum production capacity from 400 thousand tons/year to 470 thousand tons/year, and is expected to start utilizing the new production capacity in the first quarter of 2007. This expansion foresees the construction of a reduction room, optimization of the aluminum oxide production, as well as the installation of a new bauxite ore processing plant in the municipality of Mirai, State of Minas Gerais, besides other supplementary investments.

Together with these expansions, the Company is also investing in the increase of the rolling area capacity in order to reach new markets, domestic and export, with the manufacture of reels with a width of up to two meters. This expansion is estimated to start operations during 2006.

In 2005, the Company also completed the construction of a hydroelectric power plant on the Paranapanema river (municipalities of Ourinhos, State of São Paulo and Jacarezinho, State of Paraná), as well as a participation, through a consortium, in the project for the construction of the Barra Grande and Campos Novos power plants, which will be fully operational during 2006. The objective of these investments is to increase the generating capacity of own energy to meet the production increase, maintaining the level of at least 60% of own energy.

In the mining area, CBA acquired in 2005 mining rights in the region of Barro Alto, State of Goiás, adding 20 million tons more of bauxite ore to the present reserves.

The amount of the investments programmed totals approximately US\$ 1.0 billion, equivalent to approximately R\$ 2.3 billion at December 31, 2005, partially with own resources and partially with resources obtained from the National Bank for Economic and Social Development (BNDES).

Companhia Brasileira de Alumínio

Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais, unless otherwise indicated

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 and property, plant and equipment, for contingent liabilities and others. Actual results may differ from those estimated.

(a) Determination of net income

Net income is determined on the accrual basis of accounting. The provision for income tax takes into account the tax incentive portion. Deferred taxes were recognized based on the current rates for income tax and social contribution on temporary differences, up to the limit of probable realization (Note 11).

(b) Current assets and long-term receivables

The financial investments are stated considering the earnings accrued up to December 31 of each year. The investment fund quotas are recorded at realizable amounts, based on the amount of the last available quotation.

The allowance for doubtful accounts is constituted at an amount considered sufficient by management to cover expected losses on the realization of amounts receivable.

Inventories are stated at average cost of purchase or production, lower than replacement cost or realizable amounts. Importations in transit are stated at the accumulated cost of each transaction.

The other assets are stated at cost or realizable amounts, including, when applicable, accrued earnings and indexation and exchange variations.

(c) Permanent assets

Permanent assets are stated at cost, inflation adjusted up to December 31, 1995, combined with the following aspects:

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Notes to the Financial Statements at December 31, 2005 and 2004 In thousands of reais, unless otherwise indicated

- . Investments in subsidiary and associated companies are evaluated on the equity method of accounting, plus goodwill. The other investments are carried at cost of purchase, inflation adjusted. All investments are reduced by provisions for losses, when necessary.
- . Goodwill paid on the purchase of investments is amortized based on future projected profitability, over periods of up to ten years.
- . Property, plant and equipment include the revalued assets of merged companies. The revalued balances at December 31, 2005 are not significant.
- . Depreciation of property, plant and equipment is computed 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 is computed on the straight-line basis over a period of five years, as from the date benefits start to be generated.

(d) Current and long-term liabilities

These liabilities are stated at known or estimated amounts including, when applicable, accrued charges and indexation and exchange variations.

3 Financial Investments

	<u>2005</u>	<u>2004</u>
Financial investment funds, mainly those managed by Votorantim Asset Management D.T.V.M. Ltda.	1,073,439	933,763
Other	<u>2,263</u>	<u>30</u>
	<u>1,075,702</u>	<u>933,793</u>

The financial investment funds portfolio comprises public securities (23%), private securities (65%) and repurchase agreements (12%).

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Notes to the Financial Statements
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4 Trade Accounts Receivable

	<u>2005</u>	<u>2004</u>
Domestic market	216,784	240,427
Export	<u>54,441</u>	<u>76,305</u>
	271,225	316,732
Allowance for doubtful accounts	<u>(21,361)</u>	<u>(21,570)</u>
	<u>249,864</u>	<u>295,162</u>

5 Inventories

	<u>2005</u>	<u>2004</u>
Finished products	143,725	135,237
Products in process	101,696	86,613
Raw materials	49,725	49,639
Warehouse materials	51,084	38,469
Imports in transit	6,801	13,259
Other	<u>13,232</u>	<u>9,946</u>
	<u>366,263</u>	<u>333,163</u>

6 Taxes Recoverable

	<u>2005</u>	<u>2004</u>
Value-Added Tax on Sales and Services (ICMS) and Excise Tax (IPI) (*)	101,384	51,168
Taxes withheld and prepaid	<u>7,735</u>	<u>3,133</u>
	109,119	54,301
Current	<u>(55,548)</u>	<u>(26,720)</u>
Long-term	<u>53,571</u>	<u>27,581</u>

(*) Includes ICMS benefits/credits arising from the purchase of fixed assets in conformity with Supplementary Law 102/2000.

Companhia Brasileira de Alumínio

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais, unless otherwise indicated

7 Transactions and Balances with Related Companies

Description	Balances at December 31, 2005				Balances at December 31, 2004			Transactions			
	Assets		Liabilities		Assets		Liabilities	Income		Expenses/purchases	
	Current assets	Permanent assets	Current liabilities	Long-term liabilities	Current assets	Current liabilities	Long-term liabilities	2005	2004	2005	2004
Financial investments											
Votorantim Asset Management DTVM Ltda.	977,775				925,944			41,862	128,442		
Accounts receivable											
Companhia Mineira de Metais	140				362			3,929	5,383		
Companhia Nitro Química Brasileira	506				156			4,065	2,382		
Companhia Paraibuna de Metais	335				453			5,007			
Siderúrgica Barra Mansa S.A.	283				273			3,596	2,826		
Votorantim N.V.	160				19,021			264,745			
Other	1				46			3,420	2,896		
	1,425				20,311			284,762	13,487		
Other accounts receivable											
Indústria e Comércio Metalúrgica Atlas S.A.	30,958				11,770						
Companhia Luz e Força Santa Cruz	5,000				27,000						
Mineração Rio do Norte S.A.	41,300				5,553						
Other	4,130				482						
	81,388				44,805						

Companhia Brasileira de Alumínio

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais, unless otherwise indicated

Description	Balances at December 31, 2005				Balances at December 31, 2004			Transactions			
	Assets		Liabilities		Assets		Liabilities	Income		Expenses/purchases	
	Current assets	Permanent assets	Current liabilities	Long-term liabilities	Current assets	Current liabilities	Long-term liabilities	2005	2004	2005	2004
Advances to suppliers											
Indústria e Comércio Metalúrgica											
Atlas S.A.	10	40,561			1,282	48,719					
Engemix S.A.	165										
	<u>175</u>	<u>40,561</u>			<u>1,282</u>	<u>48,719</u>					
Advances for future capital increase											
Votorantim Energia S.A.											
Advances from customers											
Companhia Mineira de Metais			5								
Companhia Nitro Química Brasileira			24								
Siderúrgica Barra Mansa S.A.			18								
			<u>47</u>								
Suppliers											
Indústria e Comércio Metalúrgica											
Atlas S.A.			8,379			16,630			100,831	78,004	
Machadinho Energética S.A.			36,327			41,828			50,764	57,022	
Petrocoque S.A. Indústria e Comércio			3,253			3,759				81,502	
Companhia Luz e Força Santa Cruz									92,288		
Companhia Nitro Química Brasileira			1,700			493			21,076	18,411	
Other			7,981			503			54,299	21,596	
			<u>57,640</u>			<u>63,213</u>			<u>319,258</u>	<u>256,535</u>	

Companhia Brasileira de Alumínio

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais, unless otherwise indicated

Description	Balances at December 31, 2005					Balances at December 31, 2004			Transactions			
	Assets			Liabilities		Assets		Liabilities	Income		Expenses/purchases	
	Current assets	Long-term receivables	Permanent assets	Current liabilities	Long-term liabilities	Current assets	Current liabilities	Long-term liabilities	2005	2004	2005	2004
Interest on capital												
Votorantim Participações S.A.				212,785			59,706					299,211
Other				659			670					789
				<u>213,444</u>			<u>60,376</u>					<u>300,000</u>
Other accounts payable												
FUNSEJEM				618	9,653		692	8,914				829
Other												
				<u>618</u>	<u>9,653</u>		<u>692</u>	<u>8,914</u>				<u>829</u>
Loan agreements												
Votorantim Comercial Exportadora e Importadora Ltda.												10,532
Other									1,529			6,407
									<u>1,529</u>			<u>16,939</u>

Financial charges on loan agreements correspond to the Interbank Deposit Certificate (CDI) variation.

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Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais, unless otherwise indicated

8 Investments

	2005						
	<u>Information on subsidiary/associated companies</u>						
	<u>Adjusted net equity</u>	<u>Results for the year</u>	<u>Shares/quotas held (thousands)</u>	<u>Holding - %</u>	<u>Result of equity accounting</u>	<u>Goodwill</u>	<u>Balance of investments</u>
Subsidiaries							
CBA Overseas Trading CO Ltd.	1,893	(301)	150	100.00	(595)		1,893
Companhia Luz e Força Santa Cruz	89,240	28,626	371,744	99.99	28,617		89,231
Santa Cruz Geração de Energia S.A.	53,686	15,179	42,102	100.00	15,186		53,686
Indústria e Comércio Metalúrgica Atlas S.A.	34,741	32,887	396,301	99.86	32,902		34,692
Mineração Zona da Mata Ltda.			1,000	100.00		8,756	
Associated companies							
BAESA - Energética Barra Grande S.A.	392,419	(5,962)	59,757	15.00	(894)	9,334	58,863
Campos Novos Energia S.A.	388,787		88,222	22.69		29,824	88,222
Machadinho Energética S.A.	354,183	4,802	98,911	29.11	1,398		103,103
Mineração Rio do Norte S.A.	578,970	419,778	60,000	10.00	42,476		57,897
Petrocoque S.A. Indústria e Comércio	54,858	12,629	5,100	15.00	1,894		8,229
Votorantim Energia Ltda.	343,301	103,999	227,434	25.87	29,046		88,812
					<u>150,030</u>	47,914	584,628
							<u>67,950</u>
Other investments carried at cost						47,914	652,578
						<u>700,492</u>	

Companhia Brasileira de Alumínio

Notes to the Financial Statements at December 31, 2005 and 2004

In thousands of reais, unless otherwise indicated

	2004						
	Information on subsidiary/associated companies						
	Adjusted net equity	Results for the year	Shares/quotas held (thousands)	Holding - %	Result of equity accounting	Goodwill	Balance of investments
Subsidiaries							
CBA Overseas Trading CO Ltd.	2,489	608	150	100.00	442		2,489
Companhia Luz e Força Santa Cruz	125,654	30,428	511,277	99.99	30,426		125,641
Indústria e Comércio Metalúrgica Atlas S.A.	62,591	22,452	396,301	99.86	22,421		62,503
Mineração Zona da Mata Ltda.		(7)	1,000	100.00	(125)	2,850	
Associated companies							
BAESA - Energética Barra Grande S.A.	398,381		59,757	15.00		9,334	59,757
Campos Novos Energia S.A.	388,787		88,222	22.69		29,824	88,222
Machadinho Energética S.A.	349,381	6,267	98,911	29.11	1,824		101,705
Mineração Rio do Norte S.A.	870,021	471,099	60,000	10.00	47,638		87,002
Petrocoque S.A. Indústria e Comércio	51,230	18,921	5,100	15.00	2,838		7,685
Votorantim Energia Ltda.	167,380	49,409	225,394	27.93	13,800		46,749
					<u>119,264</u>	42,008	581,753
Other investments carried at cost							<u>61,001</u>
						<u>42,008</u>	<u>642,754</u>
						<u>684,762</u>	

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(a) Companhia Luz e Força Santa Cruz and Santa Cruz Geração de Energia S.A.

In accordance with Law 1084/04, on August 1, 2005, the corporation named "Santa Cruz Geração de Energia S.A." was formed, with a capital of R\$ 1, according to the Minute of the General Meeting for the Constitution of the Company. On November 1, 2005, the assets, rights and obligations relating to the generation activity were transferred to Santa Cruz Geração de Energia S.A. based on the evaluation of the book value of the net assets at October 30, 2005. CBA began to have a 100% ownership of Santa Cruz Geração de Energia S.A. through a capital reduction and the transfer of the shares of Companhia Luz e Força Santa Cruz.

The audit opinions on the financial statements at December 31, 2005 and 2004 of the subsidiary Companhia Luz e Força Santa Cruz include a matter of emphasis paragraph relating to the present situation of the ratification of tariff adjustment by the National Electric Energy Agency (ANEEL). The financial statements at December 31, 2005 and 2004 do not contemplate possible adjustments that may arise from any alterations in the definitive tariff adjustment.

(b) Mineração Zona da Mata Ltda.

In October 2003, the Company acquired a 100% ownership of Mineração Zona da Mata Ltda., the holder of the mining rights in the Cataguases region. The total acquisition price will be determined at the end of the measurement of the ore content in the Mineração Zona da Mata Ltda. reserves, scheduled for 2006. The total amount, if the content informed by the former controlling quotaholders is confirmed, may reach R\$ 23 million (equivalent to US\$ 10 million). R\$ 8,756 had been paid up to December 31, 2005. The goodwill recorded, based on the expectation of future profitability, will be amortized in ten years, as from the start of the extraction process in the acquired areas.

(c) Machadinho Energética S.A.

On September 2, 2004, Machadinho Energética S.A. published a Significant Event Notice, in compliance with the dispositions of Brazilian Securities Commission (CVM) Instruction 358/2002, based on Official Letter 829/2004 - SFF/ANEEL (SFF Official Letter).

On December 28, 2005, the Superintendency of Economic and Financial Oversight (SFF), together with the Superintendency of Generation Concessions and Permits (SCG) of the National Electric Energy Agency (ANEEL), through Resolution 2263/05, confirmed its previous determination, which is, the compliance with the above mentioned dispositions.

← - - - Formatado: Justificado

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Machadinho Energética S.A. has informed that Consórcio Machadinho, through its lead company Tractebel Energia S.A., has filed an administrative appeal with suspensive effect presently under discussion. Since Resolution 2263/05 is subject to review both in the administrative and in the judicial areas, Machadinho Energética S.A. is not required to adopt any effective measure to comply with the determinations comprised in Resolution.

Finally, Machadinho Energética S.A. has reiterated that, in the event that the decision taken by SFF and SCG is maintained in the administrative and judicial areas, its compliance will not entail any consequences to the owners of the debentures issued by Machadinho Energética S.A.

(d) Mineração Rio do Norte S.A.

Mineração Rio do Norte S.A. was fined for the reduction of capital made on July 22, 1999. On April 16, 2003, the associated company received a notice from the Federal Revenue Service, demanding the payment of this tax assessment. With the objective of suspending this payment, the associated company made a judicial deposit of R\$ 316,011 in May 2003 for its cause to be considered in the courts. Management of the associated company believes, based on the opinion of its legal advisors, that the company will probably receive a favorable decision in this action and, accordingly, no provision for contingent liabilities was recorded by the associated company.

(e) Votorantim Energia Ltda.

Votorantim Energia Ltda. has a holding of 33.33% in VBC Participações S.A., whose financial statements were audited by other independent auditors. Audit opinions on the financial statements at December 31, 2005 and 2004 of the indirect associated company VBC Participações S.A. include a matter of emphasis paragraph relating to the present situation of the ratification of tariff adjustments by the National Electric Energy Agency (ANEEL). The financial statements at December 31, 2005 and 2004 do not contemplate possible adjustments that may arise from any alterations in the definitive tariff.

In December 2005, the quotaholders of Votorantim Energia Ltda. subscribed capital by utilizing part of the balance of the "Advance for Future Capital Increase" account, attributing quotas to the new owners. The increase made by the company totaled R\$ 71,921, of which R\$ 2,040 was effected by CBA. Consequently, the participation of CBA changed from 27.93% to 25.87%, with a gain of R\$ 10,976 on the transaction.

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(f) Further information

The financial statements of the subsidiary and associated companies Mineração Rio do Norte S.A., Petrocoque S.A. Indústria e Comércio, Machadinho Energética S.A. and BAESA - Energética Barra Grande S.A. were audited by other independent auditors.

The goodwill arising from the acquisition of the investments in BAESA - Energética Barra Grande S.A. and Campos Novos Energia S.A. were based on the expectation of future profitability of their concession agreements, and will be amortized as from the start of commercial operations of these companies.

9 Property, Plant and Equipment

	2005		2004		
	Cost	Accumulated depreciation and depletion	Balance	Balance	Annual depreciation rate - %
Land	77,161		77,161	75,157	
Buildings and civil works (i)	729,049	288,906	440,143	326,371	3 to 4
Machinery and equipment (i)	2,408,383	1,153,299	1,255,084	864,940	3 to 20
Installations	126,882	96,766	30,116	22,311	10
Furniture and fixtures	6,663	3,424	3,239	2,197	10
Vehicles	52,240	30,124	22,116	9,453	20 and 25
Mining rights (ii)	169,735	271	169,464	34,544	
Construction in progress	203,359		203,359	183,510	
Advances to suppliers	149,058		149,058	210,016	
Other	15,261	3,356	11,905	12,157	15 and 20
	<u>3,937,791</u>	<u>1,576,146</u>	<u>2,361,645</u>	<u>1,740,656</u>	

(i) Depreciation rates take into consideration the estimated useful lives of the assets, limited to the concession term in the case of the assets linked to the UHE Canoas.

(ii) Depletion is calculated proportionally to the extraction in relation to ore reserves.

Property, plant and equipment include investments for the construction of hydroelectric power plants amounting to R\$ 63,881 (2004 - R\$ 66,286), for which environmental licenses are pending approval and release. Management expects that operations for the use of the electric energy of these units should start in the medium-term.

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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\$ 79 at December 31, 2005 (2004 - R\$ 71,796).

10 Deferred Charges

	2005		2004		Annual Amortization rates - %
	Cost	Accumulated amortization	Balance	Balance	
Pre-operating expenses	126,243	43,241	83,002	64,300	20
Other	6,706	4,412	2,294	2,211	20
	<u>132,949</u>	<u>47,653</u>	<u>85,296</u>	<u>66,511</u>	

At December 31, 2005 and 2004, deferred charges include investments in pre-operating expenses for the construction of hydroelectric plants totaling R\$ 15,850, for which environmental licenses are pending approval and release. Management expects that operations for the use of the electric energy of these units should start in the medium-term.

Pre-operating expenses are represented by administrative and conservation expenses during the construction phase of the hydroelectric plants.

11 Income Tax and Social Contribution

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

	2005	2004
Income before taxation	832,728	853,489
Nominal rate - %	<u>34</u>	<u>34</u>
Income tax and social contribution at nominal rate	(283,128)	(290,186)
Reconciliation		
Interest on capital benefit	100,300	102,000
Equity accounting	51,010	40,550
Capital gain on investments	3,732	
Non-taxable income	16,905	15,060
Temporary differences	5,450	6,057

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	<u>2005</u>	<u>2004</u>
Other	(5,137)	(10,632)
Income tax and social contribution expense	<u>(110,868)</u>	<u>(137,151)</u>
Income tax and social contribution - effective rate - %	<u>13</u>	<u>16</u>

Deferred tax on temporary differences

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

	<u>2005</u>	<u>2004</u>
Provision for		
Contingencies	6,448	7,549
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) payment	2,515	2,183
Private pension plan - FUNSEJEM	3,282	3,031
Losses on tax incentives	1,580	1,580
Losses on receivables	1,015	1,863
Losses on inventories and property, plant and equipment	2,328	4,202
Electric energy charges (ECE) (*)	12,306	7,847
Other	<u>9,207</u>	<u>4,977</u>
	<u>38,682</u>	<u>33,232</u>

(*) Emergency Capacity Charge (ECE).

Management expects that the deferred tax credits from temporary differences will be realized up to 2010. However, it is not possible to estimate with reasonable assurance the years in which these temporary differences will be realized, since part of them are subject to judicial decisions.

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12 Financing

Type/purpose	Annual financing charges	2005		2004	
		Current	Long term	Current	Long term
Prepayments on exports	US\$ + LIBOR + "spread"	140,379	97,937	43,712	272,076
Advances on export contracts	US\$ + "spread"	102,372		91,878	
Purchases of property, plant and equipment					
	Long-term interest rate (TJLP) + "spread"	12,941	43,454	12,541	54,226
BNDES UHE Canoas I and II	TJLP + "spread"	10,865	32,976	11,170	44,745
BNDES UHE Pirajú	TJLP + "spread"	43,311	433,167	36,184	139,821
BNDES expansion industrial					
		<u>309,868</u>	<u>607,534</u>	<u>195,485</u>	<u>510,868</u>

The average spread on the financing in foreign currency is 1.09% per year (2004 - 1.56% per year) and on local currency 3.82% per year (2004 - 3.10% per year).

	2005	2004
Long-term installments fall due in		
2006		219,783
2007	203,195	169,833
2008	126,389	58,770
2009	124,203	56,209
2010	71,839	6,273
2011	60,752	
2012 onwards	21,156	
	<u>607,534</u>	<u>510,868</u>

Liabilities are guaranteed by promissory notes, sureties from the parent company Votorantim Participações S.A. and by the assets which are being financed.

(a) Restriction clauses

The loan agreements with the BNDES for the purchase of property, plant and equipment contain restrictive clauses related to: (i) change in the composition of investments to other non-approved investments, (ii) sale of the Company, or any merger, acquisition, split-off which indicates the transfer of funds to other activities, (iii) sale of the asset financed, (iv) non utilization of the funds in the construction for a minimum period after release, and

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(v) commercial negotiations to close the market with competitors that impedes the growth of the Company. The Company has been complying with these restrictive clauses.

(b) Bank sureties

The Company has bank surety agreements granted to third parties, arising from commercial transactions, as follows:

<u>Description</u>	<u>2005</u>	<u>2004</u>
Investees and related companies	17,209	17,315
Commercial transactions with third parties	<u>52,006</u>	<u>39,394</u>
	<u>69,215</u>	<u>56,709</u>

13 Other Commitments

The Company is a guarantor of loans obtained by investees and related companies, as follows:

	<u>2005</u>	<u>2004</u>
Companhia Níquel Tocantins		
Surety letter for BNDES		5,234
Guarantee in Export Prepayment Agreement with ING Bank NV Curacao Branch		57,784
Siderúrgica Barra Mansa		
Promissory note for ACE credit		33,515
Campos Novos Energia S.A.		
Loan agreement with BNDES	1,080,496	460,624
BAESA - Energética Barra Grande S.A.		
Loan agreement with BNDES	300,000	300,000
Companhia Mineira de Metais		
Surety letter for BNDES	112,000	112,000
Concession agreement - ANEEL	4,560	4,560

Indústria e Comércio Metalúrgica Atlas S.A.

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	<u>2005</u>	<u>2004</u>
Surety letter for Alunorte - Alumina do Norte S.A.		3,470
Machadinho Energética S.A.		
Loan agreement with BNDES	76,200	76,200
Surety letter for BNDES	<u>402,000</u>	<u>232,339</u>
	<u>1,975,256</u>	<u>1,285,726</u>

Additionally, the Company has electric energy and fuel oil supply agreements, with the following restrictions:

- Minimum energy consumption jointly with CESP - Companhia Energética de São Paulo of 284 MW, of which 147 MW up to 2011 and 137 MW up to 2005. The latter anticipates a decrease to 110 MW as from January 2006, with an extension of the due date up to December 2011.
- Minimum fuel oil consumption jointly with Petrobras Distribuidora S.A. of 600 thousand tons in 60 months up to March 2006.

14 Contingencies

The Company constitutes provisions to cover losses arising from those cases where the legal advisors consider an unfavorable outcome to be probable, as summarized below:

<u>Nature of the lawsuits</u>	<u>2005</u>	<u>2004</u>
Tax	148	788
Environmental	79	712
Labor	4,896	5,528
Civil	<u>13,937</u>	<u>15,176</u>
	<u>19,060</u>	<u>22,204</u>

According to current legislation, the Company's tax books are subject to review by the tax authorities, retroactively, for up to ten years, regarding Federal and State taxes. Contingencies that may arise from possible tax inspections cannot be defined at this time, and, as a consequence, the Company has not been recording a provision for contingencies.

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15 Stockholders' Equity

(a) Capital

At December 31, 2005 and 2004, fully subscribed and paid-up capital comprised 713,208,967 common nominative shares with no nominal value, held by stockholders domiciled in Brazil. Stockholders are assured a mandatory minimum dividend of 10% of net income calculated as required by law.

In a General and Extraordinary Meeting of Stockholders, held on April 29, 2005, stockholders approved a capital increase from R\$ 2,500,000 to R\$ 2,800,000 through the capitalization of retained earnings.

(b) Interest on capital and dividends

The Company is proposing the payment of R\$ 295,000 (2004 - R\$ 300,000) as interest on capital, attributable to the mandatory dividend for the year, to be approved at the Ordinary General Meeting (AGO), the amount of which is higher than the minimum mandatory dividend.

Complying with statutory provisions, the balance of retained earnings at December 31, 2005 of R\$ 481,141, remains at the disposal of the General Meeting of Stockholders.

16 Private Pension Plan - Defined Contribution

(a) Regular pension plan

In July 2001, the Company became a sponsor of 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. Voluntary contributions may also be made to FUNSEJEM. Contributions by the Company during 2005 amounted to R\$ 3,169 (2004 - R\$ 2,678).

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(b) Special pension plan

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

- . Minimum of ten years of continuous service.
- . Sum of the participant's age with the continuous service equal to or greater than 55 years.
- . Applicable salary equal to or greater than 15 times the amount of the Aluminum Reference Unit (URA).

On December 31, 2005, the provision formed totaled R\$ 9,652 (2004 - R\$ 8,914). The amounts are paid monthly to FUNSEJEM, together with the regular defined pension contributions. In 2005, these totaled R\$ 739 (2004 - R\$ 829). Also in 2004, the Company allocated R\$ 613 to FUNSEJEM for the participants who retired and had completed at the age of 55, who become eligible for redemption purposes.

17 Insurance Coverage

Optimizing cost effectiveness, the Company is self-insured 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. However, the Company has insurance for the materials kept in the branches, as well as for materials shipped to customers and between branches.

18 Financial Instruments

(a) Swap transactions

The Company effects swap operations for protection against the volatility of foreign currencies. Also, temporary cash surpluses are invested in line with treasury policies, which are reviewed periodically.

At December 31, 2004, the swap contracts effected by means of financial investments in an exclusive investment fund managed by Banco Votorantim S.A., and recorded at market value, amounted to R\$ 79,819. These contracts were settled in 2005.

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

(b) Other financial assets and liabilities

Cash and banks, accounts receivable, other current assets, accounts payable and sundry provisions: the amounts recorded approximate the realizable amount of the respective assets.

The financial investments, mainly represented by investment fund quotas, are recorded at realizable amounts, based on the amount of the last available quotation.

Investments: recorded on the equity method of accounting or inflation adjusted 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.

Financings are recorded based on the contractual interest of each operation.

* * *