

OFFERING CIRCULAR
U.S.\$200,000,000

ODEBRECHT
Engineering & Construction

Odebrecht Overseas Limited

(Organized in the Commonwealth of The Bahamas)

9.625% Perpetual Notes

Unconditionally Guaranteed by

Construtora Norberto Odebrecht S.A.

(Incorporated in the Federative Republic of Brazil)

Odebrecht Overseas Limited, or OOL, is offering U.S.\$200,000,000 aggregate principal amount of its 9.625 % perpetual notes. Interest on the notes will accrue at a rate of 9.625% per year. OOL will pay interest on the notes quarterly in arrears on March 22, June 22, September 22 and December 22 of each year, commencing on December 22, 2005. The notes will be unconditionally guaranteed by Construtora Norberto Odebrecht S.A., or CNO. OOL is an indirect wholly-owned subsidiary of CNO.

The notes will be perpetual notes with no fixed final maturity date and will be repaid only in the event that OOL redeems the notes or upon acceleration due to an event of default, as described under "Description of the Notes." The notes may, at the option of OOL, be redeemed, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, on any interest payment date on or after September 22, 2010 or at any time upon the occurrence of specified events relating to Brazilian or Bahamian tax law, as set forth in this offering circular.

The notes will be senior unsecured obligations of OOL ranking equal in right of payment with all of its other existing and future senior unsecured debt. The guarantee will be a senior unsecured obligation of CNO and subordinated to secured debt of CNO to the extent of such security.

This offering circular comprises a prospectus, in relation to the admission to trading on the regulated market of the Luxembourg Stock Exchange only, as referred to in Directive 2003/71/EC of the European Parliament, the Council of 4 November 2003 (the "Prospectus Directive") and the Law on Prospectuses for Securities of July 10, 2005.

Application has been made to the Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as competent authority under the Prospectus Directive, for the prospectus to be approved. Application has been made to the Luxembourg Stock Exchange for the notes to be admitted to listing on the Official List, and to be admitted to trading on the market of the Luxembourg Stock Exchange appearing on the list of regulated markets issued by the European Commission.

Investing in the notes involves risks. See "Risk Factors" beginning on page 9.

Price: 100%

plus accrued interest, if any, from September 22, 2005

Delivery of the notes in book-entry form through a common depositary for Clearstream Banking, S.A. Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, will be made on or about September 22, 2005.

The notes have not been registered under the U.S. Securities Act of 1933, as amended, or Securities Act. The notes may not be offered or sold within the United States or to U.S. persons, except to certain non-U.S. persons in offshore transactions in reliance on Regulation S. See "Transfer Restrictions."

Credit Suisse First Boston

Deutsche Bank

The date of this offering circular is October 26, 2005

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You should rely only on the information contained in this offering circular. We have not authorized anyone to provide you with different information. This offering circular may only be used where it is legal to sell these notes. You should not assume that the information contained in this offering circular is accurate as of any date other than the date on the front of this offering circular.

Unless otherwise indicated or the context otherwise requires, all references in this offering circular to “Construtora Norberto Odebrecht S.A.,” “CNO,” “our company,” “we,” “our,” “ours,” “us” or similar terms refer to Construtora Norberto Odebrecht S.A. and its consolidated subsidiaries (including, without limitation, OOL), and all references to “Odebrecht Overseas Limited,” “the Issuer” or “OOL” refer to Odebrecht Overseas Limited.

By purchasing notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements under “Transfer Restrictions” in this offering circular. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

We have submitted this offering circular confidentially to a limited number of investors so that they can consider a purchase of the notes. We have not authorized its use for any other purpose. This offering circular may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering circular, you agree to these restrictions.

We and OOL accept responsibility for this offering circular. Having taken all reasonable care to ensure that such is the case, we and OOL confirm that, to the best of our knowledge, the information contained in this offering circular is in accordance with the facts and does not omit anything likely to affect its import.

This offering circular summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering circular. In making an investment

decision, you must rely on your own examination of our company and the terms of the offering and the notes, including the merits and risks involved.

Credit Suisse First Boston (Europe) Limited and Deutsche Bank AG, London Branch, or the initial purchasers, make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering circular. Nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the initial purchaser as to the past or future.

We and OOL are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

In connection with the issue of the notes, Credit Suisse First Boston (Europe) Limited, or the Stabilizing Manager, (or persons acting on behalf of any Stabilizing Manager) may over-allot notes (provided that the aggregate principal amount of notes allotted does not exceed 105.0% of the aggregate principal amount of the notes) or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the closing date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars.

On September 5, 2005, the exchange rate for *reais* into U.S. dollars was R\$2.330 to U.S.\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R\$2.3504 to U.S.\$1.00 at June 30, 2005 and the commercial selling rate, as reported by the Central Bank, was R\$2.654 to U.S.\$1.00 at December 31, 2004, R\$3.1075 to U.S.\$1.00 at June 30, 2004 and R\$2.889 to U.S.\$1.00 at December 31, 2003. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at September 5, 2005 may not be indicative of future exchange rates. See “Exchange Rates” for information regarding exchange rates for the Brazilian currency.

Solely for the convenience of the reader, we have translated some amounts included in “Summary—Summary Financial and Other Information,” “Capitalization,” “Selected Financial and Other Information” and elsewhere in this offering circular from *reais* into U.S. dollars for convenience only using the selling rate as reported by the Central Bank at June 30, 2005 of R\$2.3504 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

CNO Financial Statements

We maintain our books and records in *reais*.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;
- the rules and regulations of the CVM; and
- the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil*).

The financial information contained in this offering circular include our consolidated financial statements at and for each of the years ended December 31, 2004, 2003 and 2002, which have been audited by our independent accountants, as stated in their report included elsewhere in this offering circular. Our unaudited consolidated financial statements at and for the six-month periods ended June 30, 2005 and 2004 are also included elsewhere in this offering circular.

The audit reports of our independent accountants in respect of our financial statements include an explanatory paragraph in which our independent accountants note that we conduct material financial transactions with other companies controlled by the Odebrecht family, or the Odebrecht Group, and that certain financial debts owed by us to third parties have been assumed by other companies controlled by the Odebrecht family. In this offering circular, we refer to the companies controlled by the Odebrecht family as the Odebrecht Group.

Brazilian GAAP differs in significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of the significant differences relating to these financial

statements, see Annex A—“Unaudited Summary of Significant Differences Between Brazilian GAAP and U.S. GAAP.”

OOL Financial Statements

OOL maintains its books and records in U.S. dollars.

OOL prepares its financial statements in accordance with International Financial Reporting Standards, or IFRS.

The financial information contained in this offering circular also includes OOL’s unconsolidated financial statements at and for each of the years ended December 31, 2004 and 2003, which have been audited by our independent accountants, as stated in their report included elsewhere in this offering circular. OOL’s unaudited financial information at and for the six-month period ended June 30, 2005 is also included elsewhere in this offering circular.

The audit reports of our independent accountants in respect of OOL’s unconsolidated financial statements include an explanatory paragraph in which our independent accountants note that OOL is an integral part of the group of companies which forms the Odebrecht Group and conducts material financial transactions with its parent company and other Odebrecht Group companies. In addition, the audit report of our independent accountants for the years ended December 31, 2003 and 2002, include a paragraph, in which our independent accountants note that OOL relies on our financial support to meet its obligations.

Market Share and Other Information

We make statements in this offering circular about our market share in the construction industry in Brazil and elsewhere. We have made these statements on the basis of information obtained from third party sources that we believe are reliable. We derive information regarding our competitive position in the construction industry and other information from *Valor*, a Brazilian newspaper, McGraw-Hill Construction Engineering News-Record, a leading construction industry web site, and other third party sources and reports that we believe are reasonably reliable. Although we have no reason to believe that any of this information is inaccurate in any material respect, neither we nor the initial purchasers have independently verified the construction capacity, market share, market size or similar data provided by third parties or derived from industry or general publications.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering circular. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although we believe that these statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by factors, including the following:

- general economic, political and business conditions in our markets, both in Brazil and outside Brazil, including the level of spending for infrastructure projects of the type that we perform and the ability of our clients to timely pay to us any amounts due;
- the level of financing made available by the Brazilian government and by multilateral financial institutions for projects undertaken by us;
- negotiations of claims with clients of cost and schedule variances and change orders on major projects;
- non-performance, default or bankruptcy of clients, joint-venture partners, key suppliers, subcontractors or financing sources;
- performance of fixed-price and other projects, where a failure to meet schedules, cost estimates or performance targets on a timely basis could result in reduced profit margins or losses;
- interest rate fluctuations, inflation and devaluation or appreciation of the *real* in relation to the U.S. dollar (or other currencies in which we receive income);
- the outcome of pending litigation or arbitration proceedings;
- competition;
- our and OOL’s ability to obtain financing at reasonable interest rates;
- adverse financial developments that could reduce our available cash or lines of credit, or our inability to provide adequate cash collateral for letters of credit or any bonding requirements from customers;
- a reduction in our credit ratings;
- volatility in the surety bond market relating to the type of projects undertaken by us;
- government regulation in certain of the countries in which we operate, including regulations that encourage or mandate the hiring of local contractors or that require foreign contractors to employ specific numbers of citizens of, or purchase specific quantities of supplies from, a particular jurisdiction;
- compliance with job-safety requirements and environmental laws and regulations;
- unsettled political conditions, consequences of war or other armed conflict, civil unrest, strikes, currency controls and governmental actions in certain of the countries and regions in which we operate, including Angola, the Middle East, Peru and Venezuela;

- severe weather or any other natural disasters that adversely impact our business and which could cause us to evacuate personnel, curtail our services, reduce productivity or fail to deliver materials to jobsites on a timely basis in accordance with contract schedules; and
- other factors identified or discussed under “Risk Factors.”

Our forward-looking statements are not guarantees of future performance, and the actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering circular. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering circular before investing, including "Risk Factors" and the financial statements of OOL and CNO. See "Presentation of Financial and Other Information" for information regarding our financial statements, exchange rates and other matters.

Odebrecht Overseas Limited

OOL, our indirect wholly-owned subsidiary, was incorporated as a limited liability company under the laws of The Bahamas on November 16, 1978 and was registered as an International Business Company on April 10, 1991 under the International Business Company Act (No. 2 of 1990) of The Bahamas. OOL serves principally as a vehicle for financing our construction and engineering operations abroad, including providing working capital for our operations in Angola and other Latin American countries, whose domestic financial markets do not generally offer competitively priced working capital locally. OOL also receives income from services rendered in connection with the construction of the Capanda Hydroelectric Project in Angola.

Construtora Norberto Odebrecht S.A.

We are the largest engineering and construction company in Latin America as measured by 2004 revenues. We operate under Brazilian law. We engage in the construction of large-scale infrastructure and other projects, including the construction of highways, railways, power plants, bridges, tunnels, subways, buildings, port facilities, dams, manufacturing and processing plants, as well as mining and industrial facilities. We undertake projects throughout Brazil, other Latin American countries, the United States, Portugal, Angola and the Middle East. We have participated in the construction of over 130 km of bridges, over 52,000 MW of hydroelectric power plants, approximately 245 km of tunnels, over 11,000 km of roads and over 146 km of subway lines. For the year ended December 31, 2004, we reported gross services and sales revenue of R\$5.9 billion (U.S.\$2.5 billion) and EBITDA of R\$413.0 million (U.S.\$176.0 million). We believe we are:

- the world's second largest builder of hydroelectric power plants and bridges according to McGraw-Hill Construction Engineering News-Record;
- the world's third and fourth largest builder of water treatment and desalination and water supply plants, respectively, according to McGraw-Hill Construction Engineering News-Record;
- the largest engineering and construction company in Latin America as measured by 2004 revenues; and
- the largest exporter of services in Brazil with R\$4.6 billion (U.S.\$1.96 billion), or 78.0% of our gross services and sales revenue in 2004, coming from outside Brazil.

We conduct our engineering and construction operations in more than 15 countries. Our principal subsidiaries are: (1) Odebrecht Serviços no Exterior Ltd., or OSEL, a holding company for certain of our offshore subsidiaries, including our Angolan subsidiary; (2) Bento Pedrosa Construções, S.A., or BPC, a Portuguese corporation, involved principally in the construction of public and private works and the supply of related goods and services in Portugal; and (3) Odebrecht Construction, Inc., or OCI, a Florida corporation, primarily involved in the construction of public and private works and the supply of related goods and services in the United States

Business Strategy

We intend to focus on continuing both to achieve steady growth and to build on our competitive strengths in order to maintain and increase our leadership in the Brazilian and selected other international engineering and construction markets. The principal components of our strategy are:

Managing Risk Through Diversification

We have operated for more than two decades in many countries that have significant levels of political risk. We are currently active in Brazil, Angola, Venezuela, Peru, the Dominican Republic and Ecuador, and are seeking opportunities in the Middle East and in certain other countries in which significant levels of political risk exist. We believe that the higher prices we are able to charge in such developing countries compensate us for the political risks that we may incur in such countries. Our backlog includes a diversified portfolio of engineering and construction projects among various infrastructure sectors, different types of construction works and numerous countries. This diversification enables us to manage political and economic risks associated with specific countries and economic sectors.

Building Human Resources

We will continue to focus on recruiting and retaining motivated and knowledgeable employees. We believe that our continued growth and financial success is directly related to the experience of our construction and engineering project managers, as well as our ability to train our other employees to develop the skills necessary to manage and execute future projects.

Pursuing International Opportunities

We are the market leader for engineering and construction projects in Brazil, Angola and certain other countries in Latin America and will continue to pursue business opportunities and strategic alliances in selected projects that will improve our market share and competitiveness. We intend to leverage our experience to broaden our presence in selective international markets and to pursue and develop growth opportunities in these markets.

Focusing on Complex Large-Scale Construction Opportunities and Concession Projects

We will continue to focus on large-scale infrastructure and other complex, tailor-made construction projects in Brazil. We believe there will be significant opportunities in the coming years for us in the Brazilian power, oil, transportation, water supply, sanitation and other infrastructure sectors. We believe that our local market knowledge, human and material resources, size, experience and expertise enable us to continue to compete effectively for large and complex projects in Brazil. In addition to infrastructure projects in Brazil, we intend to concentrate our construction activities on concession-based projects, principally in Latin America and Angola.

Offering Our Customers Differentiated Services

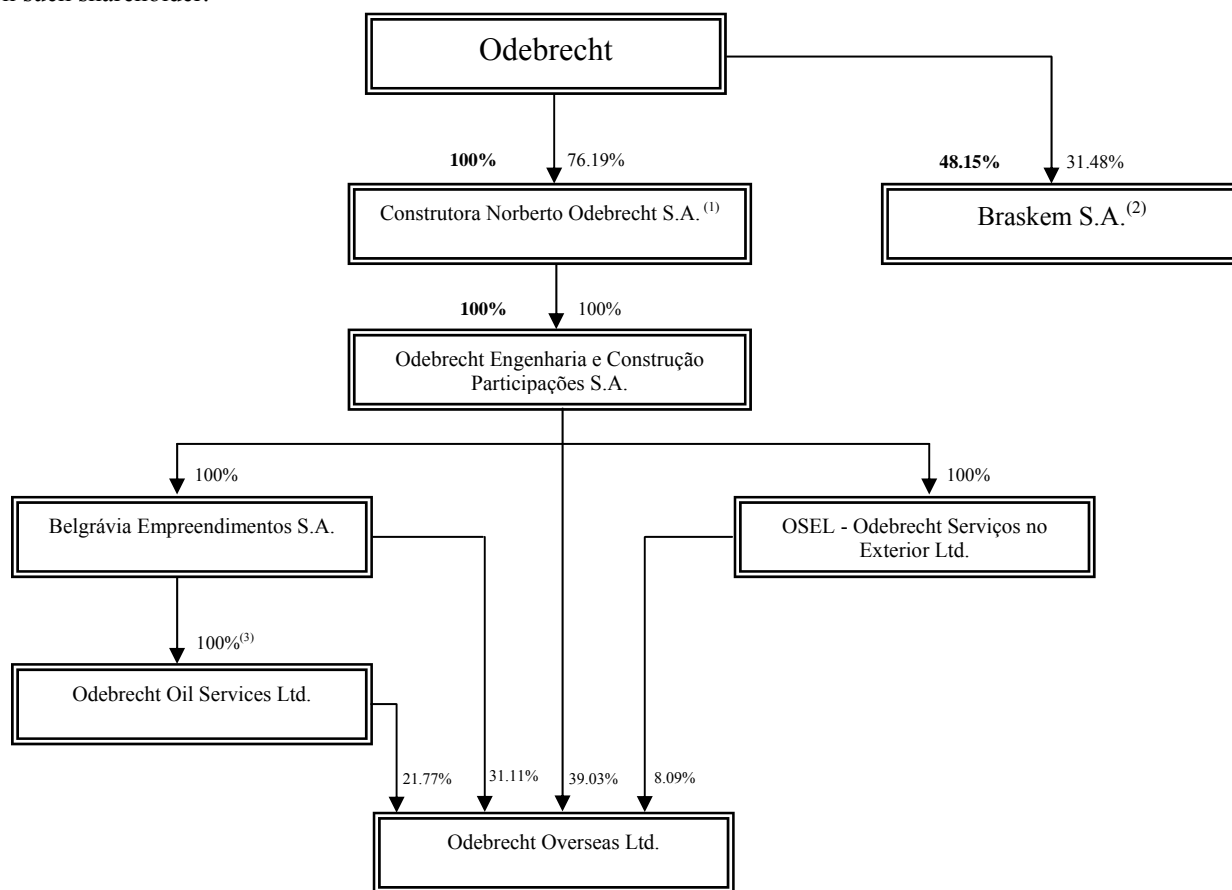
We will continue to seek to differentiate our company from our competitors through our capacity to offer our clients a complete range of services in the markets where we operate. Our capabilities encompass not only construction expertise and innovations that reduce completion time and improve cost and quality controls but also extend to our substantial experience in arranging project financing for many of our engineering and construction projects.

Principal Shareholder

Our controlling shareholder is the Odebrecht Group, which is one of the 10 largest Brazilian-owned private sector conglomerates based upon gross sales revenue in 2004. The Odebrecht Group also controls Braskem S.A., or Braskem, the leading petrochemical company in Latin America, based on average annual production capacity. The Odebrecht Group, through Odebrecht S.A., or Odebrecht, owns approximately 76.2% of our total share capital, including 100% of our voting share capital. Odebrecht is a subsidiary of

Odebrecht Investimentos S.A., a Brazilian corporation ultimately controlled by the Odebrecht family. We indirectly own 100% of the Issuer's total share capital and voting share capital.

The following chart presents our current ownership structure, OOL's current ownership structure and Odebrecht's ownership interest in Braskem, identifying such ownership interests as of June 30, 2005. The percentages in bold italics represent the percentage of the voting share capital owned directly by each shareholder, and the percentages not in bold represent the percentage of the total share capital owned by each such shareholder.



- (1) Our subsidiary, Odebrecht Engenharia e Construção Investimentos S.A. ("OECI"), currently owns the remaining 23.8% of our total share capital. OECI is an indirect wholly-owned subsidiary of Odebrecht. Accordingly, Odebrecht indirectly owns 100% of our total share capital.
- (2) Includes the amount of Braskem's total share capital and voting capital also owned by Odebrecht's wholly-owned subsidiary ODBPAR Investimentos S.A. but excludes the Odebrecht Group's ownership of 62.5% of the voting share capital of Nordeste Química S.A. – Norquisa, which owns 9.12% of Braskem's total share capital, including 25.43% of its voting share capital.
- (3) Belgravia Empreendimentos S.A. indirectly owns 100% of the total share capital and voting capital of Odebrecht Oil Services Ltd.

Our registered office is at Praia de Botafogo, 300, 11th Floor, CEP 22250-040, Rio de Janeiro, Brazil, and our telephone number at this address is 55-21-2559-3000. Our principal executive office is at Avenida das Nações Unidas, 4777, 6th and 7th Floors, São Paulo, SP, CEP 05477-000, Brazil, and our telephone number at this address is 55-11-3443-9000.

The Offering

This summary highlights information presented in greater detail elsewhere in this offering circular. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering circular before investing in the notes, including "Risk Factors" and the financial statements of OOL and CNO.

Issuer	Odebrecht Overseas Limited
Guarantor	Construtora Norberto Odebrecht S.A.
Notes offered	U.S.\$200,000,000 aggregate principal amount of 9.625% Perpetual Notes.
Issue price	100%
Maturity date	The notes are perpetual notes with no fixed final maturity date and no sinking fund provisions.
Interest payment dates	March 22, June 22, September 22 and December 22 of each year, commencing on December 22, 2005.
Interest	The notes will bear interest from September 22, 2005 at the annual rate of 9.625%, payable quarterly in arrears on each interest payment date.
Guarantee.....	The notes will be guaranteed on a senior unsecured basis by CNO.
Ranking.....	The notes will be senior unsecured obligations of OOL. CNO's guarantee will be a senior unsecured obligation of CNO ranking: <ul style="list-style-type: none">• equal in right of payment to other existing and future senior unsecured debt of CNO;• senior in right of payment to CNO's subordinated debt; and• effectively subordinated to debt and other liabilities (including subordinated debt and trade payables) of CNO's subsidiaries and to secured debt of CNO to the extent of such security.
Optional redemption	OOL may, at its option, redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, on any interest payment date on or after September 22, 2010.
Tax redemption.....	The notes may, at OOL's option, be redeemed, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, on any interest payment date on or after or at any time upon the occurrence of specified events relating to Bahamian or Brazilian

tax law, as set forth in this offering circular. See “Description of the Notes—Redemption — Tax Redemption.”

Additional amounts.....	Payments of interest on the notes will be made after withholding and deduction for any Brazilian or Bahamian taxes as set forth under “Taxation.” OOL or CNO, as the case may be, will pay such additional amounts as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction for Bahamian or Brazilian taxes been required, subject to certain exceptions set forth under “Description of the Notes — Additional Amounts.”
Covenants	The terms of the notes will limit CNO’s and its subsidiaries’ ability to create liens and will permit CNO to consolidate or merge with, or transfer all or substantially all of its assets to, another person only if it complies with certain requirements. However, these limitations are subject to a number of important exceptions. See “Description of the Notes — Covenants” and “Risk Factors—Risks Relating to the Notes and Guarantee— <i>There are no financial covenants in the notes and guarantee.</i> ”
Events of default.....	The terms of the notes will set forth the events of default applicable to the notes, including an event of default triggered by cross-acceleration of other debt in an amount of U.S.\$20.0 million or more.
Further issuances	OOL may from time to time without notice to or consent of the holders of notes create and issue an unlimited principal amount of additional notes of the same series as the notes initially issued in this offering.
Use of proceeds	The net proceeds to OOL from the sale of the notes are estimated to be approximately U.S.\$196.0 million and will be used for CNO’s general corporate purposes, including working capital and the repayment of indebtedness.
Form and denomination; settlement	The notes will be issued in the form of Regulation S global notes in fully registered form without interest coupons, as described under “Description of the Notes.” The Regulation S global notes will be exchangeable or transferable, as the case may be, for definitive certificated notes in fully registered form without interest coupons only in limited circumstances. The notes will be issued in registered form in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. See “Description of the Notes — Form, Denomination and Title.”

The notes will be delivered in book-entry form through a common depository for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, S.A. Luxembourg, or Clearstream Luxembourg.

Transfer restrictions..... The notes have not been registered under the Securities Act and are being offered only outside the United States in compliance with Regulation S under the Securities Act. See “Transfer Restrictions.”

Listings..... Application has been made to the Commission de Surveillance du Secteur Financier (the “CSSF”) in its capacity as competent authority under the Prospectus Directive, for the offering circular to be approved. Application has been made to the Luxembourg Stock Exchange for the notes to be admitted to listing on the Official List, and to be admitted to trading on the market of the Luxembourg Stock Exchange appearing on the list of regulated markets issued by the European Commission. We cannot assure you, however, that this application will be accepted.

In 2003, the European Commission issued a Directive of the European Parliament and of the Council on the harmonization of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union (2003/0045(COD)). If this directive, which is known as the Transparency Directive, would require OOL or us to publish financial information either more regularly than OOL or us otherwise would be required to, or according to accounting principles which are materially different from the accounting principles which OOL or we would otherwise use to prepare our published financial information, we may seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union, such as the Zurich Stock Exchange.

Governing law..... The fiscal agency agreement, the guarantee and the notes will be governed by the laws of the State of New York.

Fiscal agent and transfer agent..... JPMorgan Chase Bank, N.A.

Principal paying agent..... J.P. Morgan Trust Bank Ltd.

Luxembourg paying agent, transfer agent and listing agent..... J.P. Morgan Bank Luxembourg S.A.

Summary Financial and Other Information

The following summary financial data has been extracted without material adjustment from our consolidated financial statements.

Our summary financial data at and for the years ended December 31, 2004, 2003 and 2002 have been extracted without material adjustment from our audited consolidated financial statements included elsewhere in this offering circular. Our summary financial data at and for the six months ended June 30, 2005 and 2004 have been extracted without material adjustment from our unaudited consolidated interim financial information included elsewhere in this offering circular. Our results for the six months ended June 30, 2005 are not necessarily indicative of the results expected for the entire year ending December 31, 2005. Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these financial statements, see Annex A—"Unaudited Summary of Significant Differences Between Brazilian GAAP and U.S. GAAP." This summary financial data also contains unaudited data in the section "Other Data."

This summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this offering circular.

	At and for the six months ended			At and for the years ended			
	June 30,			December 31,			
	2005 (1)	2005	2004	2004 (1)	2004	2003	2002
	(Unaudited)			(Audited)			
(amounts expressed in thousands, except financial ratio)	(in U.S.\$)	(in reais)		(in U.S.\$)	(in reais)		
INCOME STATEMENT DATA							
Net revenue from services rendered	1,172,592	2,756,060	2,783,727	2,448,386	5,754,687	4,508,710	4,252,140
Gross profit.....	158,251	371,953	365,272	295,824	695,304	664,961	508,114
Net income	22,937	53,910	102,138	128,131	301,160	162,975	242,003
BALANCE SHEET DATA							
Assets							
Cash and cash equivalents.....	65,840	154,750	244,798	75,328	177,051	312,162	164,984
Financial investments.....	151,416	355,889	762,655	258,629	607,882	258,554	172,260
Marketable securities	222,497	522,956	10,410	216,915	509,837	259,179	104,546
Trade accounts receivable.....	561,098	1,318,805	1,545,955	424,344	997,378	1,078,938	981,264
Permanent assets	260,373	611,981	665,378	294,806	692,913	592,886	614,891
Total Assets	2,276,280	5,350,169	5,861,652	2,314,549	5,440,115	4,715,682	4,485,580
Short-term liabilities							
Debt	90,707	213,198	539,759	175,311	412,050	508,229	400,674
Suppliers and subcontractors	351,339	825,788	1,029,064	269,773	634,075	565,578	507,583
Advances from customers	113,359	266,440	247,547	117,484	276,135	189,249	151,937
Other (2)	34,081	80,104	104,680	41,270	97,001	107,224	67,216
Long-term liabilities							
Debt	408,365	959,821	1,252,161	494,611	1,162,534	844,256	895,524
Suppliers and subcontractors	10,714	25,183	38,731	24,984	58,723	27,376	21,774
Advances from customers	306,706	720,882	499,946	327,944	770,799	576,596	506,180
Shareholders' equity	675,787	1,588,370	1,529,268	652,851	1,534,460	1,427,130	1,474,353
OTHER DATA (Unaudited)							
Gross margin (3)	13.5%	13.5%	13.1%	12.1%	12.1%	14.7%	12.0%

(Footnotes on next page)

	For the twelve months ended June 30,			For the years ended December 31,			
	2005 (1)	2005	2004	2004 (1)	2004	2003	2002
	(in U.S.\$)	(in reais)		(in U.S.\$)		(in reais)	
(amounts expressed in thousands, except financial ratio)				(Unaudited)			
OTHER DATA (Unaudited)							
EBITDA (4).....	173,921	408,783	408,082	175,796	413,191	409,137	422,863
Net Debt/EBITDA Ratio (5)	0.34	0.34	1.90	0.68	0.68	1.28	2.02
Total Debt/EBITDA Ratio (6)	2.87	2.87	4.39	3.81	3.81	3.31	3.07

- (1) Solely for the convenience of the reader, Brazilian *real* amounts at and for the periods ended June 30, 2005 and December 31, 2004 have been translated into U.S. dollars at the commercial selling rate at June 30, 2005, of R\$2.3504 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.
- (2) Comprises current accounts with consortium members, liabilities associated with tax disputes, management profit sharing and other accounts payable.
- (3) Gross margin represents gross profit divided by net revenue from services rendered.
- (4) EBITDA means net revenue from services rendered, *minus* cost of services rendered, *minus* general and administrative expenses (including executive officers' remuneration), *plus* any depreciation or amortization included in cost of sales and services rendered or general and administrative expenses, *plus* other operating income. Although EBITDA is not a measurement under Brazilian GAAP, our management believes that EBITDA serves as an important financial analysis tool for measuring our performance in several areas, including liquidity, operating performance and leverage. EBITDA is commonly used by financial analysts in evaluating our business. EBITDA should not be considered in isolation or as a substitute for net income as a measure of performance, cash flow from operating activities or other measures of liquidity determined in accordance with Brazilian GAAP. EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is calculated as follows:

	For the twelve months ended June 30,			For the years ended December 31,			
	2005(1)	2005	2004	2004(1)	2004	2003	2002
	(in U.S.\$)	(in reais)		(in U.S.\$)		(in reais)	
(amounts expressed in thousands)							
Net revenue from services rendered.....	2,436,615	5,727,020	5,530,208	2,448,386	5,754,687	4,508,710	4,252,140
Cost of services rendered.....	(2,137,949)	(5,025,035)	(4,819,748)	(2,152,563)	(5,059,383)	(3,843,749)	(3,744,026)
General and administrative expenses (including executive officers' remuneration)	(178,921)	(420,537)	(419,675)	(172,658)	(405,815)	(370,107)	(335,065)
Depreciation and amortization	54,176	127,335	117,297	52,630	123,702	114,283	139,129
Other operating income	-	-	-	-	-	-	110,685
EBITDA (unaudited)	<u>173,921</u>	<u>408,783</u>	<u>408,082</u>	<u>175,796</u>	<u>413,191</u>	<u>409,137</u>	<u>422,863</u>

- (5) Net Debt means total short and long-term debt *less* cash and banks, *less* financial investments and *less* marketable securities (excluding long-term marketable securities).
- (6) Total Debt means total short- and long-term debt.

RISK FACTORS

Prospective purchasers of notes should carefully consider the risks described below, as well as the other information in this offering circular, before deciding to purchase any notes. Our business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of the notes could decline and you could lose all or part of your investment.

Risks Relating to OOL

OOL does not have sufficient cash flow from operations to repay the notes.

OOL's principal business activity is to act as a financing vehicle for our activities and operations. OOL has no substantial assets and its only sources of cash flow are from its financing activities, revenue from services rendered in connection with the construction of the Capanda Hydroelectric Project in Angola by us and from capital contributions and other investments by us and our other subsidiaries. Revenue from such services rendered amounted to approximately U.S.\$30.9 million for the year ended December 31, 2004. OOL does not have sufficient cash flow from its operations to pay amounts due in connection with the notes, and the holders of the notes must rely predominantly on our operations and cash flow to repay amounts due under the notes. If the contributions to OOL are not made by us or our subsidiaries, then the holders of the notes would have to rely upon claims for payment under the guarantee. However, the payment under the guarantee is subject to the risks and limitations described under "Risks Relating to the Notes and Guarantee – *Payments on our guarantee will be junior to our secured debt obligations and effectively junior to debt obligations of our subsidiaries.*"

Risks Relating to Our Company

International and political events may adversely affect our operations.

A significant portion of our revenue is derived from construction projects undertaken in Brazil and certain other emerging market economies, including other countries in Latin America and Angola, which exposes us to significant risks inherent in operating in these economies. These risks include:

- expropriation and nationalization of our assets in a particular jurisdiction or related to a specific project;
- political and economic instability;
- social unrest, acts of terrorism, *force majeure*, war or other armed conflict;
- inflation;
- currency fluctuations, devaluations and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- government activities that limit or disrupt markets, restrict payments or limit the receipt or transfer of funds; and
- government activities that may result in the indirect deprivation of rights.

Many of the countries in which we operate have significant levels of political risk, including Angola, the Dominican Republic, Ecuador, Peru and Venezuela. For example, civil disturbances in Angola periodically interrupted the construction of the Capanda Hydroelectric Project from September 1992 through the first half of 1998 and again in 1999. In addition, we are seeking opportunities in the Middle East and elsewhere in which there are significant levels of political and operational risks.

A significant portion of our services are contracted on a fixed-price basis, subjecting us to risks, including cost over-runs and operating cost inflation.

We contract to provide services principally on a "unit price" basis or on a fixed-price basis, with fixed-price (or lump sum) contracts accounting for approximately 90.0% of our revenues during the six months ended June 30, 2005 and 89.0% of our revenues for the year ended December 31, 2004. With fixed-price contracts, we bear the risk of unanticipated increases in the cost of equipment, materials or manpower due to inflation or unforeseen events, such as client difficulties in obtaining

adequate financing or required governmental permits or approvals, project modifications creating unanticipated costs or delays caused by local weather conditions or suppliers' or subcontractors' failure to perform. In addition, we sometime bear the risk of delays caused by unexpected conditions or events, subject to the protection of standard *force majeure* provisions and insurance policies contracted for a project. Our failure to estimate accurately the resources and time required for a fixed-price project, or our inability to complete our contractual obligations (or applicable milestones) within the contracted time frame, could have a material adverse effect on our business, results of operations and financial condition.

Decreases in governmental spending and capital spending by our customers may materially adversely affect us.

Our business is directly affected by changes in governmental and private sector spending and financing for infrastructure projects and by variations in capital expenditures by our customers. Accordingly, reductions in available governmental and private sector spending and financing for infrastructure projects may have an adverse impact on our results of operations and financial condition. Economic downturns generally lead to decreases in the number of new projects awarded, as well as delays or cancellations of major projects awarded (but not commenced), which could have a material adverse effect on our business, results of operations and financial condition.

Decrease in availability of Brazilian governmental and multilateral financial institution funding may adversely affect us.

Many of our construction projects are financed by the Brazilian government and by multilateral financial institutions. A decrease in the level of financing available from the Brazilian government for service exports or from multilateral financial institutions for infrastructure projects in the markets where we are active may materially and adversely affect our results of operations and financial condition.

Delays in receipt of payment for public sector projects may materially adversely affect us.

We contract to provide services principally on a "unit price" basis or on a fixed-price basis, with fixed-price (or lump sum) contracts accounting for approximately 90.0% of our revenues during the year ended December 31, 2004.

We contract to provide services to both public sector clients and private sector clients, with public sector contracts in Brazil (excluding contracts with Petróleo Brasileiro S.A., or Petrobras, and FURNAS Centrais Elétricas S.A., or Furnas, as these government-controlled entities are not currently dependent upon government funding for their operating and capital expenditures) accounting for approximately 37.6% of our revenue in Brazil during the six months ended June 30, 2005 and 39.4% of our Brazilian revenue during the year ended December 31, 2004. Historically, we have experienced payment delays for work completed on many of our public sector contracts. Although the percentage of our revenue that is derived from public sector contracts in Brazil (excluding contracts with Petrobras and Furnas) decreased from 89.5% during 1992 to 39.0% during the year ended December 31, 2004, delays by our public sector clients in paying us on a timely basis for work completed could adversely effect our business, results of operations and financial condition.

We are susceptible to operational risks that could affect our business and financial condition.

We may be adversely affected by natural disasters, adverse weather conditions and operator error, business interruption (through evacuation of personnel, curtailment of services or inability to deliver materials to jobsites in accordance with contract schedules), property and equipment damage and pollution or environmental damage. Also, because we engage in engineering and construction activities for large industrial facilities and other large projects where design, construction or systems failures can result in substantial injury or damage to third parties, we are exposed to potential liability claims and contractual disputes. Although we maintain comprehensive insurance covering our assets and operations at levels that our management believes to be adequate, such insurance coverage will not be sufficient in all circumstances or against all hazards. In addition, as prices for renewal of insurance contracts and fees charged for the provision of surety notes have increased considerably in Brazil and outside Brazil over the past few years, there can be no assurance that we will be able to maintain adequate insurance coverage in the future at commercially reasonable rates or on acceptable terms. See "Business of CNO – Insurance and Guarantees." The occurrence of a significant event for which we are not fully insured could have a material adverse effect on our business, results of operations and financial condition.

We are subject to stringent environmental requirements, and compliance with their regulations and any new regulations could require significant capital expenditures and increase our operating costs.

We are subject in the various jurisdictions in which operate to various federal, state and local environmental protection and health and safety laws and regulations governing, among other things:

- the generation, storage, handling, use and transportation of hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water; and
- the health and safety of our employees;

We are also required to obtain permits from governmental authorities for certain aspects of our operations. We cannot assure you that we have been or will be at all times in full compliance with these laws, regulations and permits. These laws and regulations and permits can often require us to purchase and install expensive pollution control equipment or to make operational changes to limit impacts or potential impacts on the environment and/or health of our employees and violation of these laws and regulations or permit conditions can result in various sanctions, many of which may be applied retroactively, including substantial fines, criminal sanctions, correction orders (including orders to investigate and/or clean up contamination) and/or revocations of operating permits.

We expect to make capital expenditures on an ongoing basis to continue to ensure our compliance with environmental laws and regulations. However, due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated and may affect the availability of funds to us for capital and other expenditures. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage. We cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, results of operations or financial condition.

In addition, project contracts generally include environmental compliance obligations. Any breach by us of applicable environmental regulations or contractual compliance obligations could adversely affect our results of operations and financial condition. See “Business of CNO – Legal and Regulatory Matters.”

We face significant competition in our business, which may adversely affect our profitability.

Many of the markets served by us are highly competitive, and most of the projects executed by us require substantial resources, capital investment in equipment, particularly highly skilled and experienced technical personnel. Most of our ongoing construction projects in Brazil and outside Brazil were awarded through a competitive bidding process, and we face substantial competition for projects. While price generally is the most important factor that determines whether we will be awarded a particular contract, other important factors include health, safety and environmental protection records, service quality, technological capacity and performance, as well as reputation, experience, access to funding sources and client relations. Although we are the largest engineering and construction company in Latin America (as measured by 2004 revenues) and the only Brazilian construction company with extensive operations outside Brazil, many of our international competitors are larger, have greater technological capacity and have access to sources of lower-cost funding than us. While these international competitors operate mainly outside Brazil, they can also form partnerships in Brazil with domestic engineering and construction companies and may compete with us in Brazil and abroad. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits.

Any downgrade in the ratings of our company or our debt securities would likely result in increased interest and other financial expenses related to our borrowings and debt securities and could reduce our liquidity.

Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., or Standard and Poor’s, maintains a rating of our company on a local and a global basis. Standard and Poor’s maintains a long-term rating of our company on a local basis of “BrA-,” or positive outlook. On a global basis, Standard and Poor’s maintains a long-term rating for our company of “BB-,” or stable outlook. Any decision by Standard and Poor’s or other rating agencies to downgrade the ratings of our company in the future would likely result in increased interest and other financial expenses relating to future borrowings and issuance of debt securities and could significantly reduce our ability to obtain such financing on satisfactory terms or in amounts required by us to maintain adequate liquidity.

Risks Relating to Our Shareholders

We are controlled by the Odebrecht family who has the power to indirectly control us and all of our subsidiaries.

As of December 31, 2004, all of our total voting capital was owned by Odebrecht which, in turn, is ultimately controlled by the Odebrecht family. See “Principal Shareholders of CNO.” Accordingly, the Odebrecht family has the ability to influence the outcome of certain major corporate decisions requiring the approval of our shareholders or executive officers, which could affect the holders of the notes, including the power to:

- appoint a majority of our executive officers, set our management policy and exercise overall control over the management of CNO and its subsidiaries;
- agree to sell or in any manner transfer the controlling stake in us or any of our subsidiaries;
- determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets and the timing and payment of any future dividends.

We engage in, and expect from time to time to continue to engage in, commercial and financial transactions with our shareholders or their affiliates. While these transactions take place on an arms-length basis, commercial and financial transactions between our affiliates and us create the potential for, or could result in, conflicts of interests. For a discussion of certain related party transactions, see “Related Party Transactions.”

We may face conflicts of interest in transactions with related parties.

Certain decisions concerning our operations or financial structure, or that of our subsidiaries, may present conflicts of interest among our controlling shareholder, other shareholders, executive officers and the holders of the notes. We maintain trade accounts receivable and short and long-term payables with some of our affiliates. These accounts receivable and accounts payable balances are due mainly to purchases and sales of services at prices and on terms equivalent to the average terms and prices of similar transactions that we enter into with third parties. Commercial transactions between us and these affiliates could result in conflicting interests. See “Related Party Transactions.” Our shareholders and executive officers may have an interest in pursuing transactions that, in their judgment, enhance the value of our equity, even though such transactions may involve risks to the holders of the notes. We cannot assure you that our shareholders and executive officers will be able to address these conflicts of interests or others in an impartial manner.

Risks Relating to Brazil

Brazilian political and economic conditions, and the Brazilian government’s economic and other policies, may negatively affect our net services revenue and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil’s economy. The Brazilian government’s actions to control inflation and implement other policies have at times involved wage and price controls, blocking access to bank accounts, imposing capital controls and limiting imports into Brazil.

Our business results of operations and financial condition may be adversely affected by factors such as:

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;
- inflation;
- tax policies;

- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product, or GDP;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Luiz Inácio Lula da Silva of the Workers' Party took office as President of Brazil on January 1, 2003. In the period leading up to and following the October 2002 presidential election, there was substantial uncertainty regarding the policies that the new government would pursue. This uncertainty resulted in a loss of confidence in the Brazilian capital markets and a 34.3% devaluation of the *real* against the U.S. dollar between January 1, 2002 and December 31, 2002. The Brazilian government has adopted economic measures that are more conservative than initially expected by some observers. However, the Brazilian government may change these policies in a manner that slows the growth of the Brazilian economy, reducing demand for our products and, consequently, impairing our net services revenue and overall financial performance. Any negative effect on our overall financial performance would also likely lead to a decrease in the market price of the notes. Recently, the Workers' Party has been accused of a scandal that alleges monthly payments to certain Brazilian legislators in exchange for support and votes in favor of its policies. These allegations could undermine the Brazilian government's political, economic and social policies. This uncertainty and volatility and the recent allegations of corruption, in turn, may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian international securities markets and adversely impact our business and the market value of the notes.

The Brazilian government's actions to combat inflation may contribute significantly to economic uncertainty in Brazil and adversely affect the market price of the notes.

Historically, Brazil has experienced high rates of inflation. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy, particularly prior to 1995. The inflation rate, as measured by the Wholesale Consumer Price Index (*Índice de Preços aos Consumidor – Amplo*), reached 2,477% in 1993. Although inflation rates have been substantially lower since 1994 than in previous periods, inflationary pressures persist. Inflation rates were 7.7% in 2001, 12.5% in 2002, 9.3% in 2003 and 7.6% in 2004, as measured by the Wholesale Consumer Price Index. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Increasing prices for petroleum, the depreciation of the *real* and future governmental measures seeking to maintain the value of the *real* in relation to the U.S. dollar, may trigger increases in inflation in Brazil. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which would lead to reduced demand for our products in Brazil and decreased net services revenue. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our *real*-denominated debt may increase, causing our net income to be reduced. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets. Any decline in our net services revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of the notes.

Fluctuations in the real/U.S. dollar exchange rate could increase inflation in Brazil, raise the cost of servicing our foreign currency-denominated debt and negatively affect our overall financial performance.

The exchange rate between the *real* and the U.S. dollar and the relative rates of depreciation and appreciation of the *real* have affected our results of operations and may continue to do so.

The Brazilian currency has devalued often during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated in value against the U.S. dollar by 34.3% in 2002 as compared with appreciation of 22.3% in 2003 and 8.9% in 2004.

Devaluation of the *real* relative to the U.S. dollar also could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, a devaluation of the *real* could weaken investor confidence in Brazil and reduce the market price of the notes. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments and may dampen export-driven growth. Volatility in the value of the *real* against foreign currencies may generate losses in our foreign currency-denominated liabilities as well as an increase in our funding costs with a negative impact in our ability to finance our operations through access to the international capital markets. We cannot assure you that there will not be further devaluations of the Brazilian currency and that they will not impact our business in the future.

Brazilian government exchange control policies could increase the cost of servicing our foreign currency-denominated debt and impair our liquidity.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute more restrictive exchange control policies, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy towards the International Monetary Fund and political constraints to which Brazil may be subject. A more restrictive policy could increase the cost of servicing (and thereby reduce our ability to pay) our foreign currency-denominated debt obligations, including our guarantee of the notes, and other liabilities. Our foreign-currency denominated debt represented 98.0% of our indebtedness on a consolidated basis at June 30, 2005. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity, as well as the market price of the notes.

Changes in tax laws may result in increases in certain direct and indirect taxes, which could reduce our gross margin and negatively affect our overall financial performance.

The Brazilian government regularly implements changes to tax regimes that may increase our and our Brazilian clients' tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In April 2003, the Brazilian government presented a tax reform proposal, which was mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposal provided for changes in the rules governing the federal Social Integration Program (*Programa de Integração Social*), or PIS, the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social – COFINS*), or COFINS, the Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or ICMS, the Tax on Bank Account Transactions (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, and some other taxes.

In December 2003, the Brazilian Federal Senate approved part of this tax reform proposal following its approval by the Brazilian Federal House of Representatives. Other parts of the tax reform proposal were amended by the Senate and returned to the House of Representatives for further examination. The amendments to the tax reform proposal and other items pending before the Brazilian legislature were consolidated in a Project for Constitutional Amendment (*Projeto de Emenda Constitucional*). We expect that the Project for Constitutional Amendment will be reviewed and submitted to a vote of the House of Representatives in the near future. Upon approval by both houses of the Brazilian legislature, the Project for Constitutional Amendment will be submitted to the President for his review and execution. If enacted, these tax reform measures will be gradually adopted beginning in 2005 and continuing through 2007. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could reduce our gross margin and negatively affect our overall financial performance.

Risks Relating to the Notes and Guarantee

The notes have no maturity date or sinking fund provisions and are not redeemable at the option of holders of notes.

The notes have no fixed final maturity date or any sinking fund provisions and are not redeemable at the option of holders of notes. As a result, holders of the notes will be entitled to receive a return of the principal amount of their investment only if OOL elects to redeem or repurchase the notes or in the event of acceleration due to an event of default.

There are no financial covenants in the notes and guarantee.

Neither we nor any of our subsidiaries (including OOL) are restricted from incurring additional debt or other liabilities, including additional senior debt, under the notes and the fiscal agency agreement. If we or OOL incur additional debt or liabilities, our and OOL's ability to pay our obligations on the notes and the guarantee could be adversely affected. We and OOL expect that we will from time to time incur additional debt and other liabilities. In addition, we are not restricted from paying dividends or issuing or repurchasing our securities under the notes. There are no financial covenants in the fiscal agency agreement, the notes and the guarantee.

Developments in other emerging markets may adversely affect the market value of the notes.

The market price of the notes may be adversely affected by declines in the international financial markets and world economic conditions. The market price of securities issued or guaranteed by Brazilian issuers are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country may affect the securities markets and the securities of issuers in other countries, including Brazil. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil, as well as limited access to international capital markets, which may adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if there should be a need for us to do so. We cannot assure you that the market for securities issue or guaranteed by Brazilian issuers will not continue to be affected negatively by events elsewhere, particularly in emerging markets, or that such developments will not have a negative impact on the market value of the notes.

Payments on our guarantee will be junior to our secured debt obligations and effectively junior to debt obligations of our subsidiaries.

The notes will be fully guaranteed by us on an unsecured basis. The guarantee will constitute our senior unsecured obligations. The guarantee will rank equal in right of payment with all of our other existing and future senior unsecured indebtedness. Although the guarantee will provide the holders of the notes with a direct, but unsecured claim on our assets and property, payment on the guarantee will be subordinated to our secured debt to the extent of the assets and property securing such debt. Payment on the guarantee will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our subsidiaries. In addition, under Brazilian law, our obligations under the guarantee are subordinated to certain statutory preferences, including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses. In the event of our liquidation, such statutory preferences will have preference over any other claims, including claims by any holder of the notes in respect of the guarantee.

Restrictions on the movement of capital out of Brazil may impair the ability of holders of the notes to receive payments on the notes.

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds of their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1990. Similar restrictions, if imposed, would impair or prevent the conversion of interest payments on the notes from *reais* into U.S. dollars and the remittance of U.S. dollars abroad to holders of the notes. The Brazilian government may take similar measures in the future that (1) restrict companies, such as us, from paying amounts denominated in foreign currencies (such as payments under the guarantee) or (2) require that any of those payments be made solely in *reais*. The likelihood of such restrictions may be affected by the extent of Brazil's foreign currency reserves, the availability of sufficient foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy toward the International Monetary Fund, or IMF, and political constraints to which Brazil may be subject, all of which are factors beyond our control. We cannot assure you that the Central Bank will not modify its policies or that the Brazilian government will not institute restrictions or delays on payments of external debt.

The foreign exchange policy of Brazil may affect our ability to make money remittances outside Brazil in respect of the guarantee of the notes.

Under Brazilian regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments under guarantees in favor of foreign persons, such as the holders of the notes. We cannot assure you that these regulations will continue to be in force at the time we are required to perform our payment obligations under the guarantee. If these regulations are modified and an authorization from the Central Bank is required, we would need to seek an authorization from the Central Bank to transfer the amounts under the guarantee out of Brazil or, alternatively, OOL would have to make such payments with funds held by us outside Brazil. We cannot assure you that such an authorization will be obtained or that such funds will be available.

We cannot assure you that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil would be enforceable in Brazil or The Bahamas, or that an original action can be brought in Brazil or The Bahamas against us or OOL for liabilities under applicable securities laws.

OOL, our indirect wholly-owned subsidiary, is organized in The Bahamas. All or substantially all of OOL's assets, directors and officers and certain advisors named herein reside in Brazil. We are incorporated under the laws of Brazil and substantially all of our assets are located in Brazil. In addition, all or substantially all of our executive officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon OOL or us or our respective directors, executive officers and advisors or to enforce against OOL or us in U.S. courts any judgments predicated upon the civil liability provisions of the applicable securities laws. See "Enforcement of Civil Liabilities."

The book-entry registration system of the notes may limit the exercise of rights by the beneficial owners of the notes.

Because transfers of interests in the global notes representing the notes may be effected only through a common depository for Clearstream Banking S.A. Luxembourg, or Clearstream Banking, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, the liquidity of any secondary market in the notes may be reduced to the extent that some investors are unwilling to hold notes in book-entry form in the name of the common depository. The ability to pledge interests in the global notes may be limited due to the lack of a physical certificate. In addition, beneficial owners of interests in global notes may, in certain cases, experience delay in the receipt of payments of principal and interest since the payments will generally be forwarded by the fiscal agent to the common depository, who will then forward payment to its direct and indirect participants, which (if they are not themselves the beneficial owners) will then forward payments to the beneficial owners of the global notes. In the event of the insolvency of the common depository or any of its direct and indirect participants in whose name interests in the global notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on global notes may be negatively affected.

A holder of beneficial interests in the global notes will not have a direct right under the notes to act upon any solicitations that we may request. Instead, holders will be permitted to act only to the extent they receive appropriate proxies to do so from the common depository or, if applicable, the common depository's direct or indirect participants. Similarly, if we default on our obligations under the notes, holders of beneficial interests in the global notes will be restricted to acting through the common depository, or, if applicable, the common depository's direct or indirect participants. We cannot assure holders that the procedures of the common depository or the common depository's nominees or direct or indirect participants will be adequate to allow them to exercise their rights under the notes in a timely manner.

We cannot assure you that an active trading market for the notes will develop.

The notes constitute a new issue of securities, for which there is no existing market. Although we have applied to admit the notes to trading on the regulated market of the Luxembourg Stock Exchange, we cannot provide you with any assurances that the application will be accepted. Further, no assurance can be provided regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Brazil, risk associated with Brazilian issuers of such type of securities and the market for similar securities. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

Brazilian bankruptcy laws may be less favorable to you than bankruptcy and insolvency laws in other jurisdictions.

If we are unable to pay our indebtedness, including our obligations under the notes or guarantee, then we may become subject to bankruptcy proceedings in Brazil. Although a new bankruptcy law became effective on June 9, 2005, the bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes normally would be expressed in the real equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered, or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our bankruptcy, all of our debt obligations, including the our guarantee of the notes, that are denominated in foreign currency will be converted into reais at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. We cannot assure you that such rate of exchange will afford you full compensation of the amount invested in the notes plus accrued interest.

USE OF PROCEEDS

The net proceeds to OOL from the sale of the notes are estimated to be approximately U.S.\$196.0 million and will be used for our general corporate purposes, including working capital and the repayment of indebtedness.

EXCHANGE RATES

Prior to March 14, 2005, there were two principal foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating rate exchange market generally applied to transactions to which the commercial market rate did not apply.

In March 2005, the National Monetary Council (*Conselho Monetário Nacional*) enacted Resolution No. 3,265, as well as additional regulations, that consolidated the two foreign exchange markets into a single foreign exchange market in order to make foreign exchange transactions more straight-forward and efficient. Consequently, all foreign exchange transactions in Brazil are now carried out in this single foreign exchange market through authorized financial institutions. We cannot predict the impact of the enactment of any new regulations on the foreign exchange market.

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 1999 through December 31, 2004, the *real* devalued by 32.6% against the U.S. dollar, and at September 5, 2005, the selling rate for U.S. dollars was R\$2.330 per U.S.\$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. We also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future.

The following table shows the commercial selling rate or selling rate, as applicable, expressed in *reais* per U.S. dollars (R\$/U.S.\$) for the periods and dates indicated as reported by the Central Bank. The information in the “Average” column represents the average of the exchange rates on the last day of each month during the periods presented.

<u>Year Ended December 31</u>	<i>Reais per U.S. dollar</i>			
	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period End</u>
2000	R\$1.985	R\$1.723	R\$1.835	R\$1.955
2001	2.801	1.936	2.353	2.320
2002	3.995	2.271	2.998	3.533
2003	3.662	2.822	3.071	2.889
2004	3.205	2.654	2.909	2.654
2005 (through September 5, 2005).....	2.362	2.330	2.346	2.330

Month	Reais per U.S. dollar		
	High	Low	Month-End
January 2005	R\$2.722	R\$2.625	R\$2.625
February 2005	2.632	2.562	2.595
March 2005	2.762	2.601	2.666
April 2005	2.660	2.520	2.531
May 2005	2.515	2.378	2.404
June 2005	2.489	2.350	2.350
July 2005	2.465	2.330	2.390
August 2005	2.431	2.276	2.363
September 2005 (through September 5, 2005)	2.362	2.330	2.330

(1) Average of the rates of each period.

Source: Central Bank.

CAPITALIZATION

OOL

The following table has been extracted without material adjustment from our unaudited financial information at and for the six-month period ended June 30, 2005 and sets forth the debt and capitalization of OOL at June 30, 2005 without giving effect to the offering and the application of the offering proceeds.

	As of June 30, 2005
	(in thousands of U.S.\$)
	(Unaudited)
Related party liabilities	355,838
Short-term debt (1).....	53,326
Long-term debt (2).....	303,702
Shareholders' equity	153,789
Total capitalization	866,655

- (1) Includes current portion of long-term debt.
(2) Excludes current portion of long-term debt.

There has been no material change in the capitalization of OOL since June 30, 2005.

CNO

The following table has been extracted without material adjustment from our unaudited consolidated financial statements at and for the six-month period ended June 30, 2005 and sets forth our debt and capitalization at June 30, 2005:

- on an actual historical basis; and
- as adjusted to give effect to the issuance and sale of the notes offered hereby and the receipt of the gross proceeds therefrom but without giving effect to the use of such proceeds.

You should read this table in conjunction with our financial statements included elsewhere in this offering circular.

	Historical		As Adjusted	
	(in thousands of <i>reais</i>)	(in thousands of U.S.\$) (1)	(in thousands of <i>reais</i>)	(in thousands of U.S.\$) (1)
Short-term debt (2)	213,198	90,707	213,198	90,707
Long-term debt (3)	959,821	408,365	1,429,901	608,365
Shareholders' equity	1,588,370	675,787	1,588,370	675,787
Total capitalization	2,761,389	1,174,859	3,231,469	1,374,859

- (1) Solely for the convenience of the reader, Brazilian *real* amounts at June 30, 2005 have been translated into U.S. dollars at the commercial selling rate of R\$2.3504 to U.S.\$1.00. See "Exchange Rates."
(2) Includes current portion of long-term debt.
(3) Excludes current portion of long-term debt but includes related party liabilities.

There has been no material change in the capitalization of our company since June 30, 2005.

SELECTED FINANCIAL AND OTHER INFORMATION

The following selected financial data has been extracted without material adjustment from our consolidated financial statements and OOL's unconsolidated financial statements.

OOL's selected financial data at and for the years ended December 31, 2004 and 2003 have been extracted without material adjustment from its audited unconsolidated financial statements included elsewhere in this offering circular. OOL's selected financial data at and for the year ended December 31, 2002 has been extracted without material adjustment from its unconsolidated financial statements which are not included in this offering circular. OOL's selected financial data at and for the six months ended June 30, 2005 has been extracted without material adjustment from its unaudited unconsolidated interim financial information included elsewhere in this offering circular and OOL's selected financial data at and for the six months ended June 30, 2004 has been extracted without material adjustment from its unaudited unconsolidated interim financial information not included in this offering circular.

Our selected financial data at and for the years ended December 31, 2004, 2003, 2002 have been extracted without material adjustment from our audited consolidated financial statements included elsewhere in this offering circular. Our selected financial data at and for the six months ended June 30, 2005 and 2004 have been extracted without material adjustment from our unaudited consolidated interim financial information included elsewhere in this offering circular.

Our results and OOL's results for the six months ended June 30, 2005 are not necessarily indicative of the results expected for the entire year ending December 31, 2005.

OOL's financial statements and unconsolidated financial statements are prepared in accordance with IFRS, while our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these financial statements, see Annex A—"Unaudited Summary of Significant Differences Between Brazilian GAAP and U.S. GAAP."

This selected financial data also contains unaudited data in the section "Other Data."

This selected financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this offering circular.

Selected Financial Information of OOL

	At and for the six months ended June 30,		At and for the years ended December 31,		
	2005	2004	2004	2003	2002
	(unconsoli- dated) (Unaudited)		(unconsolidated) (Audited)		
			(in U.S.\$)		
(amounts expressed in thousands)					
STATEMENT OF OPERATIONS					
Net revenue from services rendered.....	14,281	17,024	40,890	74,848	34,029
Cost of services rendered	(49,620)	(12,269)	(74,277)	(25,196)	(20,912)
Gross profit	(35,339)	4,755	(33,387)	49,652	13,117
General and administrative expenses	(796)	(1,358)	(3,362)	(3,792)	(3,869)
Trading gains (losses) on marketable securities and derivatives	(1,967)	-	53,451	-	-
Financial income (expense), net.....	(28)	8,851	457	5,458	10,580
Share of net income from discontinued operations.....	-	5,859	5,504	11,494	(68,604)
Net income (losses).....	(38,130)	18,107	22,663	62,812	(48,776)
BALANCE SHEET DATA (at period end)					
Assets					
Current assets.....	847,745	621,936	847,434	491,743	520,809
Non current assets.....	30,386	237,087	35,451	231,990	110,390
Total Assets	878,131	859,023	882,885	723,733	631,199
Liabilities					
Current liabilities	420,640	457,226	391,193	473,377	570,886
Long-term liabilities	303,702	233,333	318,672	100,000	-
Shareholders' equity	153,789	168,464	173,020	150,356	60,313
Capital	165,213	165,213	165,213	165,213	124,690
Additional paid-in capital	4,993	4,993	4,993	4,993	18,303
Cumulative translation adjustment – CTA	18,899	-	-	-	-
Accumulated losses	(35,316)	(1,742)	(2,814)	(19,850)	(82,680)
Total Liabilities and Shareholders' Equity	878,131	859,023	882,885	723,733	631,199

	At and for the six months ended June 30,			At and for the years ended December 31,			
	2005 (1)	2005	2004	2004 (1)	2004	2003	2002
	(Unaudited)			(Audited)			
(amounts expressed in thousands, except financial ratio)	(in U.S.\$)	(in reais)		(in U.S.\$)	(in reais)		
Odebrecht Group companies.....	2,387	5,610	5,605	1,715	4,031	5,581	18,150
Debt.....	408,365	959,821	1,252,161	494,611	1,162,534	844,256	895,524
Suppliers and subcontractors.....	10,714	25,183	38,731	24,984	58,723	27,376	21,774
Advances from customers.....	306,706	720,882	499,946	327,944	770,799	576,596	506,180
Other.....	148,109	348,115	351,092	111,076	261,073	254,200	223,568
Total long-term liabilities.....	876,281	2,059,611	2,147,535	960,330	2,257,160	1,708,009	1,665,196
Minority interest.....	519	1,219	1,237	644	1,514	1,317	1,787
Shareholders' equity							
Capital.....	560,976	1,318,518	1,255,267	560,976	1,318,518	1,255,267	1,255,267
Revenue reserve.....	91,875	215,942	171,863	91,875	215,942	171,863	219,086
Retained earnings.....	22,937	53,910	102,138	—	—	—	—
Total Liabilities and Shareholders' Equity...	2,276,280	5,350,169	5,861,652	2,314,549	5,440,115	4,715,682	4,485,580

OTHER DATA (Unaudited)

Gross margin (3).....	13.5%	13.5%	13.1%	12.1%	12.1%	14.7%	12.0%
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	For the twelve months ended June 30,			For the years ended December 31,			
	2005 (1)	2005	2004	2004 (1)	2004	2003	2002
	(Unaudited)			(Unaudited)			
(amounts expressed in thousands, except financial ratio)	(in U.S.\$)	(in reais)		(in U.S.\$)	(in reais)		
OTHER DATA (Unaudited)							
EBITDA (4).....	173,921	408,783	408,082	175,796	413,191	409,137	422,863
Net Debt/EBITDA Ratio (5).....	0.34	0.34	1.90	0.68	0.68	1.28	2.02
Total Debt/EBITDA Ratio (6).....	2.87	2.87	4.39	3.81	3.81	3.31	3.07

- (1) Solely for the convenience of the reader, Brazilian *real* amounts at and for the periods ended June 30, 2005 and December 31, 2004 have been translated into U.S. dollars at the commercial selling rate at June 30, 2005, of R\$2.3504 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.
- (2) Comprises current accounts with consortium members, liabilities associated with tax disputed, management profit sharing and other accounts payable.
- (3) Gross margin represents gross profit divided by net revenue from services rendered.
- (4) EBITDA means net revenue from services rendered, minus cost of services rendered, *minus* general and administrative expenses (including executive officers' remuneration), *plus* any depreciation or amortization included in cost of sales and services rendered or general and administrative expenses, *plus* other operating income. Although EBITDA is not a measurement under Brazilian GAAP, our management believes that EBITDA serves as an important financial analysis tool for measuring our performance in several areas, including liquidity, operating performance and leverage. EBITDA is commonly used by financial analysts in evaluating our business. EBITDA should not be considered in isolation or as a substitute for net income as a measure of performance, cash flow from operating activities or other measures of liquidity determined in accordance with Brazilian GAAP. EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is calculated as follows:

(Footnotes continue on next page)

	For the twelve months ended June 30,			For the years ended December 31,			
	2005(1)	2005	2004	2004(1)	2004	2003	2002
	(in U.S.\$)	(Unaudited) (in reais)		(in U.S.\$)	(Audited) (in reais)		
(amounts expressed in thousands)							
Net revenue from services rendered	2,436,615	5,727,020	5,530,208	2,448,386	5,754,687	4,508,710	4,252,140
Cost of services rendered	(2,137,949)	(5,025,035)	(4,819,748)	(2,152,563)	(5,059,383)	(3,843,749)	(3,744,026)
General and administrative expenses (including executive officers' remuneration)	(178,921)	(420,537)	(419,675)	(172,658)	(405,815)	(370,107)	(335,065)
Depreciation and amortization	54,176	127,335	117,297	52,630	123,702	114,283	139,129
Other operating income	-	-	-	-	-	-	110,685
EBITDA (unaudited)	<u>173,921</u>	<u>408,783</u>	<u>408,082</u>	<u>175,796</u>	<u>413,191</u>	<u>409,137</u>	<u>422,863</u>

(5) Net Debt means total short and long-term debt *less* cash and banks, *less* financial investments and *less* marketable securities (excluding long-term marketable securities).

(6) Total Debt means total short- and long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements at and for the years ended December 31, 2004, 2003, 2002, and our unaudited consolidated interim financial statements at and for the six-month periods ended June 30, 2005 and 2004 included elsewhere in this offering circular, as well as with the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

Overview

We engage in the construction of large-scale infrastructure and other projects, including highways, railways, power plants, bridges, tunnels, subways, buildings, port facilities, dams, manufacturing and processing plants, as well as mining and industrial facilities. We undertake projects throughout Brazil and in many other Latin American countries, as well as Angola, the United States, Portugal and the Middle East.

Financial Presentation and Accounting Policies

We have prepared our audited consolidated annual financial statements at and for the years ended December 31, 2004, 2003 and 2002 and our unaudited consolidated financial statements at and for the six-month periods ended June 30, 2005 and 2004 in Brazilian *reais* in accordance with Brazilian GAAP, which differ in certain respects from U.S. GAAP. See "Appendix A — Unaudited Summary of Significant Differences Between Brazilian GAAP and U.S. GAAP."

Critical Accounting Policies

The presentation of our financial condition and results of operation in conformity with Brazilian GAAP requires our management to make certain judgments regarding the effects of matters that are inherently uncertain and that affect the book value of our assets and liabilities, including the percentage of completion of the construction projects in which we are engaged. Certain of our accounting policies require higher degrees of judgment than others in their application. Actual results may differ from those estimated depending upon the variables, assumptions or conditions used by our management. In order to provide an understanding regarding how our management forms its judgments about future events, including the variables and assumptions underlying the estimates and the sensitivity of those judgments to different variables and conditions, we discuss certain of our critical accounting policies below.

Revenue Recognition for Construction Contracts

The majority of our contracts with our customers are either "unit price" or "fixed-price." Under unit price contracts, we commit to provide materials or services required by a project at unit prices (for example, dollars per cubic meter of concrete or cubic meters of earth excavated). While the unit price contract shifts the risk of estimating the quantity of units required for a particular project to the customer, any increase in our unit cost over the unit price bid, whether due to inflation, inefficiency, faulty estimates or other factors, is borne by us unless otherwise provided in the contract. Fixed-price contracts are priced on a lump-sum basis under which we bear the risk that we may not be able to perform all of the work for the specified contract amount. Nearly all government or quasi-government contracts and many of our other contracts permit termination of the contract at the election of the contracting party, with provisions requiring payment for work performed through the date of termination.

Revenue and earnings arising from construction contracts are recognized according to the percentage of completion method, which is based upon the ratio of costs incurred to estimated total costs. We recorded provisions in our income statement for the full amount of estimated losses arising from an uncompleted contract whenever we estimate that the total cost of a particular contract exceeds its estimated total revenue. Contract costs are recognized as they are incurred. Contract costs consist of direct costs under contracts, including labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs).

We recognize revenue from contract claims for cost overruns when we have an executed settlement agreement and payment is assured.

The accuracy of our revenue and profit recognition in a given period is dependent upon the accuracy of our estimates of the cost to complete each project. Our cost estimates use a highly detailed “bottom up” approach, and we believe that our experience enables us to generally prepare materially reliable estimates. However, the projects for which we are engaged can be highly complex, and in most cases, the profit margin estimates for a project will either increase or decrease to some extent from the amount that was estimated at the time of the original bid.

Factors that can contribute to changes in estimates of contract cost and profitability include site conditions that differ from those assumed in the original bid (to the extent that contract remedies are unavailable), the availability and skill level of workers in the geographic location of the project, the availability and proximity of materials, the accuracy of the original bid and subsequent estimates, weather conditions and timing and coordination issues inherent in all projects. These factors, the different stages of completion of projects in progress and the mix of contracts with different margins may cause fluctuations in gross profit between periods and these fluctuations may be significant.

Construction Consortia

We participate in various construction consortia in order to share expertise, risk and resources for certain highly complex projects. The consortium agreements typically provide that our interests in any profits and assets, and our respective share in any losses and liabilities that may result from the performance of the contract, are limited to our stated percentage interest in the project.

The contract between the consortium and the project owner typically requires joint and several liability among the consortium members. Our agreements with our consortium partners provide that each party will assume and contribute its full proportionate share of any losses resulting from a project. However, if one of our partners is unable to pay its proportionate share, we remain liable under the contract to the project owner for the full contract amount. Circumstances that could lead to a loss under these guarantee arrangements, include a partner’s inability to contribute additional funds to the consortium in the event that the project incurs a loss or additional costs, should such partner fail to provide the services and resources required for project completion according to the consortium agreement. In certain cases, we negotiate guarantees (which may be letters of credit, surety bonds or other credit support) with certain consortium members to reduce the risk related to their involvement.

Under a consortium agreement, one member is generally designated as the lead participant of the consortium. The lead member typically is responsible for all project administrative and accounting functions and most of the project management support and generally receives a fee from the consortium for these services. We have been designated as the lead member in most of the projects that we are currently undertaking through a consortium.

Valuation of Permanent Assets (other than Long-Term Investments)

We are required to determine if operating income is sufficient to absorb the depreciation and amortization of long-lived assets, within the context of our balance sheet as a whole, in order to assess potential asset impairment. If operating income is insufficient to recover depreciation and amortization as a result of a permanent impairment of fixed assets, then the assets, or groups of assets, are required to be

written down to recoverable values, generally based upon the projected discounted cash flows of future operations.

Valuation of Long-Term Investments

Investments of a permanent nature are recorded at the lower of cost or market. The valuation of these assets is based upon quoted market prices, when available. If quoted market prices are unavailable, we determine the value of investments by reference to the quoted market price of comparable instruments, or discount the expected cash flows of each instrument according to market interest rates commensurate with the credit quality and maturity of the investments. Management's valuation determinations take into consideration the economic situation of the country where the project is located, past experience and specific risks. Deterioration in economic conditions could adversely affect the values of these investments.

Contingencies

We are currently involved in certain legal and administrative proceedings that arise from our ordinary course of business, as described in note 9 to our unaudited consolidated financial statements at and for the six-month periods ended June 30, 2005 and 2004. Some of these proceedings involve amounts that are material to our financial condition. We believe that the extent to which these contingencies are recognized in our financial statements is adequate, based upon the opinions of our legal counsel involved in these contingencies. It is our policy to record accrued liabilities for contingencies that are deemed probable to result in a loss.

We are also involved as plaintiff in several legal and administrative proceedings with respect to tax laws, which we believe have been improperly or unconstitutionally applied to us. We consider these cases as potential contingent gains, which we do not recognize in our financial statements until the applicable dispute has been resolved. If we are granted the temporary right not to pay the disputed amounts or to offset disputed amounts that have already been paid against current tax obligations, we continue to maintain a liability for the disputed amounts until the contingency has been fully resolved. We also accrue interest in arrears on the liability, using the applicable interest rate required by applicable tax laws.

Consolidation

We have operations in several countries, each with different local accounting practices. Thus, in order to present our financial statements in accordance with Brazilian GAAP, we have implemented internal procedures to adjust certain of the amounts reported for local accounting purposes by our foreign subsidiaries and branches, to ensure appropriate and uniform presentation and disclosure in our financial statements.

Pricing of CNO's Services

Engineering and construction contracts can be broadly categorized as either fixed-price or unit-price.

Fixed-price contracts, which represent the vast majority of contracts that we enter into, provide for a fixed sum to cover all costs and any profit element for a defined scope of work. Fixed-price contracts subject the contractor to a greater risk, as compared to other types of contract, as they set forth both the quantities of work to be performed and the costs associated with executing the work. Our risks in fixed-price engineering and construction contracts and fixed-price turnkey contracts (i.e., contracts under which we are obligated to complete a project according to pre-specified criteria and for a fixed price) arise principally from the following factors:

- uncertainties in estimating the technical complexities and effort involved in accomplishing the work within the contract schedule;
- bidding a fixed-price and a completion date before detailed engineering work has been fully performed;

- bidding a fixed-price and a completion date before locking in price and delivery of significant procurement components (often equipment and other items that are specifically designed and manufactured for the project);
- bidding a fixed-price and completion date before finalizing subcontractors' terms and conditions;
- pricing of subcontractors' work, and the coordination of the performance of multiple subcontractors (most construction and installation work is performed by subcontractors);
- labor availability and productivity; and
- significant liquidated damages for delays.

Unit-price contracts include contracts under which the price is based upon actual costs incurred for time of services provided and materials, or for variable quantities of work priced at defined unit rates. Profit elements on unit-price contracts may be based upon a percentage of costs incurred and/or a fixed amount. Unit-price contracts are generally less risky than fixed-price contracts, as the project owner retains many of the risks. Although fixed-price contracts involve greater risk, they also are potentially more profitable to a contractor, as the project owners pay a premium to transfer risks to the contractor.

Inflation and Exchange Rate Variation

Inflation and exchange rate variations have affected, and may continue to affect substantially, our reported financial condition and results of operations, as well as the reported value of our assets and liabilities in *reais*.

The following table sets forth, for the periods shown, Brazilian inflation rates and the devaluation of the *real* against the U.S. dollar as measured by comparing the daily exchange rates published by the Central Bank on the last day of each period:

	Six months ended		Year ended December 31,		
	June 30,		2004	2003	2002
	2005	2004			
Inflation (1).....	3.2%	3.5%	7.6%	9.3%	12.5%
Nominal depreciation (appreciation) of the <i>real</i> against the U.S. dollar	(12.9)%	7.0%	(8.9)%	(22.3)%	34.3%

(1) Based on the Wholesale Consumer Price Index (*Índice de Preços aos Consumidor – Amplo*) or IPC-A.

Effects of Inflation

A significant percentage of our costs and operating expenses are in *reais* and tend to increase with Brazilian inflation, because our suppliers and service providers in Brazil generally increase prices to reflect Brazilian inflation. Certain of our cost reimbursable contracts, including many of our contracts with the Brazilian public sector, are subject to annual adjustments for inflation, based upon general or specific Brazilian inflation indexes. However, in periods of sharp volatility in the cost of raw materials, such as occurred in 2002, there may be periods before cost increases and decreases are reflected in our service revenue.

Effects of Exchange Rate Variation

Our results of operations and financial condition have been, and will continue to be, affected by the rate of depreciation or appreciation of the *real* against the U.S. dollar because:

- a substantial portion of our revenue is linked to U.S. dollars;
- we have operating expenses, and make other expenditures, that are denominated in or linked to U.S. dollars; and
- we have significant amounts of U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars.

Our consolidated U.S. dollar-denominated indebtedness represented 98.0% of our outstanding indebtedness at June 30, 2005. As a result, when the *real* depreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness increases in *reais*, which negatively affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness increase in *reais*, and our total liabilities and debt service obligations in *reais* increase; and
- our financial expenses tend to increase as a result of foreign exchange losses that we must record.

Conversely, when the *real* appreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness decrease in *reais*, which positively affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness decreases in *reais*, and our total liabilities and debt service obligations in *reais* decrease; and
- our financial expenses tend to decrease as a result of foreign exchange gains that we must record.

Any major devaluation of the *real* against the U.S. dollar would significantly increase our financial expenses and our short-term and long-term indebtedness, as expressed in *reais*. Conversely, any major appreciation of the *real* against the U.S. dollar would significantly decrease our financial expenses and our short-term and long-term indebtedness, as expressed in *reais*. Export services, which enable us to generate receivables payable in foreign currencies, tend to provide a hedge against a portion of our U.S. dollar-denominated debt service obligations, but they do not fully match them.

In addition to the effects that any devaluation of the *real* against the U.S. dollar might have on our financial condition, our results of operations and financial condition are also somewhat affected by exchange rate variations of the *real* against the Euro. As of December 30, 2004, Portugal represented approximately 14.0% of our total backlog and all of our project revenues in Portugal are denominated in Euros. Until December 2003, our Euro-based revenues as set forth in our financial statements denominated in *reais* were positively impacted by the devaluation of the *real* against the Euro. However, since 2003, the *real* has appreciated against the Euro and negatively impacted our Euro-based revenues.

Results of Operations

The following discussion of our results of operations is based on the financial information extracted without material adjustment from our consolidated financial statements prepared in accordance with Brazilian GAAP.

Our net income decreased by R\$162.5, or 77.9%, from R\$208.7 million during the eight-month period ended August 31, 2004 to R\$46.2 million during the same period in 2005, primarily because we recorded financial expenses, net, of R\$45.2 million during the eight-month period ended August 31, 2005 compared with financial income, net of R\$39.0 million during the same period in 2004. The most significant component of our financial expenses, net, for the eight-month period ended August 31, 2005 was the appreciation of the real during this period, reversing the devaluation of the currency during the same period in 2004 and adjustments made to our overdue receivables to account for inflation.

Six-month period ended June 30, 2005 compared to six-month period ended June 30, 2004

The following table summarizes our historical consolidated results for the periods indicated as a percentage of net services revenue.

	For the six months ended June 30,	
	2005	2004
	(Unaudited)	
Net services revenue	100.0%	100.0%
Cost of services rendered	(86.5)%	(86.9)%
Gross profit	13.5%	13.1%
General and administrative expenses (including executive officers' remuneration)	(7.8)%	(7.2)%
Financial income (expense), net	(1.7)%	0.6%
Income before social contribution and income tax	3.8%	5.3%
Net income	2.0%	3.7%

Net Services Revenue

Our net services revenue decreased by 1.0% to R\$2,756.1 million during the six-month period ended June 30, 2005, compared to R\$2,783.7 million during the same period in 2004.

In Brazil, our net services revenue increased by R\$156.2 million or 33.2%, from R\$470.7 million during the six-month period ended June 30, 2004 to R\$626.9 million during the same period in 2005, primarily as a result of the improvement of the Brazilian economy during the first half of 2005.

Outside Brazil, our net services revenue measured in *reais* decreased by R\$183.9 million or 8.0%, from R\$2,313.0 million during the six-month period ended June 30, 2004 to R\$2,129.2 million during the same period in 2005, primarily as a result of the appreciation of the *real* against the U.S. dollar (R\$2.3504 to U.S.\$1.00 at June 30, 2005 compared to R\$3.1075 to U.S.\$1.00 at June 30, 2004). In U.S. dollar terms, however, our net services revenue outside Brazil increased significantly during the six-month period ended June 30, 2005, compared to same period in 2004. The increase (in U.S. dollar terms) in net services revenue was primarily a result of our increased services revenue in the United States (additional services rendered at Miami International Airport and the Miami Performing Arts Center), in Portugal (highway projects) in the Middle East (Iraq and Djibouti) and in Ecuador (San Francisco Hydroelectric Plant).

Cost of Services Rendered

Our cost of services rendered decreased by R\$34.4 million or 1.4%, from R\$2,418.5 million during the six-month period ended June 30, 2004 to R\$2,384.1 million during the same period in 2005.

In Brazil, our cost of services rendered increased by R\$118.3 million or 29.9%, from R\$396.2 million during the six-month period ended June 30, 2004 to R\$514.5 million during the same period in 2005. As our net sales revenue increased by 33.2% during the six-month period ended June 30, 2005, our gross margin (ratio of gross profit to net sales revenue) in Brazil reached 17.9%, compared to 15.8% during the same period in 2004.

Outside Brazil, our cost of services rendered measured in *reais* decreased by R\$152.7 million or 7.6% , from R\$2,022.3 million during the six-month period ended June 30, 2004 to R\$1,869.6 million during the same period in 2005, primarily as a result of the appreciation of the *real* against the U.S. dollar. Our cost of services rendered outside Brazil as measured in U.S. dollars increased significantly during the six-month period ended June 30, 2005, compared to the same period in 2004. The increase measured in U.S. dollar terms in our cost of services rendered outside Brazil was primarily a result of changes in the geographical composition of our project portfolio (a larger proportion of projects were conducted in countries or regions where our average margins are lower than those prevailing in developing countries, including the United States, Portugal and the Middle East), resulting in a gross margin of 12.0% outside Brazil during the six-month period ended June 30, 2005, compared to a gross margin of 12.5% during the same period in 2004.

General and Administrative Expenses

Our general and administrative expenses including executive officers' remuneration increased by R\$14.8 million or 7.4%, from R\$201.0 million during the six-month period ended June 30, 2004 to R\$215.8 million during the same period in 2005, primarily as a result of inflation in Brazil. As approximately 68.9% of our general and administrative expenses are incurred in Brazil, we are directly affected by the rate of inflation in Brazil. Because most of our general and administrative expenses (including executive officers' remuneration) are in *reais*, these expenses are directly affected by the rate of inflation in Brazil. Conversely, since a majority of our operations take place outside Brazil, our operating expenses are not impacted significantly by the Brazilian rate of inflation.

Depreciation and Amortization

Our depreciation and amortization expenses increased by R\$3.6 million or 6.2%, from R\$59.1 million during the six-month period ended June 30, 2004 to R\$62.7 million during the same period in 2005, primarily as a result of increased depreciation expenses relating to the replacement of some of our existing machinery and equipment.

Financial Income (Expenses), Net

We recorded financial expenses, net, of R\$48.1 million during the six-month period ended June 30, 2005, compared with financial income, net of R\$16.7 million during the same period in 2004. Financial income (expenses), net continued to reflect the oscillations of the *real* against the U.S. dollar, as well as the fluctuation of the *real* against the other currencies in which we operate. The *real* appreciated during the six-month period ended June 30, 2005, reversing the devaluation of the currency during the same period in 2004. Exchange rate gains totaled approximately R\$10.0 million during the six-month period ended June 30, 2005, compared to gains of approximately R\$39.0 million during the same period in 2004. In addition, we adjusted our overdue receivables to account for inflation in the approximate amount of R\$54.0 million during the six-month period ended June 30, 2005, compared to approximately R\$9.0 million during the same period in 2004, primary as a result of our renegotiation of the contract relating to Rio de Janeiro Metro.

Operating income (expenses) from Investments in Subsidiaries and Associated Companies

We recorded a loss arising from investments in subsidiaries and associated companies under the equity method in the amount of R\$1.0 million during the six-month period ended June 30, 2005, compared to a loss of R\$32.1 million during the same period in 2004. This decrease is primarily attributable to the improved results of our Portuguese consortiums (ACE's – *Agrupamento Complementar de Empresas*), that generated losses in the aggregate amount of R\$11.7 million during the six-month period ended June 30, 2004 compared to income in the aggregate amount of R\$9.7 million during the same period in 2005.

Non-Operating Income (Expense)

During the six-month period ended June 30, 2005, we recorded a non-operating expense of R\$2.4 million compared to a non-operating expense of R\$1.0 million during the same period in 2004, primarily as a result of losses incurred from the sale of used vehicles, machinery and equipment.

Income before Social Contribution and Income Tax

Our income before social contribution and income tax decreased by R\$43.0 million, or 29.0%, from R\$147.8 million during the six-month period ended June 30, 2004 to R\$104.8 million during the same period in 2005, primarily as a result of fluctuations in the U.S. dollar/*real* exchange rate and adjustments for inflation of our overdue receivables.

Income Tax and Social Contribution

Income tax and social contribution expense increased by R\$4.6 million or 10.0%, from R\$46.0 million during the six-month period ended June 30, 2004 to R\$50.6 million during the same period in 2005, as a result of higher taxable income in certain countries outside Brazil in which we operate. We are generally subject to Brazilian federal income tax at an effective rate of 25.0% and a federal social contribution on profits at an effective rate of 9.0%, each of which is the standard rate in Brazil.

Net Income

As a result of the foregoing, our net income decreased by R\$48.2 million, or 47.2%, from R\$102.1 million during the six-month period ended June 30, 2004 to R\$53.9 million during the same period in 2005. Net income represented 2.0% of net services revenue during the six-month period ended June 30, 2005, compared to 3.7% during the same period in 2004.

Year ended December 31, 2004 compared to year ended December 31, 2003

The following table summarizes our historical consolidated results for the three years indicated as a percentage of net services revenue.

	For the years ended December 31,		
	2004	2003	2002
		(Unaudited)	
Net services revenue.....	100.0%	100.0%	100.0%
Cost of services rendered.....	(87.9)%	(85.4)%	(88.1)%
Gross profit.....	12.1%	14.6%	11.9%
General and administrative expenses (including executive officers' remuneration)	(7.1)%	(8.1)%	(7.9)%
Financial income (expense), net	3.5%	(3.4)%	(0.6)%
Income before social contribution and income tax	8.3%	4.5%	6.4%
Net income	5.2%	3.6%	5.7%

Net Services Revenue

Our net services revenue increased by R\$1,246.0 million or 27.6%, from R\$4,508.7 million in 2003 to R\$5,754.7 million in 2004.

In Brazil, our net services revenue increased by R\$358.7 million or 43.6%, from R\$822.1 million in 2003 to R\$1,180.8 million in 2004, primarily as a result of the stabilization and improvement of the Brazilian economy during the last six months of 2003 and throughout 2004.

Outside Brazil, our net services revenue increased by R\$887.3 million or 24.0%, from R\$3,686.6 million during 2003 to R\$4,573.9 million during 2004. The increase was primarily a result of:

- the commencement of our operations in the Middle East;
- the upturn in major road concession projects in Portugal, which, together with the appreciation of the Euro, resulted in growth of 56.6% in U.S. dollar revenues from Portugal; and
- the expansion of our operations and projects in several Latin American countries.

Cost of Services Rendered

Our cost of services rendered increased by R\$1,215.7 million or 31.6%, from R\$3,843.7 million in 2003 to R\$5,059.4 million in 2004.

In Brazil, our cost of services rendered increased by R\$227.9 million or 30.5%, from R\$746.3 million in 2003 to R\$974.2 million in 2004. As our net services revenue in Brazil increased by 43.6% during 2004, our gross margin in Brazil reached 17.5% in 2004, compared to 9.2% in 2003. The improvement in our gross margin was primarily because our overhead and other fixed-costs did not increase in the same proportion as our net services revenue.

Outside Brazil, our cost of services rendered increased by R\$987.8 million or 31.9%, from R\$3,097.4 million in 2003 to R\$4,085.2 million in 2004. Our net services revenue outside Brazil increased by 24.0% during the year 2004, which resulted in a gross margin of 10.7% in 2004, compared to 16.0% in 2003, primarily as a result of:

- increased revenues in Portugal, the United States and the Middle East, where gross margins are lower than those in developing countries;
- receipt of extraordinary revenue in the amount of U.S.\$60.0 million in Angola in 2003 as a result of a bonus for completion of a project ahead of schedule; and
- the completion of certain projects in the Dominican Republic and Peru during 2004, which reduced gross profit from these countries from U.S.\$32.0 million in 2003 to U.S.\$13.6 million in 2004.

General and Administrative Expenses

Our general and administrative expenses (including executive officers' remuneration) increased by R\$35.7 million or approximately 9.6%, from R\$370.1 million in 2003 to R\$405.8 million in 2004, primarily as a result of an increase in our revenues and inflation in Brazil.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by R\$9.5 million or 8.3%, from R\$114.2 million in 2003 to R\$123.7 million in 2004, primarily as a result of increased depreciation expenses relating to the replacement of some of our existing machinery and equipment.

Financial Income (Expenses), Net

We recorded financial expenses, net, of R\$154.1 million in 2003, and financial income, net, of R\$202.9 million, in 2004. The most significant component of our financial income, net, in 2004, was

exchange rate gains, net, which totaled approximately R\$103.0 million in 2004, while our exchange rate losses, net, totaled approximately R\$52.0 million in 2003.

Operating income (expenses) from Investments in Subsidiaries and Associated Companies

Investments in subsidiaries and associated companies recorded under the equity method resulted in a loss of R\$36.6 million during 2004, compared to income of R\$15.5 million in 2003, primarily as a result of:

- the proportional consolidation of our 16.4% share of Sociedade Mineira de Catoca Ltda., a diamond project in Angola, that we own through our subsidiary, Odebrecht Mining Services Inc., or OMSI, which we refer to as the Catoca Project, in 2004 (in 2003, the results of the Catoca Project were accounted for according to the equity method based upon our intention at that time to sell our equity interest in the Project); and
- R\$11.1 million in provisions that we made in 2004 for losses relating to companies that previously ceased operations, and a reversal in 2003 of R\$13.4 million in provisions.

Non-Operating Income

Non-operating income decreased by R\$25.9 million or 56.8%, from R\$45.7 million in 2003 to R\$19.8 million in 2004, primarily as a result of gains from the sale of used equipment in 2003. In 2004, most of our non-operating income resulted from our sale of rights to acquire an offshore oil-drilling platform.

Income Before Social Contribution and Income Tax

Our income before social contribution and income tax increased by R\$273.5 million or 135.4%, from R\$202.0 million in 2003 to R\$475.5 million in 2004, as a result of the increase in our gross profit in 2004. In 2003, our results were affected by the substantial appreciation of the *real*, which resulted in foreign-exchange losses from our assets abroad. In 2004, the appreciation of the *real* was less significant and our financial revenues increased as a result of foreign-exchange gains in foreign countries.

Income Tax and Social Contribution

Income tax and social contribution expense increased by R\$135.5 million, or 519.2%, from R\$26.1 million in 2003 to R\$161.6 million in 2004 as a result of an increase in our taxable income.

Net Income

As a result of the foregoing, our net income increased by R\$138.2 million or 84.8%, from R\$163.0 million in 2003 to R\$301.2 million in 2004.

Year ended December 31, 2003 compared to year ended December 31, 2002

Net Services Revenue

Our net services revenue increased by R\$256.6 million or 6.0%, from R\$4,252.1 million in 2002 to R\$4,508.7 million in 2003.

In Brazil, our net services revenue decreased by R\$309.8 million or 27.4%, from R\$1,131.9 million in 2002 to R\$822.1 million in 2003. The decrease primarily resulted from the overall reduction in public and private infrastructure investments in Brazil, which commenced during the second half of 2002 due to uncertainties related to the presidential election that took place in October 2002 and the subsequent transition period for the current presidential administration, which took office in January 2003.

Outside Brazil, our net services revenue increased by R\$566.4 million or 18.2%, from R\$3,120.2 million in 2002 to R\$3,686.6 million in 2003, primarily as a result of increased revenues from:

- the commencement of the Grande Porto and Beiras IP-5 toll-road concessions projects in Portugal;
- the expansion of our operations in Venezuela (Orinoco Bridge Project) and Angola (Capanda Hydroelectric Project and Luanda Waters Project); and
- the commencement of projects on the Northeast Aqueduct in the Dominican Republic.

Cost of Services Rendered

Our cost of services rendered increased by R\$99.7 million or 2.7%, from R\$3,744.0 million in 2002 to R\$3,843.7 million in 2003, in light of the increase in services provided by us in 2003. Gross margin increased from 11.7% in 2002 to 14.6% in 2003.

In Brazil, while our net services revenue decreased by 27.4% in 2003, as compared to 2002, our cost of services decreased only by 23.3%, due to overhead and other fixed costs. Accordingly, our cost of services rendered, as a percentage of our net services revenue in Brazil, increased from 86.0% in 2002 to 91.0% in 2003, while our gross margin in Brazil decreased from 14.1% in 2002 to 9.2% in 2003.

Outside Brazil, our cost of services rendered increased by R\$326.3 million or 11.8%, from R\$2,771.1 million in 2002 to R\$3,097.4 million in 2003, while our net services revenue outside Brazil increased by 18.2% during the year 2003, which resulted in a gross margin of 16.0% in 2003, compared to 11.2% in 2002, primarily as a result of:

- increased revenues in countries in which we are able to earn higher margins, such as Venezuela, Angola and the Dominican Republic;
- receipt of extraordinary revenues in the amount of U.S.\$60.0 million in Angola in 2003 as a result of a performance bonus for completing a project ahead of schedule; and
- termination of our operations in Colombia, which had not been profitable.

General and Administrative Expenses

Our general and administrative expenses (including executive officers' remuneration) increased by R\$35.0 million or 10.4%, from R\$335.1 million in 2002 to R\$370.1 million in 2003, primarily as a result of a 9.3% increase in the inflation rate in Brazil, as measured by the IPC-A.

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by R\$24.8 million or 17.8%, from R\$139.1 million in 2002 to R\$114.3 million in 2003, due to the appreciation of the *real* in 2003.

Financial Expenses, Net

Financial expenses, net, increased by R\$129.1 million or 518.5%, from R\$24.9 million in 2002 to approximately R\$154.0 million in 2003. As our foreign currency denominated assets exceeded our foreign currency denominated liabilities in 2002 and 2003, the devaluation of the *real* during 2002 resulted in an exchange rate gain of approximately R\$96.0 million in 2002, whereas the appreciation of the *real* during 2003 resulted in an exchange rate loss of approximately R\$52.0 million in 2003.

Operating income (expenses) from Investments in Subsidiaries and Associated Companies

Results from investments in subsidiaries and associated companies under the equity method increased by R\$23.2 million, from a loss of R\$ 7.8 million in 2002 to a gain of R\$15.4 million in 2003, primarily as a result of:

- the change in the method used to account for the results of the Catoca Project. In 2002 and in accordance with Brazilian GAAP, this Project was proportionally consolidated in our results of our operations. In 2003, the results of the Catoca Project were accounted for according to the equity method in light of our intention at that time to sell our equity interest in the project; and
- the reversal of a provision for losses in CBPO's operations in Malaysia during 2003, as a result of the sale of CBPO's Malaysian subsidiary, CBPO Malaysia SDN BHA, to Tenenge Overseas Corporation on December 29, 2003, for R\$16.6 million.

Non-Operating Income

Non-operating income increased by R\$25.5 million or 126.2%, from R\$20.2 million in 2002 to R\$45.7 million in 2003. In both 2002 and 2003, we earned non-operating income primarily as a result of gains from the sale of machinery and equipment, and we sold a higher volume of equipment and machinery in 2003 than we did in 2002.

Income Before Social Contribution and Income Tax

Our income before social contribution and income tax decreased by R\$69.3 million or 25.5%, from R\$271.3 million in 2002 to R\$202.0 million in 2003, primarily as a result of increased financial expenses in 2003.

Income Tax and Social Contribution

Income tax and social contribution increased by R\$0.4 million or 1.5%, from R\$ 25.7 million in 2002 to R\$ 26.1 million in 2003.

Net Income

As a result of the foregoing, net income decreased by R\$79.0 million or 32.6%, from R\$242.0 million in 2002 to R\$163.0 million in 2003.

Liquidity and Capital Resources

OOL

OOL's principal cash requirements consist of the servicing of its indebtedness.

OOL's principal sources of liquidity consist of the following:

- capital contributions and other investments made by us and other members of the Odebrecht Group;
- short-term and long-term borrowings, including the notes; and
- payments from services rendered in connection with the construction of the Capanda Hydroelectric Project in Angola.

As of June 30, 2005, OOL's cash, cash equivalents and short-term marketable securities from related parties amounted to U.S.\$77.9 million, compared to U.S.\$80.7 million as of December 31, 2004.

OOL's current assets increased by U.S.\$0.3 million to U.S.\$847.7 million as of June 30, 2005, compared to U.S.\$847.4 million as of December 31, 2004. OOL's trade accounts receivable increased to U.S.\$10.2 million as of June 30, 2005, compared to zero as of December 31, 2004.

OOL had positive working capital (current assets minus current liabilities) of U.S.\$427.1 million as of June 30, 2005, compared with positive working capital of U.S.\$456.2 million as of December 31, 2004, primarily as a result of an increase in its trade accounts receivable. OOL does not have any material assets other than the intercompany loans that it has outstanding with us and other members of the Odebrecht Group, and its ownership of equity capital of certain of our other subsidiaries. OOL depends primarily on the remittance of funds from us and from other related parties to comply with its debt service obligations. Any failure by us and other related parties to remit funds to OOL would adversely affect OOL's financial condition and could also impair its ability to repay its liabilities, including the notes, in accordance with their terms. See "Risk Factors—Risks Relating to OOL – *OOL does not have sufficient cash flow from operations to repay the notes.*"

During the six months ended June 30, 2005 and 2004, OOL's net financial result was an expense of U.S.\$28 thousand and income of U.S.\$8,851 million, respectively. As of June 30, 2005, OOL's total outstanding indebtedness with third parties was U.S.\$368.5 million, consisting of U.S.\$64.8 million in short-term indebtedness and U.S.\$303.7 million in long-term indebtedness. We guarantee all of OOL's indebtedness with third parties. As of June 30, 2005, OOL's total outstanding indebtedness with related parties was U.S.\$355.8 million. As of June 30, 2005, OOL was owed U.S.\$759.1 million in connection with inter-company transactions with us and our subsidiaries and affiliates.

CNO

Our principal cash requirements consist of the following:

- working capital needs;
- the servicing of our indebtedness;
- capital expenditures related to investments in equipment and machinery; and
- payment of dividends.

Our principal sources of liquidity consist of the following:

- cash flows from operating activities;
- short-term and long-term borrowings;
- collection of overdue accounts receivable; and
- sales of non-strategic assets.

During the six-month period ended June 30, 2005, we used our cash flow primarily for the repayment of debt and for investments in property and equipment. As of June 30, 2005, our cash, cash equivalents and short-term marketable securities amounted to R\$1,033.6 million.

Our current assets decreased by R\$23.3 million to R\$3,361.9 million as of June 30, 2005, compared to R\$3,385.2 million as of December 31, 2004, primarily due to the appreciation of the *real*. Our current accounts receivable increased to R\$1,318.8 million as of June 30, 2005, from R\$997.4 million as of

December 31, 2004, primarily due to a seasonal increase in the average accounts receivable collection period (from 55 days as of December 31, 2004 to 75 days as of June 30, 2005).

We record four types of trade accounts receivable in our books: (i) regular; (ii) claims; (iii) contractual; and (iv) overdue. Regular trade accounts receivable are short-term receivables arising from ordinary operations, and represented, on average, 66 days of revenue, which our management believes is standard for the construction industry and the markets in which we operate. Claims are typically presented to clients when there are changes in the original scope of work. We account for a claim in our financial statements after an agreement has been reached with the client on changes to the original scope of work, or, on certain occasions, when an independent appraiser agrees with our assessment of the likelihood of collection and the value of the claim. Contractual receivables relate to obligations not yet invoiced, but booked in accordance with the percentage of completion method. Overdue receivables relate primarily to certain contracts that we entered into with state-owned entities from 1988 to 1994, a period characterized by high inflation in Brazil, in connection with which we have ongoing disputes regarding inflation indexation. As of June 30, 2005, we recorded overdue accounts receivable in the amount of R\$625.8 million, compared to R\$866.0 million as of December 31, 2004. See “Risk Factors – Risks Relating to Our Company – *Delays in receipt of payment for public sector projects may materially adversely affect us.*” As of June 30, 2005, our overdue receivables represented 11.7% of our total assets. The overdue accounts receivable are either being judicially collected or directly negotiated with clients. See “Business – Legal and Regulatory Matters.”

As of June 30, 2005, our balance of trade accounts receivable totaled R\$2,020.6 million (including R\$625.8 million in overdue receivables and R\$187.0 million under the Rio Metro Agreement), compared to R\$1,755.5 million as of December 31, 2004 (including R\$866.0 million in overdue receivables). As of June 30, 2004, our balance of trade accounts receivables was restated in light of contractual terms, specific portfolio risks and ongoing negotiations, including administrative and judicial proceedings. In light of the minimal losses that we have experienced when collecting these receivables in the past, we do not anticipate significant losses resulting from their realization. Depending on the circumstances, we may recognize amounts in addition to those recorded if there is sufficient evidence to support a reasonable expectation that we will receive such additional amounts.

We recorded consolidated positive working capital (current assets minus current liabilities) in the amount of R\$1,660.9 million as of June 30, 2005, compared to positive working capital of R\$1,738.2 million as of December 31, 2004.

As of June 30, 2005, our total outstanding indebtedness was R\$1,173.0 million, consisting of R\$213.2 million in short-term indebtedness and R\$959.8 million in long-term indebtedness, compared to total outstanding indebtedness of R\$1,574.6 million as of December 31, 2004, consisting of R\$412.1 million in short-term indebtedness and R\$1,162.5 million in long-term indebtedness. Our *real*-denominated indebtedness as of June 30, 2005 was R\$20.9 million, and our foreign-currency denominated indebtedness (including the current portion of long-term indebtedness) was R\$1,152.1 million.

The 48.3% decrease in short-term indebtedness as of June 30, 2005 compared to December 31, 2004 was due principally to our repayment of certain notes issued by OOL pursuant to Regulation S in the aggregate principal amount of U.S.\$100.0 million (R\$235.0 million) that matured in March 2005. The R\$202.7 million decrease in long-term indebtedness as of June 30, 2005, compared to December 31, 2004, was primarily due to the appreciation of the *real* against the U.S. dollar.

The following table sets forth, as of June 30, 2005, our outstanding principal obligations (of which 98.0% is denominated in U.S. dollars) maturing in the following periods:

	Short Term	Long Term			
	Less than one year	2006	2007	2008	2009 and thereafter
		(in millions of U.S.\$) (1)			
Debt maturing	91	17	132	14	245

(1) Solely for the convenience of the reader, Brazilian *real* amounts at and for the period ended June 30, 2005 have been translated into U.S. dollars at the commercial selling rate at June 30, 2005, of R\$2.3504 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

IFC Loans

The following discussion briefly describes the IFC Loan transaction.

On June 21, 2002, we entered into a U.S.\$280.0 million financing transaction co-arranged by International Finance Corporation, or IFC, which is a multilateral institution that is part of the World Bank, and Banc of America Securities. The proceeds of the loan were disbursed to us on July 11, 2002. The transaction consisted of the following four loans, which we refer to collectively as the IFC Loans: (i) a U.S.\$60.0 million “A” loan provided by IFC, or the “A” loan; (ii) a U.S.\$165.0 million participating “B” loan consisting of two tranches (Tranche B-1 and Tranche B-2) provided by a consortium of nine financial institutions; (iii) two *reais* loans (collectively, Tranche B-3) in an aggregate amount equal to the *reais* equivalent of U.S.\$35.0 million provided by four Brazilian financial institutions; and (iv) a U.S.\$20.0 million “C” loan provided by IFC, or the “C” loan. We refer to Tranches B-1, B-2 and B-3 as the “B” loans.

Interest on each of the loans is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year. The “A” loan bears interest at the rate of LIBOR plus 5.0% per annum. The Tranche B-1 loan bears interest at the rate of LIBOR plus 4.5% per annum. The Tranche B-2 loan bears interest at the rate of LIBOR plus 4.875% per annum. The *reais* equivalent of U.S.\$30.0 million of the Tranche B-3 loan bears interest at a rate of 100.0% of the *Certificado de Depositário Interbancário*, or CDI, plus 2.5% per annum. The *reais* equivalent of U.S.\$35.0 million of the Tranche B-3 loan bears interest at a rate of LIBOR plus 4.5% per annum. The “C” loan bears interest at the rate of LIBOR plus 2.75% per annum, plus a “C Loan Participation Amount” that is calculated based upon our annual consolidated EBITDA for the preceding calendar year.

The security for the IFC Loans includes: (i) a debt service reserve account or a standby letter of credit, in either case, equal to six months of debt service on the loans (other than the “C” loan); (ii) a pledge of 25.0% of the shares of our company owned by Odebrecht; (iii) a pledge of the shares of two of our subsidiaries; and (iv) a pledge of certain of our overdue receivables. In addition, the IFC Loans are jointly and severally guaranteed by Odebrecht and Multitrade S.A.

We are subject to certain ongoing covenants under the IFC Loans, including, without limitation: (i) restrictions on payment of dividends and on the incurrence of additional debt and liens by us, and on our ability to make additional investments; and (ii) compliance with IFC’s insurance policies and the World Bank’s and IFC’s environmental policies.

The IFC Loans (other than the “C” loan) included the following mandatory prepayment events: (i) 100% of the net proceeds resulting from our sale of our ownership interests in the Catoca Project and Lusoponte Concessionária to Travessia do Rio Tejo S.A., a concession granted to BPC to construct and manage the Vasco de Gama and 25 de Abril bridges in Portugal, which we refer to as the Lusoponte Project; (ii) 100% of the dividends received by us from our ownership interest in the Catoca Project; and (iii) subject to certain restrictions, 100% of the net proceeds received by us from our collection of certain overdue receivables in Brazil up to a total of U.S.\$85.0 million.

In 2002, we sold the Lusoponte Project and the net sale proceeds in the amount of U.S.\$32.6 million were used to prepay the IFC Loans. In June 2004, we prepaid U.S.\$60.0 million in principal of the IFC Loans in connection with our pledge of our interest in the Catoca Project for another financing, which triggered a mandatory prepayment obligation under the IFC Loans. In addition, we made other mandatory prepayments resulting from our collection of certain overdue receivables and receipt of dividends from the Catoca Project prior to its disposition. Each of these prepayments was made to prepay the IFC Loans (other than the “C” loan) on a *pro rata* basis. As of June 30, 2005 and as result of these mandatory prepayments

and scheduled maturity payments, the outstanding principal amount under the IFC Loans was U.S.\$89.3 million.

In connection with our partial prepayment of the IFC Loans (other than the “C” loan) relating to our pledge of the Catoca Project, IFC and the lenders under Tranches B-1, B-2 and B-3, agreed to extend the repayment schedules and maturity dates of the outstanding principal amount of the “A” and “B” loans as follows: (i) the “A” loan (U.S.\$29.5 million outstanding as of June 30, 2005) is payable in 12 equal semi-annual installments commencing on January 15, 2006 and maturing on July 15, 2011; (ii) the Tranche B-1 loan (U.S.\$27.1 million outstanding as of June 30, 2005) is payable in four equal semi-annual installments commencing on July 15, 2005 and maturing on July 15, 2007; (iii) the Tranche B-2 loan (U.S.\$5.9 million outstanding as of June 30, 2005) is payable in eight equal semi-annual installments commencing on July 15, 2005 and maturing on January 31, 2009; and (iv) the Tranche B-3 loan (the *reais* equivalent of U.S.\$6.6 million outstanding as of June 30, 2005) is payable in four equal installments commencing on July 15, 2005 and maturing on January 15, 2007. The “C” loan (U.S.\$20.2 million outstanding as of June 30, 2005) remains payable in one single installment on July 15, 2012. As a result of these amendments to the amortization schedule of the “A” loan and the “B” loans, we were able to lengthen a significant portion of our long-term debt maturities and to match our operating cash flows with future scheduled principal payments under the IFC Loans.

In June 2004, we entered into an additional U.S.\$25.0 million financing transaction with IFC, which benefits from the same collateral and covenant packages as the IFC Loans. This additional loan bears interest at the rate of LIBOR plus 3.5% per annum and is payable in 11 equal semi-annual installments commencing on July 15, 2006 and maturing on July 15, 2011.

Medium-Term Note Program

On February 18, 2004, OOL established a medium-term note program guaranteed by us, permitting OOL to issue up to U.S.\$250.0 million aggregate principal amount of notes with maturities of up to five years from date of issuance. We subsequently amended the medium-term note program to increase the maximum aggregate principal amount that OOL is permitted to issue to U.S.\$500.0 million. As of June 30, 2005, the outstanding principal amount of the notes issued under the medium-term note program was U.S.\$252.8 million (R\$594.2 million).

We are bound by the covenants included in the terms and conditions of the notes issued under the fiscal agency agreement governing the medium-term note program, including: (i) limitations on incurrence of debt; (ii) limitations on liens; (iii) limitations on restricted payments; (iv) limitation on transaction with affiliates; (v) limitations on consolidation, merger or transfer of assets; (v) limitation on investments and (vi) limitation on agreements restricting dividend payments. Under the debt incurrence covenant, we are prohibited us from issuing, directly or indirectly, any debt (subject to certain exceptions) unless the pro forma net debt to EBITDA ratio at the date of such issuance is less than 3.75 to 1.0.

OOL Standby Facility

On April 15, 2005, OOL, as borrower, and us, as guarantor, entered into a revolving credit facility agreement with Unibanco – União de Bancos Brasileiros S.A. acting through its Grand Cayman Branch, Banco Santander Brasil S.A. acting through its Grand Cayman Branch, and certain other financial institutions party thereto, as lenders. We are entitled to draw amounts under this facility until April 2006, unless otherwise extended by the parties’ mutual agreement. Outstanding principal amounts under the facility (i) accrue interest at the rate of one-month LIBOR plus 2.0% per annum and (ii) mature up to 360 days after the date of disbursement. As of June 30, 2005, the outstanding principal amount under this facility was U.S.\$33.0 million.

Capital Expenditures

Our consolidated capital expenditures totaled R\$84.7 million during the first six months of 2005 and R\$63.2 million during the same period in 2004. During the years ended December 31, 2004, 2003 and

2002, our consolidated capital expenditures totaled R\$197.5 million, R\$173.3 million and R\$250.3 million, respectively. Our consolidated capital expenditures are incurred mainly in connection with purchases of machinery, vehicles and equipment.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements.

Market Risk

We are exposed to a number of market risks arising from our normal business activities. These market risks principally involve the possibility that changes in currency exchange rates or interest rates will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rate and prices. We enter into derivatives and other financial instruments for other than speculative purposes, in order to manage and reduce the impact of fluctuations in foreign currency exchange rates. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial activities.

A significant level of our liabilities and a large portion of our operating expenses are denominated in or linked to U.S. dollars and other foreign currencies. We believe that our exposure to losses caused by exchange rate variations between the *real* and the U.S. dollar (or such other currencies) are largely mitigated by the significant level of our revenues outside Brazil in U.S. dollars or other foreign currencies (representing 76.2% of our total revenues during the six-month period ended June 30, 2005) and our non-Brazilian assets with a book value of U.S.\$1,168 million as of June 30, 2005.

As of June 30, 2005 our outstanding swap contracts, on a consolidated basis, totaled R\$199.3 million (U.S.\$84.8 million), with an income of R\$27.4 million (U.S.\$11.7 million). As of June 30, 2004, our outstanding swap contracts, on a consolidated basis, totaled R\$11.3 million (U.S.\$4.8 million).

In the event that the *real* depreciates by 10% against the U.S. dollar during 2005 as compared to the *real*/U.S. dollar exchange rate at June 30, 2005, our financial expenses indexed to the U.S. dollar as of June 30, 2005 would result in a R\$115.0 million exchange rate loss and our financial revenue would increase by approximately R\$99.0 million.

BUSINESS

Overview

We are the largest engineering and construction company in Latin America as measured by 2004 revenues. We operate under the laws of Brazil. We engage in the construction of large-scale infrastructure and other projects, including the construction of highways, railways, power plants, bridges, tunnels, subways, buildings, port facilities, dams, manufacturing and processing plants, as well as mining and industrial facilities. We undertake projects throughout Brazil, other Latin American countries, the United States, Portugal, Angola and the Middle East. We have participated in the construction of over 130 km of bridges, over 52,000 MW of hydroelectric power plants, approximately 245 km of tunnels, over 11,000 km of roads and over 146 km of subway lines. For the year ended December 31, 2004, we reported gross services and sales revenue of R\$5.9 billion (U.S.\$2.5 billion) and EBITDA of R\$413.0 million (U.S.\$176.0 million). We believe we are:

- the world's second largest builder of hydroelectric power plants and bridges according to McGraw-Hill Construction Engineering News-Record;
- the world's third and fourth largest builder of water treatment and desalination and water supply plants, respectively, according to McGraw-Hill Construction Engineering News-Record;
- the largest engineering and construction company in Latin America as measured by 2004 revenues; and
- the largest exporter of services in Brazil with R\$4.6 billion (U.S.\$1.96 billion), or 78.0% of our gross services and sales revenue in 2004, coming from outside Brazil.

Company History

We were founded in 1944 in Brazil and commenced our operations in the northeastern region of Brazil, where we were active in the construction of industrial plants, warehouses, small dams, highways, buildings and canals. In 1970, we began to expand our operations into southern Brazil, concentrating initially in Rio de Janeiro with the construction of the headquarters of Petrobras in 1970; Brazil's first nuclear power plant, the *Central Nuclear de Angra dos Reis* in 1971; the Rio de Janeiro international airport in 1971; and the Rio de Janeiro State University in 1972. In the early 1980s, we began to expand our work to projects located outside Brazil. In Peru, we won the contract for the construction of the Charcani Hydroelectric Plant. In 1984, we began the construction of the Capanda Hydroelectric Project on Angola's Kwanza River, and in 1991, we began the construction of the southern extension of the Metromover, part of Miami's urban mass transportation system. In 1996, the Odebrecht Group reorganized its holdings into two principal business areas: (1) engineering and construction through our company; and (2) chemicals and petrochemicals through Braskem. Our register number (*Cadastro Nacional da Pessoa Jurídico*) is CPNJ 15.102.288/0001-82.

Principal Subsidiaries

We conduct our engineering and construction operations in more than 15 countries. Our principal subsidiaries are:

OSEL - Odebrecht Serviços no Exterior Ltd.

OSEL, a Cayman Islands company, is a holding company for certain of our offshore subsidiaries, including our Angolan subsidiary. OSEL's adjusted net income during the six-month period ended June 30, 2005 was U.S.\$17.1 million and its shareholders' equity as of June 30, 2005 totaled U.S.\$71.8 million.

Bento Pedroso Construções, S.A.

BPC, a Portuguese corporation, was acquired by the Odebrecht Group in 1988 and is involved principally in the construction of public and private works and the supply of related goods and services in Portugal. BPC's adjusted net income during the six-month period ended June 30, 2005 was U.S.\$11.3 million and its shareholders' equity as of June 30, 2005 totaled U.S.\$68 million.

Odebrecht Construction, Inc.

OCI, a Florida corporation, is involved principally in the construction of public and private works and the supply of related goods and services in the United States. OCI had adjusted net income of U.S.\$3.2 million during the six-month period ended June 30, 2005, and its shareholders' equity as of June 30, 2005 totaled U.S.\$57.7 million.

Business Strategy

We intend to focus on continuing both to achieve steady growth and to build on our competitive strengths in order to maintain and increase our leadership in the Brazilian and selected other international engineering and construction markets. The principal components of our strategy are:

Managing Risk Through Diversification

We have operated for more than two decades in many countries that have significant levels of political risk. We are currently active in Brazil, Angola, Peru, Venezuela, the Dominican Republic and Ecuador. In addition, we are seeking opportunities in the Middle East and in certain other countries in which significant levels of political risk exist. For example, we recently established offices in the United Arab Emirates and completed the construction of a port facility in Djibouti for a client located in the United Arab Emirates. We attribute our success in countries with significant levels of political risks to the following competitive strengths:

- In countries in which we operate with significant political risk concerns, such as Angola and Venezuela, we only bid on and perform projects that are funded under Brazilian trade credit or multilateral agency credit facilities. The Brazilian government offers export financing for construction and engineering services related to projects undertaken in many of these countries, which we rely upon as an important source of funding for our projects located in these countries, together with support from multilateral financial institutions, including Corporación Andina de Fomento, or CAF, and the Interamerican Development Bank, or the IDB. Our management believes that the higher prices we are able to charge in such developing countries compensate us for the political risks that we may incur in such countries.
- We attempt to mitigate political risk through our experience and knowledge of the local markets in which we are active and by entering into joint ventures with local companies and using local subcontractors, suppliers and labor. By establishing partnerships with local companies and employing local subcontractors and workers, we are able to integrate our operations into the communities in which we operate.
- We generally establish long-term operations in countries in which we are active and seek appropriate project opportunities that meet our rigorous risk management criteria. Our long-term presence in countries such as Peru (26 years), Angola (21 years), Ecuador (19 years) and Venezuela (12 years), including during periods of social unrest or war, and our involvement in high visibility projects that are important to a country's economy and development have earned us goodwill with the governments of these countries. Accordingly, while other construction companies avoid certain of the countries in which we are active, our management believes that our extensive experience in these countries, our diversification and our extensive contractual risk assessment and risk sharing with project participants allows us to effectively manage the risks

presented by construction projects in these countries. In addition, to help cover certain unavoidable risks, we have a comprehensive portfolio of insurance policies.

- We have decentralized the negotiation and administration of each of our project contracts. An experienced on-site project manager is responsible for administering the execution of each project contract in accordance with the project's budget. Each of our project managers and other on-site employees is compensated based upon meeting designated project milestones and financial targets, which gives them an incentive to meet their project budgets. We believe that planned delegation and decentralized decision-making enable us to better understand and satisfy our clients' needs.
- Our backlog includes a diversified portfolio of engineering and construction projects among various infrastructure sectors, different types of construction works and numerous countries. This diversification enables us to manage political and economic risks associated with specific countries and economic sectors.
- We have adopted a deliberate strategy of concentrating our business into more profitable markets and projects. When our management no longer believes that a particular market continues to fit into our long-term objectives, we act to close or phase out our operations in these markets. In recent years, for example, we have closed offices in the United Kingdom, Germany and South Africa and have substantially reduced our operations in Colombia, Argentina and Uruguay.

Building Human Resources

We will continue to focus on recruiting and retaining motivated and knowledgeable employees. We believe that our continued growth and financial success is directly related to the experience of our construction and engineering project managers, as well as our ability to train our other employees to develop the skills necessary to manage and execute future projects.

Pursuing International Opportunities

We are the market leader for engineering and construction projects in Brazil, Angola and certain other countries in Latin America and will continue to pursue business opportunities and strategic alliances in selected projects that will improve our market share and competitiveness. We intend to leverage our experience to broaden our presence in selective international markets and to pursue and develop growth opportunities in these markets.

Focusing on Complex Large-Scale Construction Opportunities and Concession Projects

We seek to continue to focus on large-scale infrastructure and other complex, tailor-made construction projects in Brazil. We believe there will be significant opportunities in the coming years for us in the Brazilian power, oil, transportation, water supply, sanitation and other infrastructure sectors. We believe that our local market knowledge, human and material resources, size, experience and expertise enable us to continue to compete effectively for large and complex projects in Brazil. In addition to infrastructure projects in Brazil, we intend to concentrate our construction activities on concession-based projects, principally in Latin America and Angola.

Offering Our Customers Differentiated Services

We will continue to seek to differentiate our company from our competitors through our capacity to offer our clients a complete range of services in the markets where we operate. Our capabilities encompass not only construction expertise and innovations that reduce completion time and improve cost and quality controls but also extend to our substantial experience in arranging financing for many of our engineering and construction projects.

Operations

We have completed various important engineering and construction projects in different infrastructure sectors in Brazil, elsewhere in Latin America, Portugal, Angola and the United States.

Engineering, Procurement and Construction Services

We provide a variety of integrated engineering, procurement and construction services to clients in a broad range of industries, both in Brazil and outside Brazil. These capabilities enable us to provide clients, individually or as part of a consortium, with single-source, turnkey project responsibility for complex construction projects. In addition to turnkey projects, we provide services pursuant to various types of contractual arrangements, including contracts offered on a fixed-price, unit price, cost-plus and lump-sum basis. To the extent that we undertake projects as part of a consortium, we are often the leader of the consortium, a position that typically involves the largest scope of work and in some cases enables us to exercise greater influence to manage the risks and control the timing and execution of the project.

As part of our integrated engineering, procurement and construction services, we provide a wide range of basic and detailed engineering services. Basic engineering involves preparation of the technological specifications of the project, while detailed engineering involves preparation of the detailed drawings and construction specifications and identification of lists of materials necessary for the project. Our complex turnkey contracts frequently require the application of a combination of engineering disciplines and expertise, including civil, mechanical, chemical and electrical engineering. Each project is coordinated by an experienced project manager, who is assigned a task force of engineers and personnel with the appropriate expertise necessary for implementation of the project.

Our integrated engineering, procurement and construction projects often require us to prepare technical studies and assist clients in selecting the appropriate technologies and, in certain cases, in providing the technology for the project. We are also responsible for determining the materials and equipment necessary to complete the project and in making arrangements to procure these materials and equipment. Most projects require that we and our partners in the project provide all of the resources necessary for the project, including technical and administrative personnel, equipment, materials and subcontractors.

We also provide project management services for certain projects, whereby we assume complete responsibility for the management and supervision of the work being performed by other engineering and construction contractors and suppliers. To help coordinate our engineering activities, we use advanced computerized techniques that produce three-dimensional models for design, analysis and drafting applications.

Heavy and Industrial Construction

We are engaged in the construction, engineering and procurement of various infrastructure projects and manufacturing and processing plants. Work typically includes demolition, clearing, excavation, drainage, embankment fill, structural concrete construction, erection of buildings and manufacturing plants, concrete and asphalt paving and tunneling. We concentrate our construction activities on infrastructure projects in Brazil and in several international markets, principally in Latin America and Angola, which include projects sponsored by the public and private sector, including concession-based projects.

The table on the following page sets forth our consolidated gross revenue by contract type during the six-month periods ended June 30, 2005 and 2004, and for the years ended December 31, 2004, 2003 and 2002.

	Six months ended			Year ended			
	June 30,			December 31,			
	2005(1)	2005	2004	2004 (1)	2004	2003	2002
	(in millions of U.S.\$)	(in millions of reais)		(Unaudited) (in millions of U.S.\$)	(in millions of reais)		
Contract Type							
Dams and power plants.....	223.5	525.3	548.9	493.5	1,159.9	996.5	1,356.6
Transportation.....	195.5	459.6	918.8	621.1	1,459.8	1,276.6	880.1
Buildings and manufacturing plants.....	55.7	130.9	93.1	109.6	257.5	205.1	268.2
Earthwork/paving.....	153.7	361.3	234.6	263.1	618.4	358.2	526.6
Ports/navigation locks.....	14.5	34.1	37.2	27.1	63.7	54.9	105.7
Railways, subways and mass transportation.....	200.3	470.9	415.4	327.5	769.7	707.6	304.2
Infrastructure (2).....	228.9	538.1	427.7	487.9	1,146.7	811.6	654.3
Erection (3).....	119.8	281.6	154.4	160.4	376.9	141.5	230.4
Total.....	1,191.9	2,801.8	2,830.1	2,490.0	5,852.6	4,552.0	4,326.1

- (1) Solely for the convenience of the reader, Brazilian *real* amounts at and for the periods ended June 30, 2005 and December 31, 2004 have been translated into U.S. dollars at the commercial selling rate at June 30, 2005, of R\$2.3504 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.
- (2) Infrastructure includes sanitation system projects, canals, irrigation and water transportation systems.
- (3) Includes oil and gas-related projects.

The following table sets forth our consolidated gross revenue by location during the six-month periods ended June 30, 2005 and 2004, and for the years ended December 31, 2004, 2003, 2002:

	Six months ended			Year ended			
	June 30,			December 31,			
	2005(1)	2005	2004	2004(1)	2004	2003	2002
	(in millions of U.S.\$)	(in millions of reais)		(Unaudited) (in millions of U.S.\$)	(in millions of reais)		
Location							
Brazil.....	284.0	667.6	506.5	537.0	1,262.1	852.6	1,190.8
Other Latin American countries.....	506.1	1,189.5	1,207.4	831.6	1,954.7	1,578.9	1,421.3
United States.....	76.4	179.5	199.3	240.6	565.4	294.6	265.0
Portugal.....	100.8	236.9	223.2	403.2	947.6	655.8	382.1
Angola.....	191.0	449.0	637.0	458.5	1,077.7	1,170.1	1,066.9
Middle East.....	33.7	79.3	56.7	19.2	45.1	-	-
Total.....	1,192.0	2,801.8	2,830.1	2,490.0	5,852.6	4,552.0	4,326.1

- (1) Solely for the convenience of the reader, Brazilian *real* amounts at and for the periods ended June 30, 2005 and December 31, 2004 have been translated into U.S. dollars at the commercial selling rate at June 30, 2005, of R\$2.3504 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

We have expanded our business internationally in order to broaden our client base and diversify the risk inherent in relying heavily on the Brazilian market, as well as to increase our dollar-based revenue. Selective international expansion is an important goal of our company. The percentage of our gross service revenue derived from international projects (in U.S. dollars) increased from 30.0% in 1992 to approximately 81.3% for the year ended December 31, 2003. Since 2003, our Brazilian operations have recovered somewhat and our gross service revenue derived from international projects decreased, in relative terms, to 76.2% for the six-month period ended June 30, 2005.

In the pursuit of our goal of achieving greater balance between domestic and internationally generated revenues, we have invested over the past 20 years in increasing our expertise, technology, equipment and

human resources that we make available to our international projects. We have invested (mostly in equipment and training) approximately U.S.\$42.0 million per year over the last five years in the pursuit of maintaining our competitiveness outside of Brazil. In order to mitigate risks associated with projects located outside Brazil, we seek to undertake projects in conjunction with local partners. We also have established alliances with international construction companies such as Fluor Daniel, Parsons and Haskell in the United States, and ABB, Siemens, and Impregilo in Europe, among others. We have consolidated our operations in Europe (mainly in Portugal) and in the United States (mainly in Florida). In addition, we generally count on financing from multilateral agencies such as the World Bank, CAF and the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES), among others.

Major projects

We have played an active role in the development of the infrastructure in Brazil and elsewhere in Latin America as well as in Angola, Portugal and other markets in which we have been active. As of June 30, 2005, we had had a total of 87 projects underway, 36 of which are located outside Brazil.

Brazil

We currently have a diversified portfolio of projects in a wide range of sectors in Brazil, including:

- Performing maintenance services on Petrobras platforms located in the Campos Basin (Macaé – Rio de Janeiro);
- Constructing the Goiânia Airport in the State of Goiás and expanding the Santos Dumont Airport in the State of Rio de Janeiro;
- Expanding the Tucuruí Hydroelectric Power Plant located in the State of Pará;
- Constructing the Peixe Angical Hydroelectric Power Plant in the State of Tocantins and the Irapé Hydroelectric Power Plant in the State of Minas Gerais;
- Constructing the PRA-1 (Petrobras) Offshore Platform in the State of Bahia;
- Constructing Metro lines 2 and 4 in the State of São Paulo and the Ipanema Metro in the State of Rio de Janeiro;
- Developing the Quintas de Sauipe Real Estate Project in the State of Bahia; and
- Constructing the Rio das Ostras Sewage System in the State of Rio de Janeiro.

Our strategy in Brazil for the near future is to target four key sectors:

- Energy, where an increase in production is likely to occur due, in part, to the risk of future energy shortages without an increase in production. As of June 30, 2005, we were participating in 11 power plants in Brazil, representing a backlog of approximately U.S.\$313.0 million, representing 17.5% of our total Brazilian backlog of approximately U.S.\$1.79 billion as of June 30, 2005;
- Oil and gas, a large and growing sector in Brazil. Petrobras, our main Brazilian client, represents a backlog of approximately U.S.\$395.0 million, or 22.1% of our total Brazilian backlog as of June 30, 2005;
- Infrastructure, a Brazilian government priority. Investments in Brazilian infrastructure projects are likely to increase through private and public partnerships; and

- Real estate, where we believe new construction opportunities will arise and where we will be able to leverage our brand name.

Angola

We have an established presence in Angola where we have been operating for over 21 years primarily in infrastructure projects, currently including the construction of: (1) the Capanda Hydroelectric Project (a 520 MW hydroelectric complex) commenced in 1984; (2) the Luanda Water Project (U.S.\$100 million), a project for supplying water to more than one million people in Angola's capital city and the Luanda Sul Infrastructure Project; and (3) the Benguela Water Project (U.S.\$88 million). During Angola's 40-year civil war, work on the Capanda Hydroelectric Project was halted and recommenced twice. There is limited payment risk associated with this Project as ongoing funding is provided in U.S. dollars by PROEX – Banco do Brasil, a Brazilian government-funded export financing program. We also do not incur any payment risk associated with our other on-going projects in Angola, which are also funded in part by PROEX. Under an agreement between Brazil and Angola, amounts advanced by PROEX are repaid by Angola through oil exports to Brazil. Revenue from these projects during the six months ended June 30, 2005 accounted for 16.0% of our gross revenue and 21.0% of our gross revenue earned outside Brazil.

Our management believes that increased political stability in Angola following the end of its civil war and Angola's significant existing infrastructure needs should provide us with additional opportunities in infrastructure projects in Angola in the coming years. These factors are coupled with the efforts of Brazil's government to establish closer relations with Angola and the Brazilian government's commitment to increase the volume of Brazilian service exports funded by export credit facilities, such as PROEX and BNDES-EXIM, another Brazilian government funded export financing program.

Venezuela

We have operated in Venezuela for the past 12 years despite political and economic volatilities in Venezuela during this period. We are currently engaged in the following projects in Venezuela: (1) the Orinoco Bridge Project, valued at a total of U.S.\$630 million, which is partially financed (U.S.\$384 million) by a PROEX – Banco do Brasil facility; (2) the Caracas Metro – Line 4, valued at U.S.\$175 million and which is financed by (x) BNDES (U.S.\$100 million), (y) Banco Société Generale (U.S.\$30 million) and (z) CAF (U.S.\$45 million); (3) the Metro *Los Teques* (U.S.\$90 million), partially financed by CAF; (4) the Caracas Metro – Line 3 (U.S.\$300 million), partially financed by BNDES; and (5) the El Diluvio Irrigation Project (U.S.\$128 million), which is partially financed by BNDES.

Our current strategy in Venezuela is to consolidate our work under contract and successfully complete that work, while at the same time seeking additional contracts. In order to mitigate the risks associated with contracts in progress or to be commenced in Venezuela, we seek: (1) contracts with financing that protect us from exchange rate fluctuations; (2) contracts that have been approved by, and are included in the, Venezuelan federal government's budget; (3) projects that are considered priorities for Venezuela and that form part of the Brazil-Venezuela "strategic bilateral agreement" (under which the Brazilian government provides export credit facilities for Brazilian companies operating in Venezuela); and (4) contracts that generate (or are expected to generate) substantial employment in Venezuela.

Our bid success rate for Venezuelan operations is high and reflects our selectivity in bidding for new work in Venezuela. We have a large and diversified backlog of approximately U.S.\$643.0 million in Venezuela, which currently ranks Venezuela as our most important foreign market in terms of future revenues.

United States

We commenced operations in the United States 14 years ago, where we have completed over 43 projects in California, Florida, North Carolina and South Carolina with a total value of U.S.\$1.5 billion. In the United States, we have shifted from contractor to construction management work and are concentrating

our operations in Florida, particularly low-risk/low-margin projects. This approach enables us to minimize our risk while gaining technical expertise in the United States. The largest project currently in our United States' backlog is the extension of the Miami International Airport South Terminal valued at a total of U.S.\$350 million and the construction of The Performing Arts Center of Miami (U.S.\$160 million). We were recently awarded the construction of the Miami International Airport North Terminal, a contract valued at U.S.\$217 million.

Portugal

Through BPC, we are among the largest Portuguese engineering and construction companies. Over the last several years, we have been involved in some of the most important construction projects in Portugal, including the Lisbon Metro and the Lusoponte Project. BPC has also participated directly in bridge and road concessions covering a total of 459 km, including the following three toll-road concessions: (1) Beira IP-5 (U.S.\$940 million); (2) Norace (U.S.\$419 million); (3) Grande Porto (U.S.\$709 million); and (4) Costa da Prata (U.S.\$420 million). The U.S. dollar amounts of these toll-road concessions reflect the total value of each project and are not broken out to reflect BPC's proportional interest in each such project.

Other Countries in Latin America

We view Latin American countries as prospective markets for new opportunities where we can leverage Brazilian geopolitical relations and contribute to meeting the significant basic infrastructure needs in the region. In addition to Venezuela, we currently have a strong presence in Ecuador, the Dominican Republic and Peru. Among our projects in Latin America are: (1) the Carrizal Chone Irrigation Project (U.S.\$84 million) located in the province of Manabi, Ecuador; (2) the Pinalito Hydroelectric Power Plant (U.S.\$173 million) located in the Dominican Republic; (3) the Northeast Aqueduct (U.S.\$89 million) located in the Dominican Republic; (4) the San Francisco Hydroelectric Power Plant (U.S.\$199 million) located in Ecuador; (5) the Miratitlan Refinery (U.S.\$212 million) for Petróleos Mexicanos (PEMEX) located in Mexico; and (6) the San Martin Gas Pipeline (U.S.\$30 million) located in Argentina.

Middle East

We recently established offices in the United Arab Emirates and completed the construction a port facility (U.S.\$28 million) in Djibouti for a client located in the United Arab Emirates. In addition, we completed two projects in Iraq with the United States Army Corp. of Engineers valued at a total of U.S.\$86 million. While we have discontinued our operations in Iraq, we are continuing to pursue other projects in the Middle East.

Backlog

We define "backlog" to include contracts that have been executed and for which an identified source of funding exists. To include a contract in our backlog, we assume that neither we nor our customer will default on our respective obligations under the construction contract and payments to us under the contract will be made on a timely basis consistent with historical experience. For contracts that are not for a fixed price, we estimate and update the related backlog based upon the estimated amount of work to be completed through periodic consultation with our customer. For projects in which we act as project manager, we only include our scope of work in connection with each project in calculating our backlog. For projects related to unconsolidated joint ventures, we only include our percentage ownership of the joint venture's backlog.

Although our internal accounting systems update our backlog data on a consolidated basis each month, backlog is not necessarily indicative of our future operating results, as backlog figures are subject to substantial fluctuations. Projects included in backlog are often extremely complex, unique and likely to vary in contract value and timing. The termination or modification of one or more large contracts or the addition of contracts to backlog may have a substantial and immediate effect on our backlog.

As of June 30, 2005:

- Our backlog represented approximately 21 months of future work;
- We estimated that 35.0% of our total backlog is scheduled to be completed from January to December 2006;
- Approximately 95.0% of our total backlog related to fixed-price contracts;
- Approximately 5.0% of our total backlog related to cost reimbursable contracts.

The following table sets forth our consolidated backlog for Brazil and outside Brazil as of June 30, 2005 and for the years ended December 31, 2004, 2003 and 2002.

	As of June 30,	As of December 31,		
	2005	2004	2003	2002
		(Unaudited)		
		(in millions of U.S.\$)		
Brazil.....	1,790	1,354	1,028	704
Outside Brazil.....	2,189	2,334	2,187	2,285
Total	3,979	3,688	3,215	2,989

Through 1989, our consolidated backlog reflected an approximately 50/50 split between contracts to be performed in Brazil and contracts to be performed outside Brazil. Since 1998 and until recently, the progressive devaluation of the *real* reduced the value in U.S. dollars of contracts to be performed in Brazil. In addition, the decrease in the percentage of backlog represented by contracts to be performed in Brazil is also partly due to reduced investments in infrastructure and other construction projects in Brazil during the last few years. However, these trends have been changing in light of the appreciation of the *real* against the U.S. dollar during 2005 and increased investments in Brazil's infrastructure.

During the last three years, we have successfully secured important projects not only in Brazil (mainly in respect of power projects) but also in Angola, Venezuela, the United States, the Dominican Republic, Ecuador, Peru and Portugal. This increase in U.S. dollar-based and Euro-based revenues has significantly improved our backlog. New projects awarded during the six months ended June 30, 2005 total U.S.\$1,381 million, of which U.S.\$610 million is for projects located in Brazil and U.S.\$771 million is for projects located outside Brazil. These projects include: (1) the Light for All Program (*Luz para todos*) (U.S.\$121 million, Brazil); (2) Quintas de Sauípe Resort (U.S.\$50 million, Brazil); (3) Goiânia Airport (U.S.\$46 million, Brazil); (4) Serra de Prata Hydroelectric Power Plant (U.S.\$40 million, Brazil); (5) Bridgestone-Firestone Factory (U.S.\$30 million, Brazil); (6) North Terminal Miami Airport (U.S.\$217 million, United States); (7) Phase 2 of the Capanda Hydroelectric Power Plant (U.S.\$126 million, Angola); (8) Luanda Sul Infrastructure Project (U.S.\$82 million, Angola); (9) Phase 2 of the Pinalito Hydroelectric Power Plant (U.S.\$57 million, Dominican Republic); (10) Phase 2 of the Northeast Aqueduct (U.S.\$44 million, Dominican Republic); (11) TGS San Martin Gas Pipeline (U.S.\$30 million, Argentina); and (12) Nó da Barrosa/Av. República Highway (U.S.\$24 million, Portugal).

The following table sets forth our backlog by country and type of contract as of June 30, 2005:

<u>Country</u>	<u>Earth- work/ Paving</u>	<u>Transpor- -tation</u>	<u>Building/ Manu- -facturing Plants</u>	<u>Power Plants/ Dams</u>	<u>Ports</u>	<u>Infra- -structure</u>	<u>Erec- -tion</u>	<u>Railways/ Subways</u>	<u>Total</u>
(Unaudited)									
(in millions of U.S.\$)									
Brazil	13	96	242	403	64	186	428	358	1,790
Angola	–	–	22	111	–	204	–	–	337
United States.....	–	354	29	–	–	–	–	–	383
Venezuela	–	176	–	–	–	174	–	293	643
Other Latin American countries	–	–	–	204	–	112	221	–	537
Portugal.....	253	–	–	–	–	–	–	36	289
Total.....	<u>266</u>	<u>626</u>	<u>293</u>	<u>718</u>	<u>64</u>	<u>676</u>	<u>649</u>	<u>687</u>	<u>3,979</u>

Other Activities

Although it is not our core business, we participate in companies that conduct mineral prospecting and exploration in the diamond sector. Our indirect wholly-owned subsidiary OMSI holds 16.4% of the Catoca Project, which conducts prospecting, exploration, treatment and trade of diamonds and other minerals in connection with the Catoca Project (located in Lunda Sul Province of Angola). The Catoca Project has been granted permission from the Angolan government to exploit diamonds mined from the Catoca Kimberlite area. In addition, OMSI, holds 50.0% of Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L., or SDM. SDM conducts prospecting, exploration and trade of diamonds extracted in an area of the Hydrographic Basin of Cuango River in respect of which the Angolan government has given permission. The book value of these investments as of June 30, 2005 was R\$37.3 million for Catoca and R\$62.1 million for SDM.

Bidding and Contracts

Bidding Rules

We obtain contracts for new projects primarily through competitive bidding in response to solicitations by governmental agencies, public announcements by private sector entities, invitations when short-listed for private projects and, to a lesser extent, through direct negotiation. The volume of work generally available in the market at the time of the bid, the size of our backlog at the time and the complexity of the project to be executed and the level of competition for the project are all factors that may affect the level of competitiveness of a particular bidding process.

Most contracts for public sector projects in Brazil and in most jurisdictions outside Brazil are obtained through a mandatory process of competitive bidding. The bidding process begins with an invitation by the public authority to tender bids based on model contractual terms and on a plan setting forth the basic requirements of the project. For each project, potential bidders are required to pre-qualify in relation to relevant experience and engineering capability with respect to the type of project being considered and in relation to financial wherewithal. Due to our size, experience and engineering capabilities, we generally are able to satisfy most pre-qualification requirements. Proposals are usually judged on the basis of cost and technical quality. In Brazil, companies are not permitted to bid on public contracts if they have outstanding obligations to Brazilian governmental entities unless such debts are being contested in good faith. To comply with this stipulation, we continuously monitor our tax payment status and the status of our other obligations due to Brazilian governmental entities.

Contracts for private sector projects tend to be awarded based not only on bid prices and relevant experience, but also with regard to long-term relationships with the client and to the range of services and technical solutions being offered. As part of the shift to private sector investment in infrastructure facilities in Brazil and in certain jurisdictions outside Brazil, many Brazilian and international public and private sector clients have begun to require that their projects be constructed on a turnkey (lump sum) basis with financing arranged by the parties participating in the construction of the project. As a result of the increased complexity of these projects, bids are frequently submitted by consortia. Our ability to win such bids is affected by the relative strengths and weaknesses of our partners in any such consortium and the ability of the consortium in which we participate to obtain financing.

Contracts

We principally enter into civil engineering and construction contracts with government entities and government-related entities, such as state-owned utility companies, semi-autonomous railway companies and private concessionaires of formerly government-controlled infrastructure. General provisions in these contracts tend to be similar, other than with respect to project-specific terms. Historically, many of these contracts have generally provided for payment on a unit price basis. A unit price (which we sometimes referred to as cost reimbursable) contract establishes a price per unit of work for each constituent element of the project, such as per cubic meter of earth or rock excavated or per cubic meter of concrete poured. Contracts contain estimated volumes for each unit price element, and bid prices reflect our estimate of the costs that will incur in respect of each work unit. In these contracts, we are generally, however, entitled to payment based on actual volumes required to perform the work to contractual specifications. The contracting authority therefore assumes the risk that the volume of units required for the project will exceed the volume estimated in the contract (that is, that the number of units of work exceeds estimates). We, on the other hand, assume the risk that our actual cost per unit of work may exceed our estimates used to calculate our bid pricing. Unit prices are generally subject to periodic adjustment for inflation or for changes in price for a particular unit of work.

As of June 30, 2005, 90.0% of our ongoing projects (and 95.0% of our total backlog) and 90.0% of our gross service revenue were based on or derived from fixed-price contracts. Our margins on fixed-price contracts may vary from original estimates as a result of changes in costs and productivity over their term, such as unanticipated increases in the cost of equipment, materials or manpower due to inflation or unforeseen events, such as client difficulties in obtaining adequate financing or required governmental permits or approvals, project modifications creating unanticipated costs or delays caused by local weather conditions or suppliers' or subcontractors' failure to perform. In addition, we sometime bear the risk of delays caused by unexpected conditions or events, subject to the protection of standard *force majeure* provisions and insurance policies contracted for a project. Notwithstanding the foregoing, our management believes that we have generally been successful in estimating our project costs accurately. Moreover, we review budgets periodically to identify any inconsistencies between actual and budgeted costs. If inconsistencies are found, we generally attempt to negotiate increased contract prices through contract amendments to recover related cost variations. In order to further reduce these risks, we seek to negotiate provisions in our contracts which exclude consequential damages, cap liquidated damages and otherwise limit our liability, as well as allow for price adjustments in the event of change orders or changes in law that increase the scope or cost of a project.

Upon completion of a project, the contracting party typically provides us with a provisional receipt acknowledging completion. During the 60 to 180 days that follows, the project is tested, and we may be required, if necessary, to make repairs or alterations necessary to bring the project into compliance with contract specifications. When the counterparty is satisfied with this process, it issues a definitive receipt that acknowledges its acceptance of the completed project. We generally are required to guarantee our workmanship for a certain period of time after definitive acceptance of the project. For example, Brazilian law provides that the construction company remains responsible for a five-year period following definitive acceptance of the project for any latent defect in the project. To date, we have not experienced any claim in Brazil regarding defects in any of our completed public sector construction projects following issuance of a definitive receipt. Outside Brazil, our contracts generally provide for a one-year warranty period following completion and testing.

In general, final payment under contracts is made following acceptance of the completed project. Many unit price and fixed-price contracts also provide for periodic payments to the contractor upon meeting certain pre-agreed milestones. Under Brazilian law, construction companies providing services to the Brazilian government or its agencies pay income taxes on a cash basis (when revenue is actually received).

Certain contracts to which we are a party deviate from the provisions described above. For example, certain contracts include buy-local requirements and may be governed by the local law of the jurisdiction in which the project is located. Our engineering and construction contracts also frequently contain advance payment provisions (which is a risk mitigation measure) and often require performance bonds, letters of credit and/or performance bonds to cover performance and potential labor claims.

Insurance and Guarantees

One of the tools that our management applies to mitigate risks associated with our operations for each project is to obtain risk management advice, insurance and guarantees from Odebrecht Corretora de Seguros Ltda., or OCS, a wholly-owned subsidiary of Odebrecht. OCS operates as an in-house broker in respect of insurance policies and surety bonds for our projects within Brazil. For projects executed outside Brazil, OCS works together with several international insurance companies, including Marsh, Inc., as its international insurance broker, and American International Group (AIG), as its international surety broker. We follow Odebrecht's guidelines on insurance guarantees. These guidelines require insurance policies to cover multiple risks, such as property and construction all-risk (including environmental, geological and *force majeure* events), third party liability, personnel, life and equipment. These guidelines also recommend that additional insurance be considered on a case-by-case basis.

We are also required, in the majority of the markets in which we operate, to provide a performance bond to guarantee the completion of our contracts. Outside the United States, the maximum level of such guarantees varies from 5.0% to 30.0% of the total value of the contract. In contrast, in the United States, such guarantees ordinarily cover 100% of the total value of the contract. Guarantees for companies in the Odebrecht Group can be provided through two different methods:

- posting a surety bond; and/or
- providing standby letters of credit.

Following Odebrecht's guidelines on insurance guarantees, we prefer to use and post a surety bond. If we post a surety bond, the bond will remain in place for the entire term of the contract, including the maintenance period (typically one year) following the completion of construction. However, the specific terms of each performance bond are individually negotiated and therefore may vary.

The Odebrecht Group has an approximate U.S.\$1.5 billion revolving surety bond facility available to companies in the Group for performance, retention, maintenance, advance payment and other types of surety bonds customarily given on behalf of contractors operating outside Brazil and increasingly, within Brazil. As of June 30, 2005, an aggregate amount of approximately U.S.\$950.0 million in surety bonds under this facility had been issued for projects in the United States, Portugal, Angola, certain countries in Latin America and Brazil. The Odebrecht Group allocates costs under this facility to Odebrecht Group companies' on-going projects based on the aggregate amount of bonds actually used by such projects.

The increased threat of terrorist attacks has caused fees charged for the provision of insurance for construction projects outside Brazil to increase by an average of 100% over the past two years for certain of our projects. The deductibles under our insurance policies have also increased. Costs for the provision of surety bonds in Brazil have increased marginally. However, in certain cases, we are able to pass on such additional costs to the project owner.

We may also enter into indemnity agreements with joint venture partners or other members of a consortium in order to limit our liability.

In the construction industry, a contractor's historical technical performance and level of success may be judged based on claims filed and paid by insurance companies on contracts fully or partially completed by the contractor. We have completed approximately U.S.\$8.0 billion of successful bonded contracts without Odebrecht's surety bond providers having had to pay any claim in relation to work performed by us or our subsidiaries.

Contract Administration and Dispute Resolution

To reduce the aggregate volume of our overdue receivables, we have decentralized the negotiation and administration of contracts to the project manager and other personnel directly involved with each contract. The project manager is responsible for the day-to-day management of the project and is required to submit (and update periodically) to management a detailed action plan for the project that outlines each step along the critical path of completion for the project. We believe that this decentralization, or planned delegation, is effective in managing project costs and resolving most disputes with the project owner on an informal basis.

Supplies

Our principal raw material supply needs include cement, steel, explosives, fuel and timber. We believe that there are a sufficient number of suppliers of all such materials in Brazil and in the other markets in which we operate. We are not dependent on a single supplier (or a small number of suppliers).

Since 1992, we have entered into non-exclusive, master supply contracts with certain large international suppliers of equipment and other suppliers used by us, including Atlas Copco, Komatsu, Caterpillar, Dynapac, Volvo, Liebherr, Ingersoll-Rand, Herrenknecht A.G. and Akemman. In effect, these arrangements are in the nature of "requirements" contracts: so long as quality is maintained, prices are competitive, schedules are met and performance specifications are achieved, we intend to buy our requirements for certain types of equipment from these suppliers. We work closely with these suppliers in order to achieve: (1) just-in-time delivery of necessary equipment when feasible and warehousing of equipment by suppliers if we do not require immediate delivery; (2) preferential and faster supplier response to specific equipment needs; (3) cost savings from high volume sales and improved payment conditions; and (4) on-going relations with important international suppliers.

Competition

We are the largest engineering and construction company in Latin America as measured by 2004 revenues. As of June 30, 2005, approximately 82% of our ongoing construction projects were awarded through a competitive bidding process. While price generally is the most important factor that determines whether we will be awarded a contract through competitive bidding procedures, other important factors in competitive bidding procedures include health, safety and environmental protection records, service quality, technological capacity and performance, as well as reputation, experience, access to funding sources and client relationships. The number of competitors for a contract will depend on a number of factors, including the scale, complexity and scheduling of the project. In Brazil, our principal competitors include Andrade Gutierrez S.A., Camargo Corrêa S.A., Queiroz Galvão S.A. and Construtora OAS Ltda. A variety of other companies may bid on specific types of projects or on projects in specific regions of Brazil, but we believe that we have a competitive advantage with respect to other Brazilian engineering and construction companies as a result of our experience, reputation, capacity, efficiency, trained personnel, size, financial resources and technological capabilities.

We also face competition from international construction companies as a result of privatization and the liberalization of Brazilian government rules that had previously limited foreign competitors. The participation of international companies in the Brazilian market has typically been through consortia that include a local partner. While international firms are seeking to increase their presence in the Brazilian construction industry, we believe that domestic players benefit from better knowledge of local market practices, business relationships with local suppliers and labor, established client relationships and

reputation and name recognition within the industry and in the country. Depending on the project, we may also enter into consortia with Brazilian companies, including with our principal competitors.

Internationally, we generally compete with some of the largest international contractors in the world, as well as local firms based in some of the markets in which we operate. We believe that we are able to make competitive bids in Brazil and internationally for three principal reasons. First, our engineering capabilities and experience enable us to accurately assess the nature and extent of the work required to complete projects, to create efficient engineering plans and, on occasion, to offer more cost-effective alternatives to proposed plans of governmental authorities in invitations for bids. Second, our decentralized management approach has generally allowed us to efficiently manage projects. Third, our projects are often eligible for funding from the Brazilian government for service exports and from multilateral financial institutions.

Employees

As of June 30, 2005, we had 25,387 employees, 17,072 of whom were employed in Brazil and 8,315 of whom were employed outside Brazil. A significant percentage of our non-management employees were members of unions as of December 31, 2004. We believe that we have good relations with our employees and the unions to which our employees belong. We have not experienced a strike since 1997.

As part of our human resources policy, we provide all employees with life and health insurance. We and our subsidiaries have entered into an agreement with ODEPREV – Odebrecht Previdência, or ODEPREV, a private pension fund established by Odebrecht, as plan sponsor. ODEPREV offers its participants an optional plan, which is a defined contribution plan in which monthly and periodic participant contributions and annual and monthly sponsor contributions are made to individual pension savings accounts. Prior to October 2003, in addition to the optional plan, ODEPREV offered a basic plan, which covered life and disability risks that were fully covered by insurance companies, while the insurance premium was paid by us. On October 1, 2003, the *Secretaria de Previdência Complementar* (a Brazilian federal governmental authority responsible for the supervision of pension funds in Brazil) agreed with our request to cancel the basic plan. We replaced the basic plan with a life insurance plan under the same terms and conditions.

The Board of Trustees of ODEPREV defines each year in advance the plan's cost and the parameters for contributions to be made by the participants and their employers. With regard to the payment of benefits defined in the Optional Plan, the actuarial liability of ODEPREV is limited to the total value of the quotas held by its participants, and as a defined contribution plan, there may be no obligation or responsibility from the sponsoring company to ensure a minimum level of benefits to retiring participants. The contributions of our company and our subsidiaries for the six months ended June 30, 2005 amounted to R\$5.6 million (as compared to R\$0.7 million for the six months ended June 30, 2004).

Property, Plant and Equipment

As of June 30, 2005, the net book value of our property, plant and equipment was R\$403.0 million (U.S.\$172.0 million). We believe that all of our facilities and equipment are in good operating condition.

The engineering and construction business requires extensive production equipment and specialized machinery. Production equipment includes tractors, trucks, cranes, asphalt and concrete production equipment, tunnel-boring machines, drilling tractors and other topography equipment. In recent years, we have emphasized the use of multi-purpose equipment, which can be used in multiple projects. Specialized machinery tends to be specifically designed and limited for use in a particular project. We purchase equipment, lease equipment and enter into sale-and-leaseback arrangements, as we deem appropriate.

Taxes

Brazilian Income Tax and Social Contribution on Net Profit

Income Tax

We are generally subject to Brazilian federal income tax at an effective rate of 25.0%, which is the standard corporate tax rate in Brazil. As of June 30, 2005, we had deferred income tax assets amounting to R\$199.3 million (recorded as current and long-term assets). Under Brazilian law, the annual amount of any tax carryforwards that may be deducted by us against our taxable income in the future is limited to 30.0% of our taxable income. We have R\$77.5 million of potential deferred income tax and social contribution assets that have not been recorded in accordance with Brazilian GAAP.

Social Contribution on Profit

We are subject to a federal social contribution on profits at an effective rate of 9.0%, the standard rate in Brazil. The rate fluctuated between 9.0% and 12.0% in 2000, and has been 9.0% since 2001. This tax is not deductible for federal income tax purposes.

Other Taxes

We are subject to a number of Brazilian and foreign taxes in addition to Brazilian corporate income tax and the social contribution tax, some of which are described below.

Contribution for Social Security Financing and Social Integration Program (COFINS/PIS)

COFINS finances special social programs through the collection of a federal tax on gross revenue. COFINS was previously charged on a cumulative basis at a rate of 3.0% of our gross revenue, and was subsequently increased to 7.6% of our gross revenue. However, the effective increase in the tax rate for our company is much lower than 7.6% due to a change in the methodology for calculating COFINS that went into effect simultaneously with the tax increase. Under the new methodology, COFINS is charged on a non-cumulative basis, meaning that we may deduct a ratable portion of certain credits related to materials and other costs from our gross revenue, thereby effectively lowering the effective tax rate. Although it is difficult to quantify with certainty, we believe that the effective rate of COFINS charged to us on a non-cumulative basis is approximately 10%.

PIS finances special social programs in Brazil through the collection of a federal tax on gross revenue. PIS may be charged on a cumulative or non-cumulative basis, depending on the type of activities performed by the taxpayer. A taxpayer may be subject to both taxation regimes, in case they develop different kinds of activities. We pay PIS on our gross revenues on a non-cumulative basis at a rate of 1.65%.

Provisional Tax on Bank Accounts

CPMF, is a provisional tax imposed on all financial transactions involving the transfer of funds from a bank account in Brazil. The CPMF tax rate has fluctuated between 0.2% to 0.38% since its adoption in 1997, and since March 18, 2001, the rate has been 0.38%. The Brazilian Congress has extended the applicability of this tax until 2007.

Legal and Regulatory Matters

Litigation and Other Adversarial Dispute Resolution

We are involved in a number of legal and arbitration proceedings arising in the ordinary course of our businesses. This litigation includes, among others, civil litigation regarding property damage and other similar claims, and litigation brought by former employees. Our management does not believe that any of

these proceedings would have a material adverse effect on our operations or financial condition if adversely determined against our company.

As of June 30, 2005, we had recorded an aggregate provision of R\$42.1 million in our current liabilities to cover; (1) legal indemnity expenditures related to employee termination costs, which is usual in our line of business, with the provision based on our history of similar disbursements; and (2) expenses related to labor, tax and civil claims that have little chance of a favorable outcome, according to our management and legal advisers. The total amount of these labor, tax and civil claims is R\$25.0 million. In addition, we and our principal subsidiaries are party to labor, civil and tax claims in the approximate aggregate amount of R\$100.0 million for which we have not recorded any provision for losses, because, in the opinion of our management and our legal advisers, a decision in connection with these claims is likely to be favorable with no resulting material losses related thereto. See Note 9 to our unaudited financial statements at and for the six-month periods ended June 30, 2005 and 2004.

Regulatory

The construction sector in Brazil is not regulated by a particular federal or state agency. We must register each contract on which we commence work with the applicable Regional Council of Engineering and Architecture (*Conselho Regional de Engenharia e Arquitetura*). In addition, we are required to obtain all necessary licenses (excluding environmental licenses, which are generally obtained by the project owner) related to each project that we perform in Brazil as a condition of pre-qualification. In relation to work performed outside Brazil, we are obliged to comply with all applicable regulations imposed on a local and state level and to obtain all necessary permits.

Environmental Matters

A large portion of our contracts is made of public sector contracts. Pursuant to applicable law in Brazil and in other jurisdictions in which we operate, environmental studies and licenses are required as conditions to the opening of the bidding process for public sector projects. Private sector projects are likewise subject to similar requirements with studies and licenses required before any construction is authorized. Large infrastructure construction projects are also sometimes subject to stricter standards imposed by international agencies such as the World Bank and the IFC. Such studies and licenses are commissioned and obtained by the project owner (a government authority or a private entity).

We believe that, to the extent applicable to us and our project operations, we are substantially in compliance with the parameters set forth in such licenses and studies and do not anticipate significant difficulty in maintaining our ongoing compliance with environmental regulations. In addition, a substantial portion of our business is carried outside Brazil, in some cases under stricter and broader environmental regulations than those imposed by Brazil. On March 17, 1999, Bureau Veritas Quality International awarded us international standard ISO 14001, an international environmental certification. Also, by virtue of a covenant in the IFC Loans, we are obliged to comply on an ongoing basis with requirements imposed by IFC's environmental policies. Our management is not aware of any environmental actions or claims that are pending or threatened against us or our subsidiaries that could have a material adverse effect on our operations or financial condition on a consolidated basis.

Safety

Our policy establishes that the management in charge of each project is primarily responsible for compliance with the company's requirements and the performance targets concerning protection and safety of all our workers. The same requirements apply equally to our subcontractors and partners on each of our construction contracts.

Our occupational health and safety management system was OHSAS 18001 certified by the Bureau Veritas Quality International on December 12, 2002. Subject to the continued satisfactory operation of our safety management system, this certification is valid for a period of three years. Revalidation of our safety management system certification occurred in August 2005. OHSAS 18001 certification requires us to be

proactive in identifying potential hazards and evaluating and controlling work-related risks. Certification and compliance with international standards for occupational health and safety practices allows us to reduce risk, remain in compliance with legal requirements and improve our overall performance.

THE ISSUER

Odebrecht Overseas Limited was incorporated in Nassau, The Bahamas, as a limited liability company under the laws of The Bahamas on November 16, 1978 and was registered as an International Business Company on April 10, 1991 under the International Business Company Act (No. 2 of 1990) of The Bahamas. OOL operates under Bahamian law and its registration number is 4834 B. OOL serves principally as a vehicle for financing our construction and engineering operations abroad, including providing working capital for our operations in Angola and other Latin American countries, whose domestic financial markets do not generally offer competitively priced working capital locally. OOL also receives income from services rendered in connection with the construction of the Capanda Hydroelectric Project in Angola by us. Revenue from the construction of the Capanda Hydroelectric Project amounted to U.S.\$30.9 million for the year ended December 31, 2004. OOL's offices are located at 4 George Street, P.O. Box N-3937, Nassau, The Bahamas and its general telephone number is 55-21-2559-3000.

MANAGEMENT

Management of CNO

Pursuant to our by-laws (*estatuto social*), and Brazilian Corporation Law, we are currently administered by our executive officers (*Diretoria*). We currently have 13 executive officers. Our executive officers are responsible for determining our operating policies and guidelines for our business and our subsidiaries. We also have an advisory council, which currently consists of 17 members. We do not have a board of directors.

Each of our executive officers is elected for a two-year term and is eligible for re-election. Our Articles of Association do not include any citizenship or residency requirements.

Our management structure also includes regional managers who have responsibility for the different regions in which we operate. Project managers are appointed to manage individual projects and are given a high level of autonomy to, among other responsibilities, manage allocated projects independently, select equipment and personnel, contract for insurance and arrange for financing. See “Business – Contract Administration.”

The following table sets forth the names and positions of our current executive officers.

<u>Name</u>	<u>Position</u>
Marcelo Bahia Odebrecht	Chief Executive Officer
Paulo Oliveira Lacerda de Melo	Vice-President
Adriano Chaves Jucá Rolim.....	Executive Officer
André Amaro da Silveira	Executive Officer
Benedicto Barbosa da Silva Junior	Executive Officer
Carlos Jorge Hupsel de Azevedo	Executive Officer
Carlos José Fadigas de Souza Filho.....	Executive Officer
Carlos Roberto Mendonça Alves Dias.....	Executive Officer
Henrique Serrano do Prado Valladares	Executive Officer
João Antonio Pacífico Ferreira	Executive Officer
Márcio Faria da Silva.....	Executive Officer
Marcos Luiz Abreu de Lima.....	Executive Officer
Rogério Luis Murat Ibrahim	Executive Officer

Summarized below is information regarding the business experience, areas of expertise and principal outside business interests of each of our executive officers:

Marcelo Bahia Odebrecht – Mr. Odebrecht joined us in 1992. He holds a degree in civil engineering from Universidade Federal da Bahia, a master in finance from Pontificia Universidade Católica do Rio de Janeiro and a masters degree in business administration from the Institute for Management Development (IMD) in Switzerland. In 1998, he was appointed Business Development and Investment Director of Odebrecht Química S.A. In January 2002, he was appointed as our chief executive officer.

Paulo Oliveira Lacerda de Melo – Mr. Lacerda has been our executive officer responsible for Brazil since 1996. He previously served as the chief executive officer of Tenenge Overseas Corporation from 1993 to 1996 and acted as our officer responsible for Angola from 1989 to 1992. On September 2, 1997, Mr. Lacerda was appointed as the Vice-President of our executive committee. He has also been a member of BPC’s administrative council since December 28, 1998. He holds a civil engineering degree from the Escola Politécnica da Fundação de Ensino Superior de Pernambuco.

Adriano Chaves Jucá Rolim – Mr. Jucá has been our general counsel since July 2002. He was general counsel of OPP Química S.A. from May 14, 2001 until April 30, 2002 and a member of the board of directors of Trikem S.A. from April 30, 1999 until May 14, 2001. He holds a law degree from the

Pontificia Universidade Católica de Salvador and a masters degree in comparative jurisprudence from New York University School of Law. He served as assistant to the general counsel of Odebrecht from July 1991 to January 1993. During 1993 and 1994, he served as general counsel of CMW Equipamentos S.A., an Odebrecht Group company, and he was a visiting attorney at Clifford Chance from June 1995 through September 1995. He acted as general counsel of Stelar Telecom Ltda., an Odebrecht Group company, from October 1995 to September 1997.

André Amaro da Silveria – Mr. Amaro has been our export and project finance officer since January 2003. Previously, he held various positions within our international operations, he was vice-president of Strategic Planning at Odebrecht Bau AG in Germany for four years, and a member of the board of directors of Autopistas del Oeste in Buenos Aires, Argentina and Lusoponte in Lisbon, Portugal. Mr. Amaro holds a bachelor's degree of science in civil engineering from Universidade Federal de Minas Gerais and a masters degree in business administration from the Institute for Management Development (IMD) in Switzerland.

Benedicto Barbosa da Silva Junior – Mr. Silva Junior joined the Odebrecht Group in 1985 and was appointed as an executive officer of our company on September 4, 1998. He holds a civil engineering degree from the Escola de Engenharia de Lins – São Paulo.

Carlos Jorge Hupsel de Azevedo – Mr. Hupsel has been our executive officer for Planning and Development since July 18, 1989. He has also been a member of BPC's administrative council since September 2, 1998. He holds a civil engineering degree from the Universidade Federal da Bahia.

Carlos José Fadigas de Souza Filho – Mr. Fadigas has been our chief financial officer since September 2004. He was previously our financial manager. Mr. Fadigas joined the Odebrecht Group in 1992, where he held various positions within the Group's petrochemical businesses, including head of strategic planning and corporate controller in 1999. Prior to joining the Odebrecht Group, Mr. Fadigas worked for two years at Citibank. He holds a bachelor's degree in business administration from Unifacs of the State of Bahia and a masters degree in business administration from the Institute for Management Development (IMD) in Switzerland.

Carlos Roberto Mendonça Alves Dias – Mr. Dias has been an executive officer of our company since May 2, 1997. He has been our Senior Officer for Institutional Relations since 1995. He was previously the Senior Foreign Relations Officer at Odebrecht from 1992 to 1994. He is an economist who holds a degree from the Universidade Federal da Bahia.

Henrique Serrano do Prado Valladares – Mr. Valladares joined the Odebrecht Group as a trainee in 1977. In 1992, he was appointed as an executive officer of our company and in 1998 was elected President of BPC. In May 2002, he became responsible for our energy business. Mr. Valladares holds a degree in civil engineering from the Universidade Federal da Bahia.

João Antonio Pacífico Ferreira – Mr. Ferreira has been an executive officer of our company since May 2, 1991. He was our Senior Officer for Brazil from 1994 to 1996. He holds a civil engineering degree from the Universidade Federal de Pernambuco.

Márcio Faria da Silva – Mr. Silva has been an executive officer of our company since September 2, 1997. He was the Senior Officer for Tenenge Overseas Corporation from 1994 to 1996. He is a civil engineer and graduated in 1977 from the Escola de Engenharia da Fundação Mineira de Educação e Cultura.

Marcos Luis Abreu de Lima – Mr. Lima joined the Odebrecht Group in 1978 and since then has been acting as Chief Risk Officer for the Odebrecht Group. On May 3, 1999, he was appointed as an executive officer of our company. He holds degrees in economics, business administration and accounting from Pontificia Universidade Católica de Minas Gerais.

Rogério Luis Murat Ibrahim – Mr. Ibrahim joined our company in 1998. He has a graduate degree in civil engineering from Instituto Militar de Engenharia and has a degree in administration and finance from Instituto COPPEAD de Administração of Universidade Federal do Rio de Janeiro. Prior to joining us, he worked for Companhia Vale do Rio Doce (CVRD) for three years. In June 2005, he became our business development executive officer, having previously worked as our structure finance manager, controller, chief financial officer and investment director.

Board of Directors of OOL

The memorandum and articles of association of OOL provide for a board of directors composed of not less than one nor more than seven members. The members of the board of directors of OOL are appointed by OOL's shareholders. The current members of OOL's board of directors are Marcelo Bahia Odebrecht, Adriano Chaves Jucá Rolim, Carlos Jorge Hupsel de Azevedo and Carlos José Fadigas de Souza Filho, each of which is also an executive officer of our company. OOL has approximately 25 employees employed in connection with the Capanda Hydroelectric Project in Angola, and is operated by us from São Paulo, Brazil.

PRINCIPAL SHAREHOLDERS

OOL

OOL has a total authorized capital of 200,000,000 shares, composed entirely of common shares, with a par value of U.S.\$1.00 per share. As of June 30, 2005, the aggregate amount of OOL's issued and outstanding capital stock was U.S.\$165,213,310, represented by 165,213,310 common shares. The following table sets forth information concerning the ownership of OOL's shares as of June 30, 2005.

Name (1)	Number of Common Shares	(%)
Odebrecht Engenharia e Construção Participações S.A.	64,482,755	39.03%
Belgrávia Empreendimentos Imobiliários Ltda	51,397,861	31.11%
Odebrecht Oil Services Ltd.	35,966,938	21.77%
OSEL – Odebrecht Serviços no Exterior Ltd..	13,365,756	8.09%
Total.....	165,213,310	100.0%

(1) Each is a direct or indirect wholly-owned subsidiary of CNO.

There has been no material change in the ownership of OOL since June 30, 2005.

CNO

As of June 30, 2005, the aggregate amount of our issued and outstanding capital stock was R\$1,798.0 million, represented by 202,837,829 common shares and 147,382,173 preferred shares. Preferred shares have no voting rights, but rank ahead of common shares in the event of our liquidation. Each common share entitles the holder thereof to one vote at our shareholders' meetings. We have no established authorized share capital.

As of June 30, 2005, 100% of our total voting capital was owned by Odebrecht, which, in turn, is controlled by Odebrecht Investimentos S.A. (which owns 96.5% of the total capital and 96.7% of the voting capital of Odebrecht). Odebrecht Investimentos S.A. is a Brazilian corporation controlled by Kieppe Participações e Administração Ltda. (which owns 62.3% of the total and voting capital of Odebrecht Investimentos S.A.). Kieppe Participações e Administração Ltda. is a Brazilian corporation that is wholly-owned by the Odebrecht family. Certain current and former members and officers of Odebrecht own the remaining capital of Odebrecht Investimentos S.A.

There has been no material change in our ownership since June 30, 2005.

Delisting

Our shares were listed on the São Paulo Stock Exchange (BOVESPA) in 1997. This listing was undertaken principally to permit sales of shares by members of our management who had acquired shares through an incentive plan. However, as a result of the cost of maintaining this listing when considering the small public float (0.02%), our shareholders approved the delisting of our shares, which became effective on April 26, 2002.

Dividends

Pursuant to Brazilian Corporation Law, and in accordance with the third paragraph of Article 21 of our by-laws, we are required to make a minimum dividend payment to all of our shareholders during each fiscal year amounting to 25.0% of our annual net income during the previous fiscal year. We may declare and pay dividends in an amount greater than 25.0% of our annual net income, subject only to the limitation that such dividends may not exceed such net income and any distributable reserves available from previous fiscal years.

On December 31, 2004, our executive officers approved the anticipation of the distribution of dividends on net income for 2004 amounting to R\$143.0 million (U.S.\$60.8 million). In addition, on December 31, 2004, our executive officers approved the distribution of R\$114.0 million (U.S.\$48.5 million) in extraordinary dividends paid out of retained earnings from prior fiscal years.

RELATED PARTY TRANSACTIONS

The following summarizes the material transactions that we have engaged in with other Odebrecht Group companies.

In the ordinary course of our business, we engage in a variety of transactions with our subsidiaries, affiliates and other Odebrecht Group companies (including Odebrecht and Braskem). Financial information with respect to certain material related party transactions is set forth in note 5 to our financial statements.

We also maintain inter-company credit arrangements with Odebrecht and certain of its subsidiaries in order to facilitate temporary cash infusions and other flows of funds to meet working capital requirements and to distribute cash to shareholders pending the declaration of dividends at the end of each fiscal year. These inter-company credit arrangements are entered into on an arm's length basis. These credit lines accrue interest at a rate per annum equal to the TJLP (*Taxa de Juros de Longo Prazo*), or TJLP, an interest rate index set by BNDES or to the foreign exchange variation plus LIBOR and interest equal to 3.0% per annum. As of July 1, 2005, the TJLP was set at 9.75%. In addition, many of these credit arrangements are covered by a current account and single cash management agreement, dated as of January 2, 1999 entered into by and among all companies of the Odebrecht Group.

As of June 30, 2005, we were owed, in total, R\$305.5 million (R\$368.5 million as of June 30, 2004) in inter-company transactions with Odebrecht and other affiliates, of which R\$227.3 million (R\$223.8 million as of June 30, 2004) related to transactions with Odebrecht and R\$78.2 million (R\$144.7 million as of June 30, 2004) related to transactions with other Odebrecht Group companies. As of June 30, 2005, we were owed R\$5.6 million (R\$5.6 million as of June 30, 2004) in inter-company transactions with affiliates of Odebrecht.

DESCRIPTION OF THE NOTES

OOL will issue the notes pursuant to a fiscal agency agreement, to be dated as of September 22, 2005, among OOL, as issuer, CNO, as guarantor, JPMorgan Chase Bank, N.A., as fiscal agent (which term includes any successor as fiscal agent under the fiscal agency agreement), J.P. Morgan Trust Bank Ltd., as principal paying agent and J.P. Morgan Bank Luxembourg S.A., as Luxembourg listing agent, paying and transfer agent and registrar. OOL has, under the fiscal agency agreement, appointed a registrar, fiscal agent, paying agents and transfer agents, which are identified on the inside back cover page of this offering circular. A copy of the fiscal agency agreement, including the form of the notes, is available for inspection during normal business hours at the offices of the fiscal agent and any of the paying agents set forth on the inside back cover page of this offering circular. The fiscal agent or any paying agent will also act as transfer agents in the event that OOL issues certificates for the notes in definitive registered form as set forth in “Book Entry; Delivery and Form — *Individual Definitive Notes.*”

This description of notes is a summary of the material provisions of the notes and the fiscal agency agreement. You should refer to the fiscal agency agreement for a complete description of the terms and conditions of the notes and the fiscal agency agreement, including the obligations of OOL and CNO and your rights.

You will find the definitions of capitalized terms used in this section under “— Certain Definitions.” For purposes of this section of this offering circular, references to “CNO” refer only to Construtora Norberto Odebrecht S.A. and not to its subsidiaries.

General

The notes:

- will be senior unsecured obligations of OOL;
- will initially be limited to an aggregate principal amount of U.S.\$200,000,000;
- will be perpetual notes with no fixed final maturity date;
- will be issued in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof;
- will be represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances; and
- will initially be unconditionally guaranteed on a senior unsecured basis by CNO.

Interest on the notes:

- will accrue at the rate of 9.625% per annum;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in cash quarterly in arrears on March 22, June 22, September 22 and December 22 of each year, commencing on December 22, 2005;
- will be payable to the holders of record on the March 7, June 7, September 7 and December 7 immediately preceding the related interest payment dates; and
- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, and interest and any additional amounts on, the notes will be payable, and the transfer of notes will be registrable, at the office of the fiscal agent, and at the offices of the transfer agents and registrar, respectively. OOL and CNO initially will maintain the principal paying agent in Japan. For so long as the notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange will so require, OOL and CNO will maintain a paying agent and transfer agent in Luxembourg.

CNO Guarantee

CNO will unconditionally guarantee, on a senior unsecured basis, OOL's payment obligations under the notes and the fiscal agency agreement. The obligations of CNO under the guarantee will rank:

- equal in right of payment to all other existing and future senior unsecured debt of CNO subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to CNO's subordinated debt; and
- effectively subordinated to the debt and other liabilities (including subordinated debt and trade payables) of CNO's subsidiaries and jointly controlled companies and to secured debt of CNO to the extent of such security.

As of June 30, 2005, our total outstanding indebtedness was R\$1,173.0 million, consisting of R\$213.2 million in short-term indebtedness and R\$959.8 million in long-term indebtedness.

Part of the operations of CNO are conducted through its subsidiaries and jointly controlled companies, which may have, or may issue, substantial debt.

Ranking

The notes will constitute direct senior unsecured obligations of OOL. If OOL were to issue any debt other than the notes, the notes would rank at least *pari passu* in priority of payment with all other existing and future senior unsecured indebtedness of OOL.

The obligations of OOL under the notes will rank:

- equal in right of payment to all other existing and future senior unsecured debt of OOL subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to OOL's subordinated debt; and
- effectively subordinated to secured debt of OOL to the extent of such security.

As of June 30, 2005, OOL's total outstanding indebtedness with third parties was U.S.\$368.5 million.

Redemption

The notes will not be redeemable, except as described below. Any optional or tax redemption may require the prior approval of the Central Bank.

Optional Redemption

The notes will be redeemable, at the option of OOL, in whole, but not in part, on any interest payment date on or after September 22, 2010, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at 100% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto.

Tax Redemption

The notes will be redeemable, at the option of OOL, in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at 100% of the principal amount thereof, plus accrued interest and any additional amounts payable with respect thereto, only if (i) OOL or CNO has or will become obligated to pay additional amounts as discussed below under "— Additional Amounts" with respect to such notes or the related guarantee in excess of the additional amounts that OOL or CNO would pay if payments in respect of the notes or the related guarantee were subject to deduction or withholding at a rate of 15%, or 25% in the case of beneficiaries located in tax haven jurisdictions for purposes of Brazilian tax law (determined without regard to any interest, fees, penalties or other additions to tax) as a result of any change in, or amendment to, the laws or regulations of Brazil or The Bahamas or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of the fiscal agency agreement, and (ii) such obligation cannot be avoided by OOL or CNO taking reasonable measures available to it. No such notice of redemption will be given earlier than 60 days prior to the earliest date on which OOL or CNO, as the case may be, would be obligated to pay such additional amounts if a payment in respect of such notes or the related guarantee were then due.

Prior to the publication or mailing of any notice of redemption of the notes as described above, OOL or CNO must deliver to the fiscal agent an officers' certificate to the effect: (i) that OOL's and CNO's obligation, as the case may be, to pay additional amounts cannot be avoided by OOL or CNO, as the case may be, taking reasonable measures available to it; and (ii) whether approval from the Central Bank is required, or, as the case may be, has been received. OOL will also deliver an opinion of an independent legal counsel of recognized standing stating that OOL or CNO, as the case may be, would be obligated to pay additional amounts due to the changes in tax laws or regulations. The fiscal agent will accept this certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (i) and (ii) above, in which event it will be conclusive and binding on the holders; provided, however, that the fiscal agent shall not concern itself, or be responsible for, the content or interpretation of any such certificate.

Open Market Purchases

OOL, CNO or its affiliates may at any time purchase notes in the open market or otherwise at any price. Any such purchased notes will not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws.

Payments

OOL and CNO will make all payments on the notes and the related guarantee exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

OOL or CNO will make payments of principal and interest on the notes to the principal paying agent (as identified on the inside back cover page of this offering circular), which will pass such funds to the fiscal agent and the paying agents or to the holders. See "Taxation — Brazilian Taxation."

OOL or CNO will make payments of principal upon surrender of the notes at the specified office of the fiscal agent or any of the paying agents. OOL or CNO will pay principal on the notes to the persons in whose name the notes are registered at the close of business on the 15th day before the due date for payment. Payments of principal and interest in respect of each note will be made by the fiscal agent by U.S. dollar check drawn on a bank in New York City and mailed to the holder of such note at its registered address. Upon application by the holder to the specified office of the fiscal agent or any paying agent not

less than 15 days before the due date for any payment in respect of a note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Under the terms of the fiscal agency agreement, payment by OOL or CNO of any amount payable under the notes on the due date thereof to the principal paying agent in accordance with the fiscal agency agreement will satisfy the obligation of OOL or CNO to make such payment; provided, however, that the liability of the principal paying agent shall not exceed any amounts paid to it by OOL or CNO, or held by it, on behalf of the holders under the fiscal agency agreement. OOL and CNO have agreed in the fiscal agency agreement to indemnify the holders in the event that there is subsequent failure by the fiscal agent or any paying agent to pay any amount due in respect of the notes in accordance with the fiscal agency agreement (including, without limitation, any failure to pay any amount due as a result of the imposition of any present or future taxes, duties, assessments, fees or governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of Japan or any political subdivision or authority thereof or therein, having power to tax) as will result in the receipt by the holders of such amounts as would have been received by them had no such failure occurred.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “— Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the fiscal agent and the paying agents will pay to OOL or CNO upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to OOL or CNO for payment as general creditors. After the return of such monies by the fiscal agent or the paying agents to OOL or CNO, as the case may be, neither the fiscal agent nor the paying agents shall be liable to the holders in respect of such monies.

Form, Denomination and Title

The notes will be in registered form without coupons attached in amounts of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof.

The notes will be initially represented by one or more permanent global notes. The global notes will be deposited with a common depositary for Euroclear and Clearstream Luxembourg and registered in the name of a nominee of such common depositary. Ownership of interests in the global notes, referred to as “book-entry interests,” will be limited to persons that have accounts with Euroclear or Clearstream Luxembourg or their respective participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream Luxembourg and their participants. The terms of the fiscal agency agreement will provide for the issuance of certificated registered notes in certain circumstances. See “— Book Entry, Delivery and Form — *Individual Definitive Notes.*” Except in certain limited circumstances, definitive registered notes will not be issued in exchange for beneficial interests in the global notes. See “— Book Entry, Delivery and Form — *Global Notes.*”

Title to the notes will pass by registration in the register. The holder of any note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive note issued in respect of it) and no person will be liable for so treating the holder.

Transfer of Notes

Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new note to be issued upon exchange of notes or transfer of notes will, within three business days of the receipt of a request for

exchange or form of transfer, be mailed at the risk of the holder entitled to the note to such address as may be specified in such request or form of transfer.

Notes will be subject to certain restrictions on transfer as more fully set out in the fiscal agency agreement. See “Transfer Restrictions.” Transfer of beneficial interests in the global notes will be effected only through records maintained in book-entry form by Euroclear or Clearstream Luxembourg and their participants. See “— Book Entry, Delivery and Form — *Global Notes*.”

Transfer will be effected without charge by or on behalf of OOL or CNO, the registrar or the transfer agents, but upon payment, or the giving of such indemnity as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it. OOL is not required to transfer or exchange any note selected for redemption.

No holder may require the transfer of a note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that note.

Additional Amounts

All payments by OOL or CNO in respect of the notes or the related guarantee, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of Brazil or the Bahamas or any political subdivision or authority of or in Brazil or The Bahamas having power to tax, unless such withholding or deduction is required by law. In that event, OOL or CNO, as the case may be, will pay to each holder such additional amounts as may be necessary in order that every net payment made by OOL or CNO, as the case may be, on each note or the related guarantee after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed upon or as a result of such payment by Brazil or The Bahamas or any political subdivision or taxing authority thereof or therein will not be less than the amount then due and payable on such note. The foregoing obligation to pay additional amounts, however, will not apply to or in respect of:

- (i) any tax, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between such holder, on the one hand, and Brazil or The Bahamas, on the other hand (including, without limitation, such holder being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of such note or the related guarantee;
- (ii) any tax, assessment or other governmental charge which would not have been so imposed but for the presentation by such holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (iii) any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of such holder to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with Brazil or The Bahamas of the holder if (a) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which OOL or CNO, as the case may be, will apply this clause (iii), OOL will have notified all holders of notes that some or all holders of notes will be required to comply with such requirement;

- (iv) any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;
- (v) any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest on the note or by direct payment by OOL or CNO in respect of claims made against OOL or CNO; or
- (vi) any combination of the above.

OOL or CNO, as the case may be, will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the notes or the related guarantee, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Brazil or The Bahamas other than those resulting from, or required to be paid in connection with, the enforcement of the notes and the related guarantee following the occurrence of any Default or Event of Default.

No additional amounts will be paid with respect to a payment on any note or the related guarantee to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note or the related guarantee.

OOL or CNO will provide the fiscal agent with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, a certified copy thereof) evidencing any payment of Brazilian taxes or Bahamian taxes in respect of which OOL or CNO has paid any additional amounts. Copies of such documentation will be made available to the holders of the notes, the fiscal agent or the paying agents, as applicable, upon request therefor.

All references in this offering circular to principal of and interest on the notes will include any additional amounts payable by OOL or CNO, as the case may be, in respect of such principal and such interest.

Covenants

The fiscal agency agreement contains the following covenants:

Limitation on Liens

CNO will not, and will not permit any Subsidiary to, create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on any Capital Stock of CNO or any Subsidiary, securing any obligation unless contemporaneously therewith effective provision is made to secure the notes equally and ratably with such obligation for so long as such obligation is so secured. The preceding sentence will not require CNO or any Subsidiary to equally and ratably secure the notes if the Lien consists of the following (“Permitted Liens”):

(1) any Lien existing on the date of the fiscal agency agreement, and any extension, renewal or replacement thereof, or of any Lien in clause (2), (3) or (4) below; *provided, however*, that the total amount of Debt so secured is not increased;

(2) any Lien on any property or assets (including Capital Stock of any person) securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the fiscal agency agreement; *provided* that (a) the aggregate principal amount of Debt secured by the Liens will not exceed (but may be less than) the cost

(i.e., purchase price) of the property or assets so acquired, constructed or improved and (b) the Lien is incurred before, or within 120 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of CNO or any Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, the Lien also may encumber other property or assets of the person so acquired;

(3) any Lien securing Debt for the purpose of financing all or part of cost of the acquisition, construction or development of a project; provided that the Liens of such Debt are limited to assets (including Capital Stock of the project entity) and/or revenues of such project; and provided, further, that the Lien is incurred before, or within 120 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets of CNO or any Subsidiary;

(4) any Lien existing on any property or assets of any person before that person's acquisition by, merger into or consolidation with CNO or any Subsidiary after the date of the fiscal agency agreement; *provided* that (a) the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (b) the Debt secured by the Liens may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (c) the Lien will not apply to any other property or assets of CNO or any of its Subsidiaries and (d) the Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;

(5) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;

(6) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which CNO or any Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which CNO or any Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(7) any Lien in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of CNO or any Subsidiary in the ordinary course of business;

(8) any Lien securing taxes, assessments and other governmental charges, the payment of which are not yet due or are being contested in good faith by appropriate proceedings and for which such reserves or other appropriate provisions, if any, have been established as required by Brazilian GAAP;

(9) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of CNO or any Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(10) any rights of set-off of any person with respect to any deposit account of CNO or any Subsidiary arising in the ordinary course of business;

(11) any Liens granted to secure borrowings from, directly or indirectly, (a) Banco Nacional de Desenvolvimento Econômico e Social–BNDES, or any other Brazilian governmental

development bank or credit agency or (b) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;

(12) any Liens on the inventory or receivables of CNO or any Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in connection with any structured export or import financing or other trade transaction; provided that the aggregate principal amount of Debt incurred that is secured by receivables that will fall due in any calendar year shall not exceed (a) with respect to transactions secured by receivables from export sales, 80% of CNO's consolidated gross revenues from export sales for the immediately preceding calendar year; or (b) with respect to transactions secured by receivables from domestic (Brazilian) sales, 80% of such person's consolidated gross revenues from sales within Brazil for the immediately preceding calendar year; and provided, further, that Advance Transactions will not be deemed transactions secured by receivables for purpose of the above calculation; and

(13) in addition to the foregoing Liens set forth in clauses (1) through (12) above, Liens securing Debt of CNO or any Subsidiary (including, without limitation, Guarantees of CNO or any Subsidiary) which do not in aggregate principal amount, at any time of determination, exceed the greater of U.S.\$200.0 million or 15.0% of CNO's Total Consolidated Assets.

Limitation on Transactions with Affiliates

CNO or any of its Subsidiaries will not enter into any transaction (or series of related transactions) with any Affiliates, including any Investment, either directly or indirectly, unless such transaction or series of related transactions are on terms no less favorable to CNO, or such Subsidiary, as the case may be, than those that could have been obtained in a comparable arm's-length transaction with an unrelated third party. Notwithstanding the foregoing, this covenant does not apply to any loan or similar financial transaction (or series of related transactions) entered into for the purpose of performing cash management or other financial management functions by CNO or any Subsidiary with any of the other Subsidiaries or related parties.

Limitation on Consolidation, Merger or Transfer of Assets

CNO will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any person, unless:

(1) the resulting, surviving or transferee person (if not CNO) will be a person organized and existing under the laws of Brazil, the United States of America, any State thereof or the District of Columbia, or any other country that is a member country of the European Union or of the Organization for Economic Co-operation and Development on the date of the fiscal agency agreement, and such person expressly assumes, by an amendment to the fiscal agency agreement, executed and delivered to the fiscal agent, all the obligations of CNO under the guarantee and the fiscal agency agreement; and

(2) the resulting, surviving or transferee person (if not CNO), if not organized and existing under the laws of Brazil, undertakes, in such amendment, to pay such additional amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the guarantee after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed by the United States or such other country, as the case may be, or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the guarantee, subject to the same exceptions set forth under clauses (i), (ii) and (iii) under "Additional Amounts" but adding references to the United States or such other country to the existing references in such clause to Brazil;

(3) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) CNO will have delivered to the fiscal agent an officers' certificate and an opinion of independent legal counsel of recognized standing, each stating that such consolidation, merger or transfer and such amendment, if any, comply with the fiscal agency agreement.

The fiscal agent will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clause (4), in which event it will be conclusive and binding on the holders.

Limitation on Agreements Restricting Dividend Payments

CNO will not, and will not permit any Subsidiary to, directly or indirectly, enter into or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its Capital Stock or to make or repay loans or advances to CNO or any other Subsidiary; *provided* that the foregoing will not apply to:

- restrictions and conditions imposed by applicable law;
- restrictions and conditions existing on the date of the fiscal agency agreement and will apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition;
- customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary of CNO pending that sale; *provided* that those restrictions and conditions apply only to the Subsidiary of CNO that is to be sold and that sale is permitted by the fiscal agency agreement;
- existing with respect to any person, or to the properties or assets of any person, at the time or within 365 days following the date that the person is acquired by CNO or any Subsidiary of CNO, which encumbrances or restrictions: (i) are not applicable to any other person or the properties or assets of any other person; and (ii) were not put in place in anticipation of such event (other than in connection with the financing for the acquisition of such person), and any extensions, renewals, replacements or refinancings of any of the foregoing;
- restrictions and conditions with respect to any Subsidiary of CNO that have been entered into to permit such Subsidiary to make an investment instead of a Restricted Payment so long as such investment is made within 12 months of the date that the Restricted Payment would have been otherwise declared and paid by such Subsidiary;
- with respect to any Subsidiary of CNO and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or properties or assets of, such Subsidiary;
- with respect to any Subsidiary of CNO and imposed pursuant to a customary provision in a joint venture or other similar agreement with respect to such Subsidiary that was entered into in the ordinary course of business;
- restrictions and conditions imposed on any Subsidiary of CNO in loan documentation executed in connection with any debt or Permitted Lien for the purpose of financing all or any part of the cost of the acquisition, construction or development of a project that limits the ability of such Subsidiary to make a Restricted Payment to CNO or any other Subsidiary of CNO; and
- imposed by the standard loan documentation in connection with any loans to any Subsidiary of CNO from (a) *Banco Nacional de Desenvolvimento Economico e Social – BNDES*, or any other Brazilian government development bank or credit agency or (b) any international or multilateral

development bank, government-sponsored agency, export-import bank or official export-import credit insurer.

Reporting Requirements

CNO and OOL will provide the fiscal agent with the following reports (and will also provide the fiscal agent with sufficient copies, as required, of the following reports referred to in clauses (1) through (4) for distribution, at their expense):

(1) an English language version of OOL's annual audited non-consolidated financial statements prepared in accordance with International Financial Reporting Standards or Brazilian GAAP, as the case may be, promptly upon such statements becoming available but not later than 120 days after the close of its fiscal year;

(2) an English language version of CNO's annual audited consolidated financial statements prepared in accordance with Brazilian GAAP, promptly upon such statements becoming available but not later than 120 days after the close of its fiscal year;

(3) simultaneously with the delivery of each set of financial statements referred to in clauses (1) and (2) above, an officers' certificate stating whether an Event of Default or Default exists on the date of such certificate and, if an Event of Default or Default exists, setting forth the details thereof and the action being taken or proposed to take with respect thereto;

(4) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) OOL and CNO or with the Luxembourg Stock Exchange or any other stock exchange on which the notes may be listed (in each case, to the extent that any such report or notice is generally available to their security holders or the public in Brazil) or; and

(5) as soon as is practicable and in any event within ten calendar days after any director or executive officer of OOL's or CNO's becomes aware of the existence of an Event of Default or Default, an officers' certificate setting forth the details thereof and what action OOL or CNO proposes to take with respect thereto.

The fiscal agent will not be responsible for the content of, or for inquiring into the receipt of, any of the reports listed above.

Maintenance of Properties

CNO shall, and shall cause each of its Subsidiaries to, maintain, preserve and protect all of its material properties and equipment necessary in the operation of its principal business in good order and condition, subject to wear and tear in the ordinary course of business.

Maintenance of Books and Records

CNO shall, and shall cause each of its Subsidiaries to, maintain books, accounts and records in all material respects in accordance with applicable law.

Maintenance of Office or Agency

OOL and CNO shall maintain an office or agency in the Borough of Manhattan, The City of New York, where notices to and demands upon OOL and CNO in respect of the fiscal agency agreement and the notes may be served. Initially this office will be at the offices of National Corporate Research, 225 West 34th Street, Suite 910, New York, NY 10122, and OOL and CNO will agree not to change the designation

of such office without prior notice to the fiscal agent and designation of a replacement office in the Borough of Manhattan, The City of New York.

Events of Default

An “Event of Default” occurs if:

(1) OOL or CNO defaults in any payment of interest (including any related additional amounts) on any note when the same becomes due and payable, and such default continues for a period of 30 days;

(2) OOL or CNO defaults in the payment of the principal (including premium, if any, and any related additional amounts) of any note when the same becomes due and payable upon redemption, upon declaration or otherwise;

(3) CNO fails to comply with any of the covenants described under “Covenants – Limitation on Liens”, “– Limitation on Transactions with Affiliates” or “– Limitation on Consolidation, Merger or Transfer of Assets”, and such failure continues for 30 days after the notice specified below;

(4) OOL or CNO fails to comply with any of its covenants or agreements in the notes or the fiscal agency agreement (other than those referred to in (1), (2) and (3) above), and such failure continues for 60 days after the notice specified below;

(5) OOL, CNO or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by OOL, CNO or any such Significant Subsidiary (or the payment of which is guaranteed by OOL, CNO or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the fiscal agency agreement, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default (“Payment Default”) or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.\$20.0 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(6) one or more final judgments or decrees for the payment of money of U.S.\$20.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against OOL, CNO or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(7) certain events of bankruptcy or insolvency of OOL, CNO or any Significant Subsidiary;

(8) the guarantee is not (or is claimed by CNO not to be) in full force and effect; or

(9) OOL ceases to be a Subsidiary of CNO or CNO ceases to control, or have the power to control, the affairs and policies of OOL, whether by ownership of share capital, contract, the power to appoint or remove members of the board of directors of OOL or otherwise.

A Default under clause (3) or (4) above will not constitute an Event of Default until the fiscal agent or the holders of at least 25% in principal amount of the notes outstanding notify OOL and CNO of the Default and OOL and CNO do not cure such Default within the time specified after receipt of such notice.

If an Event of Default (other than an Event of Default specified in clause (7) above) occurs and is continuing, the fiscal agent or the holders of not less than 25% in principal amount of the notes then outstanding may declare all unpaid principal of and accrued interest on all notes to be due and payable immediately, by a notice in writing to OOL or CNO, as the case may be, and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (7) above occurs and is continuing, then the principal of and accrued interest on all notes will become and be immediately due and payable without any declaration or other act on the part of the fiscal agent or any holder.

Defeasance

OOL or CNO, as the case may be, may at any time terminate all of its obligations with respect to the notes (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain agencies in respect of notes. OOL or CNO, as the case may be, may at any time terminate its obligations under certain covenants set forth in the fiscal agency agreement, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the notes issued under the fiscal agency agreement (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, OOL or CNO must irrevocably deposit in trust, for the benefit of the holders of the notes, with a bank that has a combined capital and surplus of at least U.S.\$500.0 million money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the paying agent, without consideration of any reinvestment, to pay the principal of, and interest on the notes to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax matters.

Amendment, Supplement, Waiver

Subject to certain exceptions, the fiscal agency agreement may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding, and any past Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the notes then outstanding. However, without the consent of each holder of an outstanding note affected thereby, no amendment may:

- (1) reduce the rate of or extend the time for payment of interest on any note;
- (2) reduce the principal of any note;
- (3) reduce the amount payable upon redemption of any note or change the time at which any note may be redeemed;
- (4) change the currency for payment of principal of, or interest on, any note;
- (5) impair the right to institute suit for the enforcement of any payment on or with respect to any note;
- (6) waive certain payment defaults with respect to the notes;
- (7) amend or modify any provisions of the guarantee in a manner that would materially and adversely affect the holders;
- (8) reduce the principal amount of notes whose holders must consent to any amendment or waiver; or

(9) make any change in the amendment or waiver provisions which require each holder's consent.

The holders of the notes will receive prior notice as described under “— Notices” of any proposed amendment to the notes or the fiscal agency agreement described in this paragraph. After an amendment described in the preceding paragraph becomes effective, OOL or CNO is required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all holders of the notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of the notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

OOL or CNO and the fiscal agent may, without the consent or vote of any holder of the notes, amend or supplement the fiscal agency agreement or the notes for the following purposes:

- (1) cure any ambiguity, omission, defect or inconsistency;
- (2) add guarantees or collateral with respect to the notes;
- (3) add to the covenants of OOL or CNO for the benefit of holders of the notes;
- (4) evidence and provide for the acceptance of an appointment by a successor fiscal agent; or
- (5) conform the fiscal agency agreement, the notes or the guarantee to any provision in this “Description of the Notes.”

Notices

For so long as notes in global form are outstanding, notices to be given to holders will be given to the common depositary, in accordance with its applicable policies as in effect from time to time. If notes are issued in certificated form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the register. For so long as the notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the notes in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*) or via the electronic information system managed by the Luxembourg Stock Exchange.

Fiscal agent

JPMorgan Chase Bank, N.A. is the fiscal agent under the fiscal agency agreement.

The fiscal agency agreement contains provisions for the indemnification of the fiscal agent and for its relief from responsibility. The obligations of the fiscal agent to any holder are subject to such immunities and rights as are set forth in the fiscal agency agreement.

The fiscal agent, paying agents, transfer agents and the registrar act solely as agents to OOL and (as the case may be) CNO and do not assume any obligations towards or relationship of agency or trust for or with any of the holders of the notes.

The fiscal agent need perform only those duties that are specifically set forth in the fiscal agency agreement and no others, and no implied covenants or obligations will be read into the fiscal agency

agreement against the fiscal agent. No provision of the fiscal agency agreement will require the fiscal agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

CNO and its affiliates may from time to time enter into normal banking and fiscal agent relationships with the fiscal agent and its affiliates.

Governing Law and Submission to Jurisdiction

The notes, the fiscal agency agreement and the guarantee will be governed by the laws of the State of New York.

Each of the parties to the fiscal agency agreement will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the notes, the guarantee and the fiscal agency agreement. Each of OOL and CNO has appointed National Corporate Research, 225 West 34th Street, Suite 910, New York, New York 10122, as its authorized agent upon which process may be served in any such action.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by OOL or CNO under or in connection with the notes, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of OOL, CNO or otherwise) by any holder of a note in respect of any sum expressed to be due to it from OOL or CNO will only constitute a discharge to OOL or CNO, as the case may be, to the extent of the dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that dollar amount is less than the dollar amount expressed to be due to the recipient under any note, OOL or CNO, as the case may be, will indemnify such holder against any loss sustained by it as a result; and if the amount of United States dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a note, be deemed to have agreed to repay such excess. In any event, OOL or CNO, as the case may be, will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of OOL and CNO, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

Certain Definitions

The following is a summary of certain defined terms used in the fiscal agency agreement. Reference is made to the fiscal agency agreement for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Advance Transaction” means an advance from a financial institution involving either (a) a foreign exchange contract (ACE — *Adiantamento sobre Contrato de Câmbio*) or (b) an export contract (ACE — *Adiantamento sobre Contrato de Exportação*).

“Affiliate” means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Brazil” means the Federative Republic of Brazil.

“Brazilian GAAP” means accounting practices prescribed by Brazilian Corporation Law, the rules and regulations issued by the CVM and the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil*), in each case as in effect from time to time.

“Capital Lease Obligations” means, with respect to any person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with Brazilian GAAP; the amount of such obligation will be the capitalized amount thereof, determined in accordance with Brazilian GAAP; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Capital Stock” means, with respect to any person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“CVM” means the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*.

“Debt” means, with respect to any person, without duplication:

(a) the principal of and premium, if any, in respect of (i) indebtedness of such person for money borrowed and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such person is responsible or liable;

(b) all Capital Lease Obligations of such person;

(c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);

(d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day

following receipt by such person of a demand for reimbursement following payment on the letter of credit);

(e) all Hedging Obligations;

(f) all obligations of the type referred to in clauses (a) through (d) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);

(g) all obligations of the type referred to in clauses (a) through (e) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and

(h) any other obligations of such person which are required to be, or are in such person's financial statements, recorded or treated as debt under Brazilian GAAP.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“guarantee” means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Hedging Obligations” means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

“holder” means the person in whose name a note is registered in the register.

“Interest on Capital” means *juros sobre capital próprio* paid pursuant to Brazilian Law No. 9249/95, as may be amended or replaced.

“Investment” means, with respect to any person, any loan or advance to, any acquisition of Capital Stock, equity interest, obligation or other security of, or capital contribution or other investment in, such person.

“Lien” means any mortgage, pledge, security interest, conditional sale or other title retention agreement or other similar lien.

“Restricted Payment” means any dividend, Interest on Capital or other distribution (whether in cash, securities or other property) with respect to any shares of Capital Stock of CNO or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar

deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of Capital Stock of CNO or any of its Subsidiaries or any option, warrant or other right to acquire any such shares of Capital Stock of CNO or any of its Subsidiaries.

“Significant Subsidiary” means any Subsidiary of CNO which at the time of determination either (i) had assets which, as of the date of CNO’s most recent quarterly consolidated balance sheet, constituted at least 10% of CNO’s total assets on a consolidated basis as of such date, or (ii) had revenues for the 12-month period ending on the date of CNO’s most recent quarterly consolidated statement of income which constituted at least 10% of CNO’s total revenues on a consolidated basis for such period.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees is at the time owned or controlled, directly or indirectly, by (a) CNO, (b) CNO and one or more Subsidiaries or (c) one or more Subsidiaries.

“Total Consolidated Assets” means the total amount of assets of CNO and its Subsidiaries prepared in accordance with Brazilian GAAP.

“Wholly-owned Subsidiary” means a Subsidiary all of the Capital Stock of which (other than directors’ qualifying shares) is owned by CNO or another Wholly-owned Subsidiary.

Book Entry; Delivery and Form

Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). On the closing date, the Global Notes will be deposited with a common depository registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream Luxembourg.

Global Notes

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream Luxembourg or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream Luxembourg and their participants.

Except as set forth below under “—Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream Luxembourg will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the notes are held in global form, the common depository for Euroclear and/or Clearstream Luxembourg (or its nominee) will be considered the sole holder of Global Notes for all purposes under the fiscal agency agreement and “holders” of book-entry interests will not be considered the owners or “holders” of notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream Luxembourg and indirect participants must rely on the procedures of the participants through

which they own book-entry interests in order to transfer their interests in the notes or to exercise any rights of holders under the fiscal agency agreement.

None of OOL, CNO, the fiscal agent or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The notes are not issuable in bearer form.

Payments on Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and additional amounts) will be made to the principal paying agent. The principal paying agent will, in turn, make such payments to the common depository for Euroclear and Clearstream Luxembourg, which will distribute such payments to participants in accordance with their procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “Description of the Notes—Additional Amounts.”

Under the terms of the fiscal agency agreement, OOL, CNO and the fiscal agent will treat the registered holder of the Global Notes (e.g., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of OOL, CNO, the fiscal agent or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream Luxembourg or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream Luxembourg or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream Luxembourg or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream Luxembourg or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in “street name.”

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream Luxembourg, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream Luxembourg, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that under existing practices of Euroclear and Clearstream Luxembourg, if fewer than all of the notes are to be redeemed at any time, Euroclear and Clearstream Luxembourg will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of U.S.\$1,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream Luxembourg have advised that they will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream Luxembourg will not exercise any discretion in the granting of consents, waivers or the

taking of any other action in respect of the Global Notes. If there is an Event of Default under the notes, however, each of Euroclear and Clearstream Luxembourg reserves the right to exchange the Global Notes for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream Luxembourg will be effected in accordance with Euroclear and Clearstream Luxembourg's rules and will be settled in immediately available funds. If a holder requires physical delivery of individual definitive notes for any reason, including to sell the notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream Luxembourg and in accordance with the provisions of the fiscal agency agreement.

The Global Notes will bear a legend to the effect set forth under "Transfer Restrictions." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Subject to the foregoing, and as set forth in "Transfer Restrictions," book-entry interests may be transferred and exchanged as described under "Description of the Notes—Transfer." Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

In the case of the issuance of individual definitive notes, the holder of an individual definitive note may transfer such note by surrendering it to the fiscal agent or a transfer agent. In the event of a partial transfer or a partial redemption of a holding of individual definitive notes represented by one individual definitive note, an individual definitive note will be issued to the transferee in respect of the part transferred and a new individual definitive note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no individual definitive note in a denomination less than U.S.\$100,000 will be issued. OOL will bear the cost of preparing, printing, packaging and delivering the individual definitive notes.

OOL will not be required to register the transfer or exchange of individual definitive notes for a period of 15 calendar days preceding (a) the record date for any payment of interest on the notes, (b) any date fixed for redemption of the notes or (c) the date fixed for selection of the notes to be redeemed in part. Also, OOL is not required to register the transfer or exchange of any notes selected for redemption. In the event of the transfer of any individual definitive note, the fiscal agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the fiscal agency agreement. In addition, individual definitive notes may be transferred and exchanged only after the transferor first delivers to the fiscal agent a written certification (in the form provided in the fiscal agency agreement) to the effect that such transfer will comply with the transfer restrictions applicable to such notes. OOL may require a holder to pay any taxes and fees required by law and permitted by the fiscal agency agreement and the notes.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream Luxembourg accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream Luxembourg, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream Luxembourg

We understand as follows with respect to Euroclear and Clearstream Luxembourg :

Euroclear and Clearstream Luxembourg hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream Luxembourg provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Luxembourg interface with domestic securities markets. Euroclear and Clearstream Luxembourg participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream Luxembourg participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream Luxembourg in order to facilitate the original issue and subsequent transfers of interests in the notes among participants of Euroclear and Clearstream Luxembourg , neither Euroclear nor Clearstream Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of OOL, CNO or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

The information in this section concerning Euroclear and Clearstream Luxembourg and their respective book-entry systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the fiscal agency agreement and a successor depositary is not appointed by OOL within 90 days or (2) any of the notes has become immediately due and payable in accordance with "Description of the Notes — Events of Default," OOL will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the fiscal agent, as the case may be, OOL will use its best efforts to make arrangements with the common depositary for the exchange of interests in the global notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by OOL and the registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

In the case of individual definitive notes issued in exchange for the Global Note, such individual definitive notes will bear, and be subject to, the legend described in “Transfer Restrictions” (unless OOL determines otherwise in accordance with applicable law). The holder of a restricted individual definitive note may transfer such note, subject to compliance with the provisions of such legend, as provided in “Description of the Notes.” Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, OOL will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to OOL such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by OOL that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

If individual definitive notes are issued and a holder thereof claims that such individual definitive note has been lost, destroyed or wrongfully taken, or if such individual definitive note is mutilated and is surrendered to the registrar or at the office of a transfer agent, OOL will issue and the fiscal agent will authenticate a replacement individual definitive note if the fiscal agent’s and OOL’s requirements are met. OOL or the fiscal agent may require a holder requesting replacement of an individual definitive note to furnish an indemnity bond sufficient in the judgment of both to protect ourselves, the fiscal agent, the registrar or the paying agent appointed pursuant to the fiscal agency agreement from any loss which any of them may suffer if an individual definitive note is replaced. OOL may charge for any expenses incurred by it in replacing an individual definitive note.

In case any such mutilated, destroyed, lost or stolen individual definitive note has become or is about to become due and payable, or is about to be redeemed or purchased by OOL pursuant to the provisions of the fiscal agency agreement, OOL, in its discretion, may, instead of issuing a new individual definitive note, pay, redeem or purchase such individual definitive note, as the case may be.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream Luxembourg.

TAXATION

The following discussion summarizes certain Brazilian, Bahamian and European Union tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws and regulations now in effect in Brazil, laws and regulations now in effect in The Bahamas and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Brazilian Taxation

Interest payable by an obligor domiciled outside Brazil, such as OOL, to an individual, entity, trust or organization domiciled outside Brazil is not subject to Brazilian withholding income tax. Accordingly, interest payable by OOL under the notes is not subject to any Brazilian taxation.

The earnings of foreign companies and persons not resident in Brazil are taxed in Brazil when derived from Brazilian sources or when the transaction giving rise to such earnings involves assets in Brazil.

Interest income (which for the purposes of this paragraph includes any deemed income on the difference between the issue price of the notes and the price at which the notes are redeemed (“original discount”)) payable by an issuer or guarantor resident in Brazil to an individual, company, entity, trust or organization domiciled outside Brazil is subject to income tax withholding at the source. Brazilian tax laws expressly require the payer to pay the income or earnings net of taxes and, therefore, to withhold the applicable tax. The rate of withholding is 15.0% unless: (1) the holder of the notes is resident in a tax haven (i.e., countries which do not impose any income tax or which impose it at a maximum rate lower than 20.0% or where the laws impose restrictions on the disclosure of ownership composition or securities ownership), in which case the applicable rate is 25.0% (except for interest, including original issue discount, fees, commissions, expenses and other income payable in respect of international debt securities issued under the rules of the Central Bank, in which case the withholding tax rate remains 15.0%, as determined by Section 10 of Normative Instruction No. 252 of 2002 of the Brazilian Revenue Service); or (2) a lower rate is provided for in an applicable tax treaty between Brazil and the other country where the recipient of the payment has its domicile. Despite the lack of an express legal provision concerning payment of interest by Brazilian guarantors as well as of precedents from Brazilian courts, we believe and intend to take the position for Brazilian tax purposes that, as long as the principal paying agent is organized under the laws of Japan and payment to the principal paying agent discharges our obligations to make payments under the guaranty, payment with respect to interest (including original discount) under the guaranty will be subject to Brazilian withholding tax at a rate of 12.5% under the tax treaty in effect between Brazil and Japan.

If the guarantor is required to assume the obligation to pay the principal amount of the notes to the holder, Brazilian tax authorities could attempt to impose withholding income tax at the rates described above. Although Brazilian legislation does not provide a specific tax rule for such cases and there is not an official position from tax authorities or precedents from the Brazilian courts regarding the matter, we believe that the remittance of funds by a Brazilian guarantor for the payment of the principal amount of the notes will not be subject to imposition of income tax, because the mere fact that the guarantor is making the payment does not convert the nature of the principal due into income of the beneficiary.

In any event, under the terms of the guaranty, we are required to gross up the payable amounts, subject to customary exceptions described in the fiscal agency agreement, so that the holders of the notes receive interest as if no income tax were withheld. See “Description of the Notes—Payment of Additional Amounts.” We have the right to redeem the notes at par in the event that we are required to gross up for

Brazilian withholding tax at a rate in excess of 15.0% or 25.0% in case the holder of the notes is a resident in a tax haven jurisdiction (as described above) in respect to payments under the guaranty as a result of a change in law. See “Description of the Notes—Redemption for Taxation Reasons.”

Generally, any capital gains generated outside Brazil as a result of a transaction between two nonresidents of Brazil with assets not located in Brazil are not subject to tax in Brazil. On the other hand, when the assets are located in Brazil, such capital gains are subject to income tax, according to Law No. 10,833, enacted on December 29, 2003. Although we expect that the notes will be registered in Luxembourg and although we believe that the notes would not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, we cannot assure prospective investors that such interpretation of this Law will prevail in the courts of Brazil.

In the event that the notes are deemed to be located in Brazil, gains recognized by a non-resident from the sale or other disposition of the notes to a resident or a non-resident in Brazil will be subject to income tax in Brazil at a rate of 15.0%, or 25.0% if such non-resident is located in a tax haven.

All fund transfers in connection with financial transactions in Brazil are subject to CPMF, which is levied at a rate of 0.38% on any bank account withdrawals. The CPMF burden is incurred by the Brazilian payor. The CPMF expires on December 31, 2007, although the Brazilian federal government may extend it or transform the CPMF into a permanent tax.

Pursuant to Decree No. 4,494/2002, conversion into Brazilian currency of proceeds received by a Brazilian entity and the conversion into foreign currency of proceeds received in *reais* are subject to taxation of foreign exchange transactions, or IOF/Câmbio. Since 1996, except in limited cases, the IOF/Câmbio is 0%, although the Brazilian federal government may increase such rate up to 25.0%, but only with respect to future transactions.

Generally, there is no stamp, transfer or other similar tax in Brazil with respect to the transfer, assignment or sale of any debt instrument outside Brazil (including the notes) nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such Brazilian states.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

Bahamian Tax Considerations

The Bahamas currently has no income tax or taxation in the nature of a withholding, corporate or capital gains tax and no estate, inheritance or gift tax. Payments in respect of the notes and guarantee will not be subject to taxation in The Bahamas.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

European Union Savings Directive (Directive 2003/48/EC)

The Council of the European Union adopted a directive on the taxation of savings income (Directive 2003/48/EC). Pursuant to the directive, each member state of the European Union will be required, from a date not earlier than July 1, 2005, to provide to the tax authorities of the other member states information regarding payments of interest (or other similar income) paid by persons within its jurisdiction to individual

residents of such other member states, except that Belgium, Luxembourg, and Austria will instead operate a withholding system in relation to such payments until such time as the European Union is able to enter into satisfactory information exchange agreements with several non-European Union countries. In addition, the Council has approved a draft agreement with Switzerland pursuant to which Switzerland would impose withholding tax on non-Swiss source interest payments paid by persons within its jurisdiction to individual residents of the European Union, and would share a portion of the revenue with the recipients' countries of residence.

ENFORCEMENT OF CIVIL LIABILITIES

The Bahamas

OOL is a company with limited liability organized under the laws of The Bahamas. All of the directors of OOL and some of the advisors named herein reside in Brazil or elsewhere outside the United States and The Bahamas, and all or a significant portion of the assets of such persons may be located outside the United States and The Bahamas. As a result, it may be difficult for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons.

We have been advised by McKinney, Bancroft & Hughes, our Bahamian counsel, that the courts of The Bahamas may not (1) enforce judgments of U.S. courts obtained against OOL, its directors and its other advisors, as applicable, predicated upon the civil liability provisions of the U.S. federal securities laws of the U.S. or (2) entertain original actions brought against such persons predicated upon the U.S. federal securities laws of the U.S. As a result, it may be difficult for you to enforce judgments obtained in U.S. courts against such persons or the assets of any such persons located outside the United States.

In the terms and conditions of the notes, OOL will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Notes."

We have been advised by McKinney, Bancroft & Hughes, our Bahamian counsel, that a final and conclusive judgment in U.S. federal or state courts, to whose jurisdiction OOL has submitted, under which a sum of money is payable, cannot be enforced by direct execution because the Reciprocal Enforcement of Judgments Act of The Bahamas has not been extended to the United States. However, a judgment creditor may commence an action on the judgment in The Bahamas and a Bahamian court would not ordinarily reexamine the merits of the case. In addition, a Bahamian court would not enforce a judgment where:

- the original court acted without jurisdiction;
- the judgment debtor, who is not carrying on business or ordinarily resident in the jurisdiction of the original court, did not voluntarily appear to otherwise submit to the jurisdiction of the original court;
- the judgment debtor, as the defendant, was not duly served with process of the original court and did not appear, notwithstanding the fact that it was ordinarily resident or carrying business within the jurisdiction of the original court or agreed to submit to the jurisdiction of that court;
- the judgment was obtained by fraud;
- the judgment is in the nature of a fine or penalty or a claim for taxes; or
- the judgment is otherwise contrary to the public policy of The Bahamas.

Brazil

We are a corporation organized under the laws of Brazil. Substantially all of our executive officers, the independent accountants and some of the advisors named herein reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of our assets are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons, or

to enforce against them or against us judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the notes, we will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York. See “Description of the Notes.”

We have been advised by Souza, Cescon, Avedissian, Barrieue Flesch Advogados, Brazilian counsel to the initial purchasers, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil, subject to certain requirements described below, may be enforced in Brazil. A judgment against either us or any other person described above obtained outside Brazil would be enforceable in Brazil against us or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is for a sum certain;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant’s attorneys’ fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

PLAN OF DISTRIBUTION

Credit Suisse First Boston (Europe) Limited is the sole bookrunner and joint lead manager and Deutsche Bank AG, London Branch is acting as the joint lead manager for the offering. Under the terms and subject to the conditions stated in the purchase agreement dated the date of this offering circular, each initial purchaser named below has agreed to purchase, and OOL has agreed to sell to that initial purchaser, the principal amount of the notes set forth opposite the initial purchaser's name.

<u>Initial Purchasers</u>	<u>Principal Amount</u>
Credit Suisse First Boston (Europe) Limited.....	U.S.\$140,000,000
Deutsche Bank AG, London Branch.	60,000,000
Total.....	U.S.\$200,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase all of the notes, if any are purchased, are subject to approval of legal matters by counsel and to other conditions. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the notes initially at the offering price set forth on the cover page of this offering circular outside the United States in reliance on Regulation S. See "Transfer Restrictions." After the initial offering, the offering price may be changed without notice.

The notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons in offshore transactions in reliance on Regulation S under the Securities Act. See "Transfer Restrictions." Each initial purchaser has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the notes are restricted as described under "Transfer Restrictions."

Each initial purchaser has also severally represented and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any notes included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of any notes included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us or OOL; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes included in this offering in, from or otherwise involving the United Kingdom.

Purchasers may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this offering circular paid by such purchasers for such notes.

We have agreed to indemnify the initial purchasers against liabilities under the Securities Act or to contribute to payments which they may be required to make in that respect.

The notes will constitute a new class of securities with no established trading market. Application has been made to admit the notes to trading on the Luxembourg Stock Exchange. We cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the offering price or that an active trading market for the notes will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the notes as permitted by applicable law. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the notes at any time without notice at their sole discretion. Accordingly, we cannot assure you as to the development or liquidity of or the trading market for the notes.

We expect to deliver the notes against payment for the notes on or about the date specified on the cover page of this offering circular, which will be the fifth business day following the date of the pricing of the notes. Because trades in the secondary market generally settle in three business days, purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing or the next succeeding business day should consult their own advisor.

In connection with this offering, the initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be purchased by the initial purchasers in this offering to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

In connection with the issue of the notes, the Stabilizing Manager, (or persons acting on behalf of any Stabilizing Manager) may over-allot notes (provided that the aggregate principal amount of notes allotted does not exceed 105.0% of the aggregate principal amount of the notes) or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the closing date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes.

The initial purchasers have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

Selling Restrictions

The notes (including the guarantee) are offered for sale in those jurisdictions in Europe, Asia and elsewhere where it is lawful to make such offers.

No action is being taken or is contemplated by us that would permit a public offering of the notes or possession or distribution of any preliminary offering circular or offering circular or any amendment thereof, any supplement thereto or any other offering material relating to the notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required. Accordingly, the notes may not be offered or sold, directly or indirectly, and neither this offering circular nor any other offering material or advertisements in connection with the notes may be distributed, published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Bahamas

The notes may not be offered or sold in the Commonwealth of The Bahamas, or The Bahamas. In accordance with Bahamian securities legislation, the notes may only be offered and sold to persons that are organized or resident in jurisdictions whose securities regulators are members of the International Organization of Securities Regulators.

Brazil

The notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM. The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

France

The notes are being issued and sold outside the Republic of France and that, in connection with their initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any notes to the public in the Republic of France, and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France this offering circular or any other offering material relating to the notes, and that such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98-880 dated 1st October, 1998.

Germany

Each person who is in possession of this offering circular is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “Act”) of the Federal Republic of Germany has been or will be published with respect to our notes. In particular, each initial purchaser has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any of the notes otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

Hong Kong

The initial purchasers and each of their affiliates have not (i) offered or sold, and will not offer or sell, in Hong Kong, by means of any document, the notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32 of Hong Kong)or which do not constitute an offer to the public within the meaning of that Ordinance or (ii) issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to the notes which is directed at, or the contents of which are

likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance any rules made under that Ordinance. The contents of this offering circular have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this offering circular, you should obtain independent professional advice.

Netherlands

The notes may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to, individuals or legal entities situated in the Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institution, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter, “Professional Investors”), provided that in the offer, prospectus and in any other documents or advertisements in which a forthcoming offering of the notes is publicly announced (whether electronically or otherwise) in the Netherlands it is stated that such offer is and will be exclusively made to such Professional Investors. Individual or legal entities, which are not Professional Investors may not participate in the offering of the notes, and this offering circular or any other offering material relating to the notes may not be considered an offer or the prospect of an offer to sell or exchange the notes.

Singapore

This offering circular or any other offering material relating to the notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the notes will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly the notes may not be offered or sold, or be the subject of an invitation for subscription or purchase, nor may this offering circular or any other offering material relating to the notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (b) to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

United States

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.

The notes are being offered and sold only outside the United States to investors that are not U.S. persons in reliance on Regulation S under the Securities Act. Each initial purchaser has agreed that, except as permitted by the purchase agreement, it has not offered or sold, and will not offer, sell or deliver the notes to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

TRANSFER RESTRICTIONS

The notes (including the guarantee) have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Accordingly, the notes are being offered and sold only outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of notes (other than an initial purchaser in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S under the Securities Act are used herein as defined therein):

- (1) It is acquiring the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is a non-U.S. person that is outside the United States.
- (2) It acknowledges that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.
- (3) It understands and agrees that the notes are being offered and sold only outside the United States in reliance on Regulation S and will be represented by one or more global notes.
- (4) It will not resell or otherwise transfer any of such notes except (a) to OOL or CNO, (b) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (c) pursuant to an effective registration statement under the Securities Act, or (d) pursuant to an available exemption from the registration requirements of the Securities Act, in each cases (a) through (d) in accordance with any applicable securities laws of any state of the United States.
- (5) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes pursuant to Regulation S.
- (6) It acknowledges that the fiscal agent, paying agent, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us and the fiscal agent, paying agent, registrar or transfer agent that the restrictions set forth herein have been complied with.
- (7) It acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST

OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION AND ALL APPLICABLE STATE SECURITIES LAWS.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DAY ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THIS NOTE.

For further discussion of the requirements (including the presentation of transfer certificates) under the fiscal agency agreement to effect exchanges or transfers of interest in global notes and certificated notes, see the “Description of the Notes.”

INDEPENDENT ACCOUNTANTS

OOL's audited unconsolidated financial statements at and for the years ended December 31, 2004 and 2003 prepared in accordance with IFRS have been audited by PricewaterhouseCoopers Auditores Independentes, independent accountants, member of IBRACON (Instituto dos Auditores Independentes), as stated in their report included herein. Our consolidated financial statements at and for the years ended December 31, 2004, 2003 and 2002, prepared in accordance with Brazilian GAAP are included elsewhere in this offering circular, and have been audited by PricewaterhouseCoopers Auditores Independentes, independent accountants, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance through Euroclear and Clearstream. The CUSIP, Common Code and ISIN numbers for the notes are as follows:

	<u>Regulation S Global Note</u>
CUSIP.....	P7348CAL6
Common Code.....	022945866
ISIN	XS0229458665

2. Copies of our latest audited annual financial statements and unaudited quarterly financial statements, if any, may be obtained during normal business hours at CNO's registered office, the offices of the fiscal agent and any paying agent, including the Luxembourg paying agent and principal paying agent. Copies of OOL's memorandum and articles of association and our *estatuto social* (by-laws), as well as the fiscal agency agreement (including forms of notes and the guarantee), will be available during normal business hours for inspection at CNO's registered office the offices of the fiscal agent and any other paying agent, including the Luxembourg paying agent and principal paying agent. The offering circular will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

3. Except as disclosed in this offering circular, there has been no change in the financial position of OOL or CNO since December 31, 2004, the date of the latest audited financial statements included in this offering circular.

4. Except as disclosed in this offering circular, neither we nor OOL is or has been involved in any governmental, legal or arbitration proceedings during the 12 month period preceeding the day of this offering circular which had or may reasonably be expected to have any material adverse effect on us or the issuer's financial position and results of operations.

5. PricewaterhouseCoopers Auditores Independentes has agreed to the inclusion of its reports in this offering circular in the form and context in which they are included.

6. Application has been made to the Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as competent authority under the Prospectus Directive and the Law on Prospectuses for Securities of July 10, 2005 for the offering circular to be approved. Application has been made to the Luxembourg Stock Exchange for the notes to be admitted to listing on the Official List, and to be admitted to trading on the market of the Luxembourg Stock Exchange appearing on the list of regulated markets issued by the European Commission.

7. The issuance of the notes was authorized by OOL's board of directors on August 31, 2005, and the issuance of the guarantee was authorized by CNO's executive officers on August 31, 2005.

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Odebrecht Overseas Ltd.

Condensed Interim Balance Sheet
In thousands of U.S. dollars

Assets	June 30, 2005	December 31, 2004	Stockholders' equity and liabilities	June 30, 2005	December 31, 2004
	(Unaudited)			(Unaudited)	
Non-current assets			Stockholders' equity		
Marketable securities from related parties	30,386	35,446	Capital	165,213	165,213
Other accounts receivable	5	5	Additional paid-in capital	4,993	4,993
	<u>30,386</u>	<u>35,451</u>	Cummulative Translation Adjustment - CTA	18,899	
			Retained earnings (accumulated losses)	<u>(35,316)</u>	<u>2,814</u>
				<u>153,789</u>	<u>173,020</u>
			Non-current liabilities		
			Debts	<u>303,702</u>	<u>318,672</u>
				<u>303,702</u>	<u>318,672</u>
Current assets			Current liabilities		
Cash and cash equivalents	148	318	Debts	53,326	128,605
Marketable securities from related parties	77,718	80,365	Foreign currency swaps	957	
Foreign currency swaps		9,983	Deferred revenue - Overbilling	9,927	
Trade accounts receivable	10,227		Accounts payable	592	874
Related parties	759,103	754,572	Related parties	<u>355,838</u>	<u>261,714</u>
Other accounts receivable	<u>549</u>	<u>2,196</u>		<u>420,640</u>	<u>391,193</u>
	<u>847,745</u>	<u>847,434</u>			
Total assets	<u><u>878,131</u></u>	<u><u>882,885</u></u>	Total stockholders' equity and liabilities	<u><u>878,131</u></u>	<u><u>882,885</u></u>

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

Odebrecht Overseas Ltd.

Condensed Interim Statement of Income
Six-month periods ended June 30
Unaudited
In thousands of U.S. dollars

	<u>2005</u>	<u>2004</u>
Continuing operations		
Revenue from services provided	14,281	21,832
Cost of services rendered	<u>(49,620)</u>	<u>(28,428)</u>
Gross profit	(35,339)	(6,596)
Trading gains (loss) on marketable securities and derivatives	(1,967)	19,910
General and administrative expenses	<u>(796)</u>	<u>(1,358)</u>
Profit (loss) from operations	(38,102)	11,956
Financial income (loss), net	<u>(28)</u>	<u>293</u>
Net income (loss) from continuing operations	<u>(38,130)</u>	<u>12,249</u>
Discontinued operations		
Share of net income from discontinued operations		<u>5,859</u>
Net income (loss) for the period	<u><u>(38,130)</u></u>	<u><u>18,108</u></u>

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

Odebrecht Overseas Ltd.

Condensed Statement of Changes in Stockholders' Equity
Unaudited
In thousands of U.S. dollars

	<u>Capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
At December 31, 2003	165,213	4,993	(19,849)	150,357
Net income for the period			<u>18,108</u>	<u>18,108</u>
At June 30, 2004	<u>165,213</u>	<u>4,993</u>	<u>(1,741)</u>	<u>168,465</u>

	<u>Capital</u>	<u>Additional paid-in capital</u>	<u>Cummulative Translation Adjustment - CTA</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
At December 31, 2004	165,213	4,993		2,814	173,020
Cummulative Translation Adjustment - CTA Loss for the period			<u>18,899</u>	<u>(38,130)</u>	<u>18,899</u> <u>(38,130)</u>
At June 30, 2005	<u>165,213</u>	<u>4,993</u>	<u>18,899</u>	<u>(35,316)</u>	<u>153,789</u>

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

Odebrecht Overseas Ltd.**Condensed Interim Statement of Cash Flows**
Six-months periods ended June 30
Unaudited
In thousands of U.S. dollars

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income (loss) for the period	(38,130)	18,108
Adjustments to reconcile loss to net cash from operating activities:		
Deferred revenue - Overbilling	9,927	
Share of net income from discontinued operations		(5,859)
Interest expense (income) and foreign exchange loss (gain) from related parties, net	57,995	(140)
Financial expense and fair value measurement of foreign currency swaps	13,618	
Interest expense (income) and foreign exchange loss (gains) on debts	(34,587)	15,314
Financial expense (income) from marketable securities	16,436	(4,155)
Financial income from U.S. Treasury Bills trading (see Note 6)	<u>(14,351)</u>	<u>(19,565)</u>
Operating cash flow before working capital changes	10,908	3,703
Increase in trade accounts receivable	(10,227)	(2,662)
Decrease in other accounts receivable	1,652	1,863
Decrease in accounts payable	<u>(282)</u>	<u>(2)</u>
Cash generated from operating activities	2,051	2,902
Interest received	5,405	4,852
Interest paid	(23,076)	(6,060)
Sale of marketable securities		31,000
From related parties - assets		
Remitted funds	(942,765)	(618,501)
Received funds	974,305	521,186
From related parties - liabilities		
Remitted funds	(7,849)	(501,994)
Received funds	64,110	433,887
Debts		
New debts contracted	85,000	245,857
Amortization of debts contracted	<u>(162,000)</u>	<u>(60,698)</u>
Net funds from (used for) operating activities	<u>(4,819)</u>	<u>52,431</u>

Odebrecht Overseas Ltd.

Condensed Interim Statement of Cash Flows
Six-months periods ended June 30
Unaudited
In thousands of U.S. dollars

(continued)

	<u>2005</u>	<u>2004</u>
Effect of exchange rate changes on cash	4,649	
Net increase (decrease) in cash and cash equivalents	<u>(170)</u>	<u>52,431</u>
Cash and cash equivalents at the beginning of period	<u>318</u>	<u>92,894</u>
Cash and cash equivalents at the end of period	<u>148</u>	<u>145,325</u>

In the first six-months of 2005 and 2004 there were no non-cash transactions conducted by the Company.

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

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

1 Operations

The Company ("OOL") is registered in Nassau – Bahamas and its main activity is currently related to the construction of the Capanda Hydroelectric Plant in Angola. It is also the financing vehicle in the international market for the engineering and construction segment activities of the Odebrecht Organization. The Company's stockholders are the following wholly-owned subsidiaries of Construtora Norberto Odebrecht S.A. ("CNO"): Odebrecht Engenharia e Construção Participações S.A. ("OEC") - 39.03%; Belgrávia Empreendimentos Ltda. ("Belgrávia") - 31.11%; Odebrecht Oil Services Ltd. ("OOSL") - 21.77%; and OSEL - Odebrecht Serviços no Exterior Ltd. ("OSEL") - 8.09%. The Company is part of the Odebrecht Organization for which the ultimate holding company is Odebrecht S.A., incorporated in Salvador, Brazil.

The conclusion of the first phase of the Capanda Hydroelectric Plant is estimated to occur in October, 2005. In the first half of 2005, the Company was contracted to execute the second phase of this project, which is estimated to be concluded in March 2007. These projects are conducted concurrently with CNO and OSEL.

All the contracts in which the Company is or was engaged are cost-plus contracts, and the amounts charged to clients are measured and client approved on a monthly basis considering the costs incurred, except for the second phase contract, which is a combination of fixed price, cost-plus and unit price contract. The method used to determine progress of the fixed and unit price parts of this contract consider the ratio between costs incurred to date and total budgeted costs. When revenues from certain contracts cannot be measured reliably, the Company recognizes revenue only to the extent of contract costs incurred that will probably be recoverable.

To fulfill its activities the Company relies on the operational structure of CNO. As of June 30, 2005, the Company has accumulated losses of US\$ 35,316. The Company's operations depend on the remittance of funds from CNO and from other related parties of the Odebrecht Organization, with which the Company has intercompany payables of US\$ 355,838. CNO guarantees all the Company's debts with third parties and is committed to provide the necessary level of financial support to the Company to enable it to pay its debt.

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

The Company has two reportable segments: engineering and construction and financial activities. The income statement figures that represent these segments are as follows:

	2005		
	Engineering and construction	Financial segment	Total
Income statement			
Continuing operations			
Revenue from services provided	9,709		9,709
Interest and other income		4,572	4,572
Total revenue	9,709	4,572	14,281
Cost of services rendered	(7,769)		(7,769)
Interest and other expenses		(25,154)	(25,154)
Foreign exchange loss		(16,697)	(16,697)
Total costs	(7,769)	(41,851)	(49,620)
Gross profit (loss)	1,940	(37,279)	(35,339)
Trading loss on marketable securities and derivatives		(969)	(969)
Other operating expenses		(998)	(998)
General and administrative expenses	(796)		(796)
Profit (loss) from operations	1,144	(39,246)	(38,102)
Financial income, net	(28)		(28)
Net income (loss) for the period	1,116	(39,246)	(38,130)

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements
at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

	2004		
	Engineering and construction	Financial segment	Total
Income statement			
Continuing operations			
Revenue from services provided	17,024		17,024
Interest and other income		4,808	4,808
Total revenue	17,024	4,808	21,832
Cost of services rendered	(12,269)		(12,269)
Interest and other expenses		(19,620)	(19,620)
Foreign exchange gains		3,461	3,461
Total costs	(12,269)	(16,159)	(28,428)
Gross profit (loss)	4,755	(11,351)	(6,596)
Trading gains on marketable securities and derivatives		18,528	18,528
Other operating income		1,382	1,382
General and administrative expenses	(1,358)		(1,358)
Profit from operations (segment result)	3,397	8,559	11,956
Financial income, net	293		293
Net income from continuing operations	3,690	8,559	12,249
Discontinued operations			
Share of net income from discontinued operations*	5,859		5,859
Net income for the period	9,549	8,559	18,108

(*) This amount includes US\$ 11,322 which is related to equity from Odebrecht Mining Services Ltd.

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

2 Accounting policies and basis of preparation

The condensed interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting." The accounting policies and methodology utilized in the interim financial information had been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes the adoption of the new and revised standards in 2005. There is no significant impact of the adoption of these standards in the condensed interim financial information, except for the adoption of the IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". This condensed interim financial information should be read in conjunction with those annual financial statements.

In accordance with IAS 21 "The Effects of Foreign Exchange Rates", as a result of recent changes in operations and current dependence on CNO, the functional currency as from January 1, 2005 is the Brazilian Real. Previously, the functional currency of OOL was the U.S. dollar.

In addition, the Company has elected the U.S. dollars as its presentation currency. Consequently, as from January 1, 2005 the accounts are translated into U.S. dollars in accordance with the following criteria:

- Assets and liabilities are translated at the exchange rate in effect on the balance sheet date (R\$ 2.3504 to US\$ 1.00 at June 30, 2005).
- Stockholders' equity accounts are translated at historical exchange rates.
- Income and expenses are translated at monthly average exchange rates.

In accordance to the revised IAS 27 "Consolidated Financial Statements and Accounting of Investments in Subsidiaries", the Company is required to present consolidated financial information related to its June 30, 2005 and 2004 interim financial information. As the Company had no subsidiaries or affiliates as from December 31, 2004, only the income statement and cash flow statement, for the six month period ended June 30, 2004 need to be presented on a consolidated basis (considering its subsidiaries at that time Odebrecht Construction, Inc., Constructora Norberto Odebrecht Uruguay S.A., Odebrecht Oil & Gas Services Ltd. and Odebrecht Mining Services, Inc.). However, as all such investments were sold during 2004, they have been classified as discontinued operations, which require that they be accounted for in a single line item in the income statement and cash flow statement and not consolidated on a line by line basis.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has been disposed of and represents a separate major line of business or geographical area of operations. Therefore the Company shall disclose the profit or loss from discontinued operations in a single amount on the face of the income statement, in a section separately from continuing operations. Also, the Company shall present the prior periods following this format, for comparison purposes.

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

The Company is not subject to income tax in the countries where it operates.

3 Related parties

The main nature of the transactions with related parties is the financial activity, as disclosed in Note 1. The Company has the following balances and transactions involving other Odebrecht Organization companies:

		June 30, 2005		
	Currency	Marketable securities -	Related parties - Current assets	Related parties - Current liabilities
<u>Not subject to interest and exchange variation</u>				
CNO	US\$		155,862	
OOSL	US\$			629
OSEL	US\$		157,711	
Odebrecht Mining Services, Inc.	US\$			6,929
Tenenge Overseas Corporation	US\$		27,099	
Odebrecht Construction, Inc.	US\$			6,000
Odebrecht Oil & Gas Services Ltd.	US\$			3,214
CBPO Engenharia Ltda.	US\$			36,078
CBPO Overseas Ltd.	US\$		102,311	
Odebrecht Peru Ingeniería y Construction S.A.C.	US\$		1,456	
Tenenge (UK) Holdings Ltd.	US\$		17,603	
Odebrecht Oil & Gas Angola Ltd.	US\$		5,380	
OECP	US\$		24,498	
Odebrecht International Corporation	US\$			14,072
			491,920	66,922
<u>Subject to interest and exchange variation</u>				
CNO	R\$			286,011
CNO	US\$			2,896
CNO	Bs		77,529	
CNO **	US\$	77,718		
CBPO Engenharia Ltda.*	€	30,386		
CBPO Engenharia Ltda.	R\$		94,658	
Belgrávia	R\$		94,996	
Others				9
		108,104	267,183	288,916
		108,104	759,103	355,838

Interest expense and foreign exchange loss for the six-month period ended June 30, 2005 amounted to US\$ 57,995.

Odebrecht Overseas Ltd.

**Notes to the Condensed Interim Financial Statements
at June 30, 2005**

Unaudited

In thousands of U.S. dollars unless otherwise indicated

		December 31, 2004		
	Currency	Marketable securities -	Related parties - Current assets	Related parties - Current liabilities
<u>Not subject to interest and exchange variation</u>				
CNO	US\$		2,977	
OOSL	US\$			629
OSEL	US\$		133,228	
Odebrecht Mining Services, Inc.	US\$			5,195
Tenenge Overseas Corporation	US\$			3,828
Odebrecht Oil & Gas Services Ltd.	US\$			3,864
CBPO Overseas Ltd.	US\$		94,524	
Odebrecht Peru Ingeniería y Construcción S.A.C.	US\$		13,502	
Tenenge (UK) Holdings Ltd.	US\$		17,549	
Odebrecht Oil & Gas Angola Ltd.	US\$		4,873	
Belgravia	US\$		47,047	
OECP	US\$		14,947	
Odebrecht Engenharia Construção e Investimentos S.A.	US\$		5,226	
			<u>333,873</u>	<u>13,516</u>
<u>Subject to interest and exchange variation</u>				
CNO	R\$			248,189
CNO	US\$		155,777	
CNO **	US\$	80,365		
CNO	Bs		96,986	
Odebrecht Serviços de Óleo e Gás Ltda.	R\$			
OSEL	US\$			
CBPO Engenharia Ltda.*	€	35,446		
CBPO Engenharia Ltda.	R\$			
Belgravia	R\$		167,934	
Others			<u>2</u>	<u>9</u>
		<u>115,811</u>	<u>420,699</u>	<u>248,198</u>
		<u>115,811</u>	<u>754,572</u>	<u>261,714</u>

Interest income and foreign exchange gain for the six-month period ended June 30, 2004 amounted to US\$ 140.

Odebrecht Overseas Ltd.

**Notes to the Condensed Interim Financial Statements
at June 30, 2005**

Unaudited

In thousands of U.S. dollars unless otherwise indicated

- (*) Refers to part of the notes (Variable Rate Obligations) originally issued by the indirect associated company CBPO Engenharia Ltda. in August 1996 in the Portuguese financial market, which originally fell due in August 2004 and were subject to the foreign exchange variation and annual interest of 4.7% above LISBOR, payable semi-annually.

In August 2004 this transaction was postponed until November 2004. On November 4, 2004, this transaction was extended to November 2007 and the new annual interest rate is Euribor plus 5.5%, payable semi-annually on each May and November.

- (**) During September and October 2003, the Company acquired Eurobonds issued by CNO in 1997.

These investments in marketable security were acquired with the intention of trading, and the balances are carried at fair value, with changes in the fair value reported in the income statement. The fair-value estimates for these items are based on the present value of the estimated future cash flow.

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

The main balances kept with Odebrecht Organization companies are covered by a "Current account and single cash management agreement" entered into by all Organization Companies and have no defined maturity date. These balances have the following characteristics:

<u>Company</u>	<u>Financial charges</u>	<u>Nature</u>
CNO	The balance is denominated in Brazilian Reais, U.S. dollars and Venezuelan Bolivares. For the part in Brazilian Reais, financial charges are equivalent to LIBOR plus 3% per annum. For balances in U.S. dollars and Venezuelan Bolivares, there are no financial charges.	Credit assignments and onlendings
OSEL	No financial charges	Credit assignments and onlendings
Tenenge Overseas Corporation	No financial charges	Credit assignments and onlendings
OOSL	No financial charges	Onlendings
CBPO Overseas Ltd.	No financial charges	Credit assignments and onlendings
CBPO Engenharia Ltda.	The balance is denominated in Brazilian Reais and U.S. dollars. Financial charges for the part in Brazilian Reais are equivalent to the exchange variation from U.S. dollars to reais. For the balance in U.S. dollars, there are no financial charges.	Credit assignments, onlendings and sale of the investment in Multitrade S.A.
Belgrávia	Exchange variation from U.S. dollars to reais	Sale of the investment in Multitrade S.A.
Tenenge (UK) Holdings Ltd.	No financial charges	Credit assignments and onlendings
OECP	No financial charges	Credit assignments and onlendings

4 Investments/Discontinued Operations

On December 15, 2004, the Company sold its investments in Odebrecht Construction, Inc., Constructora Norberto Odebrecht Uruguay S.A., Odebrecht Oil & Gas Services Ltd. and Odebrecht Mining Services, Inc., to another company of the Odebrecht Organization, at book value.

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

5 Debt

	Currency	June 30, 2005		December 31, 2004	
		Principal plus interest	Interest rates	Principal plus interest	Interest rates
Guaranteed Euro Notes (i)	US\$			103,000	12% p.a.
Medium Term Notes (ii)	US\$	233,984	11.50% p.a.	233,984	11.50% p.a.
Medium Term Notes (iii)	€	79,995	7.43 to 7.445% p.a.	90,088	7.43 to 7.445% p.a.
Bradesco - Luxembourg (iv)	US\$	5,016	7.5% p.a.	15,033	7.5% p.a.
ABC Brasil (iv)	US\$	5,015	7.5% p.a.	5,017	7.5% p.a.
Unibanco - Cayman Branch (v)	US\$	11,006	Libor + 2% p.a.		
Santander - Grand Cayman (v)	US\$	11,006	Libor + 2% p.a.		
Bradesco - Grand Cayman (v)	US\$	11,006	Libor + 2% p.a.		
Others	US\$			155	3.5% to 10% p.a.
		<u>357,028</u>		<u>447,277</u>	
Current liabilities		<u>53,326</u>		<u>128,605</u>	
Long-term liabilities		<u>303,702</u>		<u>318,672</u>	

Foreign exchange gain for the six-month period ended June 30, 2005 amounted to US\$ 54,393 (2004 - US\$ 400).

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

- (i) On September 30, 2003, the Company issued in the international financial market US\$ 100,000 of "Guaranteed Euro Notes", falling due in March 2005. The notes were guaranteed by CNO and were fully paid in March 2005.
- (ii) On February 25, June 29 and September 29, 2004, OOL raised in the international financial market the amounts of US\$ 150,000, US\$ 60,000 and US\$ 15,000, respectively, in the form of Medium-Term Notes in a program totaling US\$ 500,000, falling due in February 2009. These notes are guaranteed by CNO. At June 30, 2005, the balance of these notes, with accrued interest, amounted to US\$ 233,984. The notes issued on June 29, 2004, were fully acquired by OSEL, which is retaining these notes in treasury.
- (iii) In the context of the same Program mentioned in (ii) above, on October 4, 2004, OOL raised additional of € 65,000 thousand (equivalent to US\$ 79,787), which are due in October 2007. These notes are guaranteed by CNO. At June 30, 2005, the balance, with accrued interest, amounted to € 66,068 thousand (equivalent to US\$ 79,995).
- (iv) In March and June 2004, OOL contracted with financial institutions in the international financial market the amounts of US\$ 5,000 falling due in June 2006 and US\$ 5,000 falling due in December 2005. These operations are guaranteed by the CNO. At June 30, 2005, the balance, with accrued interest, was US\$ 10,031.
- (v) On April 15, 2005, OOL contracted with financial institutions in the international financial market a Revolving Credit Facility Agreement in the total amount of US\$ 100,000, falling due in April 2006. This operation is guaranteed by CNO. At June 30, 2005, the balance, with accrued interest, was US\$ 33,018.
- (vi) Below follows a comparison between accounting balances and fair value related to the debts presented in the table above. Fair value estimates for these debts are calculated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

	June 30, 2005			December 31, 2004		
	Accounting balances	Fair value	Difference	Accounting balances	Fair value	Difference
Guaranteed Euro Notes				103,000	102,075	925
Medium Term Notes (iii)	233,984	253,125	(19,141)	233,984	250,200	(16,216)
Medium Term Notes (iv)	79,995	82,047	(2,052)	90,088	91,052	(964)
Bradesco - Luxembourg (v)	5,016	5,119	(103)	15,033	15,033	
ABC Brasil (v)	5,015	5,118	(103)	5,017	5,017	
Unibanco - Cayman Branch (v)	11,006	11,006				
Santander - Grand Cayman (v)	11,006	11,006				
Bradesco - Grand Cayman (v)	11,006	11,006				
Others				155	155	
	<u>357,028</u>	<u>378,427</u>	<u>(21,399)</u>	<u>447,277</u>	<u>463,532</u>	<u>(16,255)</u>

Odebrecht Overseas Ltd.

Notes to the Condensed Interim Financial Statements

at June 30, 2005

Unaudited

In thousands of U.S. dollars unless otherwise indicated

- (vii) The most significant debt instruments of the Company contain some covenants related to its holding company, CNO, such as limitation on debt as compared to EBTIDA, with which the Company and CNO are complying.

6 Trading gains (loss) on marketable securities and derivatives

	<u>2005</u>	<u>2004</u>
Financial income from U.S. Treasury Bills trading (i)	14,351	19,565
Results of forward transactions	863	(1,369)
Results of foreign currency swaps	(10,094)	
Fair value measurement of foreign currency swaps	(3,524)	
Fair value measurement of marketable securities from related parties	(2,565)	332
Others	(998)	1,382
	<u>(1,967)</u>	<u>19,910</u>

- (i) From January to June 2005, the Company acquired US\$ 72,048 (2004 - US\$ 31,402) in U.S. Treasury Bills, and exchanged these securities for Venezuelan government "Bonos de Deuda Publica" (Public Debt Bonds), denominated in Venezuelan Bolivares ("Bs") and traded in the U.S. financial market, in the net amount of Bs182,857,564,000 (2004 - Bs 91,204,861,600). These bonds were subsequently sold in the Venezuelan financial market by the Venezuelan branch of CNO on behalf of the Company, on which a gain of US\$ 14,351 (2004 - US\$ 19,565) was generated, due to the fixed exchange rate established by the Venezuelan government of Bs 2,150.00: US\$1.00 after March 3, 2005 (2004 - Bs 1,920.00: US\$1.00 after February 06, 2004). The funds in Venezuelan Bolivares resulting from the sale of these bonds, in the Venezuelan financial market, were used by the Venezuelan branch of CNO, generating an intercompany current account receivable from CNO.

* * *

Report of Independent Accountants

To the Board of Directors and Stockholders'
Odebrecht Overseas Ltd.

- 1 We have audited the accompanying balance sheet of Odebrecht Overseas Ltd. as of December 31, 2004 and the related statements of operations, cash flows and changes in stockholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.
- 3 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Odebrecht Overseas Ltd. as of December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Odebrecht Overseas Ltd.

- 4 Without qualifying our opinion, we draw attention to Note 1 that describes the fact that the company is an integral part of the group of companies which form the Odebrecht Organization, of which the ultimate holding company is Odebrecht S.A. The company is an indirect wholly owned subsidiary of its intermediate parent Construtora Norberto Odebrecht S.A. The company conducts material financial transactions with its parent and other Odebrecht Organization companies as described in Notes 4, 6, 7, 8 and 11 to the financial statements.

Salvador, April 11, 2005

PricewaterhouseCoopers
Auditores Independentes

Odebrecht Overseas Ltd.

Balance Sheet at December 31 In thousands of U.S. dollars

Assets	2004	2003	Stockholders' equity and liabilities	2004	2003
Non-current assets			Stockholders' equity		
Marketable securities from related parties	35,446	113,614	Capital	165,213	165,213
Other accounts receivable	5	109	Additional paid-in capital	4,993	4,993
Investments in subsidiary and associated companies		118,267	Retained earnings (accumulated losses)	2,814	(19,849)
				173,020	150,357
	35,451	231,990	Non-current liabilities		
Current assets			Debts	318,672	100,000
Cash and cash equivalents	318	92,894		318,672	100,000
Marketable securities		31,000	Current liabilities		
Marketable securities from related parties	80,365		Debts	128,605	110,450
Trade accounts receivable		325	Accounts payable	874	2
Related parties	754,572	364,082	Related parties	261,714	362,925
Foreign currency swaps	9,983			391,193	473,377
Forward transactions		3,319			
Other accounts receivable	2,196	124			
	847,434	491,744			
Total assets	882,885	723,734	Total stockholders' equity and liabilities	882,885	723,734

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

Odebrecht Overseas Ltd.

Statement of Operations Years ended December 31 In thousands of U.S. dollars

	<u>2004</u>	<u>2003</u>
Continuing operations		
Revenue from services rendered	40,890	79,101
Cost of services rendered	<u>(74,277)</u>	<u>(70,624)</u>
Gross profit	(33,387)	8,477
Trading gains on marketable securities and derivatives	53,451	44,981
General and administrative expenses	<u>(3,362)</u>	<u>(2,529)</u>
Profit from operations	16,702	50,929
Financial income, net	<u>457</u>	<u>389</u>
Net income from continuing operations	<u>17,159</u>	<u>51,318</u>
Discontinued operations		
Share of net income from discontinued operations	<u>5,504</u>	<u>11,494</u>
Net income for the year	<u><u>22,663</u></u>	<u><u>62,812</u></u>

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

Odebrecht Overseas Ltd.

Statement of Changes in Stockholders' Equity In thousands of U.S. dollars

	<u>Capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
At December 31, 2002	124,690	45,517	(82,661)	87,546
Capital contribution	40,523			40,523
Capital distribution resulting from transactions with related companies		(40,524)		(40,524)
Net income for the year			62,812	62,812
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2003	165,213	4,993	(19,849)	150,357
Net income for the year			22,663	22,663
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2004	<u>165,213</u>	<u>4,993</u>	<u>2,814</u>	<u>173,020</u>

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

Odebrecht Overseas Ltd.

Statement of Cash Flows Years ended December 31 In thousands of U.S. dollars

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income for the year	22,663	62,812
Adjustments to reconcile income to net cash from operating activities:		
Share of net income from discontinued operations	(5,504)	(11,494)
Interest accrued and foreign exchange loss from related parties, net	7,651	19,651
Interest accrued and foreign exchange loss on debts	49,696	30,084
Financial income and fair value measurement of foreign currency swaps	(9,983)	
Financial income from marketable securities	<u>(11,815)</u>	<u>(14,747)</u>
Operating profit before working capital changes	52,708	86,306
Decrease (increase) in trade accounts receivable	325	(27,870)
Decrease in other accounts receivable/forward transaction	1,350	4,164
Decrease in advances from customers		(4,708)
Increase (decrease) in accounts and expenses payable	<u>872</u>	<u>(3)</u>
Cash generated from operating activities	55,255	57,889
Interest received	9,619	3,168
Interest paid	(29,738)	(6,791)
Sale of marketable securities	31,000	
From related parties - assets		
Remitted funds	(1,353,714)	(523,559)
Received funds	1,105,586	681,758
Sale of marketable securities from related parties		11,657
Purchase of marketable securities from related parties		(75,474)
From related parties - liabilities		
Remitted funds	(928,333)	(841,200)
Received funds	800,881	683,600
Debts		
New debts contracted	364,842	218,740
Amortization of debts contracted	<u>(147,974)</u>	<u>(129,794)</u>
Net funds from (used for) operating activities	<u>(92,576)</u>	<u>79,994</u>

Odebrecht Overseas Ltd.

Statement of Cash Flows Years ended December 31 In thousands of U.S. dollars

(continued)

	<u>2004</u>	<u>2003</u>
Cash flows from investing activities:		
Purchase of marketable securities		(30,897)
Net funds obtained from (used for) investing activities		(30,897)
Net increase (decrease) in cash and cash equivalents	(92,576)	49,097
Cash and cash equivalents at the beginning of year	92,894	43,797
Cash and cash equivalents at the end of year	<u>318</u>	<u>92,894</u>

The principal non-cash transactions in 2004 are the sales of Odebrecht Construction, Inc. ("OCI"), in the amount of US\$ 11,361, Constructora Odebrecht Uruguay S.A. in the amount of US\$ 181, Odebrecht Oil & Gas Services Ltd. ("OOGS") in the amount of US\$ 44,955, and Odebrecht Mining Services Ltd. ("OMSI") in the amount of US\$ 67,274 to other Odebrecht Organization companies through the intercompany current account.

In 2003, the principal non-cash transactions include the capital increase in Odebrecht Oil & Gas Services Ltd. ("OOGS") through contribution of the investment in Tenenge (UK) Holdings Ltd. ("TUK"), in the amount of US\$ 45,463; the capital increase in Odebrecht Construction, Inc. ("OCI"), in the amount of US\$ 8,315 and the Company's capital contribution in the amount of US\$ 40,523 through the intercompany current account; the Company's capital distribution resulting from transactions with related companies in the amount of US\$ 40,524; and the capital increase in Odebrecht Mining Services Ltd. ("OMSI") through contribution of the investment in CNO Mining Inc. ("CNMI"); in the amount of US\$ 37,880.

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

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

1 Operations

The Company is registered in Nassau – Bahamas and its main activity is currently related to the construction of the Capanda Hydroelectric Plant in Angola. It is also the financing vehicle in the international market for the engineering and construction segment activities of the Odebrecht Organization. The Company's stockholders are the following wholly-owned subsidiaries of Construtora Norberto Odebrecht S.A. ("CNO"): Odebrecht Engenharia e Construção Participações S.A. ("OEC") – 39.03%; Belgrávia Empreendimentos Ltda. ("Belgrávia") – 31.11%; Odebrecht Oil Services Ltd. ("OOSL") – 21.77%; and OSEL – Odebrecht Serviços no Exterior Ltd. ("OSEL") – 8.09%. The Company is part of the Odebrecht Organization for which the ultimate holding company is Odebrecht S.A., incorporated in Salvador, Brazil.

In September 2003, the Company and another Odebrecht Organization company that participates in the Capanda Hydroelectric Plant project, OSEL – Odebrecht Serviços no Exterior Ltd. ("OSEL"), settled with the contractor, GAMEK – Gabinete de Aproveitamento do Médio Kwanza, an additional fee related to the performance of this project, resulting in revenue of US\$ 27,051. The Company assigned the corresponding receivable to OSEL, which holds the risk of credit.

The conclusion of the Capanda Hydroelectric Plant is estimated to occur in October, 2005. This project is conducted concurrently with CNO and OSEL. All the contracts in which the Company is or was engaged are cost-plus contracts, and the amounts charged to clients are measured and client approved on a monthly basis considering the costs incurred.

To fulfill its activities the Company relies on the operational structure of CNO. As of December 31, 2004, the Company has retained earnings of US\$ 2,814 (2003 – accumulated deficit of US\$ 19,849). The Company's operations depend on the remittance of funds from CNO and from other related parties of the Odebrecht Organization, with which the Company has intercompany payables of US\$ 261,714. CNO guarantees all the Company's debts with third parties and is committed to provide the necessary level of financial support to the Company to enable it to pay its debt.

On April 11, 2005, the Company's Board of Directors authorized these financial statements for issuance.

(a) Primary reporting format – business segments

The Company has two reportable segments: engineering and construction and financial activities. Prior to 2004 the financial activities were not considered as a separate reportable segment. The engineering and construction segment represents the income and expenses of the construction of the Capanda Hydroelectric Plant project. The financial segment represents the financial activity of raising funds with third-parties and funding other group companies.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

The assets, liabilities, and income statement figures that represent these segments are as follows:

	2004		
	Engineering and construction	Financial segment	Total
Assets			
Non-current assets			
Marketable securities from related parties		35,446	35,446
Other accounts receivable	5		5
	<u>5</u>	<u>35,446</u>	<u>35,451</u>
Current assets			
Cash and cash equivalents	12	306	318
Marketable securities from related parties		80,365	80,365
Related parties	11,072	743,500	754,572
Foreign currency swaps		9,983	9,983
Other accounts receivable	144	2,052	2,196
	<u>11,228</u>	<u>836,206</u>	<u>847,434</u>
Total assets	<u><u>11,233</u></u>	<u><u>871,652</u></u>	<u><u>882,885</u></u>
Liabilities			
Non-current liabilities			
Debts		318,672	318,672
		<u>318,672</u>	<u>318,672</u>
Current liabilities			
Debts		128,605	128,605
Accounts payable	874		874
Related parties		261,714	261,714
	<u>874</u>	<u>390,319</u>	<u>391,193</u>
Total liabilities	<u><u>874,</u></u>	<u><u>708,991</u></u>	<u><u>709,865</u></u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

	2003		
	Engineering and construction	Financial segment	Total
Assets			
Non-current assets			
Marketable securities from related parties		113,614	113,614
Other accounts receivable	109		109
Investments in subsidiary and associated companies	118,267		118,267
	<u>118,376</u>	<u>113,614</u>	<u>231,990</u>
Current assets			
Cash and cash equivalents	1	92,893	92,894
Marketable securities		31,000	31,000
Trade accounts receivable	325		325
Related parties	16,523	347,559	364,082
Forward transactions		3,319	3,319
Other accounts receivable	124		124
	<u>16,973</u>	<u>474,771</u>	<u>491,744</u>
Total assets	<u><u>135,349</u></u>	<u><u>588,385</u></u>	<u><u>723,734</u></u>
Liabilities			
Non-current liabilities			
Debts		100,000	100,000
		<u>100,000</u>	<u>100,000</u>
Current liabilities			
Debts		110,450	110,450
Accounts payable	2		2
Related parties	2,550	360,375	362,925
	<u>2,552</u>	<u>470,825</u>	<u>473,377</u>
Total liabilities	<u><u>2,552</u></u>	<u><u>570,825</u></u>	<u><u>573,377</u></u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

	2004		
	Engineering and construction	Financial segment	Total
Income statement			
Continuing operations			
Revenue from services	30,853		30,853
Interest and other income		10,037	10,037
	30,853	10,037	40,890
Cost of services rendered	(19,804)		(19,804)
Interest and other expenses		(50,792)	(50,792)
Foreign exchange losses, net		(3,681)	(3,681)
	(19,804)	(54,473)	(74,277)
Gross profit (loss)	11,049	(44,436)	(33,387)
General and administrative expenses	(3,362)		(3,362)
Trading gains on marketable securities and derivatives		53,439	53,439
Other operating expenses		12	12
Profit from operations (segment result)	7,687	9,015	16,702
Financial income, net	457		457
Net income from continuing operations	8,144	9,015	17,159
Discontinued operations			
Share of net income from discontinued operations*	5,504		5,504
Net income for the year	13,648	9,015	22,663

(*) This amount includes US\$ 12,480 which is related to equity from Odebrecht Mining Services Ltd. See Note 7.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

	2003		
	Engineering and construction	Financial segment	Total
Income statement			
Continuing operations			
Revenue from services	74,848		74,848
Interest and other income		4,253	4,253
	74,848	4,253	79,101
Cost of services rendered	(26,459)		(26,459)
Interest and other expenses		(38,863)	(38,863)
Foreign exchange losses, net		(5,302)	(5,302)
	(26,459)	(44,165)	(70,624)
Gross profit (loss)	48,389	(39,912)	8,477
General and administrative expenses	(2,529)		(2,529)
Trading gains on marketable securities and derivatives		44,826	44,826
Other operating expenses		155	155
Profit from operations (segment result)	45,860	5,069	50,929
Financial income, net	389		389
Net income from continuing operations	46,249	5,069	51,318
Discontinued operations			
Share of net income from discontinued operations*	11,494		11,494
Net income for the year	57,743	5,069	62,812

(*) This amount includes US\$ 3,100 which is related to equity from Odebrecht Mining Services Ltd. See Note 7.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

(b) Secondary reporting format – geographical segments

Up to 2004 the Company had investments in companies located in the United Kingdom, the United States of America and Uruguay. All of these investments were sold during 2004 and none of them exceeded 10% of the Company's total assets as of December 31, 2003.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Preparation and presentation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale investments are shown at fair value.

The Company has not early adopted the revised International Accounting Standards ("IAS", currently denominated IFRS) and the new IFRS issued from December 2003 to February 2005.

The Company's accounting records are expressed in U.S. dollars, its functional currency (its revenues, costs, and the majority of its assets and liabilities are denominated in U.S. dollars).

The Company does not present consolidated financial statements since it is a wholly owned indirect subsidiary company of CNO, which presents consolidated financial statements in Brazil and does not require the Company to prepare consolidated financial statements.

All of the investments in associated and subsidiary companies were sold during 2004 and are discontinued operations.

(b) Investments in subsidiary and associated companies

Investments in subsidiary companies, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are accounted for by the equity method of accounting. Where necessary, accounting policies for subsidiaries and associates have been modified to ensure consistency with the policies adopted by the Company.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

Investments in associated companies are accounted for by the equity method of accounting. These are investments over which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control.

All the investments in subsidiary and associated companies were acquired by the Company from CNO or from other Odebrecht Organization companies. Therefore, these transactions did not change the composition of the Odebrecht Organization and involved entities under common control. Consequently, these transactions were recorded in a manner similar to a uniting of interests. No adjustment was made to reflect fair values at the time of the transfer, the difference between the transaction amount and the underlying book value of the net assets was recorded as an increase or decrease in stockholders' equity, and the financial statements for the year in which the acquisitions occurred and for the comparative year disclosed includes the balances of these investments and its activity during these years as if they had been acquired from the beginning of the earliest period presented.

All significant Company's investees have the same functional currency as the Company.

(c) Marketable securities

The Company adopts IAS 39 and classifies its financial investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets (marketable securities). Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in current or non-current assets, depending on the due date (during the periods the Company did not hold any investments in this category). Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets (marketable securities) unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of financial investments are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset. Trading and available-for-sale investments are subsequently carried at fair value, while held-to-maturity investments are carried at amortized cost using the effective yield method. Changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

(d) Construction contracts

Contract revenue and contract costs are recognized over the period of the contract, respectively, as revenue and expenses. The Company's only contract is a cost-plus contract; thus, contract revenue is calculated by applying a fixed percentage fee on the incurred costs approved by the customers. The outcome of the construction contract can be estimated reliably and it's probable that the contract will be profitable.

(e) Trade accounts receivable

Trade receivables are carried at original invoice amount less eventual provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the originally contracted rate of interest. At December 31, 2004 and 2003 provision for impairment was not necessary.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments, which have a maturity of three months or less from the date of acquisition.

(g) Debts

Debts are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

(h) Forward agreements

Foreign currency swaps and forward agreements, which are all related to foreign currency forward transactions, are fair value measured, which is determined using forward exchange rates at the balance sheet date, changes in the fair value are recorded in the income statements.

(i) Advances from customers

Refers to amounts advanced in cash by clients regarding the execution of the construction contracts.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

(j) Recognition of other revenues

Other revenues earned by the Company are recognized on the following bases:

Interest income - on an effective yield basis.

Dividend income - when the Company's right to receive payment is established, which occurs at the moment dividends are declared.

(k) Income tax

The Company is not subject to income tax in the countries where it operates.

3 Cash and cash equivalents

	<u>2004</u>	<u>2003</u>
Cash and banks	309	2,040
<u>Cash equivalents - short-term investments</u>		
Rilltown Corporation	9	9
Amex Centurian Bank		5,000
Banco Fibra S.A - Nassau Branch		15,008
Banrisul S.A. - Grand Cayman Branch		15,021
Espirito Santo Bank - Miami Branch		10,797
BIC - Banco Industrial e Comercial S.A. - Grand Cayman Branch		15,000
BBM - Banco BBM S.A. - Nassau Branch		30,019
	<u>9</u>	<u>90,854</u>
	<u>318</u>	<u>92,894</u>

In 2003 the short-term investments refer to bank deposits denominated in U.S. dollars, which are subject to annual interest varying from Libor plus 3% or from 0.93% to 4.50%.

4 Marketable securities

- (i) Marketable securities in 2003 comprise U.S. Treasury Bills held in custody by Credit Lyonnais New York Branch which fall due in January, 2004. These investments are pledged in for a Standby Letter of Credit issued by this financial institution to CNO in the context of a Loan Agreement with the International Finance Corporation ("IFC"). These marketable securities are measured at their fair value, and have an annual rate of return of 1.00% to 1.15% p.a. At December 31, 2003, the balance was US\$ 31,000.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

5 Trade accounts receivable

Represent current amounts due by GAMEK - Gabinete de Aproveitamento do Médio Kwanza (an agency of the government of Angola) related to the execution of a part of the construction of the Capanda Hydroelectric Plant (GAMEK).

6 Related parties

The main nature of the transactions with related parties is the financial activity, as disclosed in Note 1. The Company has the following balances and transactions involving other Odebrecht Organization companies:

		2004				
	Currency	Marketable securities	Related parties - Current assets	Related parties - Current liabilities	Foreign exchange gain (loss)	Financial income (expenses)
<u>Not subject to interest and exchange variation</u>						
CNO	US\$		2,977			
OOSL	US\$			629		
OSEL	US\$		133,228			
Odebrecht Mining Services, Inc.	US\$			5,195		
Tenenge Overseas Corporation	US\$			3,828		
Odebrecht Oil & Gas Services Ltd.	US\$			3,864		
CBPO Overseas Ltd.	US\$		94,524			
Odebrecht Peru Ingeniería y Construcción S.A.C.	US\$		13,502			
Tenenge (UK) Holdings Ltd.	US\$		17,549			
Odebrecht Oil & Gas Angola Ltd.	US\$		4,873			
Belgravia	US\$		47,047			
OECP	US\$		14,947			
Odebrecht Engenharia Construção e Investimentos S.A.	US\$		5,226			
			<u>333,873</u>	<u>13,516</u>		
<u>Subject to interest and exchange variation</u>						
CNO	R\$			248,189	(20,765)	(5,931)
CNO	US\$		155,777			321
CNO **	US\$	80,365				6,665
CNO	BS		96,986		(437)	
Odebrecht Serviços de Óleo e Gás Ltda.	R\$				999	(545)
OSEL	US\$					5,059
CBPO Engenharia Ltda.*	€	35,446			2,876	2,274
CBPO Engenharia Ltda.	R\$				6,812	
Belgravia	R\$		167,934		6,836	
Others			2	9		
		<u>115,811</u>	<u>420,699</u>	<u>248,198</u>	<u>(3,679)</u>	<u>7,843</u>
		<u>115,811</u>	<u>754,572</u>	<u>261,714</u>	<u>(3,679)</u>	<u>7,843</u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

		2003				
	Currency	Marketable securities	Related parties - Current assets	Related parties - Current liabilities	Foreign exchange gain (loss)	Financial income (expenses)
<u>Not subject to interest and exchange variation</u>						
CNO	US\$			5,236		
OOSL	US\$		31,770			
OSEL	US\$			45,886		
Tenenge Overseas Corporation	US\$			46,671		
Odebrecht Construction, Inc.	US\$		3,892			
Companhia Brasileira de Projetos e Obras de México S.A. de C.V.	US\$		81			
Odebrecht Oil & Gas Services Ltd.	US\$			6,750		
CBPO Engenharia Ltda.	US\$			36,314		
CBPO Overseas Ltd.	US\$		949			
Odebrecht Peru Ingeniería y Construcción S.A.C.	US\$		26,817			
Tenenge (UK) Holdings Ltd.	US\$		14,923			
Odebrecht Oil & Gas Ltd.	US\$		2,354			
Odebrecht Oil & Gas Angola Ltd.	US\$		4,257			
			85,043	140,857		
<u>Subject to interest and exchange variation</u>						
CNO	R\$			169,141	(29,570)	(9,031)
CNO	US\$		63,895			(3,073)
CNO **	US\$	81,199				6,593
Odebrecht Serviços de Óleo e Gás Ltda.	R\$			52,806	(9,428)	(1,450)
OSEL	US\$		60,616			4,787
CBPO Engenharia Ltda.*	€	32,415			5,570	2,481
CBPO Engenharia Ltda.	R\$		35,472		14,038	
Belgrávia	R\$		118,815		14,088	
Others			241	121		(12)
		113,614	279,039	222,068	(5,302)	295
		113,614	364,082	362,925	(5,302)	295

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

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- (*) Refers to part of the notes (Variable Rate Obligations) originally issued by the indirect associated company CBPO Engenharia Ltda. in August 1996 in the Portuguese financial market, which originally fell due in August 2004 and were subject to the foreign exchange variation and annual interest of 4.7% above LISBOR, payable semi-annually.

In August 2004 this transaction was postponed until November 2004. On November 4, 2004, this transaction was extended to November 2007 and the new annual interest rate is Euribor plus 5.5%, payable semi-annually on each May and November.

This investment in marketable security was acquired with the intention of trading, and the balance is carried at fair value, with changes in the fair value reported in the income statement. The fair-value estimates for these items are based on the present value of the estimated future cash flow.

- (**) During September and October 2003, the Company acquired Eurobonds issued by CNO in 1997. These bonds are subject to interest of 10% p.a. and fall due in October 2005. This investment in marketable security was acquired with the intention of trading, and the balance is carried at fair value, with changes in the fair value reported in the income statement. The fair-value estimate for this item is based on the present value of the estimated future cash flow.

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The main balances kept with Odebrecht Organization companies are covered by a "Current account and single cash management agreement" entered into by all Organization Companies and have no defined maturity date. These balances have the following characteristics:

<u>Company</u>	<u>Financial charges</u>	<u>Nature</u>
CNO	Part of the balance is denominated in Brazilian Reais and part in U.S. dollars . For the balances in Brazilian Reais, the financial charges are equivalent to LIBOR plus 3% per annum. For part of the balances in U.S. dollars, there are no financial charges, and for the remaining part, the financial charges are equivalent to LIBOR plus 3% per annum.	Credit assignments and onlendings.
Odebrecht Serviços de Óleo e Gas Ltda.	Exchange variation from U.S. dollars to reais and interest equivalent to LIBOR plus 3% per annum.	Credit assignments.
OSEL	Financial charges on the balance subject to finance charges are equivalent to LIBOR plus 8% per annum.	Credit assignments and onlendings.
Tenenge Overseas Corporation	No financial charges.	Credit assignments and onlendings.
OMSI	No financial charges.	Credit assignments and onlendings.
CBPO Overseas Ltd.	No financial charges.	Credit assignments and onlendings.
CBPO Engenharia Ltda.	The balance is denominated in Brazilian Reais and U.S. dollars. Financial charges for the part in Brazilian Reais are equivalent to the exchange variation from U.S. dollars to reais. For the balance in U.S. dollars, there are no financial charges.	Credit assignments, onlendings and sale of the investment in Multitrade S.A.
Belgrávia	Exchange variation from U.S. dollars to reais.	Sale of the investment in MTD.
OOSL	No financial charges.	Credit assignments and onlendings.
Odebrecht Peru Ingeniería y Construcción S.A.C.	No financial charges.	Credit assignments and onlendings.
Tenenge (UK) Holdings Ltd.	No financial charges.	Credit assignments and onlendings.

Odebrecht Overseas Ltd.

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7 Investments

	OCI (i)	Constructora Odebrecht Uruguay S.A. (v)	OOGS (ii)	OMSI (iii)	TUK (ii)	CNMI (iv)	Total
At December 31, 2002	877	698	9,947	13,814	48,623	24,500	98,459
Capital increase	8,315						8,315
Capital increase of OOGS with the investment in TUK (ii)			45,463		(45,463)		
Capital increase of OMSI with the investment in CNMI (iv)				37,880		(37,880)	
Capital distribution (i)	(1)						(1)
Share of net income (losses)	86	(389)	(1,523)	3,100	(3,160)	13,380	11,494
At December 31, 2003	9,277	309	53,887	54,794			118,267
Sales of investments	(11,361)	(181)	(44,955)	(67,274)			(123,771)
Share of net income (losses)	2,084	(128)	(8,932)	12,480			5,504
At December 31, 2004							
Percentage holding (%) 2004							
Percentage holding (%) 2003	22	95	100	93.48			

Odebrecht Overseas Ltd.

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- (i) OCI operates primarily in civil construction works in the United States of America.

In June 2003, the Company and CNO increased the capital of OCI by US\$ 37,794, (US\$ 29,479 - CNO, US\$ 8,315 - the Company). Due to this capital increase, the percentage holding of the Company in OCI changed from 22.13% to 22%. Due to the aforementioned change in the Company's ownership percentage in OCI, and since this was a common control transaction, the Company recorded a capital distribution of US\$ 1. On December 15, 2004, the Company sold its investment in OCI to CNO at book value.
- (ii) In June 2003, the Company increased the capital of its investee OOGS by contributing its participation in TUK at the book value of US\$ 45,463. This transaction was made to consolidate the Company's operations in the United Kingdom in one holding company. On December 15, 2004, the Company sold its investment in OOGS to CBPO Overseas Ltd. ("CBPO OV"), another company of the Odebrecht Organization at book value.
- (iii) On November 29, 2002, CNO increased the Company's capital by US\$ 10,143, through the issuance of 2,130 new shares of US\$ 1 each plus a premium of US\$ 5 on each share issued (US\$ 2,130 of capital and US\$ 10,141 of additional paid-in capital), by assigning 75% of its investment in OMSI at book value. Due to this capital increase in OMSI, the Company increased its participation in this investee from 75% to 93.48%, recording, thus, a gain on the increase on the percentage holding of US\$ 1,447.
- (iv) On November 28, 2003, the Company increased the capital of its investee OMSI by contributing its participation in CNMI at the book value. On October 1st, 2004, the Company sold its investment in OMSI to CBPO OV, another company of the Odebrecht Organization at book value.
- (v) On December 15, 2004, the Company sold its investment in Constructora Odebrecht Uruguay S.A. to CBPO OV, another company of the Odebrecht Organization at book value.

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- (vi) Since the acquisition of the investments in CNMI, the increase of the participation in OMSI with the investment in CNMI and the capital distribution originated from OCI in 2003 were recorded in a manner similar to a uniting of interests (see Note 2 (b)), the financial statements of the Company for the year in which the acquisitions occurred include the balances of these investments and their activity during these years as if they had been acquired from the beginning of the earliest period presented. The difference between the transaction amount and the underlying book value of the net assets was recorded as an increase or decrease in stockholders' equity, in the account Additional paid-in capital. Below follows reconciliation between the amounts presented in the Statement of Changes in Stockholders' Equity as capital distribution resulting from transactions with related companies and the aforementioned amounts.

Description	2003
Amount paid on CNMI acquisition at November 28, 2003	(40,523)
Capital contribution originated for the change of ownership percentage in OMSI and OCI	(1)
	(40,524)

- (vii) The financial statements of the main subsidiary/associated companies, which formed the basis for the calculation of the equity in the earnings of subsidiary and associated companies for the years then ended December 31, 2004 and 2003, were audited by our independent accountants, except for the indirect jointly-controlled subsidiaries Constructora Odebrecht Uruguay S.A., North Sea Production Company and Constructora Akal B y L, S. de R.L. de C. V., which were audited by other independent accountants.

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8 Debt

	Currency	2004			2003		
		Principal plus interest	Interest rates	Financial expenses and foreign exchange loss	Principal plus interest	Interest rates	Financial expenses and foreign exchange loss
Lloyds TSB Bank PLC	US\$		5.825% to 6.475% p.a	4,712	48,392	5.825% to 6.475% p.a	10,988
Short-term Note Program (i)	€/US\$		12% to 12.5% p.a.	2,686	54,712	12% to 12.5% p.a.	9,120
Guaranteed Euro Notes (ii)	€					9.75% p.a.	6,369
Guaranteed Euro Notes (iii)	US\$	103,000	12% p.a.	12,000	103,000	12% p.a.	3,000
Medium Term Notes (iv)	US\$	233,984	11.50% p.a.	18,576			
Medium Term Notes (v)	€	90,088	7.43 to 7.445% p.a.	10,301			
Bradesco - Luxembourg (vi)	US\$	15,033	7.5% p.a.				
ABC Brasil (vi)	US\$	5,017	7.5% p.a.				
Orix Trade Capital	US\$		7.5% p.a.	622			
Others (vii)	US\$	155	3.5% to 10% p.a.	799	4,346	3.5% to 10.5% p.a.	607
		<u>447,277</u>		<u>49,696</u>	<u>210,450</u>		<u>30,084</u>
Current liabilities		<u>128,605</u>			<u>110,450</u>		
Long-term liabilities		<u>318,672</u>			<u>100,000</u>		

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- (i) During the first half of 2003, the Company raised funds in the international financial market, in the form of Eurobonds in a short-term program, falling due in March 2004. This transaction was guaranteed by CNO.
- (ii) On December 27, 2001, the Company issued notes in the international financial markets of € 42,779 (from a total limit amount of € 50,000 thousand), in the form of "Guaranteed Euro Notes", which fell due and were paid on June 2003. The notes were guaranteed by CNO, its subsidiary Bento Pedroso Construções S.A ("BPC") and Odebrecht S.A.
- (iii) At September 30, 2003, the Company issued in the international financial market US\$ 100,000 of "Guaranteed Euro Notes", which will fall due in March 2005 and are guaranteed by CNO.
- (iv) On February 25, June 29 and September 29, 2004, OOL raised in the international financial market the amounts of US\$ 150,000, US\$ 60,000 and US\$ 15,000 in the form of Medium-Term Notes, falling due in February 2009. These notes are guaranteed by CNO. At December 31, 2004, the balance of these notes, with accrued interest, amounted to US\$ 233,984. On June 29, 2004, OOL issued US\$ 60,000, which was fully acquired by the subsidiary OSEL, which is retaining these notes in treasury.
- (v) On October 4, 2004, OOL raised in the international financial market the amount of € 65,000 thousand (equivalent to US\$ 79,787), in the form of Medium Term Notes, which are due in October 3, 2007. These notes are guaranteed by CNO. At December 31, 2004, the balance, with accrued interest, amounted to € 66,067 thousands (equivalent to US\$ 90,088).
- (vi) In March and June 2004, OOL contracted with financial institutions in the international financial market the amounts of US\$ 5,000 due in June 2006 and US\$ 15,000 due in March, June and December 2005. These loans are guaranteed by CNO. At December 31, 2004, the balance, with accrued interest, was US\$ 20,050.
- (vii) The other debts are guaranteed by other Odebrecht Organization companies or by other financial institutions.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

- (viii) Below follows a comparison between accounting balances and fair value related to the debts presented in the table above. Fair value estimates for these debts are calculated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

	2004			2003		
	Accounting balances	Fair value	Difference	Accounting balances	Fair value	Difference
Lloyds TSB Bank PLC				48,392	48,829	(437)
Short-term Note Program				54,712	57,163	(2,451)
Guaranteed Euro Notes	103,000	102,075	925	103,000	110,132	(7,132)
Medium Term Notes (iv)	233,984	250,200	(16,216)			
Medium Term Notes (v)	90,088	91,052	(964)			
Bradesco - Luxembourg	15,033	15,033				
ABC Brasil	5,017	5,017				
Others	155	155		4,346	4,346	
	<u>447,277</u>	<u>463,532</u>	<u>(16,255)</u>	<u>210,450</u>	<u>220,470</u>	<u>(10,020)</u>

- (ix) The most significant debt instruments of the Company contain some covenants related to its holding company, CNO, such as limitation on debt as compared to EBTIDA, with which the Company and CNO are complying.

9 Stockholders' equity

Capital consists of 165,213 shares with a par value of US\$ 1 each. The Company's authorized capital consists of 200,000 shares.

On November 28, 2003, CNO increased the Company's capital by US\$ 40,523, through the issuance of 40,523 new shares of US\$ 1 each by assigning its investment in CNMI.

See in Note 7 (vi) details related to the Company's capital distribution resulting from transactions with related companies in the amount of US\$ 40,524 occurred in 2003.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

10 Costs and general and administrative expenses by nature

	<u>2004</u>	<u>2003</u>
Cost of services rendered		
Staff costs	(3,204)	(4,800)
Materials used	(2,323)	(1,913)
Equipment costs	(1,625)	(3,273)
Services contracted	(1,083)	(1,645)
Administrative costs	(11,569)	(14,828)
Interest and other expense	(50,792)	(38,863)
Foreign exchange loss	(3,681)	(5,302)
	<u>(74,277)</u>	<u>(70,624)</u>
General and administrative expenses		
Services contracted	(1,362)	(517)
Materials used	(237)	(574)
Other	(1,763)	(1,438)
	<u>(3,362)</u>	<u>(2,529)</u>

The Company has 30 employees at December 31, 2004 (2003 – 55).

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

11 Trading gains on marketable securities and derivatives

	<u>2004</u>	<u>2003</u>
Financial income from U.S. Treasury Bills trading (i)	46,459	31,771
Results of forward transactions	(2,024)	8,234
Results of foreign currency swaps	8,883	
Fair value measurement of foreign currency swaps	1,219	
Fair value measurement of marketable securities from related parties	(1,098)	4,821
Others	12	155
	<u>53,451</u>	<u>44,981</u>

- (i) From May to December 2004, the Company acquired US\$ 136,645 (2003 US\$ 53,088) U.S. Treasury Bills, and exchanged these securities for Venezuelan government "Bonos de Deuda Publica" (Public Debt Bonds), denominated in Venezuelan Bolivares ("Bs") and traded in the U.S. financial market, in the net amount of Bs 346,637,198,600 (2003 Bs 135,775,074,623). These bonds were subsequently sold in the Venezuelan financial market by the Venezuelan branch of CNO on behalf of the Company, on which a gain of US\$ 46,459 (2003 US\$ 31,771) was generated, due to the fixed exchange rate established by the Venezuelan government of Bs 1,920.00:US\$1.00 after February 06, 2004 (2003 – Bs 1,600.00:US\$1.00). The funds in Venezuelan Bolivares resulting from the sale of these bonds, in the Venezuelan financial market, were used by the Venezuelan branch of CNO, generating an intercompany current account receivable from CNO, which was subsequently settled with the current account maintained in US\$ with CNO.

12 Financial Instruments

(a) Credit and price risk

The main external receivables of the Company are from other Odebrecht Organization companies, which have low credit risk. Regarding its receivables from the services rendered in Angola, there is no history of losses. All the contracts in which the Company is engaged are cost-plus contracts, which have minimal price risk, as revenues are adjusted as construction costs increase.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2004 and 2003

In thousands of U.S. dollars unless otherwise indicated

Although the Company's main activities are held in Angola, its operations in this country are traded in U.S. dollars, reducing its exposure to currency exchange variation. The only financial assets which are not measured in U.S. dollars are the marketable securities (denominated in Euro - see Note 4) and certain long-term receivables from related parties (denominated in Euro and Brazilian reais – see Note 6). The Company also has significant financial liabilities in Euros (see Note 8). In addition, the Company had some financial transactions during 2004 and 2003 denominated in Venezuelan Bolivares, as mentioned in Note 11. The foreign exchange exposure policy is determined and conducted on a corporate basis by its indirect parent company CNO.

(b) Interest rate risk

In order to reduce the Odebrecht Engineering and Construction segment companies' exposure to high interest rates in certain markets where these companies are engaged, the Company is the segment's vehicle for raising funds in the international market, where lower interest rates are available. The Company's debts are all fixed interest rate debts, obtained basically in the European financial market, where the fixed rates are lower than the rates practiced in the countries where the Odebrecht Organization companies operate.

(c) Financial derivatives

It has not been Company practice to utilize financial derivatives, except for the interest rate (Euro versus U.S. Dollars) forward agreements and foreign currency swaps presented in the balance sheet, for which the fair value is determined using forward exchange rates at the balance sheet date.

The Company's policy is not to utilize derivatives for speculative purposes. Management may enter into certain derivative transactions in order to provide economic hedge. Management does not apply hedge accounting.

* * *

Report of Independent Auditors

To the Board of Directors and Shareholders
Odebrecht Overseas Ltd.

- 1 We have audited the accompanying balance sheets of Odebrecht Overseas Ltd. as of December 31, 2003 and 2002 and the related statements of operations, of changes in stockholders' equity and of cash flows 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 audit of the financial statements of the direct subsidiary Constructora Norberto Odebrecht Uruguay S.A. and of the jointly-controlled indirect subsidiaries Sociedade de Desenvolvimento Mineiro S.A.R.L., North Sea Production Company and Constructores Akal B y L, S. de R.L. de C.V., recorded under the equity method, were conducted by other independent auditors. Our opinion, insofar as it refers to the amounts of these investments at December 31, 2003 and the equity in the earnings in the year then ended, in the amount of US\$ 25,921 thousand and US\$ 9,898 thousand (2002 - US\$ 24,501 thousand and US\$ (53) thousand), respectively, is based solely on the reports of these other auditors.
- 2 We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
- 3 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Odebrecht Overseas Ltd. at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Odebrecht Overseas Ltd.

- 4 Without qualifying our opinion, we draw attention to Note 1 that describes the fact that the company is an integral part of the group of companies which form the Odebrecht Organization, of which the ultimate holding company is Odebrecht S.A. The company is an indirect wholly owned subsidiary of its intermediate parent Construtora Norberto Odebrecht S.A. and relies on the financial support of its parent company to meet its obligations. The company conducts material financial transactions with its parent and other Odebrecht Organization companies as described in Note 6 to the financial statements.

Salvador, March 12, 2004

PricewaterhouseCoopers
Auditores Independentes

Odebrecht Overseas Ltd.

Balance Sheet at December 31 In U.S.dollars

Assets	Note	2003	2002	Stockholders' equity and liabilities	Note	2003	2002
Non-current assets				Stockholders' equity			
Marketable securities from related parties	6	113,614,439	38,321,989	Capital	9	165,213,212	124,690,380
Other accounts receivable		108,577	840,184	Additional paid-in capital	7 (vii), 9	4,992,590	45,516,594
Investments in subsidiary and associated companies	7	<u>118,267,298</u>	<u>98,459,240</u>	Accumulated losses		<u>(19,849,488)</u>	<u>(82,661,474)</u>
		<u>231,990,314</u>	<u>137,621,413</u>			<u>150,356,314</u>	<u>87,545,500</u>
Current assets				Non-current liabilities			
Cash and cash equivalents	3	92,893,683	43,796,378	Debts	8	<u>100,000,000</u>	
Marketable securities	4	31,000,000				<u>100,000,000</u>	
Trade accounts receivable	5	325,051	655,265	Current liabilities			
Related parties	6	364,081,832	469,483,197	Debts	8	110,449,858	98,210,597
Forward transactions		3,318,561	6,080,245	Accounts payable		2,504	5,205
Other accounts receivable		<u>123,871</u>	<u>794,582</u>	Related parties	6	362,924,636	467,961,212
		<u>491,742,998</u>	<u>520,809,667</u>	Advances from customers		<u>4,708,566</u>	
						<u>473,376,998</u>	<u>570,885,580</u>
Total assets		<u><u>723,733,312</u></u>	<u><u>658,431,080</u></u>	Total stockholders' equity and liabilities		<u><u>723,733,312</u></u>	<u><u>658,431,080</u></u>

The accompanying notes are an integral part of these financial statements

Odebrecht Overseas Ltd.

Statement of Operations for the Years ended December 31 In U.S.dollars

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Revenue from services		74,847,541	34,028,647
Cost of services rendered	10	<u>(25,195,577)</u>	<u>(20,912,135)</u>
Gross profit		49,651,964	13,116,512
General and administrative expenses	10	(3,792,480)	(2,426,920)
Loss on sale of airplane	11	<u>(1,441,842)</u>	<u>(1,441,842)</u>
Operating income		45,859,484	9,247,750
Financial income, net	12	5,458,272	10,579,904
Share of net income (losses) of associates and subsidiaries recorded under the equity method	7	<u>11,494,230</u>	<u>(68,585,684)</u>
Net income (loss) for the year		<u><u>62,811,986</u></u>	<u><u>(48,758,030)</u></u>

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

Odebrecht Overseas Ltd.

Statement of Changes in Stockholders' Equity In U.S.dollars

	<u>Note</u>	<u>Capital</u>	<u>Additional paid- in capital</u>	<u>Accumulated losses</u>	<u>Total</u>
At December 31, 2001		9,800	106,064,194	(33,903,444)	72,170,550
Capital contribution	9	2,330	50,140,538		50,142,868
Capitalization of additional paid-in capital	9	124,678,250	(124,678,250)		
Capital contribution resulting from transactions with related companies	7 (vii)		13,990,112		13,990,112
Loss for the year				(48,758,030)	(48,758,030)
At December 31, 2002		124,690,380	45,516,594	(82,661,474)	87,545,500
Capital contribution	7 (vi)	40,522,832			40,522,832
Capital distribution resulting from transactions with related companies	7 (vii)		(40,524,004)		(40,524,004)
Net income for the year				62,811,986	62,811,986
At December 31, 2003		<u>165,213,212</u>	<u>4,992,590</u>	<u>(19,849,488)</u>	<u>150,356,314</u>

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

Odebrecht Overseas Ltd.

Statement of Cash Flows Years ended December 31 In U.S.dollars

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:			
Net income (loss) for the year		62,811,986	(48,758,030)
Adjustments to reconcile loss to net cash from operating activities:			
Share of net losses of associated and subsidiaries	7	(11,494,230)	68,585,684
Interest income receivable and foreign exchange gain from related parties, net	6	19,651,137	(26,901,414)
Interest accrued on liability for investment purchase			8,385,595
Interest accrued and foreign exchange loss on debts	8	30,084,272	12,342,572
Financial income from marketable securities		(14,746,978)	
Depreciation	11		247,577
Loss on sale of aircraft	11		1,441,842
		<hr/>	<hr/>
Operating profit before working capital changes		86,306,187	15,343,826
Decrease (increase) in trade accounts receivable		(27,869,786)	8,517,480
Decrease (increase) in other accounts receivable/forward transaction		4,164,002	(6,143,850)
Increase (decrease) in advances from customers		(4,708,566)	3,377,742
Increase (decrease) in accounts and expenses payable		(2,701)	5,205
		<hr/>	<hr/>
Cash generated from operating activities		57,889,136	21,100,403
Interest received		3,167,831	
Interest paid		(6,790,731)	(15,805,184)
Interest paid on liability for investment purchase			(35,996,598)
		<hr/>	<hr/>
Net funds obtained from (used for) operating activities		54,266,236	(30,701,379)
Cash flows from investing activities:			
From related parties - assets			
Remitted funds		(523,559,524)	(272,723,010)
Received funds		681,758,407	236,958,307
Sale of marketable securities from related parties		11,657,281	2,784,800
Purchase of marketable securities from related parties		(75,473,876)	
Purchase of marketable securities		(30,896,708)	
Sale of aircraft	11		4,499,999
Capital reduction of subsidiary			3,097,920
		<hr/>	<hr/>
Net funds obtained from (used for) investing activities		63,485,580	(25,381,984)

Odebrecht Overseas Ltd.

Statement of Cash Flows Years ended December 31 In U.S.dollars

(continued)

	Note	2003	2002
Cash flows from financing activities:			
From related parties - liabilities			
Remitted funds		(841,199,985)	324,716,477
Received funds		683,599,754	(59,529,088)
Capital increase	9		40,000,000
Debts			
New debts contracted		218,739,749	215,846,769
Amortization of liability for investment purchase			(239,575,000)
Amortization of debts contracted		<u>(129,794,029)</u>	<u>(218,960,450)</u>
Net funds obtained from financing activities		<u>(68,654,511)</u>	<u>62,498,708</u>
Net increase in cash and cash equivalents		<u>49,097,305</u>	<u>6,415,345</u>
Cash and cash equivalents at the beginning of year		<u>43,796,378</u>	<u>37,381,033</u>
Cash and cash equivalents at the end of year		<u>92,893,683</u>	<u>43,796,378</u>

The principal non-cash transactions are the capital increase in Odebrecht Oil & Gas Services Ltd. ("OOGS") with the investment in Tenenge (UK) Holdings Ltd. ("TUK"), in the amount of US\$ 45,462,872; the capital increase in Odebrecht Construction, Inc. ("OCI"), in the amount of US\$ 8,315,000; the Company's capital contribution in the amount of US\$ 40,522,832; the Company's capital distribution resulting from transactions with related companies in the amount of US\$ 40,524,004; and the capital increase in Odebrecht Mining Services Ltd. ("OMSI") with the investment in CNO Mining Inc. ("CNMI"); in the amount of US\$ 37,880,743, all occurred in 2003, and the sale of Multitrade S.A. to other Odebrecht Organization companies, in the amount of US\$ 147,491,801; the capitalization of additional paid-in-capital, in the amount US\$ 124,678,250; and the Company's capital contribution resulting from transactions with related companies in the amount US\$ 13,990,112, all occurred in 2002.

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

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

1 Operations

The Company's main activity is currently related to the construction of the Capanda Hydroelectric Plant in Angola. It is also the financing vehicle in the international market for the engineering and construction segment activities of the Odebrecht Organization. The Company's stockholders are Construtora Norberto Odebrecht S.A. ("CNO", registered in Rio de Janeiro, Brazil) - 39.03% (2002 – 19.21%), and the following CNO's wholly-owned subsidiaries: Belgrávia Empreendimentos Ltda. ("Belgrávia") - 31.11% (2002 – 41.22%); Odebrecht Oil Services Ltd. ("OOSL") - 21.77% (2002 – 28.85%); and OSEL - Odebrecht Serviços no Exterior Ltd. ("OSEL") - 8.09% (2002 – 10.72%). The Company is part of the Odebrecht Organization for which the ultimate holding company is Odebrecht S.A., incorporated in Salvador, Brazil.

The conclusion of the Capanda Hydroelectric Plant is estimated to occur in December, 2004. This project is conducted concurrently with CNO and OSEL. All the contracts in which the Company is or was engaged are cost-plus contracts, and the amounts charged to clients are measured and client approved on a monthly basis considering the costs incurred.

In September 2003, the Company and another Odebrecht Organization company who participates of the Capanda Hydroelectric Plant project, OSEL - Odebrecht Serviços no Exterior Ltd. ("OSEL"), settled with the contractor, GAMEK - Gabinete de Aproveitamento do Médio Kwanza, an additional fee related to the performance of this project, resulting in a revenue of US\$ 27,051,460. The Company assigned the corresponding receivable to OSEL, who holds the risk of credit.

To fulfill its activities the Company relies on the operational structure of CNO. As of December 31, 2003, the Company has accumulated losses of US\$ 19,849,488 (2002 - US\$ 82,661,474). The Company's operations depend on the remittance of funds from CNO and from other related parties of the Odebrecht Organization, with which the Company has intercompany payables of US\$ 362,924,636. CNO is committed to provide the necessary level of financial support to the Company to enable it to pay its debt.

On March 12, 2004, the Company's Board of Directors authorised these financial statements for issuance.

Odebrecht Overseas Ltd.

Notes to the Financial Statements

at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

The Company has a single reportable segment: engineering and construction. The figures that represent this segment are as follows:

	2003		
	Engineering and construction	Other non- reportable segment and consolidation reclassifications	Total
Assets			
Non-current assets			
Marketable securities from related parties		113,614,439	113,614,439
Other accounts receivable	108,577		108,577
Investments in subsidiary and associated companies	118,267,297		118,267,297
	<u>118,375,874</u>	<u>113,614,439</u>	<u>231,990,313</u>
Current assets			
Cash and cash equivalents	1,008	92,892,675	92,893,683
Marketable securities		31,000,000	31,000,000
Trade accounts receivable	325,051		325,051
Related parties	16,523,261	347,558,571	364,081,832
Forward transactions		3,318,561	3,318,561
Other accounts receivable	123,871		123,871
	<u>16,973,191</u>	<u>474,769,807</u>	<u>491,742,998</u>
Total assets	<u><u>135,349,065</u></u>	<u><u>588,384,246</u></u>	<u><u>723,733,311</u></u>
Liabilities			
Non-current liabilities			
Debts		100,000,000	100,000,000
		<u>100,000,000</u>	<u>100,000,000</u>
Current liabilities			
Debts		110,449,858	110,449,858
Accounts payable	2,504		2,504
Related parties	2,549,766	360,374,870	362,924,636
	<u>2,552,270</u>	<u>470,824,728</u>	<u>473,376,998</u>
Total liabilities	<u><u>2,552,270</u></u>	<u><u>570,824,728</u></u>	<u><u>573,376,998</u></u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

	2002		
	Engineering and construction	Other non- reportable segment	Total
Assets			
Non-current assets			
Marketable securities from related parties		38,321,989	38,321,989
Other accounts receivable	840,184		840,184
Investments in subsidiary and associated companies	97,437,200		97,437,200
	<u>98,277,384</u>	<u>38,321,989</u>	<u>136,599,373</u>
Current assets			
Cash and cash equivalents	3,978	43,792,400	43,796,378
Trade accounts receivable	655,265		655,265
Related parties	15,096,202	454,386,995	469,483,197
Forward transactions		6,080,245	6,080,245
Other accounts receivable	794,582		794,582
	<u>16,550,027</u>	<u>504,259,640</u>	<u>520,809,667</u>
Total assets	<u><u>114,827,411</u></u>	<u><u>542,581,629</u></u>	<u><u>657,409,040</u></u>
Liabilities			
Current liabilities			
Debts		98,210,597	98,210,597
Accounts payable	5,205		5,205
Related parties	3,185,680	464,775,532	467,961,212
Advances from customers	4,708,566		4,708,566
	<u>7,899,451</u>	<u>562,986,129</u>	<u>570,885,580</u>
Total liabilities	<u><u>7,899,451</u></u>	<u><u>562,986,129</u></u>	<u><u>570,885,580</u></u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

	2003		
	Engineering and construction	Other non- reportable segment	Total
Income statement			
Revenue from services	74,847,541		74,847,541
Cost of services rendered	(25,195,577)		(25,195,577)
Gross profit	49,651,964		49,651,964
General and administrative expenses	(3,792,480)		(3,792,480)
Operating income	45,859,484		45,859,484
Financial income, net	388,714	5,069,558	5,458,272
Share of net income of associates and subsidiaries recorded under the equity method	11,494,230		11,494,230
Net income for the year	<u>57,742,428</u>	<u>5,069,558</u>	<u>62,811,986</u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

	2002		
	Engineering and construction	Other non- reportable segment	Total
Income statement			
Revenue from services	34,028,647		34,028,647
Cost of services rendered	(20,912,135)		(20,912,135)
Gross profit	13,116,512		13,116,512
General and administrative expenses	(2,426,920)		(2,426,920)
Loss on sale of airplane	(1,441,842)		(1,441,842)
Operating income	9,247,750		9,247,750
Financial income (expenses), net	(49,722)	10,629,626	10,579,904
Share of losses of associates and subsidiaries recorded under the equity method	(68,585,684)		(68,585,684)
Net income (loss) for the year	<u>(59,387,656)</u>	<u>10,629,626</u>	<u>(48,758,030)</u>

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Preparation and presentation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale investments are shown at fair value.

The Company has not early adopted the revised International Accounting Standards ("IAS", currently denominated IFRS) and the new IFRS issued from December 2003 to March 2004.

The Company's accounting records are expressed in U.S. dollars, since its functional currency (its revenues, costs, and the majority of its assets and liabilities are denominated in U.S. dollars).

Since the investments in subsidiary and associated companies were acquired by the Company involving entities under common control and as required by IFRS, the financial statements for the year in which the acquisitions occurred and for the comparative year disclosed includes the balances of these investments and its activities during these years as if they had been acquired from the beginning of the earliest period presented. See Notes 2 (b) and 7 (vii). The impact for the 2002 balance sheet and statement of operations between the amounts as previously disclosed and as presented herein are as follows:

			At December 31, 2002
	As previously disclosed	Adjustments	As presented herein
<u>Balance sheet</u>			
Investments in subsidiary and associated companies	71,227,639	27,231,601	98,459,240
Additional paid-in capital	18,303,497	27,213,097	45,516,594
Accumulated losses	(82,679,978)	18,504	(82,661,474)
<u>Statement of operations</u>			
Share of net losses of associates and subsidiaries recorded under the equity method	(68,604,188)	18,504	(68,585,684)

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(b) Investments in subsidiary and associated companies

Investments in subsidiary companies, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are accounted for by the equity method of accounting. Where necessary, accounting policies for subsidiaries and associates have been modified to ensure consistency with the policies adopted by the Company.

Investments in associated companies are accounted for by the equity method of accounting. These are investments over which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control.

All the investments in subsidiary and associated companies were acquired by the Company from CNO or from other Odebrecht Organization companies. Therefore, these transactions did not change the composition of the Odebrecht Organization and involved entities under common control. Consequently, these transactions were recorded in a manner similar to a uniting of interests. No adjustment was made to reflect fair values at the time of the transfer, the difference between the transaction amount and the underlying book value of the net assets was recorded as an increase or decrease in stockholders' equity, and the financial statements for the year in which the acquisitions occurred and for the comparative year disclosed includes the balances of these investments and its activity during these years as if they had been acquired from the beginning of the earliest period presented.

All of the Company's investees have the same functional currency as the Company.

(c) Cash equivalents and marketable securities

The Company adopts IAS 39 and classifies its financial investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets (short-term investments). Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in current or non-current assets, depending on the due date (during the periods the Company did not hold any investments in this category). Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets (marketable securities) unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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All purchases and sales of financial investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Trading and available-for-sale investments are subsequently carried at fair value, while held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

(d) Construction contracts

Contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The only one Company's contract is a cost-plus contract; thus, contract revenue is calculated by applying a fixed percentage fee on the incurred costs approved by the customers.

(e) Trade accounts receivable

Trade receivables are carried at original invoice amount less eventual provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the originally contracted rate of interest. At December 31, 2003 and 2002 no provision for impairment was made.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments, which have a maturity of three months or less from the date of acquisition.

(g) Debts

Debts are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(h) Forward transaction

Forward agreements, which are all related to foreign currency forward transactions, are fair value measured, which is determined using forward exchange rates at the balance sheet date.

Odebrecht Overseas Ltd.

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(i) Advances from customers

Refers to amounts advanced in cash by clients regarding the execution of the construction contracts.

(j) Other revenues recognition

Other revenues earned by the Company are recognised on the following bases:

Interest income - on an effective yield basis.

Dividend income - when the Company's right to receive payment is established, which occurs at the moment dividends are declared.

(k) Income tax

The Company is not subject to income tax in the countries where it operates.

(l) Consolidated financial statements

The Company does not present consolidated financial statements since it is a wholly owned subsidiary company of CNO, which presents consolidated financial statements and does not require the Company to prepare consolidated financial statements.

3 Cash and cash equivalents

	<u>2003</u>	<u>2002</u>
Cash and banks	2,040,193	101,886
<u>Cash equivalents - short-term bank investments</u>		
Rilltown Corporation	9,388	2,329
Amex Centurian Bank	5,000,000	
Banco Fibra S.A - Nassau Branch	15,007,500	
Banrisul S.A. - Grand Cayman Branch	15,020,833	
Espirito Santo Bank - Miami Branch	10,796,686	18,689,158
BIC - Banco Industrial e Comercial S.A. - Grand Cayman Branch	15,000,000	
BBM - Banco BBM S.A. - Nassau Branch	30,019,083	
Credit Lyonnais (Uruguay) S.A.		5,000,519
Credit Suisse First Boston		20,002,486
	<u>90,853,490</u>	<u>43,694,492</u>
	<u>92,893,683</u>	<u>43,796,378</u>

Short-term investments refer to bank deposits denominated in U.S. dollars, which are subject to annual interest varying from Libor plus 3% p.a. or from 0.93% to 4.50%p.a.

Odebrecht Overseas Ltd.

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4 Marketable securities

Marketable securities comprise U.S. Treasury Bills in custody by Credit Lyonnais New York Branch and Time Deposits maintained with the same financial institution which fall due on January, 2004. These investments are pledged in for a Standby Letter of Credit issued by this financial institution to CNO in the context of a Loan Agreement with the International Finance Corporation ("IFC"). These marketable securities are measured at their fair value, and yield on annual rate of return of 1.00% to 1.15% p.a.

5 Trade accounts receivable

Represent current amounts due by GAMEK - Gabinete de Aproveitamento do Médio Kwanza related to the execution of a part of the construction of the Capanda Hydroelectric Plant (GAMEK).

Odebrecht Overseas Ltd.

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6 Related parties and Marketable securities from related parties

		2003				
	Underlying currency	Marketable securities - Long-term receivables	Related parties - Current assets	Related parties - Current liabilities	Foreign exchange gain (loss)	Financial income (expenses)
<u>Not subject to interest</u>						
CNO	US\$			5,235,742		
OOSL	US\$		31,769,993			
OSEL	US\$			45,885,858		
Tenenge Overseas Corporation	US\$			46,670,594		
OCI	US\$		3,892,237			
Companhia Brasileira de Projetos e Obras de México S.A. de C.V.	US\$		81,150			
OOGS	US\$			6,750,044		
CBPO Engenharia Ltda.	US\$			36,314,289		
CBPO Overseas Ltd.	US\$		948,552			
Odebrecht Peru Ingeniería y Construcción S.A.C.	US\$		26,816,862			
TUK	US\$		14,923,076			
Odebrecht Oil & Gas Ltd.	US\$		2,354,391			
Odebrecht Oil & Gas Angola Ltd.	US\$		4,257,149			
			85,043,410	140,856,527		
<u>Subject to interest</u>						
CNO	R\$			169,140,892	(29,569,787)	(9,031,069)
CNO	US\$		63,895,108			(3,072,939)
CNO **	US\$	81,199,281				6,593,295
Odebrecht Serviços de Óleo e Gás Ltda.	R\$			52,806,188	(9,427,569)	(1,449,791)
OSEL	US\$		60,616,375			4,786,993
CBPO Engenharia Ltda. *	€	32,415,158			5,569,681	2,480,710
CBPO Engenharia Ltda.	R\$		35,471,942		14,037,732	
Belgravia	R\$		118,814,529		14,087,792	
Others			240,468	121,029		(12,500)
			113,614,439	279,038,422	222,068,109	(5,302,151)
			113,614,439	364,081,832	362,924,636	(5,302,151)
						294,699

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All amounts in U.S. dollars unless otherwise indicated

		2002					
	Underlying currency	Marketable securities - Long-term receivables	Related parties - Current assets	Related parties - Current liabilities	Foreign exchange gain (loss)	Financial income (expenses)	
<u>Not subject to interest</u>							
CNO	US\$		64,648,180				
OOSL	US\$		8,577,193				
Tenenge Overseas Corporation	US\$		109,150,940				
OCI	US\$			6,198,231			
Companhia Brasileira de Projetos e Obras de México S.A. de C.V.	US\$		81,150				
OSI Overseas Inc.	US\$			1,972,982			
CBPO Overseas Ltd.	US\$			107,995,361			
Odebrecht Peru Ingeniería y Construcción S.A.C.	US\$			7,075,301			
Odebrecht Oil & Gas Ltd.	US\$		2,104,391				
Odebrecht Oil & Gas Angola Ltd.	US\$		656,250				
OCS International Ltd.	US\$		1,000,000				
			186,218,104	123,241,875			
<u>Subject to interest</u>							
CNO	R\$			235,977,080	17,803,981	(3,749,499)	
CNO	US\$			34,020,672		(2,407,416)	
Odebrecht Serviços de Óleo e Gás Ltda.	R\$			41,928,828	21,491,381	(1,803,964)	
OSEL	US\$		141,952,569			4,445,530	
CBPO Engenharia Ltda. *	€	38,321,989			5,775,918	2,861,500	
CBPO Engenharia Ltda.	US\$			25,341,608		(582,465)	
CBPO Engenharia Ltda.	R\$		62,968,198		(10,646,444)		
Belgrávia	R\$		63,192,748		(6,284,934)		
OOGS	£			7,330,121	163,831		
TUK	£		14,923,076		(118,931)		
Others			228,502	121,028		(47,074)	
			38,321,989	283,265,093	344,719,337	28,184,802	(1,283,388)
			38,321,989	469,483,197	467,961,212	28,184,802	(1,283,388)

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- (*) Refers to part of the notes (Variable Rate Obligations) originally issued by the indirect associated company CBPO Engenharia Ltda. in August 1996 in the Portuguese financial market, which originally fell due in August 2004 and are subject to the foreign exchange variation and annual interest of 4.7% above LISBOR, payable semi-annually. The term of this transaction was extended to August 2006 on December 3, 2003. This balance is carried at fair value, and the related financial income includes the effect of fair value measurement. The fair value estimate for this item is based on the present value of the estimated future cash flow.
- (**) During September and October 2003, the Company acquired Eurobonds issued by CNO in 1997 - in note 8 (iii). These bonds are subject to interest of 10% p.a. and fall due in October 2005. This balance is carried at fair value, and the related financial income includes the effect of fair value measurement. The fair value estimate for this item is based on the present value of the estimated future cash flow.

The main balances kept with Odebrecht Organization companies are covered by a "Current account and single cash management agreement" entered into by all Organization Companies and have no defined maturity date. These balances have the following characteristics:

Company	Financial charges	Nature
CNO	Part of the balance is denominated in Brazilian Reais and part in U.S. dollars. For the balances in Brazilian Reais, the financial charges are equivalent to LIBOR plus 3% per annum. For part of the balances in U.S. dollars, there are no financial charges, and for the remaining part, the financial charges are equivalent to LIBOR plus 3% per annum.	Credit assignments and onlendings.
Odebrecht Serviços de Óleo e Gas Ltda.	Exchange variation from U.S. dollars to reais and interest equivalent to LIBOR plus 3% per annum.	Credit assignments.
OSEL	Financial charges on the bearing balance are equivalent to LIBOR plus 8% per annum.	Credit assignments and onlendings.
Tenenge Overseas Corporation	No financial charges.	Credit assignments and onlendings.
OMSI	No financial charges.	Credit assignments and onlendings.
CBPO Overseas Ltd.	No financial charges.	Credit assignments and onlendings.
CBPO Engenharia Ltda.	The balance is denominated in Brazilian Reais and U.S. dollars. Financial charges for the part in Brazilian Reais are equivalent to the exchange variation from U.S. dollars to reais. For the balance in U.S. dollars, there are no financial charges.	Credit assignments, onlendings and sale of the investment in Multitrade S.A.
Belgravia	Exchange variation from U.S. dollars to reais.	Sale of the investment in MTD.
OOSL	No financial charges.	Credit assignments and onlendings.
Odebrecht Peru Ingeniería y Construction S.A.C.	No financial charges.	Credit assignments and onlendings.
TUK	No financial charges.	Credit assignments and onlendings.

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7 Investments

	OCI (i)	MTD (ii)	Constructora Norberto Odebrecht Uruguay S.A.	OOGS	OMSI (v)	TUK (iv)	CNMI (vi)	Total
At December 31, 2001	4,617,877	199,413,417	1,160,466	16,099,371	21,227,475	6,007,963		248,526,569
Capital reduction	(3,097,920)							(3,097,920)
Capital increase					4,674,000	49,295,378	24,571,097	78,540,475
Dividend					(12,537,076)			(12,537,076)
Sale of MTD		(147,491,801)						(147,491,801)
Reversal of proposed dividends		3,104,677						3,104,677
Share of net income (losses)	(644,188)	(55,026,293)	(462,268)	(6,152,006)	449,714	(6,680,243)	(70,400)	(68,585,684)
At December 31, 2002	875,769		698,198	9,947,365	13,814,113	48,623,098	24,500,697	98,459,240
Capital increase	8,315,000							8,315,000
Capital increase of OOGS with the investment in TUK (iii)				45,462,872		(45,462,872)		
Capital increase of OMSI with the investment in CNMI (vi)					37,880,743		(37,880,743)	
Capital distribution (i)	(1,172)							(1,172)
Share of net income (losses)	87,350		(389,255)	(1,523,238)	3,099,553	(3,160,226)	13,380,046	11,494,230
At December 31, 2003	9,276,947		308,943	53,886,999	54,794,409			118,267,298
Percentage holding (%) 2003	22.00		95.00	100.00	93.48			
Percentage holding (%) 2002	22.13	40.17	95.00	100.00	93.48	100.00		

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- (i) OCI operates primarily in civil construction works in the United States of America.

In June 2003, the Company and CNO increased the capital of OCI by US\$ 37,793,795, (US\$ 29,478,795 - CNO, US\$ 8,315,000 - the Company). Due to this capital increase, the percentage holding of the Company in OCI changed from 22.13% to 22%. Due to the aforementioned change in the Company's ownership percentage in OCI, and since this was a common control transaction, the Company recorded a capital distribution of US\$ 1,172.
- (ii) On September 19, 2002, the Company sold to Belgrávia (20.12%) and to CBPO Engenharia Ltda. (20.05%), both companies of the Odebrecht Organization, its investment in MTD, at book value.
- (iii) In June 2003, the Company increased the capital of its investee OOGS by contributing its participation in TUK at the book value of US\$ 45,462,872. This transaction was made to consolidate the Company's operations in the United Kingdom in one holding company.
- (iv) At December 27, 2002, the Company acquired from Tenenge Overseas Corporation 100% of the capital of TUK for US\$ 46,066,848, which was equivalent to the book value and was paid with long-term receivables from related parties. At the time of acquisition, Tenenge Overseas Corporation was a wholly owned subsidiary of Odebrecht S.A.
- (v) On November 29, 2002, CNO increased the Company's capital by US\$ 10,142,868, through the issuance of 2,130 new shares of US\$ 1 each plus a premium of US\$ 4,761 on each share issued (US\$ 2,130 of capital and US\$ 10,140,738 of additional paid-in capital), by assigning 75% of its investment in OMSI at book value.
- (vi) On November 28, 2003, CNO increased the Company's capital by US\$ 40,522,832, through the issuance of 40,522,832 new shares of US\$ 1 each by assigning its investment in CNMI, a company founded on November 13, 2002, at book value. Later on, at the same date, the Company increased the capital of its investee OMSI by contributing its participation in CNMI at its book value.

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- (vii) Since the acquisition of the investments in CNMI, the increase of the participation in OMSI with the investment in CNMI and the capital distribution originated from OCI in 2003, and the acquisition of the investments TUK and OMSI during 2002 were recorded in a manner similar to a uniting of interests (see Note 2 (b)), the financial statements of the Company for the year in which the acquisitions occurred and for the comparative year disclosed include the balances of these investments and their activity during these years as if they had been acquired from the beginning of the earliest period presented (2002). The difference between the transaction amount and the underlying book value of the net assets was recorded as an increase or decrease in stockholders' equity, in the account Additional paid-in capital. Below follows a reconciliation between the amounts presented in the Statement of Changes in Stockholders' Equity as Capital contribution (distribution) resulting from transactions with related companies and the aforementioned amounts.

Description	Capital contribution (distribution) resulting from transactions with related companies	
	2003	2002
Amount paid on OMSI acquisition at November 29, 2002		(10,142,885)
Amount paid on TUK acquisition at November 29, 2002		(46,066,848)
Capital increased by OMSI's former stockholder		4,674,000
Capital increased by TUK's former stockholder		49,295,378
Dividends received by OMSI's former stockholder		(12,537,076)
Capital increased by CNMI's former stockholder		24,571,097
Complement of the balance of the investment in OMSI at December 31, 2001 (from 75% to 93.48%)		4,196,446
Amount paid in CNMI acquisition at November 28, 2003	(40,522,832)	
Capital distribution originated from the change of ownership percentage in OCI	(1,172)	
	<u>(40,524,004)</u>	<u>13,990,112</u>

- (viii) The financial statements of the main subsidiary/associated companies, which formed the basis for the calculation of the equity in the earnings of subsidiary and associated companies at December 31, 2003 and 2002, were audited by our independent accountants, except for the investees Sociedade de Desenvolvimento Mineiro de Angola S.A.R.L. (indirect jointly-controlled company of CNMI), Constructora Odebrecht Uruguay S.A. and North Sea Production Company and Constructora Akal B y L, S. de R.L. de C. V. (indirect jointly-controlled companies of OOGS), which were audited by other independent accountants.

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8 Debt

	Currency	2003			2002		
		Principal plus interest	Interest rates	Financial expenses and foreign exchange loss	Principal plus interest	Interest rates	Financial expenses and foreign exchange loss
Lloyds TSB Bank PLC	€US\$	48,392,376	5.825% to 6.475% p.a.	10,987,555	44,856,136	6.475% p.a.	1,169,694
Short-term Note Program (i)	€US\$	54,712,424	12% to 12.5% p.a.	9,119,514	9,784,453	25.6270% to 27.2097% p.a.	4,939,850
Guaranteed Euro Notes (ii)	€		9.75% p.a.	6,368,777	35,184,580	9.75% p.a.	4,399,477
Guaranteed Euro Notes (iii)	US\$	103,000,000	12% p.a.	3,000,000			
Banco Espirito Santo S.A.	US\$		5.601% p.a.	419,362	8,385,428	5.601% p.a.	89,831
Others	US\$	4,345,058	3.5% to 10.5% p.a.	189,064			1,743,718
		<u>210,449,858</u>		<u>30,084,272</u>	<u>98,210,597</u>		<u>12,342,570</u>
Current liabilities		<u>110,449,858</u>			<u>98,210,597</u>		
Long-term liabilities (ii)		<u>100,000,000</u>					

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- (i) During the first half of 2003, the Company raised funds in the international financial market, in the form of Eurobonds in a short-term program, falling due in March 2004. This transaction is guaranteed by CNO.
- (ii) On December 27, 2001, the Company issued notes in the international financial markets of € 42,779,000 (from a total limit amount of € 50,000,000), in the form of "Guaranteed Euro Notes", which fell due and were paid on June 2003. The notes were guaranteed by CNO, its subsidiary Bento Pedroso Construções S.A ("BPC") and Odebrecht S.A.
- (iii) At September 30, 2003, the Company issued in the international financial market US\$ 100,000,000 of "Guaranteed Euro Notes", which will fall due in March 2005 and are guaranteed by CNO. Part of these notes (US\$ 17,420,00) were issued in exchange for Eurobonds originally issued by CNO in October 1997, which had put and call options on the exercise date of October 24, 2003 (see below). The Company paid the outstanding interest owe these Eurobonds, in the amount of US\$ 774,866.

At October 24, 2003, the Company acquired the remaining Eurobonds issued by CNO from the holders, due to the option to anticipate redemption of these bonds, in the nominal amount of US\$ 57,580,000 with a discount of approximately US\$ 281,000. The Eurobonds from CNO, classified as non-current assets-held for trading, are measured at their fair value, which is based on the present value of the estimated future cash flow.

- (v) The other debts are guaranteed by other Odebrecht organization companies or by other financial institutions with wich the Company trades.
- (vi) Below follows a comparison between accounting balances and fair value related to the debts presented in the table above. Fair value estimates for these debts are calculated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

	2003			2002		
	Accounting balances	Fair value	Difference	Accounting balances	Fair value	Difference
Lloyds TSB Bank PLC	48,392,376	48,829,301	(436,925)	44,856,136	44,841,871	14,265
Short-term Note Program	54,712,424	57,163,489	(2,451,065)	9,784,453	9,727,120	57,333
Banco Espirito Santo S.A.				8,385,428	8,385,428	
Guaranteed Euro Notes	103,000,000	110,131,813	(7,131,813)	35,184,580	35,290,717	(106,137)
Others	4,345,058	4,345,058				
	<u>210,449,858</u>	<u>220,469,661</u>	<u>(10,019,803)</u>	<u>98,210,597</u>	<u>98,245,136</u>	<u>(34,539)</u>

- (vii) The most relevant debt instruments of the Company contain some covenants, which the Company is complying with.

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9 Stockholders' equity

Capital consists of 165,213,212 (2002 -124,690,380) shares with a par value of US\$ 1 each. The Company's authorized capital consists of 200,000,000 shares.

In November, 2002 the Company decided to capitalize additional paid-in-capital, in an aggregate amount of US\$ 124,678,250, by issuing 124,678,250 common shares, each with a par value of US\$ 1. All such additional common shares were issued proportionally to each of the Company's current stockholders.

On July 17, 2002, the Company issued 200 new shares of US\$ 1 each plus a premium of US\$ 199,999 on each share issued, totaling a capitalization of US\$ 40,000,000 (US\$ 200 of capital and US\$ 39,999,800 of additional paid-in capital). These shares were fully subscribed and paid up by CNO, using funds available.

See in Notes 7 (vi) and (vii) details related to the the Company's capital contribution in the amount of US\$ 40,522,832 and the Company's capital distribution resulting from transactions with related companies in the amount of US\$ 40,524,004, both occurred in 2003.

10 Costs and general and administrative expenses by nature

	<u>2003</u>	<u>2002</u>
Cost of services rendered		
Staff costs	(3,536,367)	(3,714,705)
Materials used	(1,912,736)	(2,474,638)
Equipment costs	(3,273,434)	(3,969,790)
Services contracted	(1,645,226)	(3,403,650)
Administrative costs	(14,827,814)	(7,349,352)
	<u>(25,195,577)</u>	<u>(20,912,135)</u>
General and administrative expenses		
Management remuneration	(1,263,660)	(701,107)
Services contracted	(517,145)	(605,786)
Materials used	(573,833)	(111,550)
Depreciation		(247,577)
Other	(1,437,842)	(760,900)
	<u>(3,792,480)</u>	<u>(2,426,920)</u>

The Company has 55 employeres at December 31, 2003 (2002 – 48).

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11 Loss on the sale of airplane

On April 20, 2000, the Company acquired a Canadair Challenger model 601-3A airplane, at book value, from Tenenge Overseas Corporation, for the amount of US\$ 7,427,302. During 2002, the related depreciation charge recorded was US\$ 247,577. On April 22, 2002, the airplane was sold to third parties, and the Company recorded a loss of US\$ 1,441,842 on this transaction. Depreciation was calculated on the straight-line method to write off the cost of the asset to its residual values over its estimated useful life, which corresponded to 10 years.

12 Financial income (expenses), net

	<u>2003</u>	<u>2002</u>
Related party transactions	(8,779,306)	(4,144,888)
Financial income from marketable securities		
from related parties	4,253,494	2,682,214
Fair value measurement of marketable securities		
from related parties	4,820,511	179,286
Foreign exchange gain (loss) from related party transactions	(10,871,832)	22,408,884
Foreign exchange gain from marketable securities		
from related parties	5,569,681	5,775,918
Financial income from U.S. Treasury Bills trading (see below)	31,770,869	
Results of forward transactions	8,233,637	6,080,245
Fair value measurement of forward transactions	(206,935)	
Bank commissions	(2,243,156)	(2,552,844)
Financial expenses and foreign exchange loss on debt	(30,084,272)	(12,342,570)
Interest on liability for investment purchase		(8,385,595)
Other financial income (expenses)	2,995,581	879,254
	<u>5,458,272</u>	<u>10,579,904</u>

From May to December 2003, the Company acquired US\$ 53,088,553 U.S. Treasury Bills, and exchanged these securities for Venezuelan government "Bonos de Deuda Publica" (Public Debt Bonds), denominated in Venezuelan Bolivares ("Bs") and traded in the U.S. financial market, in the net amount of Bs 135,775,074,623. These bonds were subsequently sold in the Venezuelan financial market by the Venezuelan branch of CNO on behalf of the Company, on which a gain of US\$ 31,770,869 was generated, due to the fixed exchange rate established by the Venezuelan government (of Bs 1,600.00:US\$1.00). The funds in Venezuelan Bolivares resulting from the sale of these bonds, in the Venezuelan financial market, were used by the Venezuelan branch of CNO, generating an intercompany current account receivable from this CNO's branch, which was subsequently settled with the current account maintained in US\$ with CNO.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

13 Financial Instruments

(a) Credit and price risk

The main receivables of the Company are from other Odebrecht Organization companies, which have low credit risk. Regarding its receivables from the services rendered in Angola, there is no history of losses. All the contracts in which the Company is engaged are cost-plus contracts, which have minimal price risk, as revenues are adjusted as construction costs increase. (c) Foreign exchange risk

Although the Company's main activities are held in Angola, its operations in this country are traded in U.S. dollars, reducing its exposure to currency exchange variation. The only financial assets which are not measured in U.S. dollars are the marketable securities (denominated in Euro - see Note 6), certain long-term receivables from related parties (denominated in Brazilian reais and in Pounds Sterling - see Note 6) and the investments in subsidiary and associated companies (except OCI and OMSI – see Note 6). The Company also has significant financial liabilities in Euros (see Note 8). In addition, the Company had some financial transactions during 2003 denominated in Venezuelan bolivares, as mentioned in Note 12. The foreign exchange exposure policy is determined and conducted on a corporate basis by its indirect parent company CNO.

(b) Interest rate risk

In order to reduce the Odebrecht Engineering and Construction segment companies' exposure to high interest rates in certain markets where these companies are engaged, the Company is the segment's vehicle for raising funds in the international market, where lower interest rates are available. The Company's debts are all fixed interest rate debts, obtained basically in the European financial market, where the fixed rates are lower than the rates practiced in the countries where the Odebrecht Organization companies operates.

(c) Financial derivatives

It has not been Company practice to utilize financial derivatives, except for the interest rate (Euro versus U.S.dollar) forward agreements presented in the balance sheet, which generated the gain presented in Note 12, for which the fair value is determined using forward exchange rates at the balance sheet date.

The Company's policy is not to utilise derivatives for speculative purposes. Management may enter into certain derivative transactions in order to provide economic hedge. Management do not apply hedge accounting, although certain transactions may qualify for hedge accounting under the specific rules in IAS 39.

Odebrecht Overseas Ltd.

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in U.S. dollars unless otherwise indicated

14 Subsequent Event

The Company issued in February, 2004 US\$ 150,000,000 of Medium-Term Notes in the European and North-American financial market, subject to interest of 11.50% p.a. and falling due in up to five years, guaranteed by CNO.

* * *

Construtora Norberto Odebrecht S.A. and Subsidiaries

Balance Sheet at June 30

Unaudited

In thousands of reais and of U.S. dollars

Assets	2005		2004	Liabilities and stockholders' equity	2005		2004
	US\$	R\$	R\$		US\$	R\$	R\$
Current assets				Current liabilities			
Cash	65,840	154,750	244,798	Loans	90,707	213,198	539,759
Financial investments	151,416	355,889	762,655	Suppliers and subcontractors	351,339	825,788	1,029,064
Marketable securities	222,497	522,956	10,410	Taxes, salaries and payroll charges	134,207	315,439	262,562
Trade accounts receivable	561,098	1,318,805	1,545,955	Advances from customers	113,359	266,440	247,547
Advances to suppliers, subcontractors and others	81,751	192,147	64,751	Current accounts with consortium members	6,131	14,410	16,815
Investments and properties for sale	64,052	150,547	271,793	Other accounts payable	27,950	65,694	87,865
Deferred income tax and social contribution on net income	28,096	66,037	62,445		<u>723,693</u>	<u>1,700,969</u>	<u>2,183,612</u>
Taxes recoverable	45,450	106,826	145,682	Long-term liabilities			
Inventories of parts and materials	156,069	366,825	307,737	Odebrecht Organization companies	2,387	5,610	5,605
Current accounts with consortium members	15,155	35,621	119,806	Loans	408,365	959,821	1,252,161
Other accounts receivable	26,988	63,432	45,551	Advances from customers	306,706	720,882	499,946
Prepaid expenses	11,929	28,038	85,629	Deferred income tax and social contribution on net income	81,707	192,044	177,003
	<u>1,430,341</u>	<u>3,361,873</u>	<u>3,667,212</u>	Suppliers and subcontractors	10,714	25,183	38,731
Long-term receivables				Provision for tax, labor and civil claims	47,216	110,976	92,519
Odebrecht Organization companies	129,983	305,512	368,452	Provision for loss on investments	6,905	16,230	13,666
Marketable securities			186,450	Other accounts payable	12,281	28,865	67,904
Trade accounts receivable	298,584	701,792	684,893		<u>876,281</u>	<u>2,059,611</u>	<u>2,147,535</u>
Investments and properties for sale	21,724	51,060	5,319	Minority interest	519	1,219	1,237
Deferred income tax and social contribution on net income	89,632	210,672	215,017	Stockholders' equity			
Taxes recoverable	14,981	35,211	36,231	Capital	560,976	1,318,518	1,255,267
Other accounts receivable	30,663	72,068	32,700	Revenue reserves	91,874	215,942	171,863
	<u>585,567</u>	<u>1,376,315</u>	<u>1,529,062</u>	Retained earnings	22,937	53,910	102,138
Permanent assets					<u>675,787</u>	<u>1,588,370</u>	<u>1,529,268</u>
Investments				Total liabilities and stockholders' equity	<u>2,276,280</u>	<u>5,350,169</u>	<u>5,861,652</u>
Associated companies	15,370	36,126	4,363				
Other	47,190	110,916	97,414				
Property, plant and equipment	171,551	403,214	506,999				
Deferred charges	26,261	61,725	56,602				
	<u>260,372</u>	<u>611,981</u>	<u>665,378</u>				
Total assets	<u>2,276,280</u>	<u>5,350,169</u>	<u>5,861,652</u>				

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

Construtora Norberto Odebrecht S.A. and Subsidiaries

Statement of Income Six-month Periods Ended June 30 Unaudited In thousands of reais and of U.S. dollars

	<u>US\$</u>	<u>2005 R\$</u>	<u>2004 R\$</u>
Gross service revenues			
Domestic market	284,047	667,623	506,503
Foreign market	908,005	2,134,175	2,323,557
	<u>1,192,052</u>	<u>2,801,798</u>	<u>2,830,060</u>
Taxes and contributions on services	(19,460)	(45,738)	(46,333)
Net service revenues	1,172,592	2,756,060	2,783,727
Cost of services rendered	<u>(1,014,341)</u>	<u>(2,384,107)</u>	<u>(2,418,455)</u>
Gross profit	158,251	371,953	365,272
Operating income (expenses)			
General and administrative	(87,895)	(206,588)	(193,205)
Directors' fees	(3,898)	(9,161)	(7,822)
Financial income (expenses), net	(20,451)	(48,068)	16,733
From investments in subsidiaries and associated companies			
Equity in the earnings (losses)	(393)	(923)	(25,855)
Provision for loss on investments	<u>(34)</u>	<u>(81)</u>	<u>(6,316)</u>
Operating profit	45,580	107,132	148,807
Non-operating income (expenses), net	<u>(1,006)</u>	<u>(2,365)</u>	<u>(1,045)</u>
Profit before social contribution on net income and income tax	44,574	104,767	147,762
Social contribution on net income	(322)	(758)	7,512
Brazilian income tax	1,025	2,410	(19,182)
Foreign income tax	<u>(22,225)</u>	<u>(52,238)</u>	<u>(34,342)</u>
Net income before minority interest	23,052	54,181	101,750
Minority interest	<u>(115)</u>	<u>(271)</u>	<u>388</u>
Net income for the six-month period	<u><u>22,937</u></u>	<u><u>53,910</u></u>	<u><u>102,138</u></u>

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

Construtora Norberto Odebrecht S.A.

Statement of Changes in Stockholders' Equity

Unaudited

In thousands of reais

	<u>Revenue reserves</u>				<u>Total</u>
	<u>Capital (*)</u>	<u>Legal</u>	<u>For investments (statutory)</u>	<u>Retained earnings</u>	
At December 31, 2003	1,255,267	57,832	114,031		1,427,130
Net income for the six-month period				102,138	102,138
At June 30, 2004	<u>1,255,267</u>	<u>57,832</u>	<u>114,031</u>	<u>102,138</u>	<u>1,529,268</u>
At December 31, 2004	1,797,995	72,890	143,052		2,013,937
Net income for the six-month period				53,910	53,910
At June 30, 2005	<u>1,797,995</u>	<u>72,890</u>	<u>143,052</u>	<u>53,910</u>	<u>2,067,847</u>

(*) See Note 11 (a)

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

Construtora Norberto Odebrecht S.A.

Statement of Changes in Stockholders' Equity

Unaudited

In thousands of U.S. dollars

	<u>Revenue reserves</u>				<u>Total</u>
	<u>Capital (*)</u>	<u>Legal</u>	<u>For investments (statutory)</u>	<u>Retained earnings</u>	
At December 31, 2004	764,974	31,012	60,862		856,848
Net income for the six-month period				22,937	22,937
At June 30, 2005	<u>764,974</u>	<u>31,012</u>	<u>60,862</u>	<u>22,937</u>	<u>879,785</u>

(*) See Note 11 (a)

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

Construtora Norberto Odebrecht S.A. and Subsidiaries

Statement of Changes in Financial Position Six-month Periods Ended June 30 Unaudited

In thousands of reais and of U.S. dollars

	2005		2004
	US\$	R\$	R\$
Financial resources were provided by:			
Operations			
Net income for the six-month period	22,937	53,910	102,138
Expenses (income) not affecting working capital:			
Deferred income tax and social contribution on net income	(703)	(1,652)	11,670
Investments in associated companies			
Equity in the earnings (loss) of associated companies in permanent assets	(133)	(313)	10,348
Provision for loss on investments	34	81	6,316
Adjustments to long-term contracts	(215)	(505)	(69,075)
Depreciation and amortization	26,684	62,719	59,086
Residual value of permanent asset disposals	3,318	7,799	67,374
Interest and monetary variations on long-term receivables and liabilities, net	(23,924)	(56,230)	28,832
Minority interest	115	271	(388)
	<u>28,113</u>	<u>66,080</u>	<u>216,301</u>
Odebrecht Organization companies	52,859	124,240	
Third parties			
Increase in long-term liabilities	12,984	30,516	1,003,749
Transfers from long-term receivables and permanent assets to current assets	18,659	43,856	4,991
	<u>31,643</u>	<u>74,372</u>	<u>1,008,740</u>
Total funds provided	<u>112,615</u>	<u>264,692</u>	<u>1,225,041</u>

Construtora Norberto Odebrecht S.A. and Subsidiaries

Statement of Changes in Financial Position Six-month Periods Ended June 30 Unaudited

In thousands of reais and of U.S. dollars

(continued)

	<u>US\$</u>	<u>2005 R\$</u>	<u>2004 R\$</u>
Financial resources were used for:			
Odebrecht Organization companies			53,741
Long-term receivables	17,178	40,376	206,598
Permanent assets			
Investments	5,441	12,788	39,944
Property, plant and equipment	36,044	84,717	63,206
Deferred charges	11,744	27,604	26,370
Transfer from long-term liabilities to current	75,093	176,502	610,444
Working capital of companies included in and/or excluded from the consolidation, net			24,175
Total funds used	<u>145,500</u>	<u>341,987</u>	<u>1,024,478</u>
Increase (decrease) in working capital	<u>(32,885)</u>	<u>(77,295)</u>	<u>200,563</u>
Changes in working capital			
Current assets			
At the end of the six-month period	1,430,341	3,361,873	3,667,212
At the beginning of the six-month period	<u>1,440,257</u>	<u>3,385,180</u>	<u>2,862,263</u>
	<u>(9,916)</u>	<u>(23,307)</u>	<u>804,949</u>
Current liabilities			
At the end of the six-month period	723,693	1,700,969	2,183,612
At the beginning of the six-month period	<u>700,724</u>	<u>1,646,981</u>	<u>1,579,226</u>
	<u>22,969</u>	<u>53,988</u>	<u>604,386</u>
Increase (decrease) in working capital	<u>(32,885)</u>	<u>(77,295)</u>	<u>200,563</u>

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

Construtora Norberto Odebrecht S.A. and Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

1 Operations

The main operations of Construtora Norberto Odebrecht S.A. ("the Company"), an Odebrecht Organization company with legal headquarters in the State of Rio de Janeiro and administrative headquarters in the State of São Paulo, include mainly the planning and construction of engineering projects of all types as contractor, administrator or other roles. Other operations of the Company include civil engineering technical installations, industrial assembly, consulting, planning, technical assistance and studies, rendering of administrative or technical services, urban and rural real estate ventures, investments in other companies, for the purpose of greater development, stability and profitability, and other related economic activities, including import and export, and the rental, purchase and sale of equipment and transportation.

Through its branches, the Company operates in Venezuela, Angola, Ecuador, Dominican Republic, Colombia, Mexico, United Arab Emirates, Bolivia, Argentina and Costa Rica. In addition to the countries above, the Company also operates through its direct and indirect subsidiaries in Portugal, United States, Iraq, Peru, Djibouti, England, Chile and Uruguay.

In the heavy civil construction segment, the Company and its main direct subsidiary, CBPO Engenharia Ltda. ("CBPO"), develop construction projects involving highways, railways, nuclear, hydroelectric and thermoelectric plants, port installations, dams, and other industrial and infrastructure projects.

The main projects currently in progress in Brazil are: Irapé Hydroelectric Plant, Peixe Hydroelectric Plant, Fazenda Alegre Treating Plant, PRA-1 Platform, Lines 2 and 4 of the São Paulo Subway, Ipanema Subway in Rio de Janeiro, and several contracts to render services in petroleum platforms. The main foreign projects are located in Venezuela (lines 3 and 4 of the Caracas subway, El Diluvio irrigation project and bridge over the Orinoco river), the United States (Performance Art Center – PAC and the Miami Airport Terminal), Portugal (highway concessions), Dominican Republic (aqueduct and Pinalito Hydroelectric Plant), Ecuador (San Francisco hydroelectric plant), Angola (hydroelectric plant and infrastructure), and Argentina (expansion in gas pipeline).

To close and perform contracts in Brazil and abroad, the Company operates with surety bonds, obtained with the support of OCS - Odebrecht Administradora e Corretora de Seguros Ltda., an Odebrecht Organization company, through strategic long-term alliances with first-rate insurance companies and brokers in the global insurance market. At June 30, 2005, contractual guarantees issued amounted to US\$ 946,867 (R\$ 2,225,516) and, at June 30, 2004, to US\$ 948,651 (R\$ 2,947,933).

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

(i) Operations in Venezuela

In 2005, 19% (2004 - 23%) of net service revenues recorded in the Company's consolidated financial statements arise from operations in Venezuela.

On January 21, 2003, the free trading of foreign currencies was suspended in Venezuela and, on February 5, 2003, the Venezuelan Central Bank and the Ministry of Finance implemented Exchange Agreement No. 1, which established a new system for the management of foreign currency to be adopted in the country as a consequence of the exchange policy agreed between the Executive Authority and the Central Bank. Also, as from February 2003, the exchange rate was fixed and has been Bs 2,144:US\$ 1 (purchase) and Bs 2,150:US\$ 1 (sale) since March 2005. This change in the official exchange rate in 2005 resulted in a gain of approximately R\$ 26,396 - US\$ 11,230 for the Venezuelan branch, which concentrates most of its operations in that country.

(ii) Participation in the diamond sector

Through its subsidiaries, the Company also conducts mineral prospecting and exploration. Its wholly-owned indirect subsidiary Odebrecht Mining Services, Inc. ("OMSI") holds 16.4% of Sociedade Mineira de Catoca, Limitada ("Catoca"), which conducts prospecting, exploration, treatment and trade of diamonds and other minerals in the Catoca Project in the Lunda Sul Province of Angola. Catoca has a concession from the Angolan Government to exploit diamonds mined from the Catoca kimberlite area, and also holds 50% of Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L. ("SDM"), which conducts prospecting, exploration and trade of diamonds extracted in a concession area granted by the Angolan Government in the Hydrographic Basin of the Cuango River (Angola).

(iii) Reorganization of the corporate structure

Since 2003, the Company and its subsidiaries have transferred certain investments within the corporate structure in order to optimize the organizational structure of the Engineering and Construction segment of the Odebrecht Organization and to concentrate the current accounts in the Company as the current account manager and sole manager of the group cash balances. The corporate reorganization process will be completed by the end of 2005.

The following transfers occurred in 2004 and 2005 within the scope of this reorganization:

- On April 7, 2004, the Company acquired from third parties all of the shares in PPSPE Empreendimentos e Participações S.A. (currently Odebrecht Engenharia e Construção Investimentos S.A. ("OECI")).
- On December 30, 2004, the wholly-owned subsidiary Odebrecht Engenharia e Construção S.A. ("OEC") was formed.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

- On December 31, 2004, the Company acquired from third parties all of the shares in TENSPE Empreendimentos e Participações S.A. (currently Odebrecht Engenharia e Construção Participações S.A. ("OECF")).

Also, on December 31, 2004, the capital of the Company was increased by the parent company Odebrecht S.A. and the subsidiary OEC Investimentos, as shown in Note 11(a).

- On April 30, 2005, OECI sold to OECF 11,140,088 common shares, representing 100% of the total capital of Belgravia Empreendimentos Imobiliários Ltda. ("Belgravia"), at the net book asset value of R\$ 342,864 – US\$ 145,875 on March 31, 2005.
- On June 29, 2005, the Company increased the capital of the subsidiary OECF by R\$ 150,000 – US\$ 63,819, through capitalization of a receivable from this subsidiary, of R\$ 120,031 – US\$ 51,068, and transfer of its investment in OEC, at the book value of R\$ 29,969 – US\$ 12,751 at May 31, 2005.
- On July 22, 2005, the parent company made a partial spin-off of its assets as of June 30, 2005 in the net amount of R\$ 50 – US\$ 21, relating to the investment in Centaurus Participações S.A. ("Centaurus"), amounting to R\$ 35,448 – US\$ 15,081, as well as a current account balance with the Company, amounting to R\$ 35,398 – US\$ 15,060, were spun off. The spun off portion was immediately accounted for as a Company capital increase;
- On July 29, 2005, the Company made a capital contribution to "Centaurus", in the amount of R\$ 5,048 – US\$ 2,148, representing the book balance of its investment in OECF as of June 30, 2005.

(iv) Equalization of the financial position

During 2003 and the first half of 2004, the Company and its subsidiaries transferred certain investments within the Corporate structure and carried out certain debt assumption transactions with other companies of the Odebrecht Organization in order to strengthen the financial position and downsize the organizational structure of the Odebrecht Organization Engineering and Construction segment. This process is still under study and development.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

The improvement in the Brazilian economic scenario and the consequent decrease in the risks associated with Brazil starting in the second half of 2003 allowed the Company to obtain long-term loans in the international financial market at interest rates significantly lower than those charged up to that date. In this context, the Company and its subsidiaries obtained various long-term funds in 2004, which permitted them to pay or prepay short-term, higher cost bank transactions, as well as to create a substantial reserve of funds to guarantee future payments of short-term maturities.

In this respect, the Medium-Term Notes issued in February, September and October 2004 (Note 8 (ii) (a)) by the indirect subsidiary Odebrecht Overseas Ltd. ("OOL") and the funds obtained by the indirect subsidiary OSEL - Odebrecht Serviços no Exterior Ltd. ("OSEL") (Note 8 (ii) (c)) are designed to lengthen the debt maturity profile, matching it with the cash generation.

In July 2004, Standard & Poors ("S&P") improved the Company's corporate credit rating in the Brazil National Scale, from "BrBBB+" to "BrA-". Shortly thereafter, following the upgrade of the sovereign Brazil rating, the Company's rating in the Global Scale (foreign currency) changed from "B+" to "BB-". In June 2005, S&P upgraded the national scale risk prospects from stable to positive.

2 Significant Accounting Practices

The financial statements of the Company and its subsidiaries were prepared and are presented in accordance with accounting practices adopted in Brazil.

The preparation of financial statements requires the utilization of estimates to record certain assets, liabilities and other transactions. Accordingly, the financial statements include various estimates relating to the selection of the economic useful lives of property, plant and equipment, measurement of services provided under long-term contracts, provisions for contingent liabilities, determination of provisions for income tax and other matters. Although these estimates have been made with the highest accuracy possible, they may differ from actual data and amounts.

(a) Determination of net income

Net income is determined on the accrual basis of accounting.

Construtora Norberto Odebrecht S.A. and Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

(b) Construction contracts

Revenues from construction contracts are recognized taking into consideration the progress of each contract at the balance sheet date. The method used to determine progress considers the ratio between costs incurred to date and total budgeted costs per contract. When revenues from certain contracts cannot be measured reliably under this method, the Company and its subsidiaries take into consideration the physical measurements of the work executed.

(c) Current assets and long-term receivables

Financial investments and marketable securities are stated at cost plus accrued income up to the balance sheet date, and mainly comprise shares in fixed interest funds and bank deposit certificates from foreign financial institutions.

The allowance for doubtful accounts is established at an amount considered sufficient by management after analyzing the operations and taking into consideration the economic scenarios of the countries, past experience, specific portfolio risks and negotiations in progress, as well as administrative or judicial collection proceedings.

Inventories of parts and materials to be used for construction work and for sales are stated at average purchase cost, lower than replacement cost or net realizable value.

Properties and plant and equipment not used in operations, as well as investments for sale, are recorded in current assets and long-term receivables based on management's expectations regarding the timing of the sale of these assets and the current stage of the negotiations.

Other assets are stated at cost or realizable value including, when applicable, accrued income and monetary variations or, in the case of prepaid expenses, at cost.

(d) Permanent assets

Permanent assets are stated at cost plus restatements up to December 31, 1995, and take into consideration the following aspects:

- . Investments in associated companies are recorded on the equity method of accounting. Provisions for loss on investments with net capital deficiency for which the Company intends to maintain its financial support are recorded in long-term liabilities. Other investments are stated at cost.
- . Depreciation of property, plant and equipment is recorded on the straight-line method at the rates mentioned in Note 7, which take into consideration the economic useful lives of the assets.

Construtora Norberto Odebrecht S.A. and Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

- . Deferred contract costs incurred prior to contract acceptance and in the same year that the contracts were accepted are amortized over the period of the execution of the projects. Deferred charges relating to the development of software are amortized over five years.

(e) Current and long-term liabilities

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

(f) Taxes on income

Income tax and social contribution on net income are calculated at the rates established by the applicable legislation. The expense for income tax and social contribution is recorded on the accrual basis of accounting, including deferred taxes calculated on differences between the accounting and tax bases of assets and liabilities, including the effects of deferrals of unrealized revenues from contracts with government entities, as permitted by tax legislation, and on unrealized exchange variations on assets and liabilities, as well as on tax and social contribution losses.

(g) Consolidated financial statements

The consolidated financial statements were prepared in conformity with accounting practices adopted in Brazil and comprise the financial statements of the Company and the following subsidiaries in which direct and indirect holdings are maintained:

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and of U.S. dollars unless otherwise indicated

	Country	Direct and indirect holding (%)	
		2005	2004
Belgrávia Empreendimentos Imobiliários S.A.	Brazil	100.00	100.00
Bento Pedroso Construções S.A.	Portugal	100.00	100.00
CBPO Engenharia Ltda.	Brazil	100.00	100.00
CBPO Overseas Ltd.	Cayman Islands	100.00	100.00
Constructora Norberto Odebrecht de Colombia Ltda.	Colombia	100.00	100.00
Constructora Norberto Odebrecht del Ecuador S.A.	Ecuador	100.00	100.00
Concessionária Transvase Olmos S.A. (*)	Peru	100.00	
CBPO Ingeniería de Venezuela C.A.	Venezuela	100.00	100.00
Constructora Odebrecht Chile S.A.	Chile	100.00	100.00
Constructora Odebrecht Uruguay S.A.	Uruguay	100.00	100.00
Lumina Engenharia Ambiental Ltda. (*)	Brazil	100.00	100.00
Energipar Captação S.A.	Brazil	100.00	100.00
Multitrade S.A.	Brazil	99.99	99.99
Odebrecht Angola Projectos e Serviços Ltda.	Angola	100.00	100.00
Odebrecht Automação e Participações Ltda. (***)	Brazil		100.00
Odebrecht Construction International, Inc.	US	100.00	100.00
Odebrecht Construction, Inc.	US	100.00	100.00
Odebrecht Djibouti SAZF	Djibouti	100.00	100.00
Odebrecht Empreendimentos Imobiliários Ltda.	Brazil	100.00	100.00
Odebrecht Engenharia e Construção S.A. (*)	Brazil	100.00	
Odebrecht Mining Services, Inc.	Cayman Islands	100.00	100.00
Odebrecht Oil Services Ltd.	Cayman Islands	100.00	100.00
Odebrecht Oil and Gas Services Ltd.	United Kingdom	100.00	100.00
Odebrecht Oil and Gas Angola Ltd.	Angola	100.00	100.00
Odebrecht Oil and Gas México, S.R.I. de CV	Mexico	100.00	100.00
Odebrecht Overseas Ltd.	Bahamas	100.00	100.00
Odebrecht Peru Ingeniería y Construcción S.A.C.	Peru	100.00	100.00
OSEL - Odebrecht Serviços no Exterior Ltd.	Cayman Islands	100.00	100.00
Odebrecht Engenharia e Construção Investimentos S.A. (**)	Brazil	100.00	
Odebrecht Engenharia e Construção Participações S.A. (**)	Brazil	100.00	
Dominicana Ingeniería y Construcción S.A.	Dominican Republic	100.00	
<u>Proportionally consolidated companies</u>			
Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L.	Angola	50.00	50.00
Sociedade Mineira de Catoca Ltda.	Angola	16.40	16.40

(*) Companies formed in 2004.

(**) Companies acquired in 2004.

(***) Company merged into Belgrávia.

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Investments in subsidiaries and the balances of intercompany assets, liabilities, income and expenses are eliminated on consolidation. Minority interests in stockholders' equity and in net income for the period are presented separately. The asset, liability, income and expense accounts of jointly-owned subsidiaries are consolidated in proportion to the total ownership of their capital.

The financial statements of the foreign subsidiaries and branches were translated (i) from local currency into U.S. dollars, when applicable (high-inflation countries without proper instruments for accounting recognition of inflationary effects), based on the official exchange rates on the date of the financial statements or on the date of the transactions, depending on the nature of the accounting component involved (monetary or not), and subsequently converted into Brazilian reais at the official rate of the U.S. dollar on the date of the financial statements, or (ii) from local currency into Brazilian reais based on the official exchange rate on the date of the financial statements, when the subsidiary is not based in a high-inflation country, or when, if the case, appropriate instruments for accounting recognition of inflationary effects exist in accordance with the requirements of Pronouncement XVIII – Foreign Corporate Investments of the Institute of Independent Auditors of Brazil (IBRACON).

Based on the Company's intention to sell and the advanced stage of negotiations regarding the sale of Tenenge (UK) Holdings Ltd. ("TUK"), Participações Energéticas S.A. ("PESA") and Produtores Energéticos de Manso S.A. - PROMAN ("PROMAN"), the Company did not consolidate the assets and liabilities of these subsidiaries in the consolidated financial statements at June 30, 2005 and 2004. The amounts of these investments were reclassified to current assets (TUK – R\$ 78,750 - US\$ 33,505 (2004 – R\$ 136,708), PESA – R\$ 600 – US\$ 255 (2004 – R\$ 600) and PROMAN – provision for loss of R\$ 764 – US\$ 325 (2004 – (R\$ 764)), based on management's estimates of the timing of the sales of these investments. The equity accounting adjustment for the six-month period ended June 30, 2005 on the investments classified as current assets was a loss of R\$ 10,899 - US\$ 4,637 (2004 – R\$ 15,503). Management does not expect any losses on the realization of these assets.

(h) Basis of translation

The accounting records are maintained in Brazilian reais. The financial information in U.S. dollars is presented solely for the convenience of the reader and has been translated from the amounts in the June 30, 2005 local currency financial statements at the exchange rate prevailing on that date of R\$ 2.3504: US\$ 1.00. Such translation should not be construed as representing that the amounts in reais represent, or have been, or could be, converted into U.S. dollars at that or at any other rate.

Had the Company's transactions been measured directly in U.S. dollars at exchange rates ruling on the dates that the transactions were carried out, significantly different results and trends would have been presented.

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3 Trade Accounts Receivable

	US\$	2005 R\$	2004 R\$
Public sector			
Federal	220,218	517,600	458,401
State	222,939	523,995	791,355
Municipal	41,210	96,861	140,119
	484,367	1,138,456	1,389,875
Private sector	375,315	882,141	840,973
	859,682	2,020,597	2,230,848
Less: Current assets	561,098	1,318,805	1,545,955
Long-term receivables	298,584	701,792	684,893

As part of the policy to mitigate performance risks in emerging countries, the Company requires advances from customers before starting a project (down payment). Such advances are usually deducted from each invoice through the end of the contract.

The balances of trade accounts receivable were determined taking into consideration the contractual terms, specific portfolio risks and negotiations in progress, including collection by administrative and judicial means, in order to receive amounts due for services rendered, including financial charges. Furthermore, taking into consideration the history of minimal losses that the Company and its subsidiaries have experienced, management does not expect losses on realization of such receivables and believes that, as a result of these actions, the recognition of amounts in addition to those recorded may occur when sufficient evidence exists to support a reasonable expectation that these amounts will be received. Trade accounts receivable include R\$ 540,090 – US\$ 229,786 (2004 – R\$ 531,217) of overdue receivables under judicial collection, on which favorable judgments have been received, and R\$ 85,754 - US\$ 36,485 (2004 - R\$ 325,189) of overdue receivables which the Company is attempting to collect through administrative actions with the debtors.

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4 Taxes Recoverable

	2005		2004
	US\$	R\$	R\$
Current assets			
FINSOCIAL recoverable	5,469	12,854	17,457
Social contributions receivable	1,732	4,070	4,428
Withholding income tax and social contribution on net income on earnings from financial investments and invoicing	19,297	45,356	24,386
Credit for income tax paid by foreign branches and subsidiaries	2,197	5,165	45,393
Prepaid income tax at foreign branches and subsidiaries	8,353	19,633	11,062
Tax on added value at foreign branches	3,201	7,524	27,306
Other taxes recoverable	5,201	12,224	15,650
	<u>45,450</u>	<u>106,826</u>	<u>145,682</u>
Long-term receivables			
FINSOCIAL recoverable	11,641	27,362	27,651
Social contributions recoverable	2,092	4,916	6,381
Other taxes recoverable	1,248	2,933	2,199
	<u>14,981</u>	<u>35,211</u>	<u>36,231</u>

5 Odebrecht Organization Companies

	Long-term receivables	Long-term liabilities	Financial income (expenses), net
CBPO Malaysia SDN BHD	12,435		(1,606)
Centaurus Participações S.A.	65,450		
Odebrecht S.A.	227,344		8,598
Arwen S.A.		1,583	(205)
Participações Energéticas S.A.		4,010	
Other	283	17	
Total - 2005 - R\$	<u>305,512</u>	<u>5,610</u>	<u>6,787</u>
Total - 2005 - US\$	<u>129,983</u>	<u>2,387</u>	<u>2,888</u>
Total - 2004 - R\$	<u>368,452</u>	<u>5,605</u>	<u>17,443</u>

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The main balances with Odebrecht Organization companies are ruled by a “Current account and single cash management agreement”, entered into by all Odebrecht Organization companies, which has no defined period and has the following characteristics:

<u>Company</u>	<u>Financial charges</u>	<u>Nature of the transactions</u>
Odebrecht S.A.	Reference Unit – Long-term Interest Rate (“UR-TJLP”)	Transfer of funds, credit assignments and debt assumptions
Centaurus Participações S.A.	None	Credit assignments

6 Investments

- (i) The account “Other investments” is substantially represented by the interest held by the indirect subsidiary Bento Pedroso Construções S.A., headquartered in Portugal, in a highway concession operator.
- (ii) At the end of 2003, the partners of the indirect subsidiary SDM approved and appointed a new General Manager. The new management is negotiating with the Angolan Government the concession of new areas for exploration, which are essential in order to extend the useful lives of the exploration activities. In February 2004, an agreement was signed for an association related to the prospecting, research and recognition of new diamond mines, referred to as the Muanga Project. In the research and recognition phase, investments were estimated at US\$ 7,000 and are supported by SDM. At June 30, 2005, the investment in SDM amounts to R\$ 62,107 - US\$ 26,424 (2004 – R\$ 94,959), recorded in the financial statements of the subsidiary OMSI. The Company’s management understands that the activities of the subsidiary will continue at their normal levels of operation.
- (iii) The financial statements of the main subsidiary and associated companies that were used as a basis for the consolidated financial statements or equity accounting at June 30, 2005 and 2004 were reviewed by our independent accountants.

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7 Property, Plant and Equipment

	2005		2004		%	
	Cost	Accumulated depreciation	Net	Net		Annual depreciation rate
	R\$	R\$	US\$	R\$		
Land	9,984		4,248	9,984	12,283	
Buildings and installations	87,158	(26,356)	25,869	60,802	68,651	4
Machinery and equipment	494,808	(287,723)	88,106	207,085	254,012	10 to 20
Vehicles and ships	106,029	(73,616)	13,790	32,413	85,019	25
Furniture and fixtures	67,228	(37,758)	12,538	29,470	23,788	10
Other	81,876	(18,416)	27,001	63,460	63,246	0 to 10
	<u>847,083</u>	<u>(443,869)</u>	<u>171,551</u>	<u>403,214</u>	<u>506,999</u>	

Leased vehicles/equipment

The Company and its subsidiaries use vehicles, machinery and equipment leased under irrevocable contracts, which have three to five years terms. The operating expenses and costs of services incurred under the leasing contracts amount to R\$ 20,661 – US\$ 8,790 (2004 – R\$ 15,306). The commitments assumed under these contracts amount to R\$ 27,039 – US\$ 11,504 (2004 – R\$ 57,689), of which R\$ 16,142 – US\$ 6,868 (2004 – R\$ 49,482) are long-term obligations.

Had the leasing agreements been recorded as financed asset purchases (capital leases), they would represent additional assets with a residual value of R\$ 46,558 - US\$ 19,809 (2004 – R\$ 52,217), and with related depreciation expense for the six-month period ended June 30, 2005 of R\$ 8,731 – US\$ 3,715 (2004 – R\$ 7,257).

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8 Loans

Financial institution/type of loans	Currency	Financial charges	2005		2004
			US\$		R\$
Unibanco S.A. (ii) (e)	U.S. dollar	Libor + 2% p.a. + EV	11,006	25,868	
Banco Santander S.A. (ii) (e)	U.S. dollar	Libor + 2% p.a. + EV	11,006	25,868	
Banco Bradesco S.A. (ii) (e)	U.S. dollar	Libor + 2% p.a. + EV	11,006	25,868	
International Finance Corporation - Tranche B3 (i)	Real	CDI + 2.5% p.a.	6,568	15,437	19,670
International Finance Corporation - Tranches A, B1, B2 e C (i)	U.S. dollar	Libor + 2.75% to 5% p.a. + EV	76,662	180,187	279,825
International Finance Corporation (i)	U.S. dollar	Libor + 3.5% p.a. + EV	25,351	59,584	77,837
Medium-Term Note Programme (ii) (a)	U.S. dollar	11.5% p.a. + EV	171,589	403,302	484,737
Eurobond (ii) (b)	U.S. dollar	12% p.a. + EV			304,060
Medium-Term Note Programme EURO (ii) (a)	Euro	7.44% to 7.445% p.a. + EV	81,205	190,865	
BCP Investimento S.A.	Euro	3.63% p.a. to 3.9% p.a. + EV	30,825	72,450	100,891
Credit Suisse First Boston (ii) (c)	U.S. dollar	8.5% to 9.57% p.a. + EV	20,230	47,549	250,488
IKB Deutsche Bank	U.S. dollar	Libor + 0.95% p.a. + EV	17,612	41,396	25,985
Orix Trade Capital	U.S. dollar	7.5% p.a. + EV			62,373
Unibanco S.A.	U.S. dollar	Libor + 4.25% p.a. + EV			62,428
ABC Brasil e Bradesco Luxembourg (ii) (d)	U.S. dollar	7.5% p.a. + EV	10,031	23,577	
Banco ABN - Pichincha, Banco del Pacifico e Banco Popular Internacional (Equador)	U.S. dollar	8% p.a. + EV	13,405	31,506	43,877
Banco Africano de Investimento	U.S. dollar	9.5% p.a. + EV	946	2,223	
Caterpillar Financial	U.S. dollar	Libor + 3.75% to 4% p.a. + EV	2,522	5,927	9,587
BNL Bank, ABN Amro Bank e Usbancorp	U.S. dollar	3.5% p.a. + EV			15,692
Banco de Crédito del Perú S.A.	U.S. dollar	5.25% p.a. + EV	2,580	6,065	
Banco Totta de Angola S.A.R.L.	U.S. dollar	7% p.a.	1,640	3,855	
Banco Fomento de Angola S.A.R.L.	U.S. dollar	Libor + 4% to 7% p.a.	2,584	6,073	
Several financial institutions in Brazil	Real	CDI + 0.35% to 17.73% p.a.	2,304	5,419	10,384
Other					44,086
Total			499,072	1,173,019	1,791,920
		Less: long-term	408,365	959,821	1,252,161
		Current liabilities	90,707	213,198	539,759

Abbreviations used:

LIBOR	London Interbank Offered Rate
CDI	Interbank Deposit Certificates
EV	Exchange variation

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(i) International Finance Corporation

On June 21, 2002, the Company signed with the International Finance Corporation (“IFC”) an agreement to refinance certain existing obligations. The refinancing package, in the total amount of US\$ 280,000, includes four tranches, two of which (A and C) were financed with IFC resources, totaling US\$ 80,000. The third tranche (B1 and B2) was syndicated with other foreign institutions in the amount of US\$ 165,000, and the fourth tranche (B3) was syndicated with Brazilian financial institutions, in reais in an amount equivalent to US\$ 35,000. These tranches have maturities varying from four to ten years.

During the term of this transaction, certain events resulted in prepayments of part of the loan: (a) the receipt of the net amount from the sale of the subsidiary Lusoponte – Concessionária to Travessia do Rio Tejo S.A., of US\$ 32,648 (equivalent to R\$ 115,355 at that time), (b) the receipt of dividends from the subsidiary Catoca in July 2002, of US\$ 2,224 (equivalent to R\$ 7,858 at that time) and in November 2003, of US\$ 6,564 (equivalent to R\$ 18,838 at that time), (c) the receipt of certain overdue accounts receivable in October 2003, of R\$ 19,578, and (d) the receipt in June 2004 of a loan, for which the Company’s investment in the indirect subsidiary Catoca had been given as a guarantee, of US\$ 60,000 (equivalent to R\$ 188,658 at that time). Up to June 2005, the payments due in January and July 2003, January and July 2004, and January 2005, in addition to the payment falling due in July 2005, of tranches B1, B2 and B3, had been made.

On June 3, 2004, due to the prepayment made (see item (d) above), the original repayment dates of this transaction were rescheduled, with maturities being extended by one year, on average.

The balance of the loans at June 30, 2005 is summarized as follows:

Tranche	Financial agent	Financial charges	Currency	Balance (US\$)	Balance (R\$)	Maturity	Number of semi-annual installments
A	IFC	Libor + 5% p.a.	US\$	29,538	69,427	01/2006 to 07/2011	12
B1	Foreign institutions	Libor + 4.5% p.a.	US\$	27,064	63,611	07/2005 to 01/2007	4
B2	Foreign institutions	Libor + 4.875% p.a.	US\$	5,906	13,881	07/2005 to 01/2009	8
B3	Brazilian institutions	CDI + 2.5% p.a.	R\$	6,568	15,437	07/2005 to 01/2007	4
C	IFC	Libor + 2.75% p.a.	US\$	20,249	47,594	07/2012	1
				<u>89,325</u>	<u>209,950</u>		

In the balance sheet, the balance payable to IFC is shown net of the “Debt Service Reserve Account”, as defined in the loan agreement, which is an amount deposited by the Company with specific banks to guarantee the payment of the next installment due by the Company as required by the terms of the loan agreement, totaling R\$ 14,326 – US\$ 6,095 (2004 – R\$ 28,185).

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Due to the rescheduling and the prepayment made in June 2004, mentioned above, the Company obtained a new credit line from IFC of US\$ 25,000, which was drawn down on June 17, 2004. This loan is subject to exchange variation plus interest of LIBOR + 3.5% p.a., to be repaid in 11 semi-annual installments as from July 2006. At June 30, 2005, the outstanding amount of this transaction totals US\$ 25,351 (R\$ 59,584).

(ii) Additional information

- (a) On February 25 and September 29, 2004, OOL raised the amounts of US\$ 150,000 and US\$ 15,000 in the international financial market in Medium-Term Notes, falling due in February 2009. These notes are guaranteed by the Company. At June 30, 2005, the balance of these transactions, plus accrued interest, amounts to R\$ 403,302 - US\$ 171,589. On June 29, 2004, OOL issued a further US\$ 60,000 which were fully acquired by the subsidiary OSEL and are held in treasury. The amount has been eliminated in the consolidated financial statements. The total of this program is US\$ 500,000 (R\$ 1,175,200).

Also under this program, on October 4, 2004, OOL raised €65,000 thousand in the international financial market, maturing in October 2007. The balance of this transaction at June 30, 2005, plus accrued interest, amounts to €66,067 thousand (equivalent to R\$ 188,019 - US\$ 79,994), which, adding the amount of euro/U.S. dollar swap contract, is R\$ 190,865 - US\$ 81,205.

- (b) On September 30, 2003, OOL raised US\$ 100,000 in the international financial market in Eurobonds, repaid on March 29, 2005 for the equivalent in reais of R\$ 286,529.
- (c) On June 30, 2004, OSEL assigned to Credit Suisse First Boston the equivalent of US\$ 20,225 of the notes issued by OOL on June 29, 2004 (see item (a) above), with a repurchase option on June 29, 2007. The balance of this transaction, plus accrued interest, amounts to US\$ 20,230 (R\$ 47,549) at June 30, 2005.
- (d) In March and June 2004, OOL obtained loans from international financial market institutions in the amounts of US\$ 5,000 (R\$ 11,752), due in June 2006, and US\$ 5,000 (R\$ 11,752), due in December 2005. These transactions are guaranteed by the Company. At June 30, 2005, the balance, plus accrued interest, was US\$ 10,031 (R\$ 23,577).
- (e) On April 15, 2005, OOL signed a Revolving Credit Facility Agreement with international financial market institutions in the total amount of US\$ 100,000, maturing in April 2006. These transactions are guaranteed by the Company and the balance, plus accrued interest, amounts to US\$ 33,018 (R\$ 77,604) at June 30, 2005.

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(iii) Analysis of the long-term debt per year of maturity

	2005		2004
	US\$		R\$
2005			150,527
2006	17,436	40,982	119,120
2007	132,332	311,032	339,146
2008	14,357	33,744	70,914
2009	215,560	506,653	572,454
2010 onwards	28,680	67,410	
	408,365	959,821	1,252,161

9 Provisions for Tax, Labor and Civil Claims

- (i)** The Company has provisions of R\$ 42,169 – US\$ 17,941 (2004 – R\$ 23,527) in current liabilities and R\$ 56,996 – US\$ 24,249 (2004 – R\$ 40,923) in long-term liabilities to cover (i) legal indemnity expenditures related to dismissals of employees, which is usual and inherent to its line of activity; the provision is based on the history of similar monthly disbursements, and (ii) labor, tax and civil claims which have little chance of favorable outcome, according to management and external legal counsel, totaling R\$ 25,379 - US\$ 10,798 (2004 – R\$ 13,577). In addition, the Company is defending labor, civil and tax claims of approximately R\$ 100,000 – US\$ 42,546 (2004 – R\$ 88,000), for which no provision for loss has been recorded because management and external legal counsel believe that no significant losses therefrom are probable.
- (ii)** The Company and its subsidiary CBPO have an injunction which grants them the right not to pay the Social Contribution on Revenues (COFINS) on other income (that is, other than on billings) and the right not to pay the increase of 1% in the COFINS rate on billings, based on the provisions of Law 9,718/98. When Law 10,833/03 was enacted, the Company and CBPO started to regularly pay COFINS as from February 2004. In addition, the subsidiary CBPO was granted an injunction giving them the right not to pay the Social Integration Program Contribution (PIS) on other income, based on the provisions of Law 9,718/98 (upon enactment of Law 10,637/02, this subsidiary started to pay PIS as from January 2003). The unpaid amounts are recorded monthly in this account and updated for the related interest and arrears charges until the Company and the subsidiary are awarded favorable final rulings. At June 30, 2005, they amount to R\$ 53,980 – US\$ 22,966.

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- (iii) During 2003 to 2005, the Company's branch in Ecuador was inspected by the Internal Revenue Service (local equivalent to the Brazilian Federal Revenue Secretariat) relating to income tax returns filed from 1999 to 2002. As a result of these inspections, the Ecuadorian tax authorities assessed this branch additional amounts in relation to income tax and tax on added value, of approximately US\$ 4,117 (R\$ 9,677) and US\$ 577 (R\$ 1,356), respectively (not including interest, arrears fines and other potential charges). Management, considering that there are sufficient grounds for a favorable outcome, and based on the opinion of its external legal counsel, did not record a provision to cover potential losses arising from this matter.

10 Income Tax and Social Contribution on Net Income

(a) Analysis of the effects on income – reversal (expense)

	2005		2004
	US\$	R\$	R\$
Deferred social contribution on net income	(857)	(2,016)	1,681
Current social contribution on net income	535	1,258	5,831
Total social contribution on net income	<u>(322)</u>	<u>(758)</u>	<u>7,512</u>
Deferred income tax	(462)	(1,086)	(35,380)
Current income tax	1,487	3,496	16,198
Foreign income tax	<u>(22,225)</u>	<u>(52,238)</u>	<u>(34,342)</u>
Total income tax	<u>(21,200)</u>	<u>(49,828)</u>	<u>(53,524)</u>

(b) Balances of deferred income tax and social contribution on net income

The deferred tax asset balances relate to income tax and social contribution losses, and temporary additions, mainly in the Company and its indirect subsidiary CBPO. The liability balances relate to income tax and social contribution on unrealized profits on sales to government entities and unrealized exchange gains, mainly in the Company and its indirect subsidiary CBPO.

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The analysis of the deferred income tax and social contribution accounts at June 30, 2005 is as follows:

(i) Income tax

				2005	2004
	On temporary differences	On deferred profits and exchange gains	Accumulated tax losses	Total	Total
In R\$					
Current assets	48,556			48,556	45,916
Long-term receivables	37,490		113,203	150,693	139,903
Long-term liabilities	(9,872)	(126,363)	(1,104)	(137,339)	(135,309)
In US\$					
Current assets	20,659			20,659	
Long-term receivables	15,950		48,163	64,113	
Long-term liabilities	(4,200)	(53,762)	(470)	(58,432)	

(ii) Social contribution

				2005	2004
	On temporary differences	On deferred profits and exchange gains	Accumulated tax losses	Total	Total
In R\$					
Current assets	17,481			17,481	16,529
Long-term receivables	9,841		50,138	59,979	75,114
Long-term liabilities		(52,682)	(2,023)	(54,705)	(41,694)
In US\$					
Current assets	7,437			7,437	
Long-term receivables	4,187		21,332	25,519	
Long-term liabilities		(22,414)	(861)	(23,275)	

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements at

June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(c) Recoverability of recorded deferred tax assets

The Company has based the recoverability of the net asset balances of deferred income tax and social contribution on the profit forecasts for the next three years. This forecast includes, as basic assumptions, the increase in the order backlog (portfolio of revenues already held by the Company) in 2004, the gains to be earned from the disposal of assets not pertaining to the Engineering and Construction business, the increased investment in Brazil's electric power and infrastructure sectors, and the increased participation of the Company in real estate ventures, as well as the recognition, for tax purposes, of the operating results of foreign subsidiaries as from December 2002. Also, the Company, together with its main subsidiary operating in Brazil, CBPO, has recorded taxable income in three of the last five years.

The forecast used to support the balances of the net deferred tax assets considers the realization of R\$ 66,037 – US\$ 28,096 in the 2005 tax year as a result profits to be earned in that year. The Company estimates the realization of the deferred tax assets recorded in long-term receivables over a maximum term of three years, up to 2007.

(d) Foreign income tax

The income tax expense incurred abroad is represented primarily by the taxes generated by the Company's branches in Venezuela (R\$ 21,433 – US\$ 9,119), Angola (R\$ 4,152 – US\$ 1,767) and Ecuador (R\$ 6,131 – US\$ 2,608) and by the subsidiaries SDM (R\$ 3,268 – US\$ 1,390), Catoca (R\$ 8,997 – US\$ 3,828) and BPC (R\$ 8,116 – US\$ 3,453).

11 Stockholders' Equity

(a) Capital

At June 30, 2005, the Company's capital, entirely subscribed and paid up by Brazilian individuals and corporations, comprise 202,837,829 (2004 – 191,838,638) common and 147,382,173 (2004 – 64,001,942) preferred shares, with no par value.

On December 31, 2004, within the context of the reorganization mentioned in Note 1(iii), the Extraordinary General Meeting of stockholders approved a capital increase of the Company by its parent company Odebrecht S.A., through the use of an investment at book value, stated at cost, of R\$ 63,251, and by the subsidiary OEI, through transfer, by merger, of the split-off portion of the stockholders' equity of the subsidiary Belgravia, represented by current accounts with subsidiaries in the amount of R\$ 479,477. This latter capital increase was eliminated in the consolidated financial statements since it resulted in a cross shareholding. The cross shareholding will be eliminated during 2005.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements at June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(b) Share rights

Preferred shares, which are non-voting, have priority in the event of capital reimbursement on liquidation and, based on Law 10,303/01, the preferred and common shares have the same rights to the receipt of dividends. All stockholders are assured an annual dividend of at least 25% of the adjusted net income for the year, calculated in accordance with Brazilian corporate legislation.

(c) Appropriation of net income

According to the Company's by-laws, appropriations are made to revenue reserves as described below. The utilization of the remaining balance after these appropriations and distribution of dividends will be decided at the Annual General Meeting.

(i) Legal reserve

This reserve is established through the appropriation of 5% of net income of each year until the reserve equals 20% of total capital or until its balance, plus capital reserves, exceeds 30% of total capital.

(ii) Reserve for investments (statutory)

This reserve is established through the appropriation of up to 70% of net income for the year until, together with the legal reserve, it reaches 100% of total capital.

12 Insurance Coverage

The identification, mitigation, management of risks and contracting of insurance are handled in a consistent manner by the Company and its subsidiaries, and comply with the policies of the Odebrecht Organization. These standards are supported by OCS – Odebrecht Administradora e Corretora de Seguros Ltda., and its consultants, brokers and first-rate domestic and foreign partner insurance companies, to assure the contracting at adequate prices of the appropriate cover for each contract or venture, at amounts considered sufficient to cover possible damages. At June 30, 2005, insurance cover of the Company and its subsidiaries amounted to US\$ 4,286,711 (R\$ 10,075,486).

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements at

June 30, 2005 and 2004

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

13 Private Pension Plan

The Company and its subsidiaries have entered into an agreement with ODEPREV – Odebrecht Previdência, a private pension fund established by the parent company Odebrecht S.A., and are sponsoring companies. ODEPREV offers its participants, members of the sponsoring companies, the Optional Plan, a defined contribution plan in which monthly and periodic participant contributions and monthly and annual sponsor contributions are made to individual pension savings accounts.

Up to September 2003, in addition to the Optional Plan, ODEPREV offered the Basic Plan, in which life and disability risks were fully covered by the sponsoring companies annually determined by the Board of Trustees of ODEPREV, based on the Annual Cost Plan, prepared on an actuarial basis. On October 29, 2002, ODEPREV, as determined by the Board of Trustees, filed a request with the Supplementary Social Security Secretariat for the cancellation of the Basic Plan. This formal request was based on the decision to fully replace it by life insurance, to be contracted under the same conditions as the Plan. On October 1, 2003, through Notice No. 1.345/ DAJUR/ SPC, the cancellation of the Basic Plan was approved and the contributions to the plan were suspended.

In relation to the benefit payments established for the Optional Plan, the ODEPREV obligations are limited to the total value of the participants' quotas and, in conformity with the rules of the defined contribution plan, no obligations or responsibilities can be required from the sponsoring companies to guarantee minimum levels of benefits to the retired participants. The contributions for the six-month period ended June 30, 2005 totaled R\$ 5,575 – US\$ 2,372 (2004 – R\$ 4,491).

As the ODEPREV plan is a defined contribution plan, under which the risk of receiving benefits is the full responsibility of the participants, the Company's management has determined that the provisions of Accounting Standard NPC 26 of the Institute of Independent Auditors of Brazil (IBRACON), "Accounting for Benefits to Employees" are not applicable to such plan.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

14 Financial Instruments

(a) General considerations

The Company and its subsidiaries participate in transactions involving financial instruments for the purpose of managing the cash resources of their operations, as well as meeting possible cash needs and hedging against the effects of foreign exchange fluctuations on the consolidated exposure in foreign currency and interest rate fluctuations. These risks are managed through financial market mechanisms that minimize the exposure of the companies' assets and liabilities, protecting their equity.

(b) Market value

The principal financial instruments of the Company and its subsidiaries are trade accounts receivable, financial investments, marketable securities, suppliers, loans and long-term liabilities, mainly loan and current accounts with other Odebrecht Organization companies (Note 5).

The estimated discount on trade accounts receivable from government entities, calculated based on the difference between the contractual adjustments agreed with these entities and the average cost of loans contracted by the Company and its subsidiaries, amounts to R\$ 23,804 – US\$ 10,128 (2004 - R\$ 15,507) at June 30, 2005. Management understands that accounts receivable from government entities, with maturity dates over 90 days, are being financed by stockholder funds.

The market values of the other financial instruments of the Company and its subsidiaries approximate their book values at June 30, 2005 and 2004. The market values of these financial instruments were obtained by calculating their present values, taking into account current market interest rates for similar terms and risks. The principal investments held by the Company in its subsidiaries do not have market quotations.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(c) Credit risk

At June 30, 2005, the Company and its subsidiaries had overdue accounts receivable amounting to R\$ 625,843 – US\$ 266,271 (2004 - R\$ 856,406) for services rendered to government entities. Historically, the Company and its subsidiaries has received the amounts owed by these entities, including those overdue for one year or more. The receipt of these overdue amounts from government entities occur through payment or the receipt of government bonds or other government assets. As a way of mitigating these risks, the Company and its subsidiaries has applied a greater degree of selectivity when accepting customers, having increased the sales revenues from private customers or public sector customers which the Company considers have the capacity to generate revenues independently and do not rely on government budgets to pay their liabilities (mainly companies with both public and private shareholders) as is the case with government entities. In order to reduce the volume of overdue receivables, the Company and its subsidiaries have adopted a policy of decentralizing the negotiation from the administrative departments of the customers and delegating this responsibility to the administrative levels responsible for the monitoring of each contract. If these administrative actions are not successful, the collection of these amounts will occur through court actions.

At the same time, the Company adopted the policy of not restating the customers' overdue credits, keeping them at historical value. Thus, whenever the final agreement with the customers, or a favorable judicial decision, is made in the Higher Court, referring to these credits, the value of the restatement is allocated to the financial income for the period.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(d) Price risk

A significant number of the contracts in which the Company and its subsidiaries are engaged are fixed-price contracts. The actual profit margins on these contracts may differ from the margins estimated at the time the costs were budgeted and the contract price was proposed because of: significant unexpected increases in the costs of equipment, materials or labor to be used, relating to inflationary effects or other unexpected events; problems encountered by the customer to obtain the necessary financing of the contract or to obtain Government authorizations or approvals; project changes resulting in unexpected costs; and delays caused by bad weather or the non-performance of subcontractors and/or contracted suppliers. To minimize the price risk, the fixed-price contracts performed by the Company and its subsidiaries have their budgets periodically reviewed to identify inconsistencies between actual and budgeted costs. The Company and its subsidiaries follow a policy of discussing claims to increase contract prices through contract amendments to recover such differences, which are recorded upon the signature of the amendments.

The Company's gross margin relies on the composition of its contract portfolio at any given time. Contracts in emerging countries and those with higher risk usually require higher margins, while contracts in the United States and Europe usually present relatively lower margins.

(e) Transactions in foreign currency

The Company, through its branches, subsidiaries and associated companies, has operations in Angola, Argentina, Bahamas, Bolivia, Cayman Islands, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, England, Mexico, Peru, Portugal, United Arab Emirates, the United States, Uruguay and Venezuela, of which part is denominated in U.S. dollars, with little exposure to local currencies, restricted to certain specific countries. In addition, certain loans of the Company and its subsidiaries obtained abroad are denominated in foreign currencies, as mentioned in Note 8, as well as liabilities to suppliers and other balances with related parties, as mentioned in Note 5.

The exchange devaluation in 2004 in some of these countries, such as Venezuela and Angola, gave rise to exchange gains which increased the Company's financial income.

**Construtora Norberto Odebrecht S.A.
and its Subsidiaries**

**Notes to the Financial Statements at
June 30, 2005 and 2004**

Unaudited

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(f) Interest rate and currency swap contracts

At June 30, 2005, the nominal value of outstanding swap contracts amounts to R\$ 199,331 – US\$ 84,807 (2004 - R\$ 11,262), with an expense of R\$ 27,426 – US\$ 11,669 (2004 – R\$ 4,787).

(g) Other financial derivatives

The Company does not currently utilize financial derivatives other than the swap transactions mentioned above.

* * *

Report of Independent Auditors

To the Board of Directors and Stockholders
Construtora Norberto Odebrecht S.A.

- 1 We have audited the accompanying consolidated balance sheets of Construtora Norberto Odebrecht S.A. and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position of Construtora Norberto Odebrecht S.A. (parent company), 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 indirect investees: (a) as of December 31, 2003 of the wholly-owned indirect subsidiaries Sociedade de Desenvolvimento Mineiro S.A.R.L., Somague-Bento Pedroso-Cubiertas-Dragados, A.C.E. and BPC, CBPO, Somague, Profabril, Kaise and Acer, A.C.E., (b) as of December 31, 2004 and 2003 of the wholly-owned indirect subsidiaries Constructores Akal B y L, S. de R.L. de C.V. and North Sea Production Company and (c) as of December 31, 2004 of the wholly-owned indirect subsidiary Odebrecht Oil & Gás México, S.R.L. de CV, were conducted by other independent auditors, and our opinion, with regards to the amounts of these investments (provision for loss on investments) and profits (losses) produced by them, in the amounts of R\$ 14,597 thousand and R\$ 10,671 thousand during 2004 (2003 - R\$ 120,660 thousand and R\$ 27,452 thousand), respectively, are exclusively based 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 audits 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 audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Companies, (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.

Construtora Norberto Odebrecht S.A.

- 3 Based on our reviews and on the reports of the other independent auditors, in our opinion the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Construtora Norberto Odebrecht S.A. and its subsidiaries at December 31, 2004 and 2003 and the consolidated results of operations and of changes in financial position, as well as the changes in stockholders' equity of Construtora Norberto Odebrecht S.A. (parent company) for the years then ended, in accordance with accounting practices adopted in Brazil.
- 4 The Company is an integral part of the group of companies that form the Odebrecht Organization. They conduct material financial transactions with the Company's parent company and other Odebrecht organization companies, under the conditions described in Note 5 to the financial statements. Additionally, the Company continues to be involved in the equalization of its corporate structure, as described in Note 1 (iv).
- 5 The accompanying financial statements expressed in U.S. dollars give effect to the translation of the financial statements expressed in reais, on the basis described in Note 2(h). This translation should not be construed as representing that the amounts in reais actually represent or have been, or could be, converted into U.S. dollars.

Salvador, February 25, 2005

PricewaterhouseCoopers
Auditores Independentes

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Balance Sheets at December 31 In thousands of reais and thousands of U.S. dollars

Assets	2004		2003	Liabilities and stockholders' equity	2004		2003
	US\$	R\$	R\$		US\$	R\$	R\$
Current assets				Current liabilities			
Cash	66,701	177,051	312,162	Debts	155,233	412,050	508,229
Financial investments	229,009	607,882	258,554	Suppliers and subcontractors	238,877	634,075	565,578
Marketable securities	192,072	509,837	259,179	Taxes, rates, salaries and payroll charges	85,790	227,720	208,946
Trade accounts receivable	375,745	997,378	1,078,938	Management profit sharing	4,747	12,600	12,900
Advances to suppliers, subcontractors and others	97,726	259,404	50,955	Liabilities associated with tax disputes	12,746	33,834	23,225
Investments and properties for sale	80,939	214,845	273,880	Advances from customers	104,029	276,135	189,249
Deferred income tax and social contribution	24,878	66,037	62,445	Current accounts with consortium members	2,234	5,929	15,938
Taxes recoverable	33,345	88,512	139,801	Other accounts payable	16,817	44,638	55,161
Inventories of parts and materials	100,342	266,349	186,965		<u>620,473</u>	<u>1,646,981</u>	<u>1,579,226</u>
Current accounts with consortium members	16,683	44,283	99,263	Long-term liabilities			
Other accounts receivable	40,895	108,552	94,403	Odebrecht Organization companies	1,519	4,031	5,581
Prepaid expenses	16,974	45,050	45,718	Debts	437,965	1,162,534	844,256
	<u>1,275,309</u>	<u>3,385,180</u>	<u>2,862,263</u>	Advances from customers	290,385	770,799	576,596
Long-term receivables				Deferred income tax and social contribution	48,463	128,640	144,299
Odebrecht Organization companies	128,220	340,348	297,226	Suppliers and subcontractors	22,123	58,723	27,376
Trade accounts receivable	285,599	758,094	647,245	Liabilities associated with tax disputes	41,808	110,976	48,563
Investments and properties for sale	8,067	21,414	50,916	Provision for losses on investments	6,308	16,745	7,152
Deferred income tax and social contribution	52,988	140,652	198,391	Other accounts payable	1,775	4,712	54,186
Taxes recoverable	13,484	35,793	35,563		<u>850,346</u>	<u>2,257,160</u>	<u>1,708,009</u>
Other accounts receivable	24,759	65,721	31,192				
	<u>513,117</u>	<u>1,362,022</u>	<u>1,260,533</u>	Minority interests	<u>570</u>	<u>1,514</u>	<u>1,317</u>
Permanent assets				Stockholders' equity			
Investments				Capital	496,729	1,318,518	1,255,267
Associated companies	11,588	30,758	16,428	Revenue reserve	81,352	215,942	171,863
Other	72,976	193,707	57,167		<u>578,081</u>	<u>1,534,460</u>	<u>1,427,130</u>
Property and equipment	160,037	424,802	478,100				
Deferred charges	16,443	43,646	41,191				
	<u>261,044</u>	<u>692,913</u>	<u>592,886</u>				
Total assets	<u>2,049,470</u>	<u>5,440,115</u>	<u>4,715,682</u>	Total liabilities and stockholders' equity	<u>2,049,470</u>	<u>5,440,115</u>	<u>4,715,682</u>

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

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Statements of Income Years Ended December 31

In thousands of reais and thousands of U.S. dollars

	2004		2003
	US\$		R\$
Gross services revenue			
Domestic market	475,481	1,262,117	852,589
Foreign market	1,729,390	4,590,494	3,699,392
	<u>2,204,871</u>	<u>5,852,611</u>	<u>4,551,981</u>
Taxes and contributions on services	(36,891)	(97,924)	(43,271)
Net services revenue	2,167,980	5,754,687	4,508,710
Cost of services rendered	(1,906,036)	(5,059,383)	(3,843,749)
Gross profit	261,944	695,304	664,961
Operating income (expenses)			
General and administrative expense	(148,104)	(393,126)	(357,121)
Directors' remuneration expense	(4,780)	(12,689)	(12,986)
Financial income (expenses), net	76,439	202,902	(154,078)
From investments in subsidiaries and associated companies			
Equity in the results	(9,596)	(25,472)	2,036
Reversal (provision) for losses on investments	(4,200)	(11,149)	13,441
Operating profit	171,703	455,770	156,253
Non-operating results	7,442	19,754	45,737
Income before social contribution and income tax	179,145	475,524	201,990
Social contribution	(10,864)	(28,838)	(7,140)
Income tax	(50,030)	(132,800)	(18,943)
Income before management profit sharing and minority interest	118,251	313,886	175,907
Management profit sharing	(4,747)	(12,600)	(12,900)
Minority interest	(47)	(126)	(32)
Net income for the year	<u>113,457</u>	<u>301,160</u>	<u>162,975</u>

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

Construtora Norberto Odebrecht S.A.

Statements of Changes in Stockholders' Equity In thousands of reais, except net income per share

	<u>Revenue reserves</u>			<u>Retained earnings</u>	<u>Total</u>
	<u>Capital</u>	<u>Legal</u>	<u>Investments (statutory)</u>		
At December 31, 2002	1,255,267	49,683	169,403		1,474,353
Redemption of 276,609 common shares and 59,666 preferred shares from minority stockholders by the realization of revenue reserves			(1,984)		(1,984)
Extraordinary dividends on preferred shares - R\$ 0.654 per share			(167,417)		(167,417)
Net income for the year				162,975	162,975
Appropriation:					
Prepaid dividends - R\$ 0.159 per share				(40,797)	(40,797)
Constitution of reserves		8,149	114,029	(122,178)	
At December 31, 2003	1,255,267	57,832	114,031		1,427,130
Capital increase (Note 11 (a))	542,728				542,728
Extraordinary dividends - R\$ 0.445 per share			(114,030)		(114,030)
Net income for the year				301,160	301,160
Appropriation:					
Prepaid dividends - R\$ 0.408 per share				(143,051)	(143,051)
Constitution of reserves		15,058	143,051	(158,109)	
At December 31, 2004	<u>1,797,995</u>	<u>72,890</u>	<u>143,052</u>		<u>2,013,937</u>

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

Construtora Norberto Odebrecht S.A.

Statements of Changes in Stockholders' Equity

In thousands of U.S. dollars, except net income per share

	<u>Revenue reserves</u>			<u>Retained earnings</u>	<u>Total</u>
	<u>Capital</u>	<u>Legal</u>	<u>Investments (statutory)</u>		
At December 31, 2003	472,900	21,787	42,959		537,646
Capital increase (Note 11 (a))	204,464				204,464
Extraordinary dividends - US\$ 0.168 per share			(42,959)		(42,959)
Net income for the year				113,457	113,457
Appropriation:					
Prepaid dividends - US\$ 0.154 per share				(53,892)	(53,892)
Constitution of reserves		5,673	53,892	(59,565)	
At December 31, 2004	<u>677,364</u>	<u>27,460</u>	<u>53,892</u>		<u>758,716</u>

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

**Construtora Norberto Odebrecht S.A.
and its Subsidiaries**

**Statements of Changes in Financial Position
Years Ended December 31**

In thousands of reais and thousands of U.S. dollars

	<u>2004</u>	<u>2003</u>
	<u>US\$</u>	<u>R\$</u>
Financial resources provided by		
Operations		
Net income for the year	113,457	301,160
Expenses (income) not affecting working capital		
Deferred income tax and social contribution	60,895	161,638
Investments in associated companies		
Equity in the results of investments in associated companies	(1,403)	(3,723)
Equity in the results of investments classified as long-term receivables		(24,152)
Provision (reversal) for losses on investments	4,200	11,149
Decrease of construction contracts revenue (see Nota 2 (b))	81,507	216,353
Depreciation and amortization	46,603	123,702
Residual value of permanent asset disposals	105,838	280,937
Interest and monetary variations on long-term assets and liabilities, net	1,405	3,730
Minority interest	47	126
	<u>412,549</u>	<u>1,095,072</u>
Capital increase	23,829	63,251
Third parties		
Increase in long-term liabilities	501,069	1,330,038
Transfer from long-term receivables and permanent assets to current assets		139,943
	<u>501,069</u>	<u>1,330,038</u>
Total funds provided	<u>937,447</u>	<u>2,488,361</u>

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Statements of Changes in Financial Position Years Ended December 31

In thousands of reais and thousands of U.S. dollars

(continued)

	2004		2003
	US\$		R\$
Financial resources used for			
Odebrecht Organizational companies	181,871	482,758	156,296
Long-term receivables	97,728	259,410	18,635
Permanent assets			
Investments	86,748	230,264	43,236
Property and equipment	74,414	197,525	173,313
Deferred charges	27,030	71,748	13,183
Transfer from long-term to current liabilities	290,499	771,097	290,015
Redemption of shares			1,984
Net working capital of companies included in and/or excluded from consolidation, net	7,684	20,397	18,996
Total funds used	765,974	2,033,199	715,658
Increase in working capital	171,473	455,162	172,278
Changes in working capital			
Current assets			
At the end of the year	1,275,309	3,385,180	2,862,263
At the beginning of the year	1,078,309	2,862,263	2,455,003
	197,000	522,917	407,260
Current liabilities			
At the end of the year	620,473	1,646,981	1,579,226
At the beginning of the year	594,946	1,579,226	1,344,244
	25,527	67,755	234,982
Increase in working capital	171,473	455,162	172,278

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

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements December 31, 2004 and 2003

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

1 Operations

The main operations of Construtora Norberto Odebrecht S.A. ("the Company"), an Odebrecht Organization company, with legal headquarters in the State of Rio de Janeiro and administrative headquarters in the State of São Paulo, include mainly the planning and construction of engineering projects of all types as contractor, administrator or other roles. Other operations of the Company include civil engineering, technical installations, industrial assembly, consulting, planning, assistance, technical studies, rendering of administrative or technical services, urban and rural real estate ventures, investments in other companies for the purpose of greater development, stability and profitability, other related economic activities, including import and export and, finally, the rental, purchase and sale of equipment and transportation.

Through its branches, the Company, in addition to Brazil, operates in Venezuela, Angola, Ecuador, Dominican Republic, Colombia, Mexico, United Arab Emirates, Bolivia, Argentina and Costa Rica. In addition to the countries above, the Company operates through its direct and indirect subsidiaries in Portugal, United States, Iraq, Peru, Djibouti, England, Chile and Uruguay.

In the heavy civil construction segment, the Company and its main indirect subsidiary company, CBPO Engenharia Ltda. ("CBPO"), develop construction projects involving highways, railways, nuclear, hydroelectric and thermoelectric plants, port installations, dams, and other industrial and infrastructure projects.

The main projects currently in progress in Brazil are: Irapé Hydroelectric Plant, Peixe Hydroelectric Plant, Fazenda Alegre Treating Plant, PRA -1 Platform, Cidade Jardim Tunnel, Lines 2 and 4 of the São Paulo Subway, Ipanema Subway in Rio de Janeiro and several contracts rendering services in petroleum platforms. The main foreign projects are located in Venezuela (lines 3 and 4 of Caracas subway, El Diluvio irrigation project and the bridge over Orinoco river), the United States (Performance Art Center – PAC and the Terminal of the Miami Airport), Portugal (highway concessions), Dominican Republic (drain and Pinalito Hydroelectric Plant), Ecuador (San Francisco hydroelectric plant) and Angola (hydroelectric plants and infrastructure).

The Company and its subsidiaries mainly operate with surety bonds to obtain and perform contracts in Brazil and abroad. The Company is supported by OCS - Odebrecht Administradora e Corretora de Seguros Ltda., an Odebrecht Organization company, through strategic long-term alliances with first line insurance companies and brokers in the global insurance market. At December 31, 2004, the amounts of contractual guarantees issued was R\$ 2,847,850 – US\$ 1,072,879 (2003 - R\$ 2,536,085 – US\$ 877,781).

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(i) Merger of Odebrecht Serviços de Óleo e Gás Ltda.

On May 28, 2004, the Extraordinary General Meeting approved the merger of the Company's direct subsidiary Odebrecht Serviços de Óleo e Gás Ltda. ("OSOG") into the company, using the net equity at April 30, 2004. The net assets merged into CNO were:

	US\$	R\$		US\$	R\$
Current assets	12	31	Current liabilities	1,875	4,976
Long-term receivables	112,616	298,929	Long-term liabilities	39,494	104,833
Permanent assets	1,154	3,063	Net assets merged	72,413	192,214
Total	<u>113,782</u>	<u>302,023</u>	Total	<u>113,782</u>	<u>302,023</u>

(ii) Operations in Venezuela

In 2004, 23% (2003 - 23%) of net service revenues recorded in the Company's consolidated financial statements arise from operations in Venezuela.

On January 21, 2003, free trade of foreign currencies in Venezuela was suspended and, on February 5, 2003, the Venezuelan Central Bank and the Ministry of Finance issued the Exchange Accord No. 1, which established a new guideline for foreign currency management to be adopted by the country as a consequence of the exchange policy agreement between the Executive Power and the Central Bank. Additionally, beginning February 2003, the exchange rate was settled at a fixed rate, and the official quotation is currently Bs 1.916:US\$ 1.00 for purchases and Bs 1.920:US\$ 1.00 for sales, through February 2004. This change in the official exchange rate, made in 2004, generated for the Venezuelan branch, which concentrates most of its operations in this country, a gain of approximately R\$ 27,000 – US\$ 10,172.

(iii) Participation in the diamond sector

Through its subsidiaries, the Company also conducts mineral prospecting and exploration. Its wholly-owned subsidiary Odebrecht Mining Services, Inc. ("OMSI") holds 16.4% of the investee Sociedade Mineira de Catoca, Limitada ("Catoca"), which conducts prospecting, exploration, treatment and trade of diamonds and other minerals in the Catoca Project in the Lunda Sul Province of Angola. Catoca has a concession from the Angolan Government to exploit diamonds mined from the Catoca kimberlite area, and also holds 50% of Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L. ("SDM"), which conducts prospecting, exploration and trade of diamonds extracted in a concession area granted by the Angolan Government in the Hydrographic Basin of the Cuango River (Angola).

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With regard to the investment held in Catoca, due to new business strategies that arose during the first semester of 2004, the Company is no longer negotiating the sale of that investment and, therefore, started to consolidate it during 2004.

(iv) Equalization of the corporate structure

During 2003 and 2004, the Company and its subsidiaries transferred, within its corporate structure, certain equity interests in order to optimize the organizational structure of the Engineering and Construction segment of the Odebrecht Organization and to optimize the concentration of the current accounts of the Company. Expressed in the current contract is that the Company has sole management authority of the cash balances during the re-organization process, which will be completed by the end of 2005.

Within the scope of this restructure, the following transfers occurred in 2004:

- . On April 7, the Company acquired from third parties the total shares of PPSPE Empreendimentos e Participações S.A. (currently Odebrecht Engenharia e Construção Investimentos S.A. ("OEC Investimentos"));
- . On April 30, the Company acquired the total equity interest in OSOG including its subsidiaries Belgrávia and CBPO, with a book value of R\$ 171,178 – US\$ 64,488 and R\$ 20,286 – US\$ 7,642, respectively. Later, on May 28, OSOG was merged into the Company - see Note 1 (i);
- . In July, the Company formed the wholly-owned subsidiary Concessionária Transvase Olmos S.A., which is headquartered in Peru;
- . In December, the wholly-owned subsidiary Odebrecht Engenharia e Construção S.A. was formed;
- . On December 31, the Company acquired from third parties the total shares of TENSPE Empreendimentos e Participações S.A. (currently Odebrecht Engenharia e Construção Participações S.A. ("OEC Participações")).

Additionally, on December 31, the capital of the Company was increased by the parent company Odebrecht S.A. and by the subsidiary OEC Investimentos, as shown in Note 11(a).

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(v) Equalization of the financial position

The improvement in the Brazilian economic scenario and the consequent decrease in the risks associated with Brazil starting in the second semester of 2003 allowed the Company to obtain long-term credits in the international financial market and interest rates significantly lower than those practiced to that date. Within this context, the Company obtained various long-term funds in 2004, which permitted them to settle or prepay certain bank operations in the short term, as well as remit the creation of a substantial funds reserve that will guarantee future settlements of short-term maturities. Funds arising from significant receipts of advances and invoices were added to these funds during the last quarter of the year 2004, which is included in the balance of cash and financial investments as at December 31, 2004.

Eurobonds operations issued in September 2003 (Note 8 (ii) (b)) the Medium-Term Notes issued in February and September 2004 (Note 8 (ii) (a)) through its indirect subsidiary Odebrecht Overseas Ltd. ("OOL") and financial funding through its indirect subsidiaries OSEL - Odebrecht Serviços no Exterior Ltd. ("OSEL") and OOL (Notes 8 (ii) (d) and (e)), in an attempt to achieve longer maturities of their debts, including compatibility between terms and cash generation.

In July, the company obtained with Standard & Poor's, an increase in its corporate credit rating in the Brazil National Scale, from BrBBB+ to BrA-. A few days later, following the upgrade of the "sovereign Brazil rating", the Company's rating in the Global Scale (foreign currency), changed from B+ to BB-.

2 Significant Accounting Practices

The financial statements of the Company and its subsidiaries were prepared and are presented in accordance with accounting practices adopted in Brazil.

In the preparation of the financial statements, it is necessary to utilize estimates to record certain assets, liabilities and other transactions. Therefore, the financial statements include various estimates relating to the selection of economic useful lives for property and equipment, measurement of services provided under long-term contracts, provisions for contingent liabilities, determination of provisions for income tax and other matters. Although these estimates have been made with the highest precision possible, they may be different from the actual data and amounts.

(a) Determination of results of operations

Results are determined on the accrual basis of accounting.

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(b) Construction contracts

Revenues from contracts are recognized taking into consideration the progress of each contract at the balance sheet date. The method used to determine progress considers the ratio between costs incurred to date and total budgeted costs per contract. If the revenue of certain contracts cannot be measured reliably under this method, the Company and its subsidiaries take into consideration the physical measurements of the work executed.

(c) Current assets and long-term receivables

Financial investments and marketable securities are stated at cost, plus accrued income up to the balance sheet date. Long-term marketable securities refer to bank deposit certificates from foreign financial institutions.

The allowance for doubtful accounts is established at an amount considered adequate by management after analyzing the operations and taking into consideration the economic scenario, past experience, specific portfolio risks and negotiations in progress, as well as administrative or judicial collection processes.

Inventories of parts and materials to be used for work and for sales are stated at average historical cost, which is lower than replacement cost or realizable value.

Real properties and fixed assets not used in operations, as well as investments for sale, are stated within current assets and long-term receivables, based on management's expectations regarding the timing of the sale of these assets and the current stage of the negotiations.

Other assets are stated at realizable value including, where applicable, accrued income and monetary variations or, in the case of prepaid expenses, at cost.

(d) Permanent assets

Permanent assets are stated at cost plus restatements up to December 31, 1995, and take into consideration the following aspects:

- Investments in associated companies are recorded using the equity method. Provisions for losses on investments, of which, the Company intends to maintain its financial support, are recorded in long-term liabilities. Other investments are evaluated at cost.

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- Depreciation of property and equipment is recorded on the straight-line method at the rates mentioned in Note 7, which take into consideration the economic useful lives of the assets.
- Deferred contract costs that incurred prior to contract acceptance and in the same year that the contracts were accepted are amortized over the period of the execution of the projects. Deferred charges relating to the development of software are amortized over five years.

(e) Current and long-term liabilities

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

(f) Taxes on income

Income tax and social contribution on net income are calculated at the rates established by the applicable legislation. The expense for income tax and social contribution is recorded on the accrual basis, including deferred taxes calculated on differences between the accounting basis and tax basis of assets and liabilities, such as the effects of deferrals of unrealized revenues deriving from contracts with government entities, as permitted by tax legislation, on exchange variations corresponding to unrealized/settled assets and liabilities, as well as tax and social contribution losses.

(g) Consolidated financial statements

The consolidated financial statements were prepared in conformity with accounting practices adopted in Brazil and comprise the financial statements of the Company and its subsidiaries, in which the following direct and indirect holdings are maintained:

	Country	Direct and indirect holdings (%)	
		2004	2003
Belgrávia Empreendimentos Imobiliários S.A.	Brazil	100.00	100.00
Bento Pedroso Construções S.A.	Portugal	100.00	100.00
CBPO Engenharia Ltda.	Brazil	100.00	100.00
CBPO Overseas Ltd.	Cayman Islands	100.00	100.00
Constructora Norberto Odebrecht de Colombia Ltda.	Colombia	100.00	100.00
Constructora Norberto Odebrecht del Ecuador S.A.	Ecuador	100.00	100.00
Concessionária Transvase Olmos S.A. (**)	Peru	100.00	
CBPO Ingeniería de Venezuela C.A.	Venezuela	100.00	100.00
Constructora Odebrecht Chile S.A.	Chile	100.00	100.00
Constructora Odebrecht Uruguay S.A.	Uruguay	100.00	100.00
Lumina Engenharia Ambiental Ltda. (**)	Brazil	100.00	
Energipar Captação S.A.	Brazil	100.00	100.00
Multitrade S.A.	Brazil	99.99	99.99

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	Country	Direct and indirect holdings (%)	
		2004	2003
Odebrecht Angola Projectos e Serviços Ltda.	Angola	100.00	100.00
Odebrecht Automação e Participações Ltda. (***)	Brazil		100.00
Odebrecht Construction, Inc.	USA	100.00	100.00
Odebrecht Construction International, Inc.	USA	100.00	
Odebrecht Djibouti SAZF (**)	Djibouti	100.00	
Odebrecht Empreendimentos Imobiliários Ltda. (**)	Brazil	100.00	
Odebrecht Engenharia e Construção S.A. (**)	Brazil	100.00	
Odebrecht Mining Services, Inc.	Cayman Islands	100.00	100.00
Odebrecht Oil Services Ltd.	Cayman Islands	100.00	100.00
Odebrecht Oil and Gas Services Ltd.	United Kingdom	100.00	100.00
Odebrecht Oil and Gas Angola Ltd.	Angola	100.00	100.00
Odebrecht Oil and Gas México, S.R.I. de CV	Mexico	100.00	99.99
Odebrecht Overseas Ltd.	Bahamas	100.00	100.00
Odebrecht Peru Ingeniería y Construcción S.A.C.	Peru	100.00	100.00
Odebrecht Serviços de Óleo e Gás Ltda. (*)	Brazil		100.00
OSEL - Odebrecht Serviços no Exterior Ltd.	Cayman Islands	100.00	100.00
Odebrecht Engenharia e Construção Investimentos S.A. (****)	Brazil	100.00	
Odebrecht Engenharia e Construção Participações S.A. (****)	Brazil	100.00	
<u>Proportionally consolidated companies</u>			
Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L.	Angola	50.00	50.00
Sociedade Mineira de Catoca Ltda.	Angola	16.40	

(*) Company merged into CNO, see Note 1 (i).

(**) Companies formed in 2004.

(***) Company merged into Belgrávia on December 27, 2004, at book value.

(****) Companies acquired during 2004.

In the consolidated financial statements, equity investments, the results of the subsidiaries and the balances of intercompany assets, liabilities, income and expenses are eliminated. Minority interests in stockholders' equity and net income for the period are presented separately. The asset, liability, income and expense accounts of jointly-owned subsidiaries are consolidated in proportion to the total ownership of their capital.

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The financial statements of the foreign subsidiaries and branches were translated (i) from local currency into U.S. dollars, when applicable (high inflationary countries without proper instruments for accounting recognition of inflationary effects), based on the official effective exchange rates on the date of the financial statements or on the date of the transactions, depending on the nature of the accounting component involved (monetary or not), and later converted into Brazilian Reais based on the official rate of the U.S. dollar on the date of the financial statements, or (ii) from local currency into Brazilian Reais based on the official effective exchange rate on the date of the financial statements, when the subsidiary is not based in a high inflationary country or, if it is the case, with proper instruments for accounting recognition of inflationary effects, according to Pronouncement XXI – Consolidation Standards of the Institute of Independent Auditors of Brazil (IBRACON).

Based on the Company's intention to sell and the advanced stage of negotiations regarding Tenenge (UK) Holdings Ltd. ("TUK"), Participações Energéticas S.A. ("PESA") and Produtores Energéticos de Manso S.A. - PROMAN ("PROMAN"), the Company did not consolidate the assets and liabilities of these investees in its consolidated financial statements at December 31, 2004 and 2003. The amounts of these investments were reclassified into consolidated current assets (TUK - R\$ 107,132 – US\$ 40,360, PESA - R\$ 600 – US\$ 226 and PROMAN – allowance for losses of R\$ 764 – US\$ 288) based on management's estimates of the timing of the sales of these investments. The equity result for the year ended December 31, 2004, generated by these investments classified as current assets, was a loss of R\$ 29,182 – US\$ 10,994. The Company's management does not expect any losses on the realization of these assets. As mentioned in Note 1 (iii), the subsidiary Catoca started to be consolidated on January 1, 2004.

(h) Basis of translation

The accounting records are maintained in reais. The financial information in U.S. dollar is presented solely for the convenience of the reader and has been translated from the amounts in the December 31, 2004 local currency financial statements, using the exchange rate prevailing on that date of R\$ 2.6544: US\$ 1.00. Such translation should not be construed as representing that the amounts in reais represent, or have been, or could be, converted in U.S. dollars at that or at any other rate.

Had the Company's transactions been measured directly in U.S. dollars at exchange rates ruling on the dates that the transactions were carried out, significantly different results and trends would have been presented.

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3 Trade Accounts Receivable

		<u>2004</u>	<u>2003</u>
	<u>US\$</u>		<u>R\$</u>
Public sector			
Federal	155,543	412,875	518,817
State	171,823	456,086	439,160
Municipal	<u>67,956</u>	<u>180,383</u>	<u>130,662</u>
	395,322	1,049,344	1,088,639
Private sector	<u>266,022</u>	<u>706,128</u>	<u>637,544</u>
	661,344	1,755,472	1,726,183
Less: current assets	<u>375,745</u>	<u>997,378</u>	<u>1,078,938</u>
Long-term receivables	<u><u>285,599</u></u>	<u><u>758,094</u></u>	<u><u>647,245</u></u>

As part of its policy to mitigate performance risks in emerging countries, the Company requires advances from customers before starting a project (down payment). These advances are usually discounted from each invoice through the end of the contract.

In 2004, due to the significant adjustments received during 2003 and 2004, the average period of collection decreased as compared to the prior year.

The balance of trade accounts receivable was restated taking into consideration contractual terms, specific portfolio risks and negotiations in progress, including administrative and judicial collection processes, in order to record amounts due for services rendered and financial charges. Furthermore, taking into consideration the history of minimal losses that the Company and its subsidiaries have incurred, management does not anticipate losses on the realization of such receivables and understands that, as a result of these actions, the recognition of amounts in addition to those recorded may occur when sufficient evidence exists to support a reasonable expectation that the corresponding amounts will be received. Trade accounts receivable in the parent company include R\$ 562,363 – US\$ 211,861 (2003 – R\$ 508,057) of overdue receivables under judicial collection proceedings, on which favorable judgments were obtained, and R\$ 303,590 – US\$ 114,372 (2003 - R\$ 301,530) of overdue receivables in which the Company is negotiating with debtors in regards to overdue receivables.

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4 Taxes Recoverable

	US\$	2004	2003
			R\$
Current assets			
Social contributions recoverable	2,057	5,461	25,723
Withholding income tax on earnings from financial investments and invoicing	17,309	45,944	20,733
Credit for income tax paid by foreign branches and subsidiaries	1,101	2,922	47,197
Prepaid income tax at foreign branches and subsidiaries	5,904	15,672	20,453
Tax on added value at foreign branches	2,316	6,147	13,710
Other taxes recoverable	4,658	12,366	11,985
	33,345	88,512	139,801
Long-term receivables			
Social contributions recoverable	12,182	32,336	27,409
Other taxes recoverable	1,302	3,457	8,154
	13,484	35,793	35,563

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5 Odebrecht Organization Companies

	<u>Long-term receivables</u>	<u>Long-term liabilities</u>	<u>Financial income (expenses), net</u>
Odebrecht S.A.	88,658		9,744
Tenenge Overseas Corporation	237,217		(13,268)
CBPO Malaysia SDN BHD	14,021		(1,206)
Participações Energéticas S.A.		4,015	
Other	452	16	(20)
Total - 2004 - R\$	<u>340,348</u>	<u>4,031</u>	<u>(4,750)</u>
Total - 2004 - US\$	<u>128,220</u>	<u>1,519</u>	<u>(1,790)</u>
Total - 2003 - R\$	<u>297,226</u>	<u>5,581</u>	<u>(40,425)</u>

The main balances with Odebrecht Organization companies are covered by a "Current account and single cash management agreement", entered into by all Odebrecht Organization companies. The contract does not have a defined expiration date and has the following characteristics:

<u>Company</u>	<u>Financial charges</u>	<u>Nature of the transactions</u>
Odebrecht S.A.	Reference Unit – Long-term Interest Rates ("UR-TJLP")	Transfer of funds, credit assignments and debt assumptions
Tenenge Overseas Corporation	U.S. dollar variation in relation to the real plus Libor + 3% p.a.	Transfer of funds, credit assignments and debt assumptions

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6 Investments

- (i) The account "Other investments" is substantially represented by the ownership interest that the indirect subsidiary Bento Pedroso Construções S.A., headquartered in Portugal, keeps with the highway concession operator.
- (ii) At the end of 2003, the partners of the indirect subsidiary SDM approved and designated a new general officer. This new executive board negotiated with the Angolan Government the concession of new areas for exploration, which are essential in order to extend the useful lives of the explorations. In February 2004, an agreement was signed for an association related to the prospecting, research and recognition of new diamond mines, referred to as the Muanga Project. In the research and recognition phase, investments were estimated at US\$ 7,000 and are supported by SDM. At December 31, 2004, the balance of the investment in SDM amounts to R\$ 83,775 – US\$ 31,561 (2003 – R\$ 93,512), recorded in the financial statements of the subsidiary OMSI. The Company's management understands that the business of the investee will continue as usual.
- (iii) The financial statements of the main subsidiaries/associated companies that were used as a basis for the calculation of the equity results at December 31, 2004 were audited or reviewed by our independent auditors, except for the investees shown below:

	Indirect ownership interest (%)	Adjusted stockholders' equity (net capital deficiency)	
		US\$	R\$
Constructores Akal B y L, S. de R.L. de C.V.	50.00%	(5,134)	(13,628)
North Sea Production Company	49.95%	7,682	20,390
Odebrecht Oil & Gas México, S.R.L. de CV	100.00%	(6,773)	(17,978)

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7 Property and Equipment

	2004		2003		%
	Cost	Accumulated depreciation	Net	Net	Annual depreciation rate
	R\$	R\$	US\$	R\$	
Land	11,567		4,358	11,567	
Buildings and installations	95,690	(29,180)	25,056	66,510	4
Machinery and equipment	514,780	(290,669)	84,430	224,111	10 to 20
Vehicles and ships	112,662	(73,983)	14,572	38,679	25
Furniture and fixtures	67,706	(39,309)	10,698	28,397	10
Advances to suppliers (ii)				76,714	
Other	73,781	(18,243)	20,923	55,538	0 to 10
	<u>876,186</u>	<u>(451,384)</u>	<u>160,037</u>	<u>424,802</u>	<u>478,100</u>

(i) Leased vehicles/equipment

The Company and its subsidiaries use vehicles, machinery and equipment leased through irrevocable contracts, which have three to five years terms. The operating expenses and costs of services incurred with leasing contracts amounted to R\$ 33,088 – US\$ 12,645 (2003 - R\$ 20,326). The commitments assumed under these contracts amount to R\$ 36,242 – US\$ 13,654 (2003 – R\$ 76,160), of which R\$ 19,496 – US\$ 7,345 (2003 – R\$ 56,390) are long term.

If the leasing agreements were recorded as financed asset purchases (capital leases), they would represent additional assets with a residual value of R\$ 44,961 – US\$ 16,938 (2003 - R\$ 59,474), with a related depreciation expense for the year ended December 31, 2004 of R\$ 14,513 – US\$ 5,468 (2003 – R\$ 9,826).

(ii) Non-operating income

In 2004, the indirect subsidiary Odebrecht Oil Services Ltd. sold two purchase options of semi-submersible petroleum platforms that were acquired in 2003, which were recorded in permanent assets as advances to suppliers. The indirect subsidiary estimated a gain of US\$ 6,166 (R\$ 16,367) recognized in the results for the year 2004 as non-operating income.

Of the non-operating income accrued at December 31, 2003, R\$ 40,030 refers to a gain on the sale of machinery and equipment through sale lease-back transactions. The amounts of operating expenses and costs of services incurred with the lease and the commitments assumed by these operations are presented in the Note above, as well as the value of the residual assets and the corresponding depreciation had these operations been recorded as financed purchase of assets (capital leases). During 2004, the Company did not have any sale lease-back transactions.

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8 Debts

Financial institution/type of debt	Currency	Financial charges	2004		2003
			US\$		R\$
International Finance Corporation - Tranche B3 (i)	Real	CDI + 2.5% p.a.	7,242	19,223	55,961
International Finance Corporation - Tranches A, B1, B2 and C (i)	U.S. Dollar	Libor + 2.75% to 5% p.a. + EV	84,174	223,431	427,638
International Finance Corporation (i)	U.S. Dollar	Libor + 3.5% p.a. + EV	25,297	67,148	
Medium-Term Note Programme (ii) (a)	U.S. Dollar	11.5% p.a. + EV	171,588	455,464	
Eurobond (ii) (b)	U.S. Dollar	12% p.a. + EV	103,000	273,403	297,588
Medium-Term Note Programme EURO (ii) (c)	Euro	6.875% p.a. + EV	81,205	215,551	
BCP Investimento S.A.	Euro	3.22% p.a. to 3.48% p.a. + EV	34,714	92,145	81,985
Credit Suisse First Boston (ii) (d)	U.S. Dollar	9.57% p.a. + EV	20,236	53,714	
IKB Deutsche Bank	U.S. Dollar	Libor + 0.95% p.a. + EV	19,128	50,773	25,531
ABC Brasil and Bradesco Luxembourg (ii) (e)	U.S. Dollar	7.5% p.a. + EV	20,050	53,221	
Banco ABN - Pichincha, Banco del Pacifico and Banco Popular Internacional (Equador)	U.S. Dollar	8% p.a. + EV	13,689	36,335	9,029
Banco Africano de Investimento	U.S. Dollar	9.5% p.a. + EV	2,417	6,415	
Caterpillar Financial	U.S. Dollar	Libor + 3.75% p.a. + EV	1,526	4,051	13,227
Short-Term Note Programme	U.S. Dollar	12% to 12.75% p.a. + EV			153,312
BES Investimentos	Euro	Eurolibor + 7.2% p.a. + EV			86,698
BNL Bank, ABN Amro Bank and Usbancorp	U.S. Dollar	3.5% p.a. + EV			18,042
Several financial institutions in Brazil	Real	CDI + 2.5% to 3% p.a.	4,416	11,722	126,911
Other			4,516	11,988	56,563
Total			593,198	1,574,584	1,352,485
		Less: long-term	437,965	1,162,534	844,256
		Current liabilities	155,233	412,050	508,229

Abbreviations used:

CDI	Interbank Deposit Certificate
VC	Exchange variation
LIBOR	London Interbank Offered Rate

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements December 31, 2004 and 2003

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(i) International Finance Corporation

On June 21, 2002, the Company signed with the IFC an agreement to refinance certain of its existing obligations. The refinancing package, in the total amount of US\$ 280,000 (R\$ 743,232), includes four tranches, two of which were financed with IFC resources (A and C) totaling US\$ 80,000 (R\$ 212,352). The third tranche (B1 and B2) was syndicated with other foreign financial institutions in the amount of US\$ 165,000 (R\$ 437,976) and the fourth tranche (B3) was syndicated with Brazilian financial institutions, in the amount of US\$ 35,000 (R\$ 92,904). These tranches have maturity periods varying from four to ten years.

During the term of this operation, some events resulted in the advance payment of part of the loan: (a) the receipt of the net amount from the sale of Lusoponte – Concessionária to Travessia do Rio Tejo S.A., of US\$ 32,648 (equivalent to R\$ 115,355 at the date); (b) the receipt of dividends from the subsidiary Catoca in July 2002, in the amount of US\$ 2,224 (equivalent to R\$ 7,858 at the date) and in November 2003, in the amount of US\$ 6,564 (equivalent to R\$ 18,838 at the date); (c) the receipt of some balances of overdue accounts receivable in October 2003, in the amount of R\$ 19,578 (equivalent to US\$ 6,855 at the date); and (d) the receipt in June 2004 of a loan, for which the Company's investment in the indirect subsidiary Catoca was given as security, in the amount of US\$ 60,000 (R\$ 188,658 at the date). Up to December 31, 2004, the January 2003, July 2003 and January and July 2004 installments and the installment due on January 15, 2005 of loans B1 and B3 had been paid.

On June 3, 2004, due to the advance payment made (see item (d) above), the original terms for amortization of this operation were rescheduled, with maturities extending by one year, on average.

The balance of debt at December 31, 2004 is summarized as follows:

Tranche	Financial agent	Financial charges	Currency	Balance (US\$)	Balance (R\$)	Maturity	Number of semiannual installments
A	IFC	Libor + 5% p.a.	US\$	29,483	78,260	07/2005 to 01/2011	12
B1	Foreign institutions	Libor + 4.5% p.a.	US\$	33,775	89,653	01/2005 to 01/2007	5
B2	Foreign institutions	Libor + 4.875% p.a.	US\$	6,632	17,604	01/2005 to 01/2009	9
B3	Brazilian institutions	CDI + 2.5% p.a.	R\$	7,242	19,223	01/2005 to 01/2007	5
C	IFC	Libor + 2.75% p.a.	US\$	20,206	53,635	07/2012	1
				<u>97,338</u>	<u>258,375</u>		

In the balance sheet, the balance maintained with IFC is presented net of the "Debt Service Reserve Account", as defined in the Loan Agreement, which consists of an amount deposited by the Company in specific bank accounts to guarantee the settlement of the next installment due from the Company as required by the terms of the aforementioned Loan Agreement, in the amount of R\$ 15,721 – US\$ 5,922.

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Due to rescheduling and the advance payment in June 2004, as mentioned above, the Company obtained a new credit line with IFC in the amount of US\$ 25,000 (R\$ 66,360), which was drawn down on June 17, 2004. This debt is subject to exchange variations plus interest of LIBOR + 3.5% per annum and matures in July 2011. At December 31, 2004, the balance amounted to US\$ 25,297 (R\$ 67,148).

(ii) Additional Information

- (a) On February 25, June 29 and September 29, 2004, OOL raised in the international financial market the amounts of US\$ 150,000 (R\$ 398,160) and US\$ 15,000 (R\$ 39,816), in the form of Medium-Term Notes, falling due in February 2009. These notes are guaranteed by the Company. At December 31, 2004, the balance of these operations, with accrued interest, amounted to US\$ 171,588 (R\$ 455,464). On June 29, 2004, OOL issued US\$ 60,000 (R\$ 159,264) which were fully acquired by the subsidiary OSEL that keeps this amount in treasury. The amount has been eliminated in the consolidated financial statements.
- (b) On September 30, 2003, OOL raised in the international financial market US\$ 100,000 (R\$ 265,440), in the form of Eurobonds, which are due in March 2005. At December 31, 2004, the balance of these operations, with accrued interest, amounted to US\$ 103,000 (R\$ 273,403).
- (c) On October 4, 2004, OOL raised in the international financial market the amount of € 65,000 thousand (equivalent to R\$ 235,267 – US\$ 82,362), in the form of Medium Term Notes, which are due in October 2007. These notes are guaranteed by the Company. At December 31, 2004, the balance, with accrued interest, amounted to € 66,068 thousand (equivalent to R\$ 239,132 – US\$ 90,089). At December 31, 2004, the balance, net of a swap contract from euro to dollar, was R\$ 215,551 – US\$ 81,205.
- (d) On June 30, 2004, OSEL granted to Credit Suisse First Boston, the equivalent to US\$ 20,225 (R\$ 53,685) of the notes issued by OOL on June 29, 2004 (see item (a) above), with a repurchase option on June 29, 2007. The charges on this operation are equivalent to the exchange variation plus interest of 9.57% p.a. The balance, with accrued interest, on December 31, 2004, was US\$ 20,236 (R\$ 53,714).
- (e) In March and June 2004, OOL contracted with the financial institutions in the international financial market the amounts of US\$ 5,000 (R\$ 13,272) and US\$ 15,000 (R\$ 39,816), due in June 2006. These operations are guaranteed by the Company. At December 31, 2004, the balance, with accrued interest, was US\$ 20,050 (R\$ 53,221).

Construtora Norberto Odebrecht S.A. and its Subsidiaries

Notes to the Financial Statements December 31, 2004 and 2003

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(iii) Composition of the long-term debt per year of maturity

Long-term debt is due as follows:

	2004		2003	
	US\$		R\$	
2005				558,076
2006	34,294	91,029		116,530
2007	120,871	320,841		34,206
2008	11,557	30,677		135,444
2009 and thereafter	271,243	719,987		
	437,965	1,162,534		844,256

9 Provisions for Tax, Labor and Civil Claims

- (i) The Company has provisions of R\$ 33,834 – US\$ 12,746 (2003 – R\$ 23,225) in current liabilities and R\$ 56,996 – US\$ 21,472 (2003 – R\$ 16,895) in long-term liabilities to cover (i) legal indemnity expenditures related to layoffs of employees, which is usual and inherent to its line of activity. The provision is based on the history of similar monthly disbursements, and (ii) labor, tax and civil claims which have little chance of favorable outcome, according to management and legal advisors. These claims amount to R\$ 25,379 – US\$ 9,561 (2003 – R\$ 13,577). In addition, the Company is defending labor, civil and tax claims of approximately R\$ 100,337 – US\$ 37,800 (2003 – R\$ 83,000), for which no provision for losses has been recorded, because management and legal advisors believe that no significant losses are probable.
- (ii) The Company and its subsidiary CBPO have an injunction which grants them the right not to pay the Social Contribution on Revenues (COFINS) on income other than billings and the right not to pay the increase of 1% in the COFINS rate on income, based on the provisions of Law 9.718/98. With Law 10.833/03, the Company and its subsidiaries started to pay COFINS in February 2004. In addition, the subsidiary CBPO was granted an injunction giving them the right not to pay the Social Integration Program Contribution (PIS) on other income, based on the provisions of Law 9.718/98 (with Law 10.637/02, this investee started to pay the PIS in January 2003). The unpaid amounts are being recorded monthly and are updated for the related interest and late charges until the Company and the subsidiary are awarded favorable final rulings. At December 31, 2004, the amount is R\$ 53,980 – US\$ 20,336 (2003 – R\$ 31,668).

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All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

- (iii) During 2003, the Company's branch in Ecuador was inspected by the Internal Revenue Service (local equivalent to the Brazilian Federal Revenue Secretariat) relating to income tax returns from 1999 to 2002. As a result of these inspections, the Ecuadorian tax authorities identified additional amounts due from this branch in relation to the income tax and tax on added value in the approximate amounts of US\$ 4,117 (R\$ 10,928) and US\$ 577 (R\$ 1,531), respectively (not including interest, fines and other possible charges). Management, considering the evidence at obtaining a favorable outcome, and based on the opinion of its external legal advisors, did not set up a provision to cover possible losses arising from this matter.

10 Income Tax and Social Contribution

(a) Composition of effects on income – reversal (expenses)

	<u>US\$</u>	<u>2004</u>	<u>2003</u>
			<u>R\$</u>
Deferred social contribution	(5,039)	(13,377)	(3,330)
Current social contribution	(2,487)	(6,601)	
Prior-year adjustment provision	<u>(3,338)</u>	<u>(8,860)</u>	<u>(3,810)</u>
Total social contribution	<u>(10,864)</u>	<u>(28,838)</u>	<u>(7,140)</u>
Deferred income tax	(10,611)	(28,167)	20,581
Current income tax	(5,532)	(14,685)	(11,040)
Foreign income tax (branches and subsidiaries)	(38,723)	(102,785)	(60,252)
Withholding income tax on dividends of foreign subsidiaries			(6,271)
Income tax credits paid by branches and foreign subsidiaries	<u>4,836</u>	<u>12,837</u>	<u>38,039</u>
Total income tax	<u>(50,030)</u>	<u>(132,800)</u>	<u>(18,943)</u>

(b) Balances of deferred income tax and social contribution

Deferred tax asset balances are comprised of income tax, social contribution on tax losses and on temporary additions, that exist mainly in the Company and its indirect subsidiary CBPO. The liability balances are comprised of income tax and social contribution on the unrealized income from governmental entities and foreign exchange variation effects, that exist mainly in the Company and its indirect subsidiary CBPO.

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The composition of the deferred income tax and social contribution accounts at December 31, 2004 and 2003 is as follows:

(i) Income tax

				<u>2004</u>	<u>2003</u>
	<u>Temporary differences</u>	<u>Deferred income</u>	<u>Accumulated tax losses</u>	<u>Total</u>	<u>Total</u>
In R\$					
Current assets	30,960		17,597	48,557	45,916
Long-term receivables	26,569		74,115	100,684	140,638
Long-term liabilities		(94,822)		(94,822)	(106,909)
In US\$					
Current assets	11,664		6,629	18,293	
Long-term receivables	10,009		27,922	37,931	
Long-term liabilities		(35,723)		(35,723)	

(ii) Social contribution

				<u>2004</u>	<u>2003</u>
	<u>Temporary differences</u>	<u>Deferred income</u>	<u>Accumulated tax losses</u>	<u>Total</u>	<u>Total</u>
In R\$					
Current assets	11,145		6,335	17,480	16,529
Long-term receivables	4,844		35,124	39,968	57,753
Long-term liabilities		(33,818)		(33,818)	(37,390)
In US\$					
Current assets	4,199		2,386	6,585	
Long-term receivables	1,825		13,232	15,057	
Long-term liabilities		(12,740)		(12,740)	

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(c) Recoverability of recorded deferred tax assets

The Company based the recoverability of net asset balances of deferred income tax and social contribution on the profit forecasts for the next three years. This forecast includes, as basic assumptions, the increase in the order backlog (portfolio of revenues already held by the Company) in 2004, the gains to be earned from the disposal of assets not pertaining to the Engineering and Construction activity, the increased investment in Brazil's electric power sector and infrastructure and the increased participation of the Company in real estate ventures and the recognition, for tax purposes, of the operating results of foreign subsidiaries as from December 31, 2002. In addition, the Company, together with its main subsidiary operating in Brazil, CBPO, recorded taxable income in three of the last five years.

The forecast used to support the balances of the net deferred tax assets considers the realization of R\$ 66,037 – US\$ 24,878 in the 2005 tax year as a result of that year's income. Regarding the deferred tax assets recorded in long-term receivables, the Company estimates their realization over a maximum term of three years (2007).

(d) Foreign income tax

Income tax incurred abroad is represented by the tax generated by the Company's branch in Venezuela (R\$ 26,268 – US\$ 9,896), Angola (R\$ 3,982 – US\$ 1,500), and in the subsidiaries CBPO Ingeniería de Venezuela (R\$ 5,575 – US\$ 2,100), BPC (R\$ 6,630 – US\$ 2,498), SDM (R\$ 11,614 – US\$ 4,375) and Catoca (R\$ 15,651 – US\$ 5,896).

(e) Tax credits arising from income tax paid by foreign branches and its Subsidiaries

In the statement of income for the year ended December 31, 2004 was recorded an amount of R\$ 12,568 – US\$ 4,735 and R\$ 269 – US\$ 101 relating to income tax credits on amounts paid for this tax by the subsidiary BPC, headquartered in Portugal, and by the branch of the Company in Ecuador, respectively, (2003 - R\$ 23,414 and R\$ 14,625, by the branch of the Company in Venezuela and by the wholly-owned subsidiary SDM, headquartered in Angola, respectively) and taxed in Brazil, in a contra account to taxes recoverable within current assets, as determined by the current income tax legislation. These amounts have already been duly offset against income tax payable related to results generated by these foreign operations.

11 Stockholders' Equity

(a) Capital

At December 31, 2004, the Company's capital, subscribed and paid entirely by Brazilian individuals and corporations, was comprised of 202,837,829 (2003 – 191,838,638) common shares and 147,382,173 (2003 – 64,001,942) preferred shares, with no par value.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

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At December 31, 2004, within the context of the restructure mentioned in Note 1 (iv), the Extraordinary General Meeting approved the capital increase of the Company by its parent company Odebrecht S.A., through the use of the investment at book value, evaluated on the cost method, in the amount of R\$ 63,251 – US\$ 23,829, and by the subsidiary OEC Investimentos, through conversion, by merger, of the split-off portion of the stockholders' equity of Belgrávia, represented by current accounts with subsidiaries in the amount of R\$ 479,477 – US\$ 180,635. For presentation purposes of the consolidated financial statements, the value referring to this last capital increase, which resulted in cross shareholding, was eliminated. This cross shareholding will be eliminated during 2005.

(b) Share rights

Preferred shares, which are non-voting, have priority in the event of capital reimbursement upon liquidation and, based on Law 10.303/01, preferred and common shares have the same rights with regards to the receipt of dividends. All stockholders are assured an annual dividend of at least 25% of the adjusted net income for the year, calculated in accordance with Brazilian corporate legislation.

The Company distributed extraordinary dividends based on the revaluation reserve of investments, at December 31, 2004, in the amount of R\$ 114,030 – US\$ 42,959. Proposed dividends for the year ended December 31, 2004, in the amount of R\$ 143,051 – US\$ 53,892, were prepaid, through approval of its executive board, which was submitted to the Extraordinary Meeting.

(c) Appropriation of net income

According to the Company's by-laws, revenue reserves are set up as described below. The utilization of the remaining balance after these appropriations and the distribution of dividends will be decided at the Ordinary General Meeting.

(i) Legal reserve

This reserve is set up through the appropriation of 5% of net income each year until the reserve equals 20% of total capital or until its balance, plus capital reserves, exceeds 30% of total capital.

(ii) Reserve for investments (statutory)

This reserve is set up through the appropriation of up to 70% of the net income for the year until, together with the legal reserve, it reaches 100% of total capital.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

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12 Insurance Coverage

The identification, mitigation and management of risks, as well as contracting insurance coverage, are handled in a uniform manner by the Company and its subsidiaries, in conformity with standards established by a specific Odebrecht Organization policy. These standards are supported by OCS – Odebrecht Administradora e Corretora de Seguros Ltda., its advisors, brokers and first line national and international insurance companies, in order to guarantee the proper coverage for each contract or business, at amounts sufficient to cover possible losses. At December 31, 2004, the insurance coverage amounts of the Company and its subsidiaries were US\$ 6,167,503 (R\$ 16,371,020).

13 Private Pension Plan

The Company and its subsidiaries have entered into an agreement with ODEPREV – Odebrecht Previdência, a private pension fund established by Odebrecht S.A., which is one of the sponsoring companies. ODEPREV offers its participants, members of the sponsoring company, the Optional Plan, a defined contribution plan in which monthly and periodic participant contributions and annual and monthly sponsor contributions are made to individual pension savings accounts.

Up through September 2003, in addition to the Optional Plan, ODEPREV offered the Basic Plan, in which life and disability risks are fully covered by the sponsoring companies and are annually determined by the Board of Trustees of ODEPREV, based on the Annual Cost Plan, which is prepared on an actuarial basis. On October 29, 2002, ODEPREV, as decided by the Board of Trustees, filed, with the Supplementary Social Security Secretariat, for the cancellation of the Basic Plan. This formal request was based on the decision to fully replace it by life insurance, which will be contracted under the same conditions as the mentioned Plan. On October 1, 2003, through Notice No. 1.345/ DAJUR/ SPC, the cancellation of the Basic Plan was approved and the contributions to the plan were suspended.

In relation to the benefit payments established for the Optional Plan, the ODEPREV obligations are limited to the total value of the participants' quotas and, in conformity with the rules of the defined contribution plan, no obligations or responsibilities can be required from the sponsoring companies to guarantee the minimum levels of benefits to the retired participants. The contributions for the year ended December 31, 2004 amounted to R\$ 3,840 – US\$ 1,447 (2003 – R\$ 3,402) in the consolidated financial statements.

As the ODEPREV plan is a defined contribution plan, under which the risk of receiving benefits is the full responsibility of the participants, the Company's management has determined that the provisions of the accounting standard NPC 26 of the Institute of Independent Auditors of Brazil (IBRACON), "Accounting for Benefits to Employees" is not applicable to such Plan.

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14 Financial Instruments

(a) General Considerations

The Company and its subsidiaries participate in transactions involving financial instruments for the purpose of managing the financial liquidity of its operations, as well as meeting possible cash needs and protection against exchange rate fluctuations and interest rate variations. These risks are managed through financial market mechanisms that minimize the exposure of the Company's assets and liabilities, protecting its equity.

(b) Market value

The main financial instruments maintained by the Company and its subsidiaries are trade accounts receivable, financial investments, marketable securities, suppliers, debts and long-term obligations represented mainly by loans and the related party balances with other Odebrecht Organization companies (see details in Note 5).

The estimated discount on trade accounts receivable from government entities has been calculated based on the difference between the contractual adjustments agreed to by these entities and the average cost of loans contracted by the Company for an amount of R\$ 30,201 – US\$ 11,378 (2003 - R\$ 25,666) at December 31, 2004. Trade accounts receivables from government entities with terms of more than 90 days have been financed by resources generated by the stockholders.

At December 31, 2004 and 2003, the market values of other financial instruments of the Company and its subsidiaries approximate their book values. The market values of these financial instruments were obtained by calculating their present values, taking into consideration interest rates currently available in the market for similar terms and risks. The most significant shareholding interests held by the Company and its subsidiaries are not quoted in the market.

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(c) Credit risk

At December 31, 2004, the Company and its subsidiaries had overdue accounts receivables of R\$ 865,953 – US\$ 326,233 (2003 - R\$ 809,587) for services rendered to government-related entities. Historically, the Company and its subsidiaries have collected the amounts owed by these entities, including those overdue for one year or more. The collection of these overdue amounts from government-related entities could take place through financial settlements, the receipt of government-related bonds or other government-related assets. As a way of mitigating these risks, the Company and its subsidiaries have applied a greater degree of selectivity when accepting customers. The Company has increased the revenue from private customers or public sector customers which the Company considers to have the capacity to generate revenue independently and who do not rely on government budgets to settle their obligations (mainly mixed-economy companies) as is the case with government-related entities. To reduce the volume of overdue receivables, the Company and its subsidiaries have adopted the policy of decentralizing the negotiation from the administrative departments and delegating this responsibility to the administrative levels responsible for the monitoring of each contract. If the Company does not succeed in such actions, it generally pursues collection of those amounts in court.

At the same time, the Company adopted the policy of not restating the customers' overdue credits, keeping them at historical value. Thus, whenever the final agreement with the customers, or a favorable judicial decision, is made in the Higher Court, referring to these credits, the value of the restatement is allocated to the financial income for the year. In 2004, financial income includes slightly more than R\$ 70,000 – US\$ 26,371 arising from the restatement of credits related to the Rio de Janeiro Subway and Indápolis Highway projects.

(d) Price risk

A significant number of the contracts in which the Company and its subsidiaries are engaged are fixed-price contracts. The actual profit margins on these contracts may differ from the margins estimated when the contract price was proposed. This difference is due to the significant unexpected variations in the cost of equipment, materials to be used or labor, related to inflationary effects or other unexpected events. Additional causes of this difference include problems encountered by the customer to obtain financing needed to perform its obligations, to obtain governmental authorizations or to obtain necessary approvals, project changes resulting in unexpected costs, delays caused by harsh weather conditions or, finally, the non-performance of subcontractors and/or contracted suppliers. To minimize the price risk, the fixed-price contracts performed by the Company and its subsidiaries have their budgets periodically revised to reflect inconsistencies noted between actual and budgeted costs. The Company and its subsidiaries follow a policy of negotiating claims to increase contract prices through contract amendments to recover variations that are recorded when the contract amendments are signed.

Construtora Norberto Odebrecht S.A. and its Subsidiaries

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All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

The Company's gross margin relies heavily on its contract portfolio that it has in operations at any given time. Contracts in emerging countries and those with higher risk, usually require higher margins; while, contracts in the United States and Europe usually present relatively lower margins. The participation of the United States and Portugal in the Company's net income increased from 21% in 2003 to 27% in 2004, which resulted in a lower gross margin for the Company. Another factor responsible for the Company's decrease in its gross margin, was that the final phase of several contracts that have higher than average gross margins throughout the Latin American countries were completed during the year and were replaced by new contracts that are still in the initial phase of production.

(e) Exposure in foreign currency

The Company, through its branches, subsidiaries and affiliated companies, has operations in Angola, Argentina, Bahamas, Bolivia, Colombia, Costa Rica, Chile, Ecuador, United Arab Emirates, the United States, Cayman Islands, England, Mexico, Peru, Portugal, Dominican Republic, Venezuela and Uruguay, of which part is denominated in U.S. dollars, with exposure to the local currencies restricted to some specific countries. In addition, certain loans of the Company and its Subsidiaries are in foreign currencies, as mentioned in Note 8, as well as debts with suppliers and other balances with related parties, as mentioned in Note 5.

The foreign exchange devaluation that occurred in 2004 in some countries such as Venezuela and Angola created foreign exchange gains that increased the Company's financial income.

(f) Interest rate and currency swap contracts

At December 31, 2004, outstanding swap contracts amounted to R\$ 251,141 – US\$ 94,613, with an income of R\$ 22,450 – US\$ 8,458 (2003 – R\$ 163,330, income of R\$ 22,158).

(g) Other financial derivatives

The Company does not currently utilize financial derivatives, except for the swap contracts mentioned above.

* * *

Report of Independent Auditors

To the Board of Directors and Stockholders
Construtora Norberto Odebrecht S.A.

- 1 We have audited the accompanying balance sheets of Construtora Norberto Odebrecht S.A. and the consolidated balance sheets of Construtora Norberto Odebrecht S.A. and its subsidiaries as of December 31, 2003 and 2002, and the related statements of income, of changes in stockholders' equity and of changes in financial position of Construtora Norberto Odebrecht S.A., as well as the related consolidated statements of income and of changes in financial position for the years then ended. These financial statements are the responsibility of company management. Our responsibility is to express an opinion on these financial statements. The audit of the financial statements of the following indirect investees, recorded under the equity method, were conducted by other independent auditors: (a) at December 31, 2003 and 2002, jointly-controlled indirect subsidiaries Sociedade de Desenvolvimento Mineiro S.A.R.L. and Constructores Akal B y L, S. de R.L. de C.V., and (b) at December 31, 2003, jointly-controlled indirect subsidiaries North Sea Production Company, "Somague-Bento Pedroso-Cubiertas-Dragados, A.C.E." and "BPC, CBPO, Somague, Profabril, Kaise e Acer, A.C.E.". Our opinion, insofar as it refers to the amounts of these investments and the equity in the earnings there from, in the amount of R\$ 120,660 thousand and R\$ 27,452 thousand (2002 - R\$ 89,697 thousand and R\$ 33,179 thousand), respectively, and total consolidated assets of the jointly-controlled indirect subsidiary Sociedade de Desenvolvimento Mineiro S.A.R.L., in the amount of R\$ 114,645 thousand (2002 – R\$ 154,570 thousand), is based solely on the reports of these other auditors.

Construtora Norberto Odebrecht S.A.

- 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 audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Companies, (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.
- 3 In our opinion, based on our audits and on the reports of the other auditors, the financial statements audited by us present fairly, in all material respects, the financial position of Construtora Norberto Odebrecht S.A. and of Construtora Norberto Odebrecht S.A. and its subsidiaries at December 31, 2003 and 2002, and the results of its operations, the changes in stockholders' equity and the changes in financial position of Construtora Norberto Odebrecht S.A., as well as the consolidated results of operations and of changes in financial position, for the years then ended, in conformity with accounting practices adopted in Brazil.
- 4 The Company and its subsidiaries belong to the group of companies comprising the Odebrecht Organization and carry out material financial and commercial transactions in significant amounts with its parent company and other companies of the Odebrecht Organization, in conformity with the terms described in Note 5 to the financial statements.
- 5 The accompanying financial statements expressed in U.S. dollars give effect to the translation of the financial statements expressed in Reais, on the bases described in Note 2 (h). This translation should not be construed as representing that the amounts in Reais actually represent or have been, or could be, converted into U.S. dollars.

Salvador, March 12, 2004

PricewaterhouseCoopers
Auditores Independentes

Construtora Norberto Odebrecht S.A. and Subsidiaries

Balance Sheet at December 31

In thousands of reais and thousands of U.S. dollars

Assets	Note	Parent company			Consolidated		
		2003		2002	2003		2002
		US\$	R\$	US\$	US\$	R\$	
Current assets							
Cash and banks		85,345	246,579	112,246	108,044	312,162	164,984
Financial investments		7,224	20,872	45,806	89,490	258,554	172,260
Marketable securities		87,583	253,046	43,562	89,706	259,179	104,546
Trade accounts receivable	3	240,739	695,543	760,770	373,438	1,078,938	981,264
Advances to suppliers, subcontractors and others		13,964	40,346	47,685	17,636	50,955	55,519
Investments and properties for sale		23,100	66,740	45,450	94,794	273,880	263,899
Deferred income tax and social contribution	11	21,613	62,445	35,725	21,613	62,445	39,297
Taxes recoverable	4	37,845	109,341	69,839	48,387	139,801	133,595
Inventories of parts and materials		42,301	122,216	148,043	64,712	186,965	250,144
Current account with consortium members		7,642	22,079	51,167	34,357	99,263	111,512
Other accounts receivable		24,288	70,173	73,053	32,674	94,403	129,341
Prepaid expenses		5,741	16,587	16,377	15,824	45,718	48,642
		<u>597,385</u>	<u>1,725,967</u>	<u>1,449,723</u>	<u>990,675</u>	<u>2,862,263</u>	<u>2,455,003</u>
Long-term receivables							
Odebrecht Organization companies	5	356,998	1,031,438	1,367,801	102,875	297,226	443,378
Trade accounts receivable	3	106,041	306,375	292,054	224,022	647,245	713,998
Investments and properties for sale		1,841	5,318	4,146	17,623	50,916	8,088
Deferred income tax and social contribution	11	33,786	97,615	97,640	68,666	198,391	181,620
Taxes recoverable	4	372	1,075	1,215	12,309	35,563	33,087
Other accounts receivable		4,512	13,037	7,780	10,796	31,192	35,515
		<u>503,550</u>	<u>1,454,858</u>	<u>1,770,636</u>	<u>436,291</u>	<u>1,260,533</u>	<u>1,415,686</u>
Permanent assets							
Investments							
Subsidiaries	6	300,215	867,381	870,735			
Associated companies		4,233	12,229	39	19,603	56,638	30,924
Other		1,078	3,114	3,591	5,869	16,957	5,189
Property and equipment	7	42,901	123,950	202,724	165,478	478,100	516,013
Deferred charges		6,655	19,229	14,180	14,257	41,191	62,765
		<u>355,082</u>	<u>1,025,903</u>	<u>1,091,269</u>	<u>205,207</u>	<u>592,886</u>	<u>614,891</u>
Total assets		<u>1,456,017</u>	<u>4,206,728</u>	<u>4,311,628</u>	<u>1,632,173</u>	<u>4,715,682</u>	<u>4,485,580</u>

**Construtora Norberto Odebrecht S.A.
and Subsidiaries**

Balance Sheet at December 31

In thousands of reais and thousands of U.S. dollars

(continued)

	Note	Parent company		Consolidated	
		2003	2002	2003	2002
		US\$	R\$	US\$	R\$
Liabilities and stockholders' equity					
Current liabilities					
Debts	8	142,847	412,713	175,906	308,544
Suppliers and subcontractors		111,716	322,769	195,756	285,953
Taxes, rates, salaries and payroll charges		56,491	163,215	80,358	133,918
Management profit sharing		4,465	12,900	4,465	12,900
Advances from customers		57,915	167,327	65,502	117,365
Current account with consortium members		5,237	15,130	5,516	22,624
Other accounts payable		14,740	42,586	19,092	25,141
		<u>393,411</u>	<u>1,136,640</u>	<u>546,595</u>	<u>897,545</u>
Long-term liabilities					
Odebrecht Organization companies	5	125,367	362,210	1,932	657,687
Debts	8	225,336	651,044	292,211	745,907
Suppliers and subcontractors		4,332	12,515	9,475	11,289
Advances from customers		155,792	450,118	199,569	448,501
Deferred income tax and social contribution	11	37,647	108,772	49,944	43,053
Provision for losses on investments	6 (c) (i)	214	617	2,475	2,698
Liabilities associated with tax disputes	10	16,419	47,437	16,808	29,396
Other accounts payable		3,545	10,245	18,754	1,199
		<u>568,652</u>	<u>1,642,958</u>	<u>591,168</u>	<u>1,939,730</u>
Minority interests				456	
				<u>1,317</u>	
Stockholders' equity					
Capital	12	434,469	1,255,267	434,469	1,255,267
Revenue reserve	12	59,485	171,863	59,485	219,086
		<u>493,954</u>	<u>1,427,130</u>	<u>493,954</u>	<u>1,474,353</u>
Total liabilities and stockholders' equity		<u>1,456,017</u>	<u>4,206,728</u>	<u>1,632,173</u>	<u>4,311,628</u>
				<u>4,715,682</u>	<u>4,485,580</u>

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

**Construtora Norberto Odebrecht S.A.
and Subsidiaries**

**Statement of Income
Years Ended December 31**

In thousands of reais and thousands of U.S. dollars

	Note	Parent company		Consolidated		
		2003	2002	2003	2002	
		US\$	R\$	US\$	R\$	
Gross services revenue						
Domestic market		264,771	764,976	295,095	852,589	1,190,874
Foreign market		634,379	1,832,847	1,280,421	3,699,392	3,135,258
		899,150	2,597,823	1,575,516	4,551,981	4,326,132
Taxes and contributions on services		(10,359)	(29,928)	(14,977)	(43,271)	(73,992)
Net services revenue		888,791	2,567,895	1,560,539	4,508,710	4,252,140
Cost of services rendered		(803,896)	(2,322,615)	(1,330,386)	(3,843,749)	(3,744,026)
Gross profit		84,895	245,280	230,153	664,961	508,114
Operating (income) expenses						
General and administrative		73,658	212,817	123,605	357,121	326,233
Directors' remuneration		4,495	12,986	4,495	12,986	8,832
Financial (income) expenses, net		(52,595)	(151,958)	53,314	154,035	24,851
From investments in subsidiary and associated companies						
Equity in the results	6	(6,758)	(19,526)	(705)	(2,036)	(6,324)
Dividends received			(7,429)			
Provision (reversal) for losses on investments	6	(718)	(2,074)	(4,652)	(13,441)	5,280
Amortization of goodwill	6		139,781	15	43	8,855
Other	9		(5,226)			(110,685)
Operating profit		66,813	193,035	54,081	156,253	251,072

**Construtora Norberto Odebrecht S.A.
and Subsidiaries**

**Statement of Income
Years Ended December 31**

In thousands of reais and thousands of U.S dollars, except net income per shares

(continued)

	Note	Parent company			Consolidated		
		2003		2002		2003	2002
		US\$	R\$	US\$	R\$		
Non-operating income		6,521	18,840	22,090	15,830	45,737	20,193
Income before social contribution and income tax		73,334	211,875	264,814	69,911	201,990	271,265
Social contribution	11	(3,472)	(10,030)	(693)	(2,471)	(7,140)	3,571
Income tax	11	(8,989)	(25,970)	(18,118)	(6,556)	(18,943)	(29,295)
Income before management profit sharing and minority interest		60,873	175,875	246,003	60,884	175,907	245,541
Management profit sharing		(4,465)	(12,900)	(4,000)	(4,465)	(12,900)	(4,000)
Minority interest					(11)	(32)	462
Net income for the year		<u>56,408</u>	<u>162,975</u>	<u>242,003</u>	<u>56,408</u>	<u>162,975</u>	<u>242,003</u>
Net income per share at the end of the year - R\$ / US\$		<u>0.22</u>	<u>0.64</u>	<u>0.94</u>			

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

Construtora Norberto Odebrecht S.A.

Statement of Changes in Stockholders' Equity In thousands of reais, except net income per shares

	<u>Capital</u>	<u>Revenue reserves</u>		<u>Retained earnings</u>	<u>Total</u>
		<u>Legal</u>	<u>For investments (statutory)</u>		
At December 31, 2001	1.255.267	37.583	150.514		1.443.364
Realization of reserves			(150.510)	150.510	
Extraordinary dividends on common shares - R\$ 0.573 per share				(110.119)	(110.119)
Extraordinary dividends on preferred shares - R\$ 0.631 per share				(40.391)	(40.391)
Net income for the year				242.003	242.003
Appropriation:					
Prepaid dividends - R\$ 0,236 per share				(60.504)	(60.504)
Constitution of reserves		12.100	169.399	(181.499)	
At December 31, 2002	1.255.267	49.683	169.403		1.474.353
Redemption of 276,609 common shares and 59,666 preferred shares from minority stockholders by the realization of reserves			(1.984)		(1.984)
Extraordinary dividends - R\$ 0.654 per share			(167.417)		(167.417)
Net income for the year				162.975	162.975
Appropriation:					
Prepaid dividends - R\$ 0.159 per share				(40.797)	(40.797)
Constitution of reserves		8.149	114.029	(122.178)	
At December 31, 2003	1.255.267	57.832	114.031		1.427.130

Construtora Norberto Odebrecht S.A.

Statement of Changes in Stockholders' Equity

In thousands of U.S. dollars, except net income per shares

(continued)

	<u>Revenue reserves</u>			<u>Retained earnings</u>	<u>Total</u>
	<u>Capital</u>	<u>Legal</u>	<u>For investments (statutory)</u>		
At December 31, 2002	434,469	17,195	58,634		510,298
Redemption of 276,609 ordinary stocks and 59,666 preferred stocks of minority stockholders by the realization of reserves			(687)		(687)
Extraordinary dividends - US\$ 0.226 per share			(57,945)		(57,945)
Net income for the year				56,408	56,408
Appropriation:					
Prepaid dividends - US\$ 0.067 per share				(14,120)	(14,120)
Constitution of reserves		2,821	39,467	(42,288)	
At December 31, 2003	<u>434,469</u>	<u>20,016</u>	<u>39,469</u>		<u>493,954</u>

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

**Construtora Norberto Odebrecht S.A.
and Subsidiaries**

**Statement of Changes in Financial Position
Years Ended December 31
In thousands of reais and thousands of U.S dollars**

	Parent company			Consolidated		
	2003	2002		2003	2002	
	US\$	R\$		US\$	R\$	
Financial resources were provided by						
Operations						
Net income for the year	56,408	162,975	242,003	56,408	162,975	242,003
Expenses (income) not affecting working capital						
Deferred income tax and social contribution	13,507	39,024	1,877	(831)	(2,401)	(4,302)
Investments in subsidiary and associated companies						
Equity in the results of investments in subsidiaries	(6,758)	(19,526)	(382,135)			
Equity in the results of investments in associated companies				4	13	(6,324)
Equity in the results of investments classified in long-term assets				(8,374)	(24,195)	
Provision (reversal) for losses on investments	(718)	(2,074)	(5,398)	(4,652)	(13,441)	5,280
Amortization of goodwill			139,781	15	43	8,855
Loss on profit sharing percentage variation	9,375	27,087				
Adjustments to long-term contracts (Note 2 (b))	(2,946)	(8,512)	362,269	15,048	43,477	366,221
Depreciation and amortization	13,913	40,197	60,829	39,555	114,283	139,129
Residual value of permanent asset disposals	17,726	51,213	117,891	25,578	73,901	136,912
Interest and monetary variations on long-term assets and liabilities, net	(64,044)	(185,035)	72,350	(16,846)	(48,672)	402,389
Minority interest				11	32	(462)
	36,463	105,349	609,467	105,916	306,015	1,289,701
Odebrecht Organization companies	20,267	58,554				
Third parties						
Increase in long-term liabilities	28,865	83,396	899,499	152,976	441,978	994,431
Transfer from long-term assets and permanent assets to current assets	30,039	86,790	97,196	48,437	139,943	337,207
Dividends received	12,105	34,973	48,885			
	71,009	205,159	1,045,580	201,413	581,921	1,331,638
Total funds provided	127,739	369,062	1,655,047	307,329	887,936	2,621,339

**Construtora Norberto Odebrecht S.A.
and Subsidiaries**

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

In thousands of reais and thousands of U.S. dollars

(continued)

	Parent company			Consolidated		
	2003		2002	2003		2002
	US\$		R\$	US\$		R\$
Financial resources were used for						
Odebrecht Organization companies			738,753	54,097	156,296	539,535
Non-current assets	2,238	6,469	118,778	6,450	18,635	147,024
Permanent assets						
Investments	15,061	43,516	226,057	14,965	43,236	48,726
Property and equipment	8,713	25,173	167,827	59,986	173,313	250,299
Deferred charges	3,745	10,819	8,987	4,563	13,183	18,593
Transfer from long-term to current liabilities	84,437	243,952	367,604	100,378	290,015	1,338,504
Redemption of shares	687	1,984		687	1,984	
Net working capital of companies included in and/or excluded from consolidation, net				6,575	18,996	13,621
Total funds used	114,881	331,913	1,628,006	247,701	715,658	2,356,302
Increase in working capital	12,858	37,149	27,041	59,628	172,278	265,037
Changes in working capital						
Current assets						
At the end of the year	597,385	1,725,967	1,449,723	990,675	2,862,263	2,455,003
At the beginning of the year	501,773	1,449,723	1,047,409	849,717	2,455,003	1,786,178
	95,612	276,244	402,314	140,958	407,260	668,825
Current liabilities						
At the end of the year	393,411	1,136,640	897,545	546,595	1,579,226	1,344,244
At the beginning of the year	310,657	897,545	522,272	465,265	1,344,244	940,456
	82,754	239,095	375,273	81,330	234,982	403,788
Increase in working capital	12,858	37,149	27,041	59,628	172,278	265,037

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

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

1 Operations

The objectives of Construtora Norberto Odebrecht S.A. (“the Company”), an Odebrecht Organization company, which legal home office is headquartered in the State of Rio de Janeiro and administrative home office is based on the State of São Paulo, include mainly the planning and construction of engineering projects of all types in the role of contractor or administrator or other roles; civil engineering installations, industrial assembly, consulting, planning, assistance and technical studies; the rendering of administrative or technical services; urban and rural real estate ventures; investments in other companies for the purpose of greater development, stability and profitability; and engaging in other related economic activities, including import and export; the rental, purchase and sale of equipment, and transportation.

Through its branches, the Company also operates in Ecuador, Colombia, Venezuela, Bolivia, Uruguay, Costa Rica, Mexico, Dominican Republic, United Arab Emirates and Angola. In addition to the countries above, the Company operates through its direct and indirect subsidiaries in Argentina, Peru, Portugal, Chile, the United States and United Kingdom.

In the heavy civil construction segment, the Company and its main indirect subsidiary company, CBPO Engenharia Ltda. ("CBPO"), develop construction projects involving highways, railways, nuclear, hydroelectric and thermoelectric plants, port installations, dams, and other industrial and infrastructure projects.

The Company mainly operates with surety bonds to capture and perform agreements in Brazil and abroad, supported by OCS - Odebrecht Administradora e Corretora de Seguros Ltda., an Odebrecht Organization company, through strategic long-term alliances with first line insurance companies and brokerages in the global insurance market. At December 31, 2003, the amounts of contractual guarantees issued is equivalent to US\$ 877,781 (R\$ 2,536,085).

The main projects currently carried out in Brazil are as follows: Irapé Hydroelectric Plant, Norte Fluminense Thermoelectric Plant, Rehabilitation of Petrobrás Pipes, in addition to several contracts for rendering services in petroleum platforms. The main foreign projects are located in Venezuela (line 4 of Caracas subway and the bridge over Orinoco river), in Dominican Republic (artificial channel) and Angola (hydroelectric plants and infrastructure).

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(i) Operations in Venezuela

During the year ended December 31, 2003, 23% of net sales and services revenues recorded in the Company's consolidated financial statements arise from operations in Venezuela.

On January 21, 2003, free trade of foreign currencies in Venezuela was suspended and, on February 5, 2003, the Venezuelan Central Bank and the Ministry of Finance issued the Exchange Accord n° 1, through which it is established a new regime for foreign currency management to be adopted by the country as a consequence of the exchange policy agreed between the Executive Power and the Central Bank. Additionally, Exchange Accord n° 2 was issued, through which it was determined the exchange rate at Bs 1,596:US\$ 1 for purchase and Bs 1,600:US\$ 1 for sale. On this same date, through a Presidential Decree it was created the Foreign Exchange Administration Commission (CADIVI), which is responsible for the coordination, management, control and establishment of requirements, procedures and restrictions concerning the Exchange Accord n° 1.

The Exchange Accord n° 1, among other aspects, established the obligation to sale to the Venezuelan Central Bank all foreign currencies entered in the country and temporarily suspends the purchase and sale in local currency of notes issued in foreign currencies. The Central Bank will concentrate the purchase and sale of foreign currencies in the country.

Subsequently, CADIVI issued rules related to different aspects and requirements relating to the management of the foreign exchange regime, such as record of users, requirements for imports and exports, as well as requirements for recording foreign debts of the private sector.

Based on the rules established to obtain the recognition of the net debt in foreign currency, with the objective of purchasing the foreign currencies at the exchange rate determined by the Executive Power for the payment of the mentioned foreign debt, the Venezuelan branch and subsidiary must carry out some procedures required by the rules issued by CADIVI. The Company's units in Venezuela filed their foreign debt with CADIVI, which is analyzing the related approval.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(ii) Participation in the diamond sector

Through its subsidiaries, the Company also conducts mineral prospecting and exploration. Its wholly-owned subsidiary Odebrecht Mining Services, Inc. ("OMSI") holds 16.4% of the investee Sociedade Mineira de Catoca, Limitada ("Catoca"), which conducts prospecting, exploration, treatment and trade of diamonds and other minerals in the Catoca Project in the Lunda Sul Province of Angola. Catoca has a concession from the Angolan Government to exploit diamonds mined from the Catoca kimberlite area, and also holds 50% of Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L. ("SDM"), which conducts prospecting, exploration and trade of diamonds extracted in a concession area granted by the Angolan Government in the Hydrographic Basin of the Cuango River (Angola). The book values of these investments at December 31, 2003 were R\$ 45,597 – US\$ 15,782 (Catoca) and R\$ 93,512 – US\$ 32,366 (SDM) (2002 – R\$ 46,649 and R\$ 92,606, respectively).

Negotiations to sell the Company's stake in Catoca are in progress. This process is being conducted by an international financial institution. Management does not expect any losses upon closing.

The Company is evaluating its operations in the diamond sector to define the business strategy it will adopt. The Company holds a total investment of R\$ 139,109 – US\$ 48,148 (2002 – R\$ 135,738) in this sector.

(iii) Equalization of the financial position and corporate structure

In 2002 and 2003, the Company and its subsidiaries have transferred certain equity interests among themselves, as mentioned in Note 6 (c), and participated in debt assumption transactions mentioned in Note 8, for the purpose of improving the financial position and reducing the organizational structure of the Engineering and Construction segment of the Odebrecht Organization. This process is still under analysis and development.

Accordingly, it must be pointed out the Eurobonds operations issued in September 2003 (see Note 8 (i) (b)) and the Medium-Term Notes issued in February 2004 (see Note 17 (ii)) through the indirect subsidiary Odebrecht Overseas Ltd. ("OOL"). In addition, the Company is negotiating operations in the local and foreign markets, in order to consolidate the extension of their debts, obtaining an alignment between terms and cash generation.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(iv) Transfer of highway concessions

Due to the sale, by the holding of the Odebrecht Organization, Odebrecht S.A., of its investment in Companhia de Concessões Rodoviárias (“CCR”) to third parties, the Company will obtain from the National Agency for Road Transportation (“ANTT”) the approval, concerning the CCR acquiring parties, for transferring, with any charge, its interest in some highway concessions determined in the Sales and Purchase Agreement entered into between the parties.

2 Significant Accounting Practices

The financial statements of the Company and its subsidiaries were prepared and presented in conformity with the accounting practices adopted in Brazil.

In the preparation of the financial statements, it is necessary to utilize estimates to record certain assets, liabilities and other transactions. Therefore, the financial statements include various estimates relating to the selection of economic useful lives for property and equipment, measurement of services provided under long-term contracts, provisions for contingent liabilities, determination of the provision for income tax and other matters. Although these estimates have been made with the highest precision possible, they may be significantly different from the actual data and amounts.

(a) Determination of results of operations

Results are determined on the accrual basis of accounting.

(b) Construction contracts

Revenues from contracts are recognized taking into consideration the execution stage of each contract at balance sheet date. The method used to determine the execution stage considers the ratio between costs incurred to date and total budgeted costs per contract. If the revenue of certain contracts cannot be measured reliably under this method, the Company and its subsidiaries take into consideration physical measurements of the executed work in order to calculate the accounting revenue.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(c) Current assets and long-term receivables

Financial investments and marketable securities are shown at cost, including accrued income up to the balance sheet dates.

The allowance for doubtful accounts is established at an amount considered adequate by management after analyzing the operations and taking into consideration the economic scenario, past experience, specific portfolio risks and negotiations in progress, by administrative or judicial means.

Inventories of parts and materials are stated at average purchase cost, which is lower than replacement cost or realizable value.

Real properties and fixed assets not used in operations, as well as investments for sale, are stated under current assets and long-term receivables, based on management's expectations regarding the timing of the sale of these assets and the stage of the negotiations.

Other assets are stated at cost or realizable value including, where applicable, accrued income and monetary variations or, in the case of prepaid expenses, at cost.

(d) Permanent assets

Permanent assets are stated at cost including restatements up to December 31, 1995, and take into consideration the following aspects:

- Investments in subsidiary and associated companies are stated on the equity method. Provisions for losses on investees with net capital deficiency, in which the Company is intended to maintain its financial support, are recorded in long-term liabilities.
- Depreciation of property, plant and equipment is recorded on the straight-line method at the rates mentioned in Note 7, which take into consideration the economic useful lives of the assets.
- Contract costs incurred prior to contract acceptance and in the same year when the contracts are accepted are deferred and amortized over the period of execution of the projects. Deferred charges relating to the development of software are amortized over five years.

Construtora Norberto Odebrecht S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousands of reais and thousands of U.S. dollars unless otherwise indicated

(e) Current and long-term liabilities

These liabilities are stated at known or estimated amounts, including accrued charges and monetary correction, when applicable.

(f) Taxes on income

Income tax and social contribution on net income are calculated at the rates established by applicable legislation. The expense for income tax and social contribution is recorded on the accrual basis, including deferred taxes calculated on differences between the accounting basis and tax basis of assets and liabilities, such as the effects of deferrals of unrealized revenues deriving from contracts with government entities, as permitted by tax legislation, as well as tax losses.

(g) Consolidated financial statements

The consolidated financial statements were prepared in conformity with accounting practices adopted in Brazil and comprise the financial statements of the Company and the following subsidiaries, in which the following direct and indirect holdings are maintained:

	Country	Direct and indirect holdings (%)	
		2003	2002
Belgrávia Empreendimentos Imobiliários Ltda.	Brazil	99.99	99.99
Bento Pedroso Construções S.A.	Portugal	100.00	100.00
CBPO Engenharia Ltda.	Brazil	100.00	100.00
CBPO Overseas Ltd.	Cayman Islands	100.00	100.00
CNO Mining Ltd. (**)	British Virgin Islands		100.00
Constructora Norberto Odebrecht de Colombia Ltda.	Colombia	100.00	100.00
Constructora Norberto Odebrecht del Ecuador S.A.	Ecuador	100.00	100.00
Constructora Norberto Odebrecht Peru S.A. (***)	Peru		100.00
CBPO Ingeniería de Venezuela C.A.	Venezuela	100.00	100.00
Constructora Odebrecht Chile S.A.	Chile	100.00	100.00
Constructora Odebrecht Uruguay S.A.	Uruguay	100.00	100.00
Energipar S.A.	Brazil	100.00	100.00
Multitrade S.A.	Brazil	99.99	99.99
Odebrecht Angola Projectos e Serviços Ltda.	Angola	100.00	100.00
Odebrecht Automação e Participações Ltda.	Brazil	100.00	100.00
Odebrecht Construction, Inc.	USA	100.00	100.00
Odebrecht Mining Services, Inc.	Cayman Islands	100.00	100.00
Odebrecht Oil Services Ltd.	Cayman Islands	100.00	100.00

Construtora Norberto Odebrecht S.A. and Subsidiaries

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	Country	Direct and indirect holdings (%)	
		2003	2002
Odebrecht Oil and Gas Services Ltd.	United Kingdom	100.00	100.00
Odebrecht Oil and Gas Angola Ltd. (*)	Angola	100.00	
Odebrecht Overseas Ltd.	Bahamas	100.00	100.00
Odebrecht Peru Ingeniería y Construcción S.A.C. (***)	Peru	100.00	
Odebrecht Serviços de Óleo e Gás Ltda.	Brazil	100.00	100.00
OSEL - Odebrecht Serviços no Exterior Ltd.	Cayman Islands	100.00	100.00
<u>Company proportionally consolidated</u>			
Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L.	Angola	50.00	50.00

(*) On June 30, 2003, the subsidiary OSEL – Odebrecht Serviços no Exterior Ltd. (“OSEL”) acquired from Tenenge Overseas Corporation (“TOC”), an Odebrecht Organization company, the total interest in Odebrecht Oil and Gas Angola Ltd., at book value, which started to be included in the Company’s consolidated financial statements at December 31, 2003.

(**) Company merged into subsidiary Odebrecht Mining Services, Inc.

(***) Note 6 (c) (iv).

In the consolidated financial statements, investments in the net equity, the results of the subsidiaries and the balances of intercompany assets, liabilities, income and expenses were eliminated. Minority interests in stockholders' equity and net income for the period are presented separately. The asset, liability, income and expense accounts of jointly-owned subsidiaries are consolidated in proportion to the total ownership of their capital.

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The financial statements of the foreign subsidiaries and branches were translated (i) from local currency into U.S. dollars, when applicable (high inflationary countries and without proper instruments for replacement of these inflationary effects), based on the effective rate on the date of the financial statements or on the date of the transactions, depending on the nature of the accounting component involved (monetary or not), and later converted into Brazilian Reais based on the effective rate of the U.S. dollar on the date of the financial statements, or (ii) from local currency into Brazilian Reais based on the effective rate of the date of the financial statements, when the subsidiary is not based in a high inflationary country or, if it is the case, with proper instruments for replacement of these inflationary effects, according to Pronouncement XXI – Consolidation Standards of the Institute of Independent Auditors of Brazil (IBRACON).

For the year ended December 31, 2003, in order to improve the presentation of its financial statements and due to the economic events in Venezuela and Peru, the Company started to adopt, for the entities based on these countries, the criteria mentioned in item (ii) above.

Due to the intention to sell and the advanced stage of negotiations regarding the investees Catoca (see Note 1(ii)), Tenenge (UK) Holdings Ltd. ("TUK"), Participações Energéticas S.A. ("PESA") and Produtores Energéticos de Manso S.A. - PROMAN ("PROMAN"), the Company did not consolidate the assets and liabilities of these investees in its consolidated financial statements at December 31, 2003 and 2002, and the amounts of these investments were reclassified into consolidated current assets (TUK - R\$ 136,627 – US\$ 47,289, PESA - R\$ 600 – US\$ 208 and PROMAN – allowance for losses of R\$ 764 – US\$ 264) and long-term receivables (Catoca - R\$ 45,597 – US\$ 15,782), based on management's estimates of the timing of the sales of these investments. The equity results generated by these investments classified as current assets are a loss of R\$ 22,146 – US\$ 7,665. Company management does not expect any losses on the sale of these investments.

(h) Basis of translation

The accounting records are maintained in reais. The financial information in U.S. dollars is presented solely for the convenience of the reader and has been translated from the amounts in the December 31, 2003 local currency financial statements, using the exchange rate prevailing on that date of R\$ 2.8892: US\$ 1.00. Such translation should not be construed as representing that the amounts in reais represent, or have been, or could be, converted in U.S. dollars at that or at any other rate.

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Had the Company's transactions been measured directly in U.S. dollars at exchange rates ruling on the dates that the transactions were carried out, significantly different results and trends would have been presented.

3 Trade Accounts Receivable

	Parent company		Consolidated	
	2003	2002	2003	2002
	US\$	R\$	US\$	R\$
Public sector				
Federal	108,332	312,994	179,571	518,817
State	98,694	285,146	152,001	439,160
Municipal	9,026	26,078	45,224	130,662
	216,052	624,218	376,796	1,088,639
Private sector	130,728	377,700	220,664	637,544
	346,780	1,001,918	597,460	1,726,183
Less: current assets	240,739	695,543	373,438	1,078,938
Long-term receivables	106,041	306,375	224,022	647,245

The balances of trade accounts receivable (in the consolidated, including accounts receivable from third parties of the Company's indirect subsidiary company CBPO in the amount of R\$ 234,468 – US\$ 81,153 (2002 - R\$ 311,047)) were restated taking into consideration contractual terms, specific portfolio risks and negotiations in progress, via administrative and judicial means, in order to receive amounts due for services rendered and financial charges. Furthermore, taking into consideration the history of minimal losses that the Company and its subsidiaries have incurred, management does not anticipate losses on the realization of such receivables and understands that, as a result of these actions, the recognition of amounts in addition to those recorded may occur when sufficient evidence exists to support a reasonable expectation that the corresponding amounts will be received. Trade accounts receivable at the parent company include R\$ 347,807 – US\$ 120,382 (2002 - R\$ 304,773) and in the consolidated R\$ 508,057 – US\$ 175,847 (2002 – R\$ 451,456) of overdue receivables under judicial collection proceedings, on which favorable judgements were obtained, and R\$ 196,993 – US\$ 68,183 (2002 - R\$ 175,732) in the consolidated R\$ 301,530 – US\$ 104,365 (2002 - R\$ 344,085) of overdue receivables in respect of which the Company is negotiating with debtors.

Construtora Norberto Odebrecht S.A. and Subsidiaries

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4 Taxes Recoverable

	Parent company			Consolidated		
		2003	2002		2003	2002
	US\$		R\$	US\$		R\$
Current assets						
Finsocial recoverable (i)	6,022	17,400	10,902	6,022	17,400	10,902
Social contributions recoverable	1,780	5,140	6,402	2,881	8,323	15,161
Withholding income tax at source on earnings from financial investments and invoicing	2,891	8,354	42,488	7,176	20,733	49,320
Credit for income tax paid by foreign branches and subsidiaries (Note 11 (g))	14,634	42,281	5,267	16,336	47,197	7,149
Tax refund - Argentine branch (ii)						36,128
Prepaid income tax at foreign branches and subsidiary	4,554	13,157		7,079	20,453	4,602
Tax on added value at foreign branches	4,131	11,936	608	4,745	13,710	1,891
Other taxes recoverable	3,833	11,073	4,172	4,148	11,985	8,442
	<u>37,845</u>	<u>109,341</u>	<u>69,839</u>	<u>48,387</u>	<u>139,801</u>	<u>133,595</u>
Long-term receivables						
Finsocial recoverable (i)				9,487	27,409	20,792
Other taxes recoverable	372	1,075	1,215	2,822	8,154	12,295
	<u>372</u>	<u>1,075</u>	<u>1,215</u>	<u>12,309</u>	<u>35,563</u>	<u>33,087</u>

(i) Finsocial recoverable

Refers to the recovery of the payments of the social contribution determined in Article 195, Item I of Federal Constitution of 1988 (FINSOCIAL), as a result of the judgement passed by the Federal Regional Court (TRF) - Region 1 on the suit filed by the Company and its subsidiary company CBPO, challenging the constitutionality of this taxation. This judgement is final and non-appealable. Of the outstanding balance at December 31, 2003, R\$ 27,409 – US\$ 9,487 (2002 – R\$ 20,792) are classified as consolidated long-term receivables, based on the estimated timing of realization.

(ii) Tax refund - Argentina branch

At the end of June 2001, the Argentine branch of the subsidiary company CBPO recorded a net gain corresponding to a claim against the Argentine government by Consórcio Patagonia U.T.E., of which the branch is a member, related to the difference of interest in arrears received on the payment of a certain tax refund in 1997 related to the period from 1991 to 1996.

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This refund was recognized by the Argentine government through an Opinion of the Office of the Attorney General of the National Treasury. Accordingly, the branch of the subsidiary recorded the amount equivalent to its participation in the mentioned consortium, recognizing a reduction of 39% for an anticipated discount which might occur upon the realization of the mentioned credit and other discounts, based on the accumulated experience with similar situations in the past and the experience of other companies that have already received these refunds.

On November 6, 2002, the Energy Secretariat of the Argentine Ministry of Economy issued Resolution 161 which determines the payment to Consórcio Patagonia U.T.E. of the mentioned debt through "Certificados de Reintegros Impositivos" (Tax Refund Certificates), issued by the Argentine Government.

Between January and May 2003, the "Certificados de Reintegros Impositivos" issued by the Argentine Government as mentioned above were fully realized in the financial market at an average discount of approximately 9.35%.

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5 Odebrecht Organization Companies

	Parent Company			Consolidated		
	Long-term receivables	Long-term liabilities	Financial income (expenses), net	Long-term receivables	Long-term liabilities	Financial income (expenses), net
Odebrecht S.A.	96,551		3,458	96,883		3,458
Tenenge Overseas Corporation	14,199		481	184,045		(40,487)
Belgrávia Empreendimentos Imobiliários Ltda.	441,270					
Bento Pedroso Construções S.A.	57		3,205			
CBPO Engenharia Ltda.		14,916	(1,233)			
CBPO Malaysia SDN BHD				15,226		(3,396)
CBPO Overseas Ltd.		149,162	33,388			
Odebrecht Automação e Participações Ltda.	47,072		2,184			
Odebrecht Mining Services, Inc.		18,449	(299)			
OSEL - Odebrecht Serviços no Exterior Ltd.			6,543			
Participações Energéticas S.A.		4,766			4,766	
Multitrade S.A.	5,551					
CBPO Ingeniería de Venezuela C.A.		40,949	423			
Constructora Norberto Odebrecht de Colombia Ltda.		8,276				
Constructora Norberto Odebrecht de Ecuador S.A.		5,891				
Odebrecht Peru Ingeniería y Construccion S.A.C		70,036	1,204			
Odebrecht Oil Services Ltd.		12,661	2,823			
Odebrecht Overseas Ltd.	321,010		(30,356)			
Odebrecht Serviços de Óleo e Gás Ltda.	103,009		5,085			
Sociedade de Desenvolvimento Mineiro de Angola, S.A.R.L.			(3,735)			
Odebrecht Angola Projectos e Serviços Ltda.		34,116	(807)			
Other	2,719	2,988	(407)	1,072	815	
Total - 2003- R\$	1,031,438	362,210	21,957	297,226	5,581	(40,425)
Total - 2003 - US\$	356,998	125,367	7,600	102,875	1,932	(13,992)
Total - 2002 - R\$	1,367,801	657,687	76,055	443,378	18,150	1,833

The main balances with Odebrecht Organization companies, in the parent company and in the consolidated financial statements, are covered by a "Current account and single cash management agreement", entered into by all Organization companies, without a defined expiration date, and have the following characteristics:

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Company	Financial charges	Nature of the transactions
Odebrecht S.A.	Reference Units (UR) – Benchmark long-term interest rate (TJLP)	Transfer of funds, credit assignments and debt assumptions
Tenenge Overseas Corporation	U.S. dollar fluctuation in relation to the real	Transfer of funds, credit assignments and debt assumptions
CBPO Engenharia Ltda.	UR – TJLP	Transfer of funds and credit assignments
Belgrávia Empreendimentos Imobiliários Ltda.	Non-interest bearing	Transfer of funds and credit assignments
Odebrecht Automação e Participações Ltda.	UR – TJLP	Transfer of funds and credit assignments
Odebrecht Peru Ingeniería y Construcción Ltda.	U.S. dollar fluctuation in relation to the real	Transfer of funds and credit assignments
CBPO Ingeniería de Venezuela C.A.	Bolivar fluctuation in relation to the real (some operations with this subsidiary are expressed in U.S. dollar, bearing foreign exchange variation plus LIBOR +3% p.a.)	Transfer of funds
Odebrecht Overseas Ltd.	U.S. dollar fluctuation in relation to the real plus/or LIBOR + 3% p.a. (some operations with this subsidiary are expressed in reais, not bearing foreign exchange variation)	Transfer of funds and credit assignments
CBPO Overseas Ltd.	U.S. dollar fluctuation in relation to the real	Transfer of funds and credit assignments
Odebrecht Serviços de Óleo e Gás Ltda.	UR – TJLP	Transfer of funds and credit assignments

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6 Investments

(a) Information on the investees – main subsidiaries – parent company

	Ownership interest (%)		Adjusted stockholders' equity (net capital deficiency)				Adjusted net income (loss) for the year	
	2003	2002	2003		2002		2003	2002
			US\$	R\$	US\$	R\$		
Odebrecht Angola Projectos e Serviços Ltda.	50.00	50.00	9,841	28,433	19,994	363	1,049	3,247
Odebrecht Overseas Ltd. (Note 6 (c) (vi))	39.03	19.21	147,130	425,089	212,144	46,566	134,539	(138,602)
OSEL - Odebrecht Serviços no Exterior Ltd.	100.00	100.00	72,574	209,682	182,884	20,814	60,136	(66,207)
Odebrecht Peru Ingeniería y Construcción S.A.C. (Note 6 (c) (iv))	100.00		6,382	18,439		3,492	10,089	
Constructora Norberto Odebrecht Peru S.A. (Note 6 (c) (iv))		100.00			(442)			(7,963)
Constructora Norberto Odebrecht del Ecuador S.A.	100.00	100.00	1,969	5,690	6,883	21	61	88
Constructora Norberto Odebrecht de Colombia Ltda.	100.00	100.00	2,741	7,919	9,680	(224)	(646)	(83)
Odebrecht Construction, Inc. (Note 6 (c) (v))	78.00	77.87	42,168	121,832	13,983	417	1,204	(10,281)
Constructora Odebrecht Uruguay S.A.	5.00	5.00	325	940	2,091	(349)	(1,007)	(2,032)
Constructora Odebrecht Chile S.A.	99.00	99.00	60	173	3,759	(135)	(389)	2,480
Bento Pedroso Construções S.A. (Note 6 (c) (v))	51.00	100.00	73,526	212,432	231,563	9,303	26,878	61,520
Belgravia Empreendimentos Imobiliários Ltda.	99.99	99.99	81,722	236,112	275,752	(13,720)	(39,640)	242,239
Energipar S.A.	100.00	100.00	2,023	5,844	5,892	(14)	(40)	(156)
CNO Mining Ltd. (Notes 6 (c) (vi) e 2 (g))		100.00			92,606			(266)

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(b) Activity – main subsidiaries – parent company

	At the beginning of the year	Acquisitions/ Transfers	Offsets	Dividends received	Loss on profit sharing percentage variation (Note 6 (c) (vi))	Amortization of goodwill	Equity in the results	At the end of the year
Odebrecht Angola Projectos e Serviços Ltda.	9,997	5,745					(1,525)	14,217
Odebrecht Overseas Ltd. (Note 6 (c) (vi))	40,752	115,741			(27,087)		36,506	165,912
OSEL - Odebrecht Serviços no Exterior Ltd.	182,884						26,798	209,682
Odebrecht Peru Ingeniería y Construcción S.A.C. (Note 6 (c) (iv))		35,885					(17,446)	18,439
Constructora Norberto Odebrecht del Ecuador S.A.	6,883						(1,193)	5,690
Constructora Norberto Odebrecht de Colombia Ltda.	9,680						(1,761)	7,919
Odebrecht Construction, Inc. (Note 6 (c) (v))	10,889	86,928					(2,788)	95,029
Constructora Odebrecht Uruguay S.A.	105						(58)	47
Constructora Odebrecht Chile S.A.	3,759		(2,584)				(1,002)	173
Bento Pedroso Construções S.A. (Note 6 (c) (v))	231,564		(86,786)	(34,973)			(1,465)	108,340
Belgrávia Empreendimentos Imobiliários Ltda.	275,724						(39,635)	236,089
Energipar S.A.	5,892		(8)				(40)	5,844
CNO Mining Ltd. (Notes 6 (c) (vi) e 2 (g))	92,606		(115,741)				23,135	
Total - 2003 - R\$	870,735	244,299	(205,119)	(34,973)	(27,087)		19,526	867,381
Total - 2003 - US\$	301,376	84,556	(70,995)	(12,105)	(9,375)		6,758	300,215
Total - 2002 - R\$	297,832	506,356	(126,922)	(48,885)		(139,781)	382,135	870,735

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(c) Other information

- (i) At December 31, the Company set up provisions for the total amount of the net capital deficiency of subsidiary and associated companies, for which the Company intends to maintain its financial support, demonstrated as follows:

	Parent company		Consolidated	
	Liabilities	Income	Liabilities	Income (expense)
Constructora Norberto Odebrecht Peru S.A.		1,520		
UMON - Engenharia de Montagens Ltda.	66	314	66	314
OPSA Tenenge S.A. de C.V.	272	187	272	187
CBPO Malaysia SDN BHD				16,555
UNICON - União de Construtoras Ltda.			558	(235)
Constructores Akal B y L, S. de R.L. de C.V.			5,521	(3,221)
Other	279	53	735	(159)
Total 2003 - R\$	617	2,074	7,152	13,441
Total 2003 - US\$	214	718	2,475	4,652
Total 2002 - R\$	2,698	5,398	24,443	(5,280)

At December 29, 2003, the indirect subsidiaries CBPO and CBPO Overseas Ltd. sold their investments in CBPO Malaysia SDN BHD to TOC, which resulted in the reversal of provision for losses set up in prior years in the amount of R\$ 16,555 – US\$ 5,730.

- (ii) Through Decree 38/01, the jointly-controlled subsidiary SDM have reduced its concession area (see Note 1 (ii) for more information) from 85,600 m² to 3,000 m². Management is making efforts to obtain an authorization from the Angolan Government to reintegrate some of these excluded areas. Up to date, the Angolan Government approved a 10.7 Km adjustment in the prior coordinates, and management continues to wait for the approval of the other bid areas. The auditors of this company emphasize that these approvals concerning the additional areas are essential to extend the useful lives of operations, as well as to retake the geological studies. At December 31, 2003, the balance of investments in SDM amounts to R\$ 93,512 – US\$ 32,366 (2002 - R\$ 92,606, in addition to the loan of R\$ 23,299, fully offset in 2003), recorded in the financial statements of the subsidiary OMSI. Company management understands that the investee will continue normal business operations.

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- (iii) The net result of equity accounting includes the foreign exchange gain (loss) on foreign subsidiary and associated companies. These amounts are shown below:

	Parent company		Consolidated	
	2003	2002	2003	2002
Odebrecht Overseas Ltd.	(6,251)	(481)		
Odebrecht Mining Services, Inc.		33,015		
OSEL - Odebrecht Serviços no Exterior Ltda.	(33,339)	34,247		
Odebrecht Peru Ingeniería y Construcción Ltda.	(406)			
Construtora Norberto Odebrecht Peru S.A.	277	1,878		
Construtora Norberto Odebrecht del Ecuador S.A.	(1,255)	2,333		
Construtora Norberto Odebrecht de Colombia Ltda.	(1,153)	1,584		
CBPO Ingeniería de Venezuela C.A		3,376		
Odebrecht Construction, Inc.	(3,741)	10,935		
Construtora Odebrecht Uruguay S.A.	(27)	(32)		
Construtora Odebrecht Chile S.A.	(242)	362		
CNO Mining Ltd.	(15,304)	(1,417)		
Bento Pedroso Construções S.A.	(9,084)	66,012		
Odebrecht of South Africa (PTY) Ltd.		(4,258)		
Odebrecht Angola Projectos e Serviços Ltda.	(2,047)	2,874		
CBPO Malaysia SDN BHD			3,618	(6,829)
Constructores Akal B y L, S. de R.L. de C.V.			530	4,297
AENOR - Auto-Estradas do Norte, S.A.			(138)	1,695
Auto Estrada da Costa da Prata S.A.			(62)	696
Auto Estrada das Beiras Litoral e Alta S.A.			(64)	787
Other		5		
Total - R\$	(72,572)	150,433	3,884	646
Total - US\$	(25,118)		1,344	

- (iv) On May 21, 2003, the Company, as part of the process of the reorganization of Company's operation in Peru, transferred at book value of R\$ 20,691 – US\$ 7,161 its assets of the branch in this country to establish a new subsidiary, Odebrecht Peru Ingeniería e Construcción S.A.C. ("OPI"). At the same date, OPI's capital was increased by the Company with the balances of current accounts with OOL, in the amount of R\$ 15,190 – US\$ 5,258, being Construtora Odebrecht Peru S.A. merged into OPI, another subsidiary of the Company operating in Peru.

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- (v) On May 2, 2003, BPC approved the distribution of dividends relating to the year ended December 31, 2002, in the amount of €10,175 thousand, equivalent to R\$ 34,973 – US\$ 12,105.

On May 30, 2003, the Company increased the capital of the subsidiary Odebrecht Construction, Inc. (“OCI”) by contributing 49% of its holding in BPC, at book value, in the amount of US\$ 29,478, equivalent to R\$ 86,928 at the date. With this transaction, the Company increased its holding in OCI from 77.87% to 78.00%.

- (vi) At November 28, 2003, the capital of the subsidiary OOL was increased by US\$ 40,523 (equivalent to R\$ 115,741 on that date) through the assignment of its investment in subsidiary CNO Mining Ltda. (“CMIN”), at book value. Since the other OOL stockholders (three companies fully controlled by the Company) were not included in this capital subscription, the Company recorded a loss in the interest percentage variation of R\$ 27,087 – US\$ 9,375 in the subscription of these shares, as this subsidiary has accumulated losses superior to the existing reserves. On the other hand, the other OOL parent companies recorded a gain in the interest percentage variation at the same amount.

- (vii) The financial statements of the main subsidiaries/associated companies, in which the equity in the results calculations were based at December 31, 2003 and 2002, were audited or reviewed by our independent auditors, except for the investees SDM, Construtora Odebrecht Uruguay S.A., North Sea Production Company (jointly-controlled subsidiary of TUK), “Somague-Bento Pedroso-Cubiertas-Dragados, A.C.E.” e “BPC, CBPO, Somague, Profabril, Kaise e Acer, A.C.E.” (jointly-controlled subsidiary of BPC) and Constructores Akal B y L, S. de R.L. de C. V., audited by other independent auditors.

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7 Property and Equipment

	Parent company						Consolidated				% Annual depreciation rate
	2003		2002		2003		2002				
	Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net			
	R\$	R\$	US\$	R\$	R\$	R\$	US\$	R\$			
Land	5,106		1,767	5,106	6,888	11,837	4,097	11,837	11,267		
Buildings and installations	27,064	(6,344)	7,172	20,720	13,525	82,356	(21,494)	21,065	60,862	68,832	4
Machinery and equipment	154,799	(90,215)	22,354	64,584	120,876	464,027	(232,230)	80,229	231,797	314,339	From 10 to 20
Vehicles and ships	48,850	(31,890)	5,870	16,960	40,304	101,301	(72,971)	9,805	28,330	50,005	25
Furniture and fixtures	30,465	(17,527)	4,478	12,938	16,864	65,678	(44,520)	7,323	21,158	28,716	10
Advances to suppliers (*)						76,714		26,552	76,714		
Other	17,833	(14,191)	1,260	3,642	4,267	64,474	(17,072)	16,407	47,402	42,854	From 0 to 10
	<u>284,117</u>	<u>(160,167)</u>	<u>42,901</u>	<u>123,950</u>	<u>202,724</u>	<u>866,387</u>	<u>(388,287)</u>	<u>165,478</u>	<u>478,100</u>	<u>516,013</u>	

(*) Corresponds, mainly, to the amounts described in Note 16(g)(ii).

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Leased vehicles/equipment

The Company and its subsidiaries use leased vehicles, machinery and equipment through irrevocable contracts, which last from three to five years. The operating expenses and costs of services incurred with leasing contracts amounted to R\$ 20,326 – US\$ 7,035 in the parent company and in consolidated (2002 – R\$ 15,562 in parent company and R\$ 20,297 in consolidated). The commitments assumed under these contracts in parent company and in consolidated amount to R\$ 76,160 – US\$ 26,360 (2002 – R\$ 55,684), of which R\$ 56,390 – US\$ 19,518 (2002 – R\$ 30,765) are long-term.

If the leasing agreements were recorded as financed asset purchases, they would represent additional assets with a residual value of R\$ 59,474 – US\$ 20,585 (2002 - R\$ 36,092), and the related depreciation expense for the year ended December 31, 2003 would be R\$ 9,826 – US\$ 3,401 in parent company and in consolidated (2002 – R\$ 3,693 in parent company and R\$ 5,776 in consolidated).

Sale-leaseback agreements

Of the amount of non-operating income (in parent company and in consolidated) at December 31, 2003, R\$ 40,030 – US\$ 13,855 (2002 – R\$ 30,535) refer to the profit generated in the sale of equipment under sale-leaseback agreements. The amount of operating expenses and costs of services incurred with leasing contracts and the commitments assumed under these contracts are presented in the aforementioned Note, as well as the residual value of the corresponding assets and the related depreciation expense, if these operations were recorded as financed asset purchases.

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8 Debts

Financial institution/debt kind	Currency	Financial charges	Parent company		Consolidated			
			2003	2002	2003	2002		
			US\$	R\$	US\$	R\$		
International Finance Corporation - Tranche B3 (*)	Real	CDI + 2.5% p.a.	19,369	55,961	78,373	19,369	55,961	78,373
International Finance Corporation - Tranches A, B1, B2 and C (*)	U.S. Dollar	Libor + interest of 2.75 to 5% p.a. + EV	179,012	517,202	783,903	148,012	427,638	675,435
BES Investimentos	Euro	Eurolibor + 7.2% p.a. + EV	31,694	91,571		30,008	86,698	
Medium-Term Note Programme (***)	U.S. Dollar	10% p.a. + EV	76,375	220,663				
Banco del Pichincha, Banco Bolivariano and Banco Popular Internacional	U.S. Dollar	11.5% p.a. + EV	3,125	9,029	50,858	3,125	9,029	50,858
Banco Sudameris Col6mbia, ABN Amro Bank, Banco de Bogot4 and Banco Corfivalle	Colombian Pesos	5.5% p.a. + EV			50,520			50,520
BNL Bank, ABN Amro Bank and Usbancorp	U.S. Dollar	3.5% p.a. + EV				6,245	18,042	36,607
Caterpillar Financial	U.S. Dollar	Libor + 3.75% p.a. + EV	4,578	13,227	37,196	4,578	13,227	37,196
IKB Deutsche Bank	U.S. Dollar	Libor + 0.95% p.a. + EV				8,837	25,531	70,636
BCP Investimento S.A.	Euro	3.22% p.a. to 3.48% p.a. + EV				28,376	81,985	64,475
Guaranteed Euro Notes	Euro	9.75% p.a. + EV						165,757
Short-Term Note Programme (**)	U.S. Dollar	From 12 to 12.75% p.a. + EV				53,064	153,312	
Eurobond (***)	U.S. Dollar	12% p.a. + EV				103,000	297,588	
Several financial institutions in Brazil	Real	CDI + interest of 2.5 to 3% p.a.	43,926	126,911		43,926	126,911	
Other			10,104	29,193	53,601	19,577	56,563	66,341
Total			368,183	1,063,757	1,054,451	468,117	1,352,485	1,296,198
		Less: Long-term	225,336	651,044	745,907	292,211	844,256	895,524
		Current liabilities	142,847	412,713	308,544	175,906	508,229	400,674

CDI	Interbank Deposit Certificate
EV	Exchange variation
LIBOR	London Interbank Offered Rate
(*)	Note 8 (ii)
(**)	Note 8 (i) (a)
(***)	Note 8 (i) (b)
(****)	Note 8 (iii) (b)

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(i) Additional information

- (a) In June and July 2003, the subsidiary OOL raised in the international financial market the amount of US\$ 50,544 (R\$ 146,032) from a total amount of US\$ 100,000 (R\$ 288,920), in the form of Eurobonds in a Short-term Note Program, falling due in March 2004. These notes are subject to exchange variation plus a discount rate of 12% to 12.75% per annum and are guaranteed by the Company. At December 31, 2003, the balance of these obligations, bearing interest, amounts to US\$ 53,064 (R\$ 153,312).
- (b) At September 30, 2003, OOL raised in the international financial market the amount of US\$ 100,000 (R\$ 288,920), in the form of Eurobonds, falling due in March 2005. These notes are subject to exchange variation plus interest of 12% per annum and are guaranteed by the Company. Part of these notes (US\$ 17,420, equivalent to R\$ 50,330) were raised with the exchange of bonds realized as mentioned in item (iii) (b) below. At December 31, 2003, the balance of this operation amounted to US\$ 103,000 (R\$ 297,588).

(ii) International Finance Corporation

On June 21, 2002, the Company signed with the IFC an agreement to refinance certain of its existing obligations. The refinancing package, in the total amount of US\$ 280,000 (R\$ 808,976), includes four loans, two of which were financed with IFC resources (A and C) totaling US\$ 80,000 (R\$ 231,136). The third loan (B1 and B2) was syndicated to other foreign financial institutions in the amount of US\$ 165,000 (R\$ 476,718), and the fourth loan (B3) was syndicated to Brazilian financial institutions, in the amount of US\$ 35,000 (R\$ 101,122). These loans have maturity periods varying from four to ten years. In the second half of 2002 and in 2003, some events resulted in the advance payment of part of the loan: (a) the receipt of the net amount from the sale of Lusoponte – Concessionária to Travessia do Rio Tejo S.A. (“Lusoponte”, Note 9), of US\$ 32,648 (equivalent to R\$ 115,355 at the date); (b) the receipt of dividends from the subsidiary Catoca in July 2002, in the amount of US\$ 2,224 (equivalent to R\$ 7,858 at the date); (c) the receipt of some balances of overdue accounts receivable in October 2003, in the amount of R\$ 19,578 – US\$ 6,776; and (d) the receipt of dividends of investee Catoca in November 2003, in the amount of US\$ 6,564 (equivalent to R\$ 18,838 at the date). Up to December 31, 2003, the January and July 2003 installments of loans B1 and B3 had already been paid in full.

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The balance at December 31, 2003 is summarized as follows:

Tranche	Financial agent	Financial charges	Currency	Balance (US\$)	Balance (R\$)	Maturity	Number of semiannual installments
A	IFC	Libor + 5% p.a.	US\$	48,790	140,964	07/2004 to 01/2010	15
B1	Foreign institutions	Libor + 4.5% p.a.	US\$	97,860	282,738	01/2004 to 07/2006	6
B2	Foreign institutions	Libor + 4.875% p.a.	US\$	12,195	35,234	07/2004 to 07/2008	9
B3	Brazilian institutions	CDI + 2.5% p.a.	R\$	19,369	55,961	01/2004 to 07/2006	6
C	IFC	Libor + 2.75% p.a.	US\$	20,167	58,266	07/2012	1
				<u>198,381</u>	<u>573,163</u>		

In the consolidated financial statements, the balance maintained with IFC is presented net of the "Debt Service Reserve Account", as defined in the Loan Agreement, which consists of an amount deposited by the subsidiary OOL in a specific bank account to guarantee the settlement of the next installment due by the Company as required by the terms of the aforementioned Loan Agreement.

(iii) Debt assumptions

- (a) During the second six-month period of 2002, Odebrecht S.A. ("ODB"), holding of the Odebrecht Organization, through agreements for the assumption of debt, assumed current balances of R\$ 12,238 and R\$ 40,031 at December 31, 2002, representing loans from Banco BNL do Brasil S.A. and Banco Santos S.A., respectively. These operations were fully offset during 2003.
- (b) In October 1997, the Company raised US\$ 75,000 (R\$ 216,690) in the international financial market in the form of Eurobonds, falling due in October 2005, subject to U.S. dollar fluctuation and interest of 10% per annum. On September 30, 2003, as permitted to the holders of these Eurobonds, some investors exercised their option to exchange these Eurobonds issued by the Company by the Eurobonds issued by OOL (Note 8 (i) (b)), in the amount of US\$ 17,420 (corresponding to R\$ 50,926 at the date of operation), plus the interest up to that date, corresponding to US\$ 755 (equivalent to R\$ 2,206 at the date of operation), paid by OOL. Subsequently, on October 24, 2003, the other holders of these Eurobonds exercised the option of anticipated redemption. As a result, OOL purchased these remaining Eurobonds, in the amount of US\$ 57,580 (equivalent to R\$ 164,460 at the date of operation) with a negative goodwill of US\$ 281 (equivalent to R\$ 803 at the date of operation), representing 0.488% of the redeemed bonds. OOL recorded these bonds in long-term receivables, in the amount of US\$ 76,375, equivalent to R\$ 220,663. In the consolidated financial statements, this balance is excluded with the liability balance of equivalent amount recorded in the Company's financial statements.

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At December 31, 2002, the balance of this operation was recorded in ODB, in the amount of R\$ 54,017, and in TOC, in the amount of R\$ 216,121. As these bonds were redeemed by OOL in 2003, the Company reassumed these obligations in 2003.

This operation is guaranteed by the Company's parent company and, as mentioned above, was fully redeemed in 2003 by OOL.

- (c) During the second six-month period of 2002, the subsidiary OOL raised US\$ 9,784, corresponding to R\$ 34,570 at December 31, 2002 in the international financial market in the form of Eurobonds in a Short-term Note Program, which was paid at February 2003. On December 29, 2002, TOC assumed from OOL the obligation to pay this debt, through an agreement for the assumption of debt. This obligation was fully offset in February 2003.
- (d) In November 2002, the subsidiary OOL raised funds from Banco Espírito Santo, in the amount of US\$ 8,385 (R\$ 29,627), at amounts effective on December 31, 2002, which was paid in February 2003. At December 29, 2002, TOC assumed from OOL the obligation to pay this debt through an agreement for the assumption of debt. This obligation was fully offset in February 2003.
- (iv) **Composition of the long-term debt per year**

Long-term debt falls due as follows:

	Parent Company		Consolidated	
	2003	2002	2003	2002
	US\$	R\$	US\$	R\$
2004		176,700		296,699
2005	129,328	373,654	193,159	558,076
2006	39,828	115,070	40,333	116,530
2007	11,334	32,746	11,839	34,206
2008 onwards	44,846	129,574	46,880	135,444
	<u>225,336</u>	<u>651,044</u>	<u>292,211</u>	<u>844,256</u>
		<u>745,907</u>		<u>895,524</u>

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9 Other Operating Income

The Company, through its subsidiary BPC, integrated the construction consortium of the Vasco da Gama Bridge, in Portugal. The model established for this negotiation included, also through BPC, the participation in the concessionaire of exploration public services of the mentioned bridge, the Lusoponte. Taking into consideration this model, the participation in this concessionaire is included in the generation of results arising for the construction contract, to be maintained temporarily during a formation period and sold when considered adequate by management and, as such, this participation in Lusoponte was classified in long-term receivables, under Investments and properties to be sold. In November 2002, this corporate participation was sold and, taking into consideration the scenario mentioned above, the accrued income from this transaction, in the amount of R\$ 105,459, was recorded in Other operating income.

10 Liabilities Associated with Tax Disputes

The Company and its subsidiary CBPO have an injunction granting them the right not to pay the Social Contribution on Revenues (COFINS) on other income and the right not to pay the increase of 1% in the COFINS rate on income. In addition, the subsidiary CBPO was granted an injunction granting it the right not to pay the Social Integration Program Contribution (PIS) on other income (with Law 10637/02, this investee started to pay the PIS as from January 2003). The unpaid amounts are being recorded monthly in this account, and are updated for the related interest and charges on arrears until the Company and the subsidiary are awarded favorable final rulings.

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11 Income Tax and Social Contribution

(a) Composition of effects on income – reversal (expenses)

	Parent company		Consolidated		
	2003	2002	2003	2002	
	US\$	R\$	US\$	R\$	
Deferred social contribution	(2,153)	(6,220)	(1,152)	(3,330)	3,571
Current social contribution	(1,319)	(3,810)	(1,319)	(3,810)	
Total - social contribution	<u>(3,472)</u>	<u>(10,030)</u>	<u>(2,471)</u>	<u>(7,140)</u>	<u>3,571</u>
Deferred income tax	(6,368)	(18,398)	7,123	20,581	731
Current income tax	(3,667)	(10,596)	(3,821)	(11,040)	
Foreign income tax (branches in parent company and branches and subsidiaries in consolidated)	(9,949)	(28,744)	(20,854)	(60,252)	(30,026)
Withholding income tax on dividends of foreign subsidiary	(2,171)	(6,271)	(2,170)	(6,271)	
Income tax credits paid by branches and foreign subsidiaries	13,166	38,039	13,166	38,039	
Total - income tax	<u>(8,989)</u>	<u>(25,970)</u>	<u>(6,556)</u>	<u>(18,943)</u>	<u>(29,295)</u>

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(b) Reconciliation of income tax and social contribution on net income – parent company

The calculation of these taxes for the year ended December 31, 2003 is summarized as follows:

	Income Tax		Social Contribution	
	US\$	R\$	US\$	R\$
Income before income tax and social contribution	73,334	211,875	73,334	211,875
(-) Management profit sharing	(4,465)	(12,900)	(4,465)	(12,900)
(-) Foreign income tax	(9,949)	(28,744)	(9,949)	(28,744)
Income before income tax and social contribution in Brazil	58,920	170,231	58,920	170,231
(+) Permanent additions	56,465	163,139	56,392	162,929
(+) Temporary additions - (A)	10,305	29,774	10,305	29,774
(-) Permanent exclusions	(23,656)	(68,347)	(23,656)	(68,347)
(-) Temporary exclusions - (B)	(81,029)	(234,110)	(81,029)	(234,110)
Taxable income	21,005	60,687	20,932	60,477
(-) Offset against accumulated tax losses - (C)	(6,301)	(18,206)	(6,279)	(18,143)
Taxable income after offset against tax losses	14,704	42,481	14,653	42,334
Due tax (at the rate of 15%)	(2,205)	(6,372)		
Income tax additional (at the rate of 10%, after deduction of R\$ 240 - US\$ 83)	(1,462)	(4,224)		
Due social contribution (at the rate of 9%)			(1,319)	(3,810)
Current income tax/social contribution - expense - (D)	(3,667)	(10,596)	(1,319)	(3,810)
Deferred income tax and social contribution on temporary additions (25%/9% over (A))	2,576	7,444	927	2,680
Deferred income tax and social contribution on temporary exclusions (25%/9% over (B))	(20,257)	(58,528)	(7,293)	(21,070)
Income tax and social contribution on offset against tax losses (25%/9% over (C))	(1,575)	(4,552)	(565)	(1,633)
Deferred income tax/social contribution - expense - (E)	(19,256)	(55,636)	(6,931)	(20,023)
Expenses with income tax/social contribution for the year ((D)+(E))	(22,923)	(66,232)	(8,250)	(23,833)
Deferred assets in 2003 (i)	12,888	37,238	4,778	13,803
Expenses with income tax/social contribution on income - Brazil	(10,035)	(28,994)	(3,472)	(10,030)

- (i) At December 31, 2003, the Company recorded deferred income tax and social contribution credits on temporary additions which were not recorded in the previous year, due to the requirements of the Accounting Standards and Procedures (NPC) 25 of the Institute of Independent Auditors of Brazil (IBRACON).

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(c) **Composition of deferred taxes**

Deferred taxes refer mainly to effects on tax losses and negative calculation basis, differences between accounting and tax bases of assets and liabilities, as well as deferral of unrealized income from governmental entities and effects of foreign exchange variations (liability balances).

The composition of the deferred income tax and social contribution accounts at December 31 is shown below:

(i) **Income tax – parent company**

	<u>Temporary differences</u>	<u>Deferred income</u>	<u>Accumulated tax losses</u>	<u>Total</u>
At December 31, 2002- R\$				
Current assets	26,268			26,268
Long-term receivables	25,023		45,846	70,869
Long-term liabilities		(27,255)		(27,255)
At December 31, 2003- R\$				
Current assets	45,916			45,916
Long-term receivables	36,790		34,064	70,854
Long-term liabilities		(75,883)		(75,883)
At December 31, 2003- US\$				
Current assets	15,892			15,892
Long-term receivables	12,734		11,790	24,524
Long-term liabilities		(26,264)		(26,264)

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(ii) Social contribution – parent company

	<u>Temporary differences</u>	<u>Deferred income</u>	<u>Accumulated tax losses</u>	<u>Total</u>
At December 31, 2002- R\$				
Current assets	9,457			9,457
Long-term receivables	243		26,528	26,771
Long-term liabilities		(15,798)		(15,798)
At December 31, 2003- R\$				
Current assets	16,529			16,529
Long-term receivables	11,746		15,015	26,761
Long-term liabilities		(32,889)		(32,889)
At December 31, 2003- US\$				
Current assets	5,721			5,721
Long-term receivables	4,065		5,197	9,262
Long-term liabilities		(11,383)		(11,383)

(d) **Recoverability of recorded deferred tax assets**

The Company based the recoverability of net asset balances of deferred income tax and social contribution on the profit forecasts for the next three years. This forecast includes, as basic assumptions, the confirmed increase in the order backlog (portfolio of revenues already held by the Company) in 2003; the income from the disposal of assets not pertaining to the Engineering and Construction activity; the increased investment in Brazil's electric power sector; the increased participation of the Company in real estate ventures and the recognition, for tax purposes, of the operating results of foreign subsidiaries as of December 31, 2002. In addition, the Company, together with its main subsidiary operating in Brazil, CBPO, recorded taxable income in two of the last four years.

The forecast used to support the balances of deferred tax balances considers the realization of R\$ 62,445 – US\$ 21,613 in the 2004 tax year as a result of that year's income. Regarding the deferred tax assets recorded in long-term receivables, the Company estimates their realization over a maximum term of three years until 2006.

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(e) Consolidated balances for deferred income tax and social contribution

In the consolidated statements, deferred tax asset balances are comprised of income tax and social contribution on tax losses and on temporary additions, mainly arising in the Company and its indirect subsidiary CBPO. The liability balances are comprised of income tax and social contribution on the unrealized income from governmental entities and foreign exchange variation effects, mainly arising from the Company and its indirect subsidiary CBPO.

(f) Income tax abroad

Income tax incurred abroad is represented by the tax generated by the Company's branch in Venezuela (R\$ 23,617 – US\$ 8,174) and Angola (R\$ 3,756 – US\$ 1,300), and, in consolidated, in addition to this branch's amounts, mainly the taxes generated by SDM (R\$ 17,539 – US\$ 6,071) and BPC (R\$ 5,218 – US\$ 1,806).

(g) Tax credits arising from income tax paid by foreign branches and subsidiaries

It was recorded, in the statement of income for the year ended December 31, 2003, R\$ 23,414 – US\$ 8,104 and R\$ 14,625 – US\$ 5,062 relating to income tax credits on amounts paid by the Venezuelan branch and the jointly-controlled subsidiary SDM, headquartered in Angola, respectively, and taxed in Brazil, as a contra entry to Taxes recoverable in current assets, according to income tax current legislation.

12 Stockholders' Equity

(a) Capital

At December 31, 2003, the Company's capital, which has been subscribed and paid-up entirely by Brazilian individuals and corporations, comprised 191,838,638 (2002 - 192,115,247) common shares and 64,001,942 (2002 – 64,061,608) preferred shares, with no par value.

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On February 27, 2003, the Extraordinary General Meeting approved the redemption and subsequent cancellation by the Company of 336,275 shares, of which 276,609 are common and 59,666 are preferred shares, with no nominal value. These were shares remaining from an auction held on March 8, 2002, as part of the process of the cancellation of the registration of the Company as a listed company, and represent 0.1314% of its total shares. Total redemption amounted to R\$ 1,984 - US\$ 687. This redemption occurred through the use of the investments reserve, with no reduction of capital, as defined in paragraph 1 of article 44 of Law 6404/76, modified by Law 10303/2001.

(b) Share rights

Preferred shares, which are non-voting, have priority in the event of capital reimbursement upon liquidation and, based on Law 10303/01, preferred and common shares have the same rights as regards the receipt of dividends. All stockholders are assured of an annual dividend of not less than 25% of adjusted net income for the year, calculated in accordance with Brazilian corporate legislation.

At October 21, 2003, the Company distributed extraordinary dividends in the amount of R\$ 167,417 – US\$ 57,945. The dividends proposed for the year ended December 31, 2003, in the amount of R\$ 40,797 – US\$ 14,120, were paid in advance, after being approved by the Board of Directors.

(c) Appropriation of net income

According to the Company's by-laws, revenue reserves are set up as described below, and the utilization of the remaining balance after these appropriations and the distribution of dividends will be decided at the Ordinary General Meeting.

(i) Legal reserve

This reserve is set up through the appropriation of 5% of net income each year until the reserve equals 20% of capital or until its balance, plus capital reserves, exceeds 30% of capital.

(ii) Reserve for investments (statutory)

This reserve is set up through the appropriation of up to 70% of the net income for the year until, together with the legal reserve, it reaches 100% of the capital.

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13 Insurance Coverage

The identification, mitigation and management of risks, as well as insurance coverage engagements, are equally handled in the Company and its subsidiaries, in conformity with standards established by a specific Odebrecht Organization policy, and supported by OCS – Odebrecht Administradora e Corretora de Seguros Ltda., its advisors, brokers and first line national and international insurance companies, in order to guarantee the proper coverage to each agreement or business, at amounts sufficient to cover possible damages. At December 31, 2003, the insurance coverage amounts to US\$ 3,138,153 (R\$ 9,066,753).

14 Contingencies

- (a) As from the year ended December 31, 1997, the Company began to guarantee that it would honor possible tax and quasi-fiscal contingencies related to a foreign subsidiary company, arising from specific operating conditions of the market in which it operates, thus exempting this subsidiary from any responsibility in case these contingencies materialize. Company management understands, based on the opinion of its legal advisors, that the materialization of these contingencies is remote.

- (b) The Company recorded a provision for R\$ 14,517 – US\$ 5,025, and, in the consolidated, R\$ 18,188 – US\$ 6,295 (2002 - R\$ 14,360 and R\$ 16,750, respectively) in current liabilities and R\$ 16,895 – US\$ 5,848 (parent company and consolidated) in long-term liabilities to cover (i) legal indemnity expenditures related to layoffs of employees, which is usual and inherent to its line of activity, with the provision being based on the history of similar monthly disbursements; and (ii) labor and civil claims which have little chance of favorable outcome, according to management and legal advisors, and amount to R\$ 8,616 – US\$ 2,982, and, in the consolidated, R\$ 13,577 – US\$ 4,699 (2002 – R\$ 5,859 and R\$ 7,088, respectively). In addition, the Company is defending labor, civil and tax claims in the approximate amount of R\$ 41,000 – US\$ 14,191 (2002 – R\$ 19,000), for which no provision for losses was recorded, because management and legal advisors believe that no significant losses are probable. In the consolidated statements, these labor, civil and tax claims amount to R\$ 83,000 – US\$ 28,728 (2002 – R\$ 53,000).

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- (c) During 2003, the Company's branch in Ecuador was assessed by the Internal Revenue Service (local correspondent of the Brazilian Federal Revenue Secretariat) relating to income tax returns from 1999 to 2002. As a result of these inspections, the Ecuadorian tax authorities notified this branch in relation to the income tax and tax on added value in the approximate amounts of US\$ 3,589 (R\$ 10,369) and US\$ 577 (R\$ 1,667), respectively (not bearing interest and arrears and other possible charges). In November 2003, the tax authorities were provided with information supporting the tax treatment adopted relating to the questioned amounts and, in February 2004, filed a lawsuit concerning this subject. Management, considering the sufficient evidences for obtaining a favorable outcome, and based on the opinion of its legal advisors, did not set up a provision to cover possible losses arising from this subject.

15 Private Pension Plan

The Company and its subsidiaries have entered into an agreement with ODEPREV – Odebrecht Previdência, a private pension fund established by Odebrecht S.A., being one of the sponsoring companies. ODEPREV offers its participants, members of the sponsoring company, the Optional Plan, a defined contribution plan in which monthly and periodic participant contributions and annual and monthly sponsor contributions are made to individual pension saving accounts.

Up to September 2003, in addition to the Optional Plan, ODEPREV offered the Basic Plan, with life and disability risks fully covered by the sponsoring companies, annually determined by the Board of Trustees of ODEPREV, based on the Cost Annual Plan, prepared on an actuarial basis.

At October 29, 2002, ODEPREV, as decided by the Board of Trustees, filed with the Supplementary Social Security Secretariat the cancel of the Basic Plan. This formal request resulted from the decision of fully replacing it by life insurance to the contracted under the same conditions of the mentioned Plan. At October 1, 2003, through Notice nº 1345/ DAJUR/ SPC, the cancel of the Basic Plan was approved and the contributions to the plan were suspended.

In relation to the payment of the benefits established for the Optional Plan, the ODEPREV obligations are limited to the total value of the participant's quotas and, in conformity with the rules of the defined contribution plan, no obligations or responsibilities will be requested from the sponsoring company to guarantee the minimum levels of benefits to the retired participants. The contributions for the year ended December 31, 2003 amounted to R\$ 1,002 – US\$ 347 (2002 – R\$ 785) in parent company and R\$ 3,402 – US\$ 1,177 (2002 – R\$ 2,135) in consolidated.

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As ODEPREV is a defined contribution plan, under which the risk of receiving benefits is the full responsibility of the participants, Company management considered that the provisions of the accounting standard NPC 26 of the Institute of Independent Auditors of Brazil (IBRACON), “Accounting for Benefits to Employees” is not applicable to the Company.

16 Financial Instruments

(a) General considerations

The Company and its subsidiaries participate in transactions involving financial instruments for the purpose of managing the financial availability of its operations, as well as meeting the possible cash needs and as protection against exchange rate fluctuations and interest rate variations. These risks are managed through financial market mechanisms that minimize the exposure of the Company’s assets and liabilities, protecting its equity.

(b) Market value

The main financial instruments maintained by the Company and its subsidiaries are the trade accounts receivable, financial investments, marketable securities, suppliers, debts, other long-term obligations, mainly the balances with other Odebrecht Organization companies (see details in Note 5).

The estimated discount on trade accounts receivable from government entities has been calculated based on the difference between the contractual readjustments agreed to by these entities and the average cost of loans contracted by the Company, and amounts to R\$ 14,441 – US\$ 4,998 at December 31, 2003 (2002 - R\$ 13,731). Management understands that trade accounts receivable from government entities with terms of more than 90 days have been financed by resources generated by the stockholders.

The amount of the estimated discount calculated for the subsidiaries CBPO and Odebrecht Serviços de Óleo e Gás Ltda. was R\$ 11,225 – US\$ 3,885 at December 31, 2003 (2002 – R\$ 10,583).

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At December 31, 2003 and 2002, the market values of other financial instruments of the Company and its subsidiaries approximate their accounting values. The market values of these financial instruments were obtained by calculating their present values, taking into account interest rates currently used in the market for similar terms and risks. The most significant shareholding interests held by the Company and its subsidiaries are not quoted in the market.

(c) Credit risk

At December 31, 2003, the Company and its subsidiaries had overdue accounts receivable amounting to R\$ 809,587 – US\$ 280,212 (2002 - R\$ 789,785) for services rendered to government-related entities. Historically, the Company and its subsidiaries have received the amounts owed by these entities, including those overdue for one year or more. The receipt of these overdue amounts from government-related entities could take place through financial settlement or the receipt of government-related bonds or other government-related assets. As a way of mitigating these risks, the Company and its subsidiaries have applied a greater degree of selectivity when accepting customers, having increased the revenue from private customers or public sector customers which the Company considers have the capacity to generate revenue independently and who do not rely on government budgets to settle their obligations (mainly mixed-economy companies) as is the case with government-related entities. To reduce the volume of overdue receivables, the Company and its subsidiaries have adopted the policy of decentralizing the negotiation from the administrative departments and delegating this responsibility to the administrative levels responsible for the monitoring of each contract. If the Company does not succeed in such actions, it generally pursues collection of those amounts in court.

(d) Price risk

A significant number of the contracts in which the Company and its subsidiaries are engaged are fixed-price contracts. The actual profit margins on these contracts may differ from the margins estimated when the contract price was proposed, due to significant unexpected variations in the cost of equipment, materials to be used or labor, related to inflationary effects or other unexpected events; problems encountered by the customer to obtain financing necessary to perform its obligations or to obtain governmental authorizations or approvals; project changes resulting in unexpected costs; and delays caused by harsh weather conditions or the non-performance of subcontractors and/or contracted suppliers. To minimize the price risk, the fixed-price contracts performed by the Company and its subsidiary companies have their budgets periodically revised to reflect inconsistencies noted between actual and budgeted costs. The Company and its subsidiaries follow a policy of discussing claims to increase contract prices through contract amendments to recover such variations.

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(e) Exposure to foreign currency

The Company, through its branches, subsidiary and affiliated companies, has operations in Angola, Argentina, Bahamas, Bolivia, Colombia, Costa Rica, Chile, Ecuador, United Arab Emirates, the United States, Cayman Islands, the United Kingdom, Mexico, Peru, Portugal, Dominican Republic, Venezuela and Uruguay, which are mainly transacted in U.S. dollars, and have minimal exposure to the local currencies equivalent to approximately to 38% of its total net assets at December 31, 2003 (48% in 2002), providing a natural coverage against fluctuations in the mentioned foreign currency. In addition, certain loans of the Company and subsidiaries are in foreign currency, as mentioned in Note 8, as well as debts with suppliers and other balances with related parties, as mentioned in Note 5.

(f) Interest rate and currency swap contracts

At December 31, 2003, the notional value of swap contracts amounts to R\$ 6,272 – US\$ 2,171 in parent company (2002 – R\$ 45,106) and R\$ 163,330 – US\$ 56,531 in the consolidated (2002 – R\$ 60,871).

(g) Other financial derivatives

It has not been Company practice to utilize financial derivatives, except for the swap contracts mentioned above.

Additionally, the Company and its subsidiaries have the following option for purchase and sale of assets in effect at December 31, 2003:

- (i) At April 26, 2002, the Company issued to its subsidiary OSEL an option to buy a piece of land in Mata de São João, State of Bahia, Brazil, with a strike price of US\$ 55,000 (maximum of R\$ 187,000 at the capped exchange rate of R\$ 3.40:US\$ 1.00) and exercise date of September 19, 2003, subsequently extended to March 1, 2005. This option could be partially exercised, and the amount related to this piece of land, recorded as Investments and property for sale, in current assets, is R\$ 40,382 – US\$ 13,977.

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At the same date, OSEL purchased from a foreign financial institution a put option to sell this parcel of land at a strike price of US\$ 55,000 (maximum of R\$ 187,000 at the capped exchange rate of R\$ 3.40:US\$ 1.00) and original exercise date of September 19, 2003, which was extended to March 1st, 2005. The premium related to the term extension, in the amount of US\$ 7,800 (R\$ 22,536), was recorded as prepaid expenses in the consolidated, being the remaining balance at December 31, 2003 of R\$ 18,148 – US\$ 6,281. The premium originally paid by OSEL amounted to US\$ 9,600 and was recorded as prepaid expenses in the consolidated balance sheet, been fully amortized up to December 31, 2003.

- (ii) The indirect subsidiary Odebrecht Oil Services Ltd. acquired two options for the purchase of semi-submersible petroleum platforms, with original exercise dates on November 28 and December 29, 2003, which were subsequently extended to May 31 and September 30, 2004, respectively. The premiums paid by the purchase options, in the amounts of US\$ 9,980 and US\$ 13,120 (R\$ 28,834 and R\$ 37,906 at December 31, 2003, respectively), and the term extension, in the amounts of US\$ 1,000 and US\$ 2,000 (R\$ 2,889 and R\$ 5,778 at December 31, 2003, respectively) are recorded in consolidated property and equipment.

17 Subsequent Events

- (i) At February 6, 2004, the Ministry of Finance and the Venezuelan Central Bank agreed to establish, as from this date, the official exchange rate at Bs 1,916:US\$ 1 for purchase and Bs 1,920:US\$ 1 for sale, while the official rate at December 31, 2003 was Bs 1,596:US\$ 1 for purchase and Bs 1,600:US\$ 1 for sale (see Note 1 (i)). This change in the official exchange rate in Venezuela will result in important results to be recognized by the Company's units.
- (ii) At February 25, 2004, the subsidiary OOL raised funds of US\$ 150,000 in the international financial market in the form of Medium-Term Notes, falling due in February 2009. These bonds are subject to foreign exchange variation and interest of 11.5% per annum, being guaranteed by the Company.

* * *

ANNEX A

UNAUDITED SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN BRAZILIAN GAAP AND U.S. GAAP

General Information

Our financial statements included elsewhere in this offering circular have been prepared in accordance with Brazilian GAAP and are based on Brazilian Corporation Law (Law No. 6,404/76, as amended), the rules and regulations of the CVM and the accounting standards issued by the *Instituto dos Auditores Independentes do Brasil* (the Brazilian Institute of Independent Auditors, or IBRACON). Certain differences exist between Brazilian GAAP and U.S. GAAP which might be material to the financial information herein. The matters described below summarize certain differences between Brazilian GAAP and U.S. GAAP that may be material. We are responsible for preparing the summary below. We have not prepared a complete reconciliation of our consolidated financial statements and related footnote disclosures between Brazilian GAAP and U.S. GAAP and have not quantified such differences. Accordingly, no assurance is provided that the following summary is complete. In making an investment decision, investors must rely upon their own examination of our company, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Brazilian GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

Inflation Accounting

Highly inflationary conditions have prevailed in Brazil in the past. As a consequence, a form of inflation accounting, referred to as monetary correction, was in use for many years to minimize the impact of inflationary distortions in financial statements.

For periods through 1995, Brazilian GAAP required the monetary correction of certain non-monetary balance sheet accounts (primarily fixed assets, deferred charges, long-term investments and shareholders' equity), using a government-sanctioned index. The net monetary correction was recorded as a single line item in the income statement. Beginning in 1996, Brazilian GAAP no longer permitted the recording of monetary correction.

Under U.S. GAAP, Statement of Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation" requires that companies operating in hyperinflationary economies, presenting primary financial statements in U.S. GAAP, remeasure local currency transactions into U.S. dollars. Practice relating to the presentation of a reconciliation to U.S. GAAP require companies operating in hyperinflationary environments in which inflation has exceeded 100% over the last three years and which report primary financial statements using a basis of accounting other than U.S. GAAP that comprehensively includes the effects of price level changes need not record adjustments for price level changes in the reconciliation. Companies presenting primary financial statements under Brazilian GAAP are required to include indexation effects on non-monetary assets during 1997 and 1996 in the U.S. GAAP reconciliation. Since 1998 the Brazilian economy has not met the 100% inflation test and is no longer deemed to be hyperinflationary.

Construction Contract Accounting

Under Brazilian GAAP, a construction and engineering contractor is required to apply the percentage-of-completion method, or POC method, when measuring the revenue and costs of construction projects, regardless of the timing of billings to the customers. The stage of completion may be measured by reference to physical measures or by the ratio of costs incurred to date to total estimated costs. For short-term projects, Brazilian GAAP also allows the completed-contract method, which defers recognition of all revenue and related costs until the project is completed. We primarily use the POC method based on actual

and budgeted costs to record construction contracts, and use physical measurement for our remaining contracts.

Under U.S. GAAP, the POC method is generally used. The completed contract method is used in circumstances when estimates of costs to completion and the extent of progress towards completion are not reasonably reliable. Under U.S. GAAP, the rules are generally more restrictive for revenue recognition.

Equity Method of Accounting

Under Brazilian GAAP, parent companies in their consolidated financial statements are required to adjust the original investment in the equity of associated companies in order to recognize the parent company's share in the earnings or losses relating to such investment, which is referred to as the equity method of accounting. Additionally, joint ventures are accounted for by proportional consolidation.

Associated companies are entities which the parent company does not control but for which the parent company:

- owns at least 10.0% of the issued share capital and exerts influence over its management; or
- owns 20.0% or more of the issued share capital and either (a) the aggregate book value of all such investments in other companies is equal to or greater than 15.0% of the investor's shareholders' equity or (b) the book value of an investment in any single company is equal to or greater than 10.0% of the investor's shareholders' equity.

We have both associated companies and joint ventures that are accounted for as described above.

Under U.S. GAAP, companies use the equity method of accounting for investments:

- in other entities in which they have a 20.0% to 50.0% voting interest or can exert significant influence over the operations of the investee; and
- in joint ventures in which neither party has control.

Impairment of Investments

Under Brazilian GAAP, an investment in an equity investee is written down to market value when events and circumstances indicate permanent impairment. The quoted share price on the São Paulo Stock Exchange is generally not considered to be representative of market value if a small portion of the shares are traded or its traded volumes are low. We have not recorded write-downs for equity investees.

Under U.S. GAAP, APB Opinion No. 18, "The Equity Method of Accounting for Investment in Common Stock," requires an investment to be written down to fair value when an impairment is considered to be other than temporary. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the quoted market price below the carrying amount is not necessarily indicative of a loss in value that is other than temporary. All are factors to be evaluated.

Provision for Dividends

Under Brazilian GAAP, at each balance sheet date, our executive officers are required to propose a dividend distribution from earnings and accrue the dividends in the financial statements. We normally record provisions for dividends at year-end, provided sufficient profits are generated during the year.

Under U.S. GAAP, because this proposal may be ratified or modified at the annual stockholders' meeting, such dividends would not be considered as declared at the balance sheet date and would therefore not be accrued.

Consolidation and Proportional Consolidation

Under Brazilian GAAP, as per CVM Instruction No. 247 of March 27, 1996, as amended by CVM Instructions Nos. 269/97 and 25/98, financial statements must consolidate the following entities: (a) entities in which the company has voting rights that provide it with the ability to have the majority on social decisions and to elect the majority of the members of the Board; (b) overseas branches; and (c) companies under common control or controlled by stockholders' agreements irrespective of the participation in voting stock. Joint ventures (including investees in which the company exerts significant influence through its participation in a stockholders' agreement in which such group controls the investee) are to be accounted for under the proportional consolidation method. Additionally, CVM Instruction No. 408 of August 14, 2004 requires disclosure of information relating to special purpose entities, or SPEs, directly or indirectly controlled by the company, at December 31, 2004 with consolidation of such entities as from January 1, 2005. There are no specific pronouncements addressing criteria for consolidation of variable interest entities. The financial statements included herein are presented on a full consolidated basis for all majority-owned companies, and on a proportionately consolidated basis for jointly controlled companies.

Under U.S. GAAP, the usual condition for consolidation is the controlling interest (either through a majority voting interest or through the existence of other control factors). Therefore, as a general rule, the condition for consolidation is the ownership by one company, directly or indirectly, of over 50.0% of the outstanding voting shares of another company. Joint ventures are usually accounted for following the equity method of accounting. Proportional consolidation generally is not allowed under U.S. GAAP.

In January 2003, the Financial Accounting Standards Board ("FASB"), issued FASB Interpretation ("FIN"), No. 46, "Consolidation of Variable Interest Entities — An Interpretation of APB No. 51." FIN No. 46 requires consolidation of "variable interest entities", as from January 1, 2004 in the case of the Company. Variable interest entities are entities with the following characteristics: (a) the equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; and (b) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: (i) the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights; (ii) the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities; or (iii) the right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

Business Combinations and Purchase Accounting and Goodwill

Under Brazilian GAAP, accounting standards do not specifically address business combinations and purchase accounting. The purchase method is applied based on book values. Goodwill or negative goodwill on the acquisition of a company is computed as the difference between the cost of acquisition and its underlying book value. The excess of cost over the net book value of an acquired company is recorded as goodwill attributable to one of the following reasons: step-up basis of the assets due to differences in the carrying values and fair values of the assets, future profitability and other reasons. Such goodwill should be amortized as follows depending on its nature:

- step-up basis of the assets: goodwill or negative goodwill should be amortized proportionally over the remaining estimated useful lives of the corresponding assets of the acquiree;
- future profitability: goodwill or negative goodwill should be amortized during the time during which expected results are achieved. In this case, the amortization period should not exceed ten years; or

- non-justified goodwill by economic factors: goodwill should be expensed immediately. Negative goodwill should not be amortized to income until the related investment is sold or written off.

For tax purposes, the amortization of goodwill or negative goodwill is generally not included in the determination of taxable income for the period. However, under certain tax strategies related to corporate restructurings, the amortization of goodwill and negative goodwill are included in the determination of taxable income. The minimum amortization period accepted is five years, depending on how the goodwill is classified, e.g., step-up basis of assets or future profitability.

We have been subject to business combinations and have recorded goodwill and negative goodwill as a result of purchase accounting.

Until July 2001, under U.S. GAAP and in accordance with APB Opinion No. 16 (APB No. 16), “Business Combinations,” business combinations were accounted for as either purchases or poolings of interests. However, these two methods were not alternatives for the same transaction and distinctive conditions had to be met in order for the pooling of interest method to be required. During June 2001, the Financial Accounting Standards Board issued SFAS No. 141, which amends APB No. 16 and which requires, among other things, that all business combinations, except those involving entities under common control, be accounted for by a single method — the purchase method. The combination of entities under common control is accounted for in a manner similar to a pooling of interest. Under this method, the recorded assets and liabilities of the separate enterprises generally become the recorded assets and liabilities of the combined enterprise. Additionally, the combined enterprise records as capital the capital stock and the capital in excess of par or stated value of outstanding stock of the separate enterprises. Similarly, retained earnings or deficits of the separate enterprises are combined and recognized as retained earnings or deficits of the combined enterprise. Any assets or liabilities exchanged to effect the transfer are accounted for as a capital dividend to, or capital contribution by, the transferor.

SFAS No. 141, contains more detailed guidance with regard to the recognition of intangible assets (as defined in the SFAS). Also, under SFAS No. 141 and SFAS No. 142 “Goodwill and Other Intangible Assets,” goodwill and other intangible assets with indefinite lives are no longer amortized. Rather, goodwill and indefinite lives intangibles are evaluated for impairment annually, and if impaired their recorded value is adjusted accordingly. Under APB No. 16, the excess of fair value of net assets acquired over the purchase price, referred to as negative goodwill, reduced noncurrent assets to zero, and any remaining balance was considered a deferred credit and amortized over the estimated period of benefit, not to exceed 40 years. Under SFAS No. 141, any such remaining balance excess is immediately recognized as an extraordinary gain in the statement of operations. Under the purchase method, the financial statements of the acquiring company for periods prior to the acquisition are not restated. SFAS No. 141 requires the presentation of pro forma results of operations for the current and comparative periods of business combinations.

Property, Plant and Equipment—Impairment Analysis

Under Brazilian GAAP, companies are required to determine if operating income is sufficient to absorb the depreciation or amortization of long-lived assets, within the context of the balance sheet as a whole, in order to assess potential asset impairment. In the event that such operating income is insufficient, within the context of the fixed asset group, to recover the depreciation due to permanent impairment of assets, the assets, or groups of assets, are written down to recoverable values. We have not recorded any significant long-lived asset impairments in recent years.

Under U.S. GAAP, SFAS No. 144, “Accounting for the Impairment or Disposal of Long-lived Assets,” requires companies to periodically evaluate the carrying value of long-lived assets to be held and used and for long-lived assets to be disposed of, when events and circumstances require such a review. The carrying value of long-lived assets is considered impaired when the sum of its undiscounted cash flows expected to result from the use and eventual disposition of the asset exceeds its carrying value. In that

event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets or discounted cash flows generated by the assets.

Organizational and Pre-operating Costs

Under Brazilian GAAP, pre-operating expenses incurred in the construction or expansion of a new facility may be deferred until the facility begins commercial operations. Subsequently all costs related to the organization and start-up of a new business may be capitalized to the extent that they are considered recoverable. The deferred charges are amortized over a period of five to ten years. We have recorded deferred charges.

Under U.S. GAAP, the rules are generally more restrictive as to the costs that can be capitalized and the periods over which such costs are amortized. Under U.S. GAAP, these expenses are normally charged to operations. However, in certain specific situations, identified pre-operating costs may be deferred, but amortized over relatively short periods.

Employees Termination Costs in Restructuring Plan

Under Brazilian GAAP, a provision for estimated employee termination costs arising from the decision to restructure operations is recorded when an obligation has been incurred and the related costs can be estimated. The criteria for recognizing such a provision are more general and less defined than under U.S. GAAP.

Under U.S. GAAP, until December 31, 2002, companies recorded this liability only when various conditions were met, including:

- prior to the date of the financial statements, management having the appropriate level of authority to involuntarily terminate employees approved and committed the enterprise to the plan of termination and established the benefits that current employees would receive upon termination;
- prior to the date of the financial statements, the benefit arrangement was communicated to employees. The communication of the benefit arrangement included sufficient detail to enable employees to determine the type and amount of benefits they would receive if they were terminated;
- the plan of termination specifically identified the number of employees to be terminated, their job classifications or functions, and their locations; and
- the period of time to complete the plan of termination indicated that significant changes to the plan of termination were not likely.

For employee termination benefits associated with exit or disposal activities initiated after December 31, 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" applies. Under this new pronouncement, a liability for a cost associated with an exit or disposal activity should be recognized and measured initially at its fair value in the period in which the liability is incurred, except for a liability for one-time termination benefits that is incurred over time. A liability for a cost associated with an exit or disposal activity is incurred when the definition of a liability is met in accordance with Paragraph 35 of FASB Concepts Statement No. 6 "Elements of Financial Statements." In the unusual circumstances in which fair value cannot be reasonably estimated, the liability should be recognized initially in the period in which fair value can be reasonably estimated. The timing of recognition and measurement of the liability for one-time termination benefits is dependent upon whether employees are required to render services until they are terminated in order to receive the termination benefits and, if so, whether the employee will be retained to render service beyond a minimum retention period. Under FAS 146, an arrangement requires future services if employees: (i) are not entitled to receive the termination benefits

until they are terminated; and (ii) they will be retained to render service beyond a minimum retention period, as defined in FAS 146.

If future service is required for employees to receive the one-time termination benefit, entities must initially (at the communication date) measure the liability at its fair value as of the termination date. That liability must then be recognized ratably over the future service period. A change resulting from a revision to either the timing or the amount of estimated cash flows over the future service period shall be measured using the credit-adjusted risk free rate that was used to measure the liability initially. The cumulative effect of the change shall be recognized as an adjustment to the liability in the period of change.

If employees are not required to render futures services (after the minimum retention period) in order to receive the one-time termination benefits, then entities must recognize and measure the liability for such benefits at fair value at the communication date. The promise to provide one-time termination benefits (absent a requirement to render future service) is the requisite past event for recognition of a liability, without consideration as to when those benefits would be paid.

Statement of Cash Flows

Brazilian GAAP requires a company to present a statement of changes in its financial position, which depicts the source and application of funds in terms of movement in working capital.

U.S. GAAP requires presentation of a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities. SFAS No. 95 "Statement of Cash Flows" establishes specific presentation requirements and requires additional disclosures, such as the amount of interest and income taxes paid and non-cash financing and investing transactions, such as acquisition of property, plant and equipment through capital leases, utilization of escrow deposits in settlement of liabilities and debt for equity conversions, among others.

Segment Information

Under Brazilian GAAP, there is no requirement for financial reporting of operating segments. We do not present segment information.

Under U.S. GAAP, publicly held companies should report both financial and descriptive information about their reportable operating segments. Operating segments are defined as those about which separate financial information is available and is regularly evaluated by the chief operating decision maker. Segment information is generally reportable for any operating segment that accounts for 10.0% or more of all segment revenue, results of operating activities, or total assets.

Generally, companies will report financial information on the basis used internally for evaluating segment performance. Financial information to be disclosed includes segment profit or loss, certain specific revenue and expense items and segment assets as well as reconciliation of total segment revenues, profit or loss and assets to the corresponding amounts in the financial statements.

Related Parties

Brazilian GAAP generally defines related parties in a more limited manner, and requires fewer disclosures, than U.S. GAAP. As a result, many of the disclosures required in the United States are not required in Brazil.

Earnings Per Share

Under Brazilian GAAP, earnings per share calculations are based on the number of shares outstanding at the end of the year, although a weighted-average basis is acceptable. We present earnings per share information.

Under U.S. GAAP, SFAS No. 128 “Earnings per Share” requires publicly held companies to present earnings per share, including earnings per share from continuing operations and net income per share on the face of the income statement, and the per share effect of changes in accounting principles, discontinued operations and extraordinary items either on the face of the income statement or in a note.

SFAS No. 128 also requires a dual presentation of earnings per share, basic and diluted. Companies should base computations of basic earnings per share on the weighted average number of common shares outstanding during each period presented. Diluted earnings per share is calculated on the same basis except that effect is given to all outstanding dilutive potential common shares in determining weighted average number of common shares outstanding during each period presented. Potential common shares represent a security or other contract that may entitle its holder to obtain common shares during the reporting period or after the end of the reporting period.

Foreign Currency Translation

Under Brazilian GAAP, the financial statements of associates operating in strong currency environments are translated using the current exchange rate. Financial statements presented in weak currencies are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statements.

SFAS 52, Foreign Currency Translation provides standards of financial accounting and reporting for foreign currency financial statements that are included in the financial statements of an enterprise by consolidation, combination, or the equity method of accounting. SFAS 52 requires the assets, liabilities and operations of a foreign entity to be measured using the functional currency of that entity. An entity’s functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. When the functional currency of the subsidiary is the local currency, the translation of foreign currency financial statements into the reporting currency should be made using the current exchange rate for all assets and liabilities. Revenue and expenses should be translated at the exchange rate of the dates when they were recognized. Translation gains and losses are reported as a separate component of shareholders’ equity.

If an entity’s books of record are not maintained in its functional currency, remeasurement into the functional currency is required. The remeasurement is required before translation into the reporting currency. If a foreign entity’s functional currency is the reporting currency, remeasurement into the reporting currency obviates translation. The financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if its functional currency were the reporting currency. All exchange gains and losses arising from remeasurement into the functional currency are recognized currently in income.

Comprehensive Income

Brazilian GAAP does not embody the concept of comprehensive income, and we do not present such information.

Under U.S. GAAP, SFAS No. 130 “Reporting Comprehensive Income” requires the disclosure of comprehensive income. Comprehensive income is comprised of net income and “other comprehensive income” that include charges or credits taken directly to equity that are not the result of transactions with owners. Examples of other comprehensive income items are cumulative translation adjustments under SFAS No. 52, unrealized gains and losses for available-for-sale securities under SFAS No. 115, as well as the effects of cash flow hedge accounting under SFAS No. 133 and minimum pension liabilities under SFAS No. 87

Financial Statement Note Disclosure

Brazilian GAAP in general require less information to be disclosed in financial statements footnotes than U.S. GAAP.

- general business, political and economic risks;
- details of guarantees provided to third parties;
- advertising expenses and assets;
- research and development costs;
- analysis of sales by geographical area;
- financing facilities and terms;
- financial information by operating business and geographical areas; and
- footnote disclosure of summarized financial statements of affiliated companies that meet certain tests of significance.

Brazilian GAAP generally requires more disclosure than U.S. GAAP with respect to insurance coverage, parent company financial statements and details of investments in affiliated and subsidiary companies.

Derivative Instruments

Brazilian GAAP does not address the accounting for derivatives, which are frequently maintained as off-balance-sheet instruments or recorded at the lower of accrual basis or fair value. Embedded derivatives are not identified under Brazilian GAAP. We have swap contracts that are recorded on the accrual basis. Additionally, we have put and sale options in relation to sale of investments in joint ventures and fixed assets.

SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities.

SFAS No. 133, as amended, requires that a company recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as:

- a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- a hedge of the exposure to the variable cash flows of a forecasted transaction; or
- a hedge of the foreign currency exposure of a net investment in a foreign operation.

The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income. Certain stringent conditions must be met in order to designate a derivative as a hedge. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either (1) offset against the change in

fair value of the hedged asset, liability or firm commitment through income or (2) held in equity until the hedged item is recognized in income. If the hedge criteria are no longer met, the derivative instrument would then be accounted for as a trading instrument. If a derivative instrument designated as a hedge is terminated, the gain or loss is deferred and amortized over the shorter of the remaining contractual life of the terminated risk management instrument or the maturity of the designated asset or liability.

Software for Internal Use

Under Brazilian GAAP, external computer development costs are capitalized at cost. We have capitalized costs for internally developed software.

Under U.S. GAAP, Statement of Position, or SOP, 98-1, requires identified costs related to the development and installation of software for internal use to be capitalized as fixed assets, including design of the chosen path, software configuration, software interfaces, coding, installation of hardware and testing. Costs incurred for conceptualization and formulation of alternatives, training and application maintenance should be expensed as incurred.

Leasing Transactions (Leases)

Under Brazilian GAAP, all leases normally are treated for accounting purposes as operating leases and the expense is recognized at the time that each lease installment falls due. Disclosure regarding leases is more limited than under U.S. GAAP. We have leased vehicles/equipment that are accounted for as operating leases.

Under U.S. GAAP, leases which transfer substantially all the benefits and risks of ownership related to the leased property from lessor to the lessee are treated as capital leases and the corresponding assets or liabilities are recognized, as appropriate, and the effects of depreciation and interest expense are recognized in income. All other leases are classified as operating leases and the lease payments charged to income as they fall due.

Non-interest Bearing Debt Instruments

Under Brazilian GAAP, non-interest bearing debt instruments are not generally presented with an imputed rate of interest in order to recognize the economic substance of the underlying transaction. We have non-interest bearing receivables with related parties.

Under U.S. GAAP, APB No. 21, "Interest on Receivables and Payables," requires the imputation of a reasonable, market-based, rate of interest for non-interest bearing debt instruments over the maturity period of the note. In addition, the carrying value of the debt instrument is reported net of any resulting discount or premium.

Transfer of Financial Assets

No specific pronouncement addresses the accounting for transfers of financial assets under Brazilian GAAP. We have entered into several agreements for credit assignments.

Under U.S. GAAP, SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," provides a consistent application of a financial-components approach that focuses on control to account for transfers of financial assets. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, but does not recognize financial assets when control has been surrendered and does not recognize liabilities when extinguished. SFAS No. 140 provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings from an accounting perspective.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration is received in exchange. Under SFAS No. 140, it is considered that the transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- Each transferee (or, if the transferee is a qualifying special-purpose entity, or SPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

Under SFAS No. 140, liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets are initially measured at fair value, if practicable. It also requires that servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer.

Accounting for Guarantees by a Guarantor

Under Brazilian GAAP, guarantees granted to third parties are recorded in circular accounts. When fees are charged for issuing guarantees, the fee is recognized in income over the period of the guarantee. When the guaranteed party has not honored its commitments and the guarantor should assume a liability, a credit is recognized against the guaranteed party representing the right to seek reimbursement for such party with recognition of the related allowance for losses when considered appropriate. We guarantee the debt of certain associated companies.

Under U.S. GAAP, FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” is effective for guarantees issued or modified after December 31, 2002. FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Specific disclosures of guarantees granted are also required under FIN No. 45.

Right of Offset

Brazilian GAAP permits offsetting amounts due or payable among parties, for purposes of presenting balances in the financial statements based on management’s expectation of being able to offset the amounts. We offset advances from clients with amounts receivable and payable with certain banks.

Under U.S. GAAP, for a right to setoff to exist certain conditions must be met including that such right of setoff is enforceable at law.

Disclosures on Financial Instruments and Concentration of Credit Risk

Under Brazilian GAAP, there are less detailed requirements regarding the disclosure of information on financial instruments not reflected on the balance sheet or on concentration of financial instruments with credit risk.

U.S. GAAP requires disclosures prescribed by SFAS No. 105, “Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk,” SFAS No. 107, “Disclosure about Fair Market Value of Financial Instruments” and SFAS No. 119, “Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments.” SFAS No. 105, with certain exceptions, requires disclosure of the following in regard to financial instruments with off-balance sheet risk:

- face or contract or notional principal amount;
- nature and terms, including (i) credit and market risk, (ii) cash requirements and (iii) accounting policy followed;
- amount of loss, if any party to the financial instrument fails to perform; and
- policy as to requiring collateral.

As to concentration of credit risk arising from all financial instruments, including accounts receivable, SFAS No. 105 requires:

- information about the activity, region or other characteristic that identifies the concentration;
- amount of loss if parties to the concentrated risk fail to completely perform; and
- policy as to requiring collateral.

Income Taxes

Under Brazilian GAAP, income taxes are recorded pursuant to a method similar to U.S. GAAP, but its practical application may lead to different results under certain circumstances. The criteria for recognition of the tax benefit of tax loss carryforwards under Brazilian GAAP and CVM rules limit such recognition to a maximum of 10 years. Also, under Brazilian GAAP, deferred tax effects are based on statutory rates, including those established by provisional measures issued by the Brazilian Federal government.

Under U.S. GAAP, companies use the liability method to calculate the income tax provision, as specified in SFAS No. 109 “Accounting for Income Taxes.” Under the liability method, companies recognize deferred tax assets or liabilities with a corresponding charge or credit to income for differences between the financial and tax bases of assets and liabilities at each year/period-end. Under U.S. GAAP, companies operating in highly inflationary environments do not record deferred taxes for differences relating to certain assets and liabilities that they remeasure into U.S. dollars at historical exchange rates and that result from changes in exchange rates or indexing to inflation in local currency for tax purposes. Companies recognize net operating loss carryforwards arising from tax losses as assets and establish valuation allowances to reflect the amount that more likely than not will be recovered. Deferred tax effects are based on the enacted tax rates that will be in effect when the temporary differences reverse. There may be differences in timing with respect to the recognition of the effects of changes in tax rates.

Investments in Debt and Equity Securities

Under Brazilian GAAP, marketable debt and equity securities are generally stated at the lower of cost or market value and realized gains and both realized and unrealized losses were reflected in income. We have investments in marketable securities.

Under U.S. GAAP, in accordance with SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities,” the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities is as follows for companies in industries not having specialized accounting practices:

- companies classify debt securities that the company has the positive intent and ability to hold to maturity as “held-to-maturity” securities and report them at amortized cost;
- companies classify debt and equity securities they hold principally for the purpose of selling in the short-term as “trading securities” and report them at fair market value, including unrealized gains and losses in income; and
- companies classify debt and equity securities that they have not classified either as “held-to-maturity” or “trading securities” as securities available-for-sale and report them at fair value, excluding unrealized gains and losses from earnings and reporting them in a separate component of shareholders’ equity until realized.

Employee Pension Costs and Other Post-Employment Benefits

Under Brazilian GAAP, employee pension costs and other benefits were expensed as they fell due. As for fiscal years commencing on or after December 31, 2002, with prior application encouraged, a new statement of the IBRACON (NPC 26) approved by the CVM should be applied by sponsor of plans that are public companies to account for employee benefits including pension costs and other-post-employment benefits. Under this new standard, an actuarial method is used for determining defined benefit pension costs and other post-employment benefits and provides for the deferral of actuarial gains and losses (in excess of a specific corridor). Defined contribution pension plans and other post-employment benefits require the recognition as an expense of contributions when fall due. If the new standard was implemented up to December 31, 2001 the impact on adoption should be recognized against retained earnings; if the standard was implemented after December 31, 2001 such impact should be recognized in net income over five years or over the estimated remaining life if it is shorter. At a minimum, specific disclosures are required in financial statements for the year ended December 31, 2001, including the funded/unfunded status of the plan.

Under U.S. GAAP, employee pension costs are recognized in accordance with SFAS No. 87 “Employers’ Accounting for Pensions.” In addition to the differences in cost recognition, the disclosures required with respect to employee pensions are more detailed under U.S. GAAP than current requirements under the Brazilian GAAP.

SFAS 87 requires the use of an actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specific corridor) that result from changes in assumptions or actual experience differing from that assumed. SFAS No. 87 also provides for the prospective amortization of costs related to changes in the benefit plan, as well as the obligation resulting from transition and requires disclosure of the components of periodic pension costs and the funded status of pension plans. SFAS No. 132, “Employers’ Disclosures About Pensions and Other Postretirement Benefits,” which became effective for all entities for fiscal years beginning after December 15, 1997 modified the disclosure requirements under SFAS 87.

Under U.S. GAAP, SFAS No. 106 “‘Employers’ Accounting for Post-retirement Benefits other than Pensions” applies to all post-retirement benefits related to life insurance provided outside a pension plan or to other post-retirement benefits, including health care and welfare benefits, expected to be provided by an employer to current and former employees. SFAS No. 106 is similar to SFAS No. 87 in that the cost of a post-retirement benefits plan should be recognized over the employees’ service periods and that actuarial assumptions are used to project the cost of health care benefits and the present value thereof. Under SFAS No. 106, a company is required to describe the plan, employee groups covered, type of benefits provided, funding policy, periodic plan costs, types of assets held, and any matter affecting comparability, among other disclosures.

ANNEX B

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN BRAZILIAN AND INTERNATIONAL STANDARDS ON AUDITING

Our financial statements were audited in accordance with approved Brazilian auditing standards ("Brazilian GAAS"). Brazilian GAAS are established by pronouncements of the Brazilian Federal Accounting Council ("CFC") through Brazilian Accounting Norms ("NBC's") and related Technical Interpretations. Brazilian GAAS standards, at the time of issuance, although less developed and often not subsequently updated, are generally strongly influenced by International Standards on Auditing ("ISA").

The summary below of certain significant differences between Brazilian GAAS and ISA is qualified in its entirety by reference to the respective pronouncements of the Brazilian and international auditing professions. Potential investors should consult their own professional advisors for an understanding of the differences between Brazilian GAAS and ISA and how those standards might affect the financial information contained in this Prospectus. In general terms, the standards established by Brazilian GAAS are less structured, less conceptually consistent and less detailed than those established in ISA. We set out below a summary of certain differences where the relevant guidelines of Brazilian GAAS are less developed than the comparable guidelines in ISA:

Fraud and error

While Brazilian GAAS address the issues of detecting fraud or error and communicating to management based on prior ISA 240, ISA 240 (revised February 2004) provide more detailed guidance on the procedures that the auditor should consider from the outset of the audit process (factors that could lead to irregularities or errors in the financial statements).

Knowledge of the business

Although the issue of knowledge of the company's business is dealt with in several auditing standards and procedures under Brazilian GAAS, ISA are more specific in addressing the auditor's knowledge of the company's business.

Audit evidence

Brazilian GAAS specifically address the audit evidence, the fundamental underlying assertions attached to the financial information and the methods through which audit evidence should be obtained. However, there is no risk assessment model under Brazilian GAAS such as required by ISA 400 - Risk Assessments and Internal Controls. The guidance provided in ISA (specifically, ISA 500) is more extensive with respect to the quantity and quality of audit evidence to be obtained.

Auditing in a Computer Information Systems Environment

Brazilian GAAS is less developed, detailed and updated compared to ISA 401- Auditing in a Computer Information Systems Environment.

Division of responsibility with an expert

Under Brazilian GAAS, the auditor may include in the audit report a division of responsibility with an expert in certain conditions (such as actuaries or appraisers). In contrast, under ISA, an auditor should not include, in the audit report, a division of responsibility for the work carried out by an expert. In addition, ISA include more specific procedures which should be followed by the auditor when assessing the quality and objectivity of the expert's work.

Quality Control for Audits

Under Brazilian GAAS there is no specific guidance for Quality Control. ISA 220 - Quality Control for Audits of Historical Financial Information establishes a standard and provide guidance on specific responsibilities of audit firm personnel regarding quality control procedures for audits of historical financial information, for periods commencing on or after June 15, 2005, including audits of financial statements. On the other hand, the International Standard on Quality Control issued by IFAC is applicable for audit firms that perform audits and reviews of historical financial information, and other assurance and related services engagements since June 15, 2005. Under Brazilian GAAS, there is no such a comprehensive basic principles and essential procedures to provide guidance regarding an audit firm responsibilities for its system of quality control for audits.

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