NATIONAL STEEL CO
Form 20-F
July 03, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
Comission file number: 1-14732

COMPANHIA SIDERÚRGICA NACIONAL

(Exact Name of Registrant as Specified in its Charter)

National Steel Company	**Federative Republic of Brazil**
(Translation of Registrant's Name into English)	(Jurisdiction of Incorporation or Organization)

Av. Brigadeiro Faria Lima, 3.400 - 20º andar
04538-132 - São Paulo, SP, Brazil
Tel.: (55 11) 3049 7100

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common shares, with no par value	New York Stock Exchange*

*Traded only in the form of American Depositary Shares, which are registered under the Securities Act of 1933.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the period covered by the annual report: 272,067,946 common shares with no par value including 13,885,900 shares held in treasury

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rules 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated files. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

TABLE OF CONTENTS

Omitted Items Of Form 20-F are either not required in a Form 20-F filed as an annual report under the Exchange Act, not applicable or reserved.

Table of Contents

INTRODUCTION

Unless the context otherwise requires, references to "we", "us", "our" or "CSN" in this Annual Report on Form 20 F (the "Annual Report") are references to Companhia Siderúrgica Nacional and its consolidated subsidiaries, and references to the "Brazilian government" are references to the federal government of the Federative Republic of Brazil. References to the "*real*", "*reais*" or R$" are to Brazilian *reais*, the official currency of Brazil. References to "U.S. dollars" and "US$" are to the currency of the United States of America. In this Annual Report, "billions" means thousands of millions, "km" means kilometers, "tons" means metric tons and "MW" means megawatts.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

We make statements in this Annual Report that are not historical facts, but rather are forward-looking statements. Forward-looking statements express or imply results, performance or events that are expected in the future. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include:

- projected completion dates of, and projected total investments in, projects under construction or approved for construction;
- completion of satisfactory financing arrangements for projects and other transactions;
- plans to expand iron ore production at our Casa de Pedra mine and the related expansion of the coal terminal adjacent to our Sepetiba Port facilities and the construction of pellet plants;
- plans to construct a cement plant and to enter the cement business;
- international expansion;
- plans to increase annual crude steel capacity;
- increased opportunities in the packaging industry;
- impact of Brazilian protectionist measures on steel imports;
- impact of U.S. protectionist measures;
- maintenance of our competitive advantages; and
- construction or acquisition of a hot strip mill, or entering into a long-term tolling agreement, in the United States.

Forward-looking statements are based on management's current views and assumptions and involve known and unknown risks and uncertainties, including in addition to those identified in "Item 3.D. Risk Factors", that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those expressed or implied in such statements due to, without limitation:

- global economic conditions, including, in particular, economic conditions in Brazil, the United States, China and Europe;

- changes in international trade;

Table of Contents

- interest rate levels;
- currency exchange rates, including the *real*/U.S. dollar exchange rate;
- changes in the policies of the Central Bank of Brazil and of similar organizations of developed nations and changes in policies of the Brazilian government or foreign governments of developed nations;
- changes in laws and regulations;
- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global steel industries and markets;
- global, national and regional competition in the steel market;
- protectionist measures imposed by steel-importing countries; and
- raw material availability.

See "Item 5. Operating and Financial Review and Prospects" and "Item 3.D. Risk Factors".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of December 31, 2004 and 2005 and for each of the years in the three-year period ended December 31, 2005 contained in "Item 18. Financial Statements" have been presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States of America, which are generally referred to as "U.S. GAAP". See Note 2(a) to our consolidated financial statements. We publish financial statements in Brazil in accordance with the accounting principles required by the Brazilian Corporate Law, specifically, Law no. 6,404 dated December 15, 1976, as amended, and the rules and regulations of the *Comissão de Valores Mobiliários* the Brazilian Securities Commission or CVM ("Brazilian GAAP"), which differ in certain significant respects from U.S. GAAP.

As discussed in Note 26 of the Consolidated Financial Statements, the Consolidated Statements of Income for the years ended December 31, 2003 and 2002 and the Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003, 2002, and 2001, have been restated.

Because we operate in an industry that uses the U.S. dollar as its currency of reference, our management believes that it is appropriate to present our primary financial statements in U.S. dollars in our filings with the U.S. Securities and Exchange Commission, or SEC. Accordingly, as permitted by the rules of the SEC, we have adopted the U.S. dollar as our reporting currency for our primary financial statements contained in our Annual Reports that we file with the SEC.

As described more fully in Note 2(a) of our consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our consolidated financial statements have been translated from the Brazilian *real* amounts in accordance with the criteria set forth in the U.S.Financial Accounting Standards Board's Statement of Financial Accounting Standards no. 52, "Foreign Currency Translation", at the period-end exchange rate (for balance

sheet items) or the average exchange rate prevailing during the period (for income statement items). In this Annual Report, we refer to a Statement of Financial Accounting Standards issued by the U.S. Financial Accounting Standards Board as an "SFAS".

Unless the context otherwise indicates:

- Historical data contained in this Annual Report that were not derived from our consolidated financial statements have been translated from *reais* on a basis similar to the basis used in our consolidated financial statements for the same periods or as of the same dates, except investment amounts that have been translated at the foreign exchange rate known as the Commercial Market rate in effect on the date the investment was made.

Table of Contents

- Forward-looking statements have been translated from *reais* at the Commercial Market rate at the time of the most recently budgeted amounts. We may not have adjusted all of the budgeted amounts to reflect all factors that could affect them.

Some figures included in this Annual Report have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In March 2005, the Central Bank of Brazil, or Central Bank, issued Resolution no. 3,265, introducing several changes in the Brazilian foreign exchange regime, including: (i) the unification of the foreign exchange markets into a single exchange market, called the Foreign Exchange Market; (ii) the easing of several rules for the acquisition of foreign currency by Brazilian residents; and (iii) the extension of the term for converting foreign currency derived from Brazilian exports. It is expected that the Central Bank will provide further easing of regulations in relation to foreign exchange transactions as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of *reais*), including those made through the so-called non-resident accounts (also known as CC5 accounts).

Until March 2005, there were two legal foreign exchange markets in Brazil, the commercial rate exchange market, or the "Commercial Market", and the floating rate exchange market, or the "Floating Market". The Commercial Market was reserved primarily for foreign trade transactions and transactions that generally required prior approval from Brazilian monetary authorities, such as the purchase and sale of registered investments by foreign persons and related remittances of funds abroad (including the payment of principal of and interest on loans, notes, bonds and other debt instruments denominated in foreign currencies and duly registered with the Central Bank). The Floating Market rate generally applied to specific transactions for which Central Bank approval was not required. Both the Commercial Market rate and the Floating Market rate were reported by the Central Bank on a daily basis.

The following table sets forth information on Commercial Market rates, for the periods indicated, expressed in *reais* per U.S. dollar:

	High	**Low**	**Average[(1)]**	**Period End**
Year ended December 31:				
2000	1.9847	1.7234	1.8302	1.9554
2001	2.8007	1.9353	2.3504	2.3204
2002	3.9552	2.2709	2.9212	3.5333
2003	3.6623	2.8219	3.0783	2.8892
2004	3.2118	2.6530	2.9259	2.6544
2005	2.7621	2.1633	2.4352	2.3407
Last six months				
December 2005	2.3735	2.1800	2.2855	2.3407
January 2006	2.3460	2.2116	2.2739	2.2160
February 2006	2.2217	2.1177	2.1619	2.1355
March 2006	2.2238	2.1067	2.1387	2.1724
April 2006	2.1542	2.0892	2.1293	2.0892
May 2006	2.3711	2.0586	2.1781	2.3005

(1) Represents the average of the monthly average exchange rates during the relevant period.

Table of Contents

PART I

Item 3: Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2004 and 2005 and for each of the years in the three-year period ended December 31, 2005 have been derived from our audited consolidated financial statements, which appear in "Item 18. Financial Statements". The information below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including their notes, and "Item 5. Operating and Financial Review and Prospects". Also see "Presentation of Financial and Other Information". In addition, the following table presents selected consolidated financial data as of December 31, 2001, 2002 and 2003, and for each of the two years in the period ended December 31, 2002, which have been prepared in accordance with U.S. GAAP and presented in U.S. dollars in a manner consistent with the information set forth in our audited consolidated financial statements, and which are not included in this annual report.

Table of Contents

	Year Ended December 31,				
	2001	**2002 As Restated (see FS note 26)**	**2003 As Restated (see FS note 26)**	**2004**	**2005**
Income Statement Data:	*(In millions of US$, except per share data)*				
Operating revenues					
Domestic sales	1,860	1,570	1,843	2,895	3,449
Export sales	218	599	1,077	1,008	1,224
	2,078	**2,169**	**2,920**	**3,903**	**4,673**
Sales taxes	346	315	322	735	829
Discounts, returns and allowances	16	12	50	84	39
Net operating revenues[1]	**1,716**	**1,842**	**2,548**	**3,084**	**3,805**
Cost of products sold	958	994	1,457	1,407	1,837
Gross profit	**758**	**848**	**1,091**	**1,677**	**1,968**
Operating expenses					
Selling	82	127	176	156	186
General and administrative	109	110	96	109	108
Other[9]	73	47	74	50	28
	264	284	346	315	322
Operating income	**494**	**564**	**745**	**1,362**	**1,646**
Non-operating income (expenses), net					
Financial income (expenses), net	(289)	247	(564)	(510)	(550)
Foreign exchange and monetary gain (loss), net	(354)	(891)	325	153	183
Gain on sales of long-term investments[2]	643				
Others	36	(30)	14	(6)	3
	36	(674)	(225)	(363)	(364)
Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle	**530**	**(110)**	**520**	**999**	**1,282**
Income tax expense (benefit)[9]					
Current	(2)	7	152	289	458
Deferred	(48)	(190)	(188)	2	(31)
	(50)	(183)	64	291	427
Equity in results of affiliated companies	(30)	(71)	9	51	47
Income before extraordinary item and cumulative effect of a change in accounting principle[9]	**550**	**34**	**465**	**759**	**902**
Extraordinary item, net of income taxes[3]	13				
Cumulative effect of a change in accounting principle, net of income taxes[4]	6				

Net income [9]	**569**	**2**	**465**	**759**	**902**
Per common share:[5]					
Income (loss) before extraordinary item and cumulative effect of a change in accounting	1.91	0.01	1.62	2.68	3.34
Extraordinary item, net of income taxes[3]	0.05				
Cumulative effect of a change in accounting principle, net of income taxes[4]	0.02				
Net income	1.98	0.01	1.62	2.68	3.34
Weighted average number of common shares outstanding (in thousands)	286,917	286,917	286,917	283,476	270,275

Table of Contents

	Year Ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(In millions of US$, except per share data)				
Balance Sheet Data (end of period):					
Current assets	1,313	1,590	2,310	2,907	3,330
Property, plant and equipment, net	2,062	1,527	1,874	2,143	2,547
Investments in affiliated companies and other investments	79	8	85	233	312
Other assets	600	530	748	874	968
Total assets	4,054	3,655	5,017	6,157	7,157
Current liabilities	1,445	1,732	1,228	1,216	1,398
Long-term liabilities[6]	1,863	1,448	2,982	3,615	4,750
Stockholders' equity	746	475	807	1,326	1,009
Total liabilities and stockholders' equity	4,054	3,655	5,017	6,157	7,157

	As Restated	**As Restated**	**As Restated (see FS note 26)**	**As Restated (see FS note 26)**	
Other Data:					
Cash flows from operating activities[10]	239	827	580	354	1,757
Cash flows from investing activities[7]	763	(340)	(259)	(365)	(593)
Cash flows from financing activities[7]	(1,251)	(348)	495	(380)	(996)
Dividends declared and interest on stockholders' equity[8]	831	143	258	253	969
Dividends declared and interest on stockholders' equity per common share[8]	2.90	0.50	0.90	0.89	3.59

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(1) Net operating revenues consist of operating revenues minus sales taxes, discounts, returns and allowances.

(2) During 2000, we contracted for the sale of our interests in *Light Serviços de Eletricidade S.A.* Light and *Valepar* S.A. Valepar through which we held an interest in *Companhia Vale do Rio Doce* - CVRD. The financial closings of these transactions occurred in 2001, and accordingly, results for 2001 include the gains from these sales. See note (7) below.

(3) The extraordinary items in 2001 represent gains on the repurchase of Eurodollar notes.

(4) Effect of the adoption of SFAS no. 133.

(5) Effective May 31, 2004, we reverse split our common shares, so that each 1,000 former shares is now represented by four shares. Effective June 10, 2004, our ADSs were split four-for-one, and each ADS represents one share after giving effect to the split. All share data contained in this Annual Report have been adjusted retroactively to reflect the split and regrouping of our shares and the split of our ADSs.

(6) Excluding the current portion of long-term debt.

(7) In 2001, cash flows from investing activities include US$1,293 million of proceeds from the sale of our investments in Light and CVRD (see note (2) above), and cash flows from financing activities reflects the payment of US$1,227 million of dividends and interest on stockholders' equity with a portion of the proceeds from the sale of those investments. The difference between the proceeds from the sales of our investments in Light and CVRD reflected in our cash flows from investing activities and the aggregate sale price of what we received is a translation adjustment resulting from the depreciation of the *real* against the U.S. dollar between December 31, 2000 and the respective financial closings, which is reflected in translation adjustments for the year in our statement of changes in stockholders' equity for 2001.

(8) Amounts consist of dividends declared and interest on stockholders' equity accrued, during the year. Generally, dividends are they are declared, and interest on stockholders' equity . For a discussion of our dividend policy and dividend and interest payments made in 2005, see "Dividend Policy" under "Item 8.A. Consolidated Statements and Other Financial Information".

(9) The Statements of Income for the years ended December 31, 2003 and 2002 have been restated. See Note 26 to the consolidated financial statements.

(10) The Statements of Cash Flows for the years ended December 31, 2004, 2003, 2002 and 2001 have been restated. See Note 26 to the consolidated financial statements.

Table of Contents

D. Risk Factors

An investor should consider carefully the risks described below before making an investment decision. If any of the following risks were to occur, our business, financial condition or results of operations could be harmed.

1. Risk Factors Relating to the Steel Industry and CSN

Cyclicality of Steel Industry; Importance of Export Markets

We are exposed to substantial swings in the demand for our steel, which has a substantial impact in the prices for our steel.

The steel industry behaves in a highly cyclical manner both in Brazil and abroad. In addition, as the Brazilian steel industry produces substantially more steel than the domestic economy is able to consume, the Brazilian steel industry is heavily dependent on export markets. The demand for steel products and, thus, the financial condition and results of operations of companies in the steel industry, including us, are generally affected by macroeconomic fluctuations in the world economy and domestic economies of steel-producing countries, including trends in the automotive, construction, home appliances, packaging and distribution sectors. In recent years, the price of steel in world markets has been at historically high levels, but these price levels may not continue. Since 2003, demand for steel products from developing countries (particularly China), the strength of the Euro and overall worldwide economic growth have contributed to historically high prices for our steel products, but these relatively high prices may not continue. Any material decrease in demand for steel in domestic or export markets served by us could have a material adverse effect on our operations and prospects.

Competition

We have a large number of competitors, and if they do a better job than we do with respect to price, product quality or customer service, or if they develop technologies that allow them to lower their cost of production, we could lose market share.

Despite significant reductions in steel production capacity by major producers in developed nations over the last decade, the world steel industry was adversely affected by excess worldwide production capacity. Steel-producing countries have been meeting in the OECD ("Organization for Economic Cooperation and Development") aiming to reach an agreement on world crude steel capacity reduction, but no definitive agreement has been reached.

Overcapacity issues in the steel industry have been moderated, to some extent, in recent years due to the relative strength in a number of important worldwide economies which have supported demand. Also relevant during this period has been the shortage of certain raw materials important to steel production (particularly coke), which has acted to reduce the levels of steel production of certain companies. A reversal in any of these circumstances would increase the negative effects of overcapacity in the steel industry.

Continuous advances in materials sciences and related technologies have allowed alternative materials, such as plastics, aluminum, ceramics and glass, to compete with our steel products. In addition, the economics of operating a steel mill may encourage mill operators to maintain high levels of output, even in times of low demand, which increases pressures on industry profit margins.

The steel industry is highly competitive with respect to price, product quality and customer service, as well as technological advancements that would a steel manufacturer to lower its cost of production. See "Item 4.B.8. Competition". Any increase in prices of raw materials or services (especially those obtained from third-party suppliers

over which we have no control) would put further pressure on our profit margins, especially for our export sales, where margins traditionally have been lower.

Table of Contents

Anti-dumping, Countervailing Duties, Safeguards and Government Protectionism

Protectionist measures adopted by the governments in some of our main markets could adversely affect our crucial export sales.

In response to the increased production and exports of steel in many countries, anti-dumping, countervailing duties and safeguard measures have been imposed by countries which represent some of the main markets for our exports. Those and similar measures could create an imbalance in the international steel market, which could adversely affect our exports. For example, in March 2002, the U.S. government imposed certain quotas and tariffs on imports of a range of steel products. Although the U.S. lifted those tariffs at the beginning of December 2003, there can be no assurance that the U.S. or other countries will not impose other quotas or tariffs. See "Item 4.B.10. Government Regulation and Other Legal Matters Anti-Dumping Proceedings".

Raw Material Costs

When the prices of raw materials which we need to produce steel, particularly coal and coke, increase, this causes our production costs to increase.

In 2005, the costs of raw materials accounted for approximately 43.5% of our total production costs, including outsourced hot-rolled coils. Our principal raw materials include iron ore, coal, coke (a portion of which we make from coal), limestone, dolomite, manganese, zinc, tin and aluminum. We obtain all of our iron ore, limestone and dolomite supply requirements from our mines in Minas Gerais State, and we produce most of our coke requirements from our own coke batteries. In 2005, we acquired a tin mine that we anticipate will eventually supply all of our tin requirements, but we are dependent on third parties for the remainder of our raw materials requirements. All of the coal that we use to produce coke and approximately 20-25% of our coke requirements are imported. Because of the cyclical nature of the coal industry, the price and quantity terms of our coal contracts are renewed annually. Thus, our coal costs can vary from year to year.

Because of coal price increases, driven particularly by Asian demand, contracts that we made for coal purchases in 2005 provide for an average price increase of approximately 50% compared to 2004. The suppliers for these contracts are American, Australian and Indonesian companies. There can be no assurance that coal prices will not increase further in the future. See "Item 4.B.5. Raw Materials and Transportation".

Additionally, coke prices increased dramatically from 2002 to 2004. The supply of coke tightened, because China, which supplied approximately 70% of the sea-borne trade in coke, increased its internal consumption and adopted restrictive export quotas. Although prices started to decline sharply in the beginning of 2005, the current prices level is still high on a historical basis. There can be no assurance that coke prices will not increase further in the future.

In addition, we purchase a portion of our tin and all of our zinc, manganese and aluminum requirements from third-party domestic suppliers. There can be no assurance that decreases in availability or increases in prices will not occur in the future, resulting in a decrease in our profitability.

Potential Costs of Environmental Compliance; Mining Regulation

New environmental standards imposed on us may require us to make capital expenditures that do not increase our productivity.

Our steel making facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating to the protection of human health and the environment. Brazilian pollution standards are expected to continue to change through 2006, including new air emission standards and solid waste handling regulations. New environmental standards imposed on us can require us to make capital expenditures that do not increase our

Table of Contents

productivity. Also, while the Brazilian government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations and can, in some instances, suspend plant operations. For a discussion of environment-related legal proceedings involving us, see "Item 4.B.10. Government Regulation and Other Legal Matters Environmental Regulation".

Reliance on energy supply

Interruptions in supply of natural gas and power transmission over the government power grid may adversely affect us, as well as our customers and suppliers.

We require significant amounts of energy, both in the form of natural gas and electricity, to power our plant and equipment. We purchase our natural gas needs through distributors which purchase natural gas from Petróleo Brasileiro S.A. - Petrobras (the country sole producer and supplier of natural gas). Petrobras, in turn, is significantly dependent upon the supply of natural gas from Bolivia, which supply is currently under threat due to recent announcements by the Bolivian government with respect to its intention to review existing supply contracts. Interruptions or reductions in the levels of supply of natural gas by Petrobras to the distributors with whom we purchase our natural gas or a significant price increase may affect our production and produciton costs.

Although we produce our entire electricity requirement, we rely on the government power grid for transmission of electricity to our facilities. Our production could be adversely affected, as a consequence of an electricity supply failure due to problems in transmission lines. We suffered such a failure in the first quarter of 2005 when our electricity supply was briefly interrupted and our production of crude steel and rolled steel decreased by 14% and 10%, respectively, when compared to the production in the first quarter of 2004.
Interruptions in the power supply may also affect our customers and suppliers.

2. Risk Factors Relating to Brazil

Brazilian Government Economic and Political Factors

If economic or political conditions deteriorate, the Brazilian government may adopt measures that adversely affect our business.

Our operations are based in Brazil and, accordingly, our financial condition and results of operations are substantially dependent on Brazil's economy, which has been characterized in the past by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles. The uncertainty over what policies the current Brazilian government will adopt may have an impact on our business and may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers.

In the past, the Brazilian government has often changed monetary, fiscal, taxation and other policies to influence the course of Brazil's economy. We have no control over, and cannot predict what measures or policies the Brazilian government may take to influence the Brazilian economy or how Brazilian government intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

Additionally, a presidential election will be held in Brazil in October 2006. The run-up to the presidential election may result in changes in existing policies, and the post-election administration may seek to implement new policies. In the years from 2001 to 2005 the Brazilian economy grew at an average annual rate of 2.2%, and the post-election administration may face domestic pressure to revise current economic policies to achieve higher growth

rates.

Table of Contents

Fluctuation of the Real

Fluctuation in the exchange rate of the real *can adversely affect our earnings.*

Historically, emerging markets, including Brazil, have experienced devaluation of their currency at various times. In 2002, the Brazilian exchange rate fluctuated from a low of R$2.2709 per US$1.00 to a high of R$3.9552 per US$1.00. The *real* depreciated against the U.S. dollar approximately 52.3% in 2002, due in part to the continued economic and political uncertainties in Brazil and other emerging markets and the global economic slowdown. However, in 2003 and 2004, the *real* appreciated 18.2% and 8.1%, respectively, against the U.S. dollar. In 2005 the *real* appreciated 11.8% against the U.S. dollar and on December 30, 2005, the rate was R$2.3407 per US$1.00.

Further fluctuations in the Brazilian currency, in relation to the U.S. dollar or other currencies, may have an adverse effect on our financial condition and results. In the event the *real* devaluates in relation to the U.S. dollar, the cost in *reais* of our foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke, will increase. To the extent that we do not succeed in promptly reinvesting the funds received from such borrowings in dollar-denominated assets, we are exposed to a mismatch between our foreign currency-denominated expenses and revenues. On the other hand, if the appreciation trend of the past few years continues, it will cause *real*-denominated production costs to increase as a percentage of total production costs. See "Item 5. Operating and Financial Review and Prospects".

At any given time we may have a substantial exposure to currency fluctuations. Although we may from time to time engage in derivative transactions, including currency swaps and foreign currency option agreements, as part of our attempt to manage our exchange rate exposure, it is an imperfect means of managing risk and derivative transactions are subject to credit or counterparty risk themselves.

As discussed below, the percentage of sales made in domestic and export markets will impact revenues expressed in U.S. dollars. See Item 5.A - Impact of Variations in Real-Dollar Exchange Rate and Inflation .

Inflation and Interest Rate Risks

High inflation rates have in the past had negative effects on the Brazilian economy and our business.

During 2002, the Central Bank raised Brazil's base interest rate by a total of 7.5% to 26.5% as a result of the growing economic crisis in Argentina, one of Brazil's primary trading partners, the lower level of growth of the U.S. economy and the economic uncertainty caused by the Brazilian presidential elections, among other factors. During 2003, the Central Bank decreased Brazil's interest rate from 26.5% to 16.5%, reflecting the good economic environment and inflation stability in line with the Central Bank's inflation target. During 2004, the Central Bank increased Brazil's base interest rate by 1.25% to 17.75%, on concerns that growth in Brazil's gross domestic product could jeopardize the inflation target. The Brazilian economy in 2005 was affected by inflation worries that forced the Central Bank to raise interest rates. However, by the year end these worries had subsided, and interest rates resumed downward trend closing the year at 18%. On May 2006, Brazil s current interest rate was at 15.25% .

A recurrence of high rates of inflation could hurt our earnings. Brazil has historically experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation, have had significant negative effects on the Brazilian economy in general and have affected our financial condition and results of operations.

The Central Bank has adopted the inflation targets set forth in the table below as the basic anchor to guide its monetary policy. The inflation target (a central target with a tolerance interval) is based on the *Índice de Preços*

ao Consumidor Amplo IPCA, measured by the *Instituto Brasileiro de Geografia e Estatística* IBGE.

Table of Contents

	Inflation Target	IPCA
2002	4.0% ±2.5%	12.5%
2003	4.0% ±2.5%*	9.3%
2004	5.5% ±2.5%	7.6%
2005	4.5% ±2.5%	5.7%
2006	4.5% ±2.0%	
2007	4.5% ±2.0%	

*In 2003 the target was adjusted during the year to 8%

There can be no assurance that the lower levels of inflation will continue or that future Brazilian governmental actions will not trigger the renewal of hyperinflation or that any such increase will not have a material adverse effect on our financial condition and results of operations.

Controls and Restrictions on U.S. Dollar Remittances

If Brazil were to impose restrictions on U.S. dollar remittances, holders of our ADSs could encounter difficulties in receiving the dividends and interest on capital that we pay to shareholders.

Brazilian law provides that, whenever there exists, or there is a serious risk of, a material imbalance in Brazil's balance of payments, the Brazilian government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1990. Under these circumstances, the government may also impose restrictions on the conversion of the Brazilian currency into foreign currencies.

These types of restrictions could hinder or prevent the depositary under our American Depositary Receipt program, or holders who have surrendered ADSs for our underlying common shares, from converting those dividends, distributions or proceeds from any sale of common shares into U.S. dollars and remitting those U.S. dollars abroad. Holders of ADSs could be adversely affected by delays in, or refusals to grant, any required governmental approvals for conversion of Brazilian currency payments and remittances abroad in respect of the common shares underlying the ADSs. See "Item 9.C. Markets" and "Item 10.D. Exchange Controls" for additional information with respect to the ADSs.

Changes in Brazilian law or regulations and additional restrictions applicable to the holders of ADSs, the disposition of underlying common shares or the repatriation of the proceeds from any such disposition could be imposed in the future, and there can be no assessment of the duration or impact of such restrictions if they were to be imposed. See "Item 10.E.1. Brazilian Tax Considerations".

In March 2005 the Central Bank issued Resolution no. 3,265, introducing several changes in the Brazilian foreign exchange regime, including: (i) the unification of the foreign exchange markets into a single exchange market; (ii) the easing of several rules for the acquisition of foreign currency by Brazilian residents; and (iii) the extension of the term for converting foreign currency derived from Brazilian exports. These measures ease the regulations of the foreign exchange market, leaning towards a convertible currency. However, no assurance can be given that this path will actually be followed or that restrictive exchange control policies that would affect our ability to exchange reais into U.S. dollars and the further remittance of U.S. dollars abroad will not be adopted in the future.

Risks Associated with Emerging Markets

Developments in the global economy and other emerging markets may affect our access to financing and decrease the market price of our common shares and ADS

Table of Contents

The market for securities issued by Brazilian companies is influenced, in varying degrees, by global economic and market conditions, and especially by those of Latin American countries and other emerging markets. The reaction of investors to investment opportunities in other countries may have an adverse impact on the market value of securities of Brazilian companies. Crises in other emerging countries or the economic policies of other countries, in particular the United States, may reduce investors demand for securities of Brazilian companies, including their shares. Any of the foregoing developments may adversely affect the market value of our common shares and ADS and hinder our ability to access the capital markets and finance our operations in the future on acceptable terms.

3. Risk Factors Relating to a Routine SEC Review

An ongoing SEC review of our registration statement on Form F-4, filed in connection with a proposed public debt exchange offer, may require us to further amend this annual report.

We are in the process of responding to comments made by the staff of the Securities and Exchange Commission and our registration statement on Form F-4, filed on September 19, 2005. That registration statement was filed in connection with a proposed public exchange offer of notes originally issued in a non-public transaction. Until our responses to the Staff's comments are finalized, our capital-raising activities will be limited to the U.S. non-public markets and the markets outside the United States. Additionally, further amendments to our Consolidated Financial Statements for 2004 were included in this annual report.

Table of Contents

Item 4. Information on CSN

A. History and Development of CSN

1. General

We are the second largest fully-integrated steel producer in Brazil and one of the largest in Latin America in terms of crude steel production. See "Item 4.B.13.Brazilian Steel Industry". Our current annual crude steel capacity and rolled product capacity is 5.6 million and 5.1 million tons, respectively. Production of crude steel and rolled steel products decreased in 2005 to 5.2 million and 4.8 million tons, respectively, from 5.5 and 5.0 million tons in 2004.

Our fully-integrated manufacturing facilities produce a broad line of steel products, including slabs, hot- and cold-rolled, galvanized and tin mill products for the distribution, packaging, automotive, home appliance and construction industries. In 2005, we accounted for approximately 44.0% of the galvanized steel products sold in Brazil. We are also one of the world's leading producers of tin mill products for packaging containers. In 2005, we accounted for approximately 99% of the tin mill products sold in Brazil.

Our production process is based on the integrated steelworks concept. Following is a brief summary of the steel making process at our Presidente Vargas Steelworks, located in the city of Volta Redonda, Rio de Janeiro State:

- Iron ore produced from our own mines is processed in continuous sintering machines to produce sinter.
- The sinter and lump ore direct charges are smelted with lump coke and injected powdered coal in blast furnaces to produce the molten iron formed during the first smelting of iron ore, or pig iron.
- The pig iron is then refined into steel by means of basic oxygen converters.

In addition to owning our own source of iron ore, we also currently produce from our own mines our total requirements of limestone and dolomite and a portion of our tin requirements. Using imported coal, we produce approximately 75-80% of our coke requirements, at current production levels, in our own coke batteries at Volta Redonda. Imported coal is also pulverized and used directly in the pig iron production process. Zinc, manganese ore, aluminum and a portion of our tin requirements are purchased in local markets. Our steel production and distribution also require water, gases, electricity, rail and road transportation, and port facilities.

2. History

Companhia Siderúrgica Nacional is a Brazilian corporation incorporated in 1941 pursuant to a decree of Brazilian President Getúlio Vargas. The Presidente Vargas Steelworks, located at Volta Redonda, in Rio de Janeiro State, started production in 1946, initially producing coke, pig iron castings and long products.

Three major expansions were undertaken at the Presidente Vargas Steelworks during the 1970s and 1980s. The first, completed in 1974, increased installed annual production capacity to 1.6 million tons of crude steel. The second, completed in 1977, raised capacity to 2.4 million tons of crude steel. The third, completed in 1989, increased capacity to 4.5 million tons of crude steel.

We were privatized through a series of auctions held in 1993 and early 1994, through which the Brazilian government sold its 91% interest in our company.

In 1993, we adopted a capital improvement program, which was revised and extended in 1995 and finalized in 2002. The principal goals of the capital improvement program have been to increase our annual production of crude steel, to improve the productivity of our production units and the quality of our products and to enhance

Table of Contents

our environmental protection and cleanup programs. Since February 1996, all production has been based on the continuous casting process, rather than ingot casting, an alternative method that results in higher energy use and metal loss. From 1996 through 2002, we spent the equivalent of US$2.4 billion under the capital improvement program and for operational capacity maintenance, culminating with the revamping in 2001 of Blast Furnace #3 and Hot Strip Mill #2 at the Presidente Vargas Steelworks that have increased our annual production capacity to 5.6 million tons of crude steel and 5.1 million tons of rolled products, from approximately 5.0 million tons in each case at the beginning of 2001.

Specific projects completed under the capital improvement program include:

- The conversion to 100% continuous casting production, finalized in February 1996.
- The installation of a pulverized coal injection, or PCI, system, which commenced operations in July 1997.
- The start-up in late 1998 of a vacuum-degasser unit and a ladle furnace, to improve steel quality and allow us to supply high-end products to the more stringent automotive and packaging industries' specifications.
- The start-up in the first quarter of 1999 of a new continuous casting machine (#4).
- The start-up in December 1999 of a 238-MW thermoelectric co-generation power plant. This power plant is designed to supply 60% of the Presidente Vargas Steelworks' current energy requirements, using as its primary fuel the waste gases generated by our coke ovens, blast furnaces and steel processing facilities. This power plant also produces steam for the steelworks' rolling facilities and coking plant and blown air for their blast furnaces.
- The installation of sub-lance and combined-blowing in the basic oxygen furnace.
- The installation of electrostatic precipitators in sinter plants #2, 3 and 4.
- The installation of hydrogen, high-convection batch, annealing furnaces.

The principal components of our capital improvement program were:

- The revamping of Blast Furnace #3, representing an investment of US$208 million. This revamping included various structural alterations based on new cooling technologies and the use of thinner refractory bricks. The revamping resulted in an expansion of annual crude steel production capacity from 5.0 million tons at the beginning of 2001 to 5.6 million tons by the end of 2003.
- The modernization of Hot Strip Mill #2, representing an investment of US$165 million. The new technologies installed allowed the improvement of product dimensions and tolerances in order to comply with the most demanding of client specifications. In addition, the entire production control has been automated, enabling an increase in the effective rolled product capacity from 5.0 to 5.1 million tons.
- Additionally, we spent US$210 million in 2003, US$178 million in 2004 and US$290 million in 2005 to further improve productivity levels and to maintain our operational capacity. The expenditures were for, among other things, equipment revamping, spare parts purchases, building repairs, equipment automation and information technology.

Table of Contents

A. Business Overview

1. Business Strategy

Our mission is to increase value for our shareholders, maintaining our position as one of the world's lowest-cost steel producers. With this in mind, we intend to strengthen our position as a global player, optimizing our infrastructure assets (our mines, ports and railways) and their competitive cost advantages.

To achieve this goal, we have adopted strategies in each of four business segments (where we already have assets, current operations or inherited competitive advantages):

Steel

- Implement a carefully crafted globalization strategy. This may include the acquisition or construction of steel operations, steel-related businesses or distribution or service centers outside Brazil, as well as the association with other companies engaged in such ventures.

- Emphasize a wide range of value-added products, mostly galvanized, pre-painted and tin-coated.

- Introduce new technologies and systems to enhance our understanding of customers, competitors and industry trends.

- Provide customer solutions supported by quality products and services.

We have been implementing our strategy for our steel segment through our capital improvement program for our Volta Redonda facility and also through many investments in downstream opportunities, as described in "Item 4.B.6. Investment Programs". Also, in March 2006, the Board of Directors approved the investment of up to US$3.6 billion to build two new slab plants with capacity of 3 million tons year each. The first unit will be located in Itaguaí, State of Rio de Janeiro, and the other unit location will be determined later.

Mining

- Expand our mining assets our Casa de Pedra (iron ore) and Arcos (limestone and dolomite) mines and search for investment opportunities, primarily in mining operations related to the steel business.

Pursuing this strategy, in January 2004 we announced the approval of investments, currently expected to be up to US$1.5 billion, which are already under implementation, for:

- The expansion of the annual production of the Casa de Pedra iron ore mine from approximately 16 million tons to 53 million tons in 2011.

- The expansion of the coal terminal adjacent to our Sepetiba Port facilities to enable annual exports of up to 30 million tons of iron ore.

- The construction of two pellet plants, with capacity of 3 million tons year each.

Also, in April 2005, we acquired 100% of the capital stock of *Estanho de Rondônia S.A.*, or "ERSA", which comprises a tin mine and smelter plant. We intend to increase production from 1,800 tons in 2005 to 3,800 tons in 2009, with investments of up to US$24 million. See "Item 4.B.5 Raw Materials and Transportation Raw Materials

and Energy Requirements and Item 4.B.6 Investment Programs Future Investments".

Table of Contents

Logistics

- Take advantage of and expand our logistics capabilities, including our integrated infrastructure operations (our railways and ports).

We have substantially improved the infrastructure needed to support the President Vargas Steelworks and our export and international strategies by making investments in projects such as hydroelectric energy generation, railways and port facilities in order to increase our ability to control production costs and secure reliable sources of energy, raw materials and transportation. See "Item 4.B.6 Investment Programs Infrastructure Investments".

Cement

- Achieve greater usage of by-products.

In June 2004, we announced the approval of the construction of a facility to produce 1.2 million tons of cement, using the slag generated by our blast furnaces, at a cost of up to US$43 million.

2. Major Products

We produce carbon steel, which is the world's most widely produced type of steel, representing the vast bulk of global steel consumption. From carbon steel, we sell a variety of steel products, both domestically and abroad, to manufacturers in several industries.

The following chart reflects our production cycle in general terms.

Table of Contents

Our Presidente Vargas Steelworks produces flat steel products slabs, hot-rolled, cold-rolled, galvanized and tin mill products. See "Item 4.B.4 Production Production Process".

Slabs

Slabs are semi-finished products used for processing hot-rolled, cold-rolled or coated coils and sheet products. We are able to produce continuously cast slabs with a standard thickness of 250 millimeters, widths ranging from 830 to 1,550 millimeters and lengths ranging from 5,250 to 10,660 millimeters. We produce medium and low carbon slabs, as well as micro-alloyed, ultra-low-carbon and interstitial free slabs.

Hot-rolled Products

Hot-rolled products comprise heavy-gauge hot-rolled coils and sheets and light-gauge hot-rolled coils and sheets. A heavy gauge hot-rolled product, as defined by Brazilian standards, is a flat-rolled steel coil or sheet with a minimum thickness of five millimeters. We are able to provide coils of heavy gauge hot-rolled sheet having a maximum thickness of 12.7 millimeters and cut sheet having a maximum thickness of 6.3 millimeters. Heavy gauge sheet steel is used to manufacture automobile parts, pipes, mechanical construction and other products. Light gauge hot-rolled coils and sheets produced by us have a minimum thickness of 1.2 millimeters and are used for welded pipe and tubing, automobile parts, gas containers, compressor bodies and cold-formed light shapes, channels and profiles for the construction industry.

Cold-rolled Products

Cold-rolled products comprise cold-rolled coils and sheets. A cold-rolled product, as defined by Brazilian standards, is a flat cold-rolled steel coil or sheet with thickness ranging from 0.30 millimeters to 3.00 millimeters. Compared to hot-rolled products, cold-rolled products have more uniform thickness and better surface quality and are used in applications such as automotive bodies, home appliances and construction. In addition, cold-rolled products serve as a base steel for our galvanized and tin mill products. We supply cold-rolled coils in thickness from 0.30 millimeters to 2.65 millimeters.

Galvanized Products

Galvanized products comprise flat-rolled steel coated on one or both sides with zinc or a zinc-based alloy applied by either a hot-dip or an electrolytic process. We use the hot-dip process, which is approximately 20% less expensive than the electrolytic process. Galvanizing is one of the most effective and low-cost processes used to protect steel against corrosion caused by exposure to water and the atmosphere. Galvanized products are highly versatile and can be used to manufacture a broad range of products, such as:

- bodies for automobiles, trucks and buses;
- manufactured products for the construction industry, such as panels for roofing and siding, dry wall and roofing support frames, doors, windows, fences and light structural components;
- air ducts and parts for hot air, ventilation and cooling systems;
- culverts, garbage containers and other receptacles;
- storage tanks, grain bins and agricultural equipment;

- panels and sign panels; and
- pre-painted parts.

Table of Contents

Galvanized sheets, both painted and bare, are also frequently used for gutters and down spouts, outdoor and indoor cabinets, all kinds of home appliances and several similar applications. We produce galvanized sheets and coils in continuous hot-dip processing lines, with thickness ranging from 0.30 millimeters to 2.70 millimeters. The continuous process results in products with highly adherent and uniform zinc coatings capable of being processed in nearly all kinds of bending and heavy machinery.

In addition to standard galvanized products, we produce *Galvanew*®, galvanized steel that is subject to a special annealing process following the hot-dip coating process. This annealing process causes iron to diffuse from the base steel into the zinc coating. The resulting iron-zinc alloy coating allows better welding and paint performance. The combination of these qualities makes our *Galvanew*® product particularly well-suited for manufacturing automobile and home appliance parts including high gloss exposed parts.

At CSN Paraná, one of our branches, we produce galvalume, a cold-rolled material coated with a zinc-aluminum alloy. The production process is similar to hot-dip galvanized coating, and galvalume has at least twice the corrosion resistance of standard galvanized steel. Galvalume is primarily used in outdoor construction applications that may be exposed to severe acid corrosion.

The added value from the galvanizing process permits us to price our galvanized products with a higher profit margin. Our management believes that our value-added galvanized products present one of our best opportunities for profitable growth because of the anticipated increase in Brazilian demand for such high margin products.

Through CSN Paraná, we also produce pre-painted flat steel, which is manufactured in a continuous coating line. In this production line, a layer of resin-based paint in a choice of colors is deposited over either cold-rolled or galvanized base materials. Pre-painted material is a high value-added product used primarily in the construction and home appliance markets.

Tin Mill Products

Tin mill products comprise flat-rolled low-carbon steel coils or sheets with, as defined by Brazilian standards, a maximum thickness of 0.38 millimeters, coated or uncoated. Coatings of tin and chromium can be applied by various electrolytic and hot-dip processes. Coating costs place tin mill products among the highest priced products that we sell. The added value from the coating process permits us to price our tin mill products with a higher profit margin. There are four types of tin mill products, all produced by us in coil and sheet forms:

- tin plate coated on one or both faces with a thin metallic tin layer plus a chromium oxide layer, covered with a protective oil film;
- tin free steel coated on both faces with a very thin metallic chromium layer plus a chromium oxide layer, covered with a protective oil film;
- low tin coated steel coated on both faces with a thin metallic tin layer plus a thicker chromium oxide layer, covered with a protective oil film; and
- black plate uncoated product used as the starting material for the coated tin mill products.

Tin mill products are primarily used to make cans and other containers. With six electrolytic coating lines, we are one of the biggest producers of tin mill products in the world and the sole producer of coated tin mill products in Brazil.

Table of Contents

3. Sales and Marketing

Our products are sold both domestically and abroad as a main raw material for several different manufacturing industries, including the automotive, home appliance, packaging, construction and steel processing industries.

Marketing Organization and Strategy

Our sales approach is to establish a brand image and achieve a reputation for quality products by developing relationships with our clients and focusing on their specific needs. Our business encompasses operations and commercial activities. Our operations activities are undertaken by the Production sector, which is composed of two units: Operations and Support.

- The Operations unit is responsible for steel production operations, repair shops, in-plant railroad, and process development at Volta Redonda.

- The Support unit is responsible for production planning, management of product stockyards, energy and utility facilities and work force safety assistance at the Presidente Vargas Steelworks.

The Production sector is also responsible for environment and quality consulting, new products development, capital investment implementation for steel production and processing, as well as the supervision of GalvaSud and CSN Paraná operations.

Our Commercial sector is responsible for sales of all of our products. This sector is divided into two major sections, one focused on export sales and the other on domestic sales. The domestic market oriented sales section is divided, in turn, into five market segments: packaging, distribution, automotive, home appliances and original equipment manufacturer, or OEM, and construction. Each one of these segments has a specific strategic goal to provide tailor-made steel solutions that meet the specific needs of each of the segments they serve.

The distribution unit is responsible for supplying large steel processors and distributors, as well as some industries that produce small diameter pipe and light profiles. The packaging unit acts in an integrated way with suppliers, representatives of the canning industry and distributors to respond to customer needs for end-products. The automotive unit markets GalvaSud products and a portion of the galvanized material produced at Presidente Vargas steelworks, using a combined sales strategy. The home appliance, OEM and construction units, in addition to being responsible for these segments, market the steel produced at CSN Paraná.

In 2005, approximately two thirds of domestic sales were made through our own sales force directly to customers. The remainder was sold to distributors for subsequent sale to smaller clients.

Historically, export sales were made primarily through international brokers. As part of our strategy to establish direct, longer-term relationships with end-users, we have decreased our reliance on such brokers. We have sought to orient our export sales to more profitable markets in order to maximize revenues and shareholder returns. Our strategy is to maintain Europe and North America as our main export markets, taking advantage of the commercial channels provided by our subsidiary CSN LLC in the United States and our affiliated Lusosider in Portugal.

All of our sales are on an order-by-order basis and have an average delivery time of 45 days. As a result, our production levels closely reflect our order log book status. We forecast sales trends in both the domestic and export markets based on the historical data available over the prior two-year period and the general economic outlook for the near future. We have our own data systems to remain informed of worldwide and Brazilian market developments. Further, our management believes that one of the keys to our success is maintaining a presence in the export market.

Such presence gives us the flexibility to shift between domestic and export markets, thereby allowing us to maximize profitable capacity utilization.

Table of Contents

Unlike classic commodity products, there is no exchange trading of steel, or uniform pricing, as wide differences exist in terms of size, chemical composition, quality and specifications. In general, export sales are priced based on international spot prices of steel at the time of sale in U.S. dollars or Euros, depending on the export destination. To establish the domestic price, the corresponding international quotations are converted into *reais* and an additional amount is added to reflect, among other things, local demand and the transportation and tariff costs to import similar products. Terms of sale are normally at sight, 15 or 30 days, and, in the case of exports, usually backed by a letter of credit and an insurance policy. Sales are made primarily on cost and freight terms.

Steel Sales by Geographic Region

In 2005, we sold steel products to customers in Brazil and 71 other countries. The fluctuations in the portion of total sales attributable to domestic sales, which can be seen in the following table, reflect our ability to adjust sales in light of variations in the domestic and international economies, as well as steel demand and prices, domestically and abroad.

The three principal export markets for our products are North America, Europe and Asia, representing 34%, 26% and 28%, respectively, of our export sales volume in 2005. In addition to sales to end customers, in North America we may sell slabs to our subsidiary, CSN LLC, to be processed into hot-rolled, cold-rolled and galvanized products and then sold to end customers. Additionally, we take advantage of CSN LLC presence in North American, which acts as a commercial channel for our products. Also, in Europe we sell hot-rolled coil as raw material for *Lusosider Projectos Siderúrgicos S.A.*, or Lusosider, our affiliated located in Portugal.

The following table contains certain information relating to our sales of steel products by destination:

SALES OF STEEL PRODUCTS BY DESTINATION
(In thousands of metric tons and millions of US$)

	2003				2004				2005			
	Tons	% of Total	Operating Revenues (2)	% of Total	Tons	% of Total	Operating Revenues (2)	% of Total	Tons	% of Total	Operating Revenues (2)	% of Total
Brazil	3,066	58.8	1,693	61.3	3,298	70.5	2,699	73.0	2,875	59.6	3,155	72.2
Export	2,149	41.2	1,071	38.7	1,383	29.5	997	27.0	1,945	40.4	1,214	27.8
Total	5,215	100	2,764	100	4,681	100	3,696	100	4,820	100	4,369	100.0
Exports by Region												
Asia	1,273	24.4	124	4.5	149	3.2	62	1.7	543	11.3	268	6.1
North America(1)	141	2.7	386	13.8	605	12.9	602	16.3	662	13.7	479	11.0
Latin America	313	6.0	184	6.7	136	2.9	77	2.1	146	3.0	101	2.3
Europe	365	7.0	278	10.1	447	9.5	228	6.2	510	10.6	298	6.8
All Others	57	1.1	99	3.6	46	1.0	27	0.7	84	1.7	68	1.6
Total Exports	2,149	41.2	1,071	38.7	1,383	29.5	997	27.0	1945	40.4	1,214	27.8

(1) Sales to Mexico are included in North America

(2) Total operating revenues presented above differ from amounts in Company's US GAAP financial statements because they do not include revenues from non-steel products (2003 - US$ 156, 2004 US$ 207 and 2005 - US$ 304).

Table of Contents

Sales by Steel Product

The following table sets forth our market shares for sales in Brazil of hot-rolled, cold-rolled, galvanized and tin mill products for the past three years according to the *Instituto Brasileiro de Siderurgia*, the Brazilian Steel Institute:

DOMESTIC MARKET SHARE
(As a percentage of the market for each product)

	2003	2004	2005
Hot-rolled Products	31.0%	29.0%	29.0%
Cold-rolled Products	24.0%	25.0%	19.0%
Galvanized Products	54.0%	49.0%	44.0%
Tin Mill Products	99.0%	98.0%	99.0%

The decline in our share of hot-rolled and galvanized products is due to the startup of a new hot-strip mill and a new galvanizing line by our competitors.

Sales by Industrial Segment

We sell our products to manufacturers in several industries. Following is a breakdown of our domestic shipments by volume for the last three years among our market segments:

SALES BY INDUSTRIAL SEGMENT IN BRAZIL
(In percentages of total domestic volume shipped)

	2003	2004	2005
Distribution	29.4%	32.3%	33.8%
Packaging	22.7%	19.8%	22.5%
Home Appliances/OEM	18.0%	17.4%	15.2%
Automotive	19.4%	20.0%	17.4%
Construction	10.5%	10.6%	11.0%

We believe we have a particularly strong domestic and export position in the sale of tin mill products used for packaging. The customers for these products include some of the world's most important food processing companies, as well as many small and medium-sized entities. We also maintain a strong position in the sale of galvanized products for use in the automobile manufacturing, construction and home appliance industries in Brazil and abroad, supplied by GalvaSud and CSN Paraná. No single customer accounts for more than 5% of our net operating revenues.

4. Production

Production Process

The principal raw materials for steel production in an integrated steel works are iron ore, coal, coke, and fluxes like limestone and dolomite. The iron ore consumed at the Presidente Vargas Steelworks is extracted, crushed, screened and transported by railway from our Casa de Pedra mine located in Congonhas, Minas Gerais State, 328 km

from the Presidente Vargas Steelworks. The high quality ores mined and sized at Casa de Pedra, with iron content of approximately 60%, and their low extraction costs are major contributors to our low steel production costs.

Because Brazil lacks quality coking coals, we import all the coal required for coke production. The coal is then charged in coke batteries to produce coke through a distillation process See "Item 4.B.5. Raw Materials and Transportation Raw Materials and Energy Requirements". This coal distillation process also produces coke oven gas as a by-product, which we use as a main source of fuel for our thermoelectric co-generation power plant. After being screened, coke is transported to blast furnaces, where it is used as a combustion source and as a component for transforming iron ore into pig iron. We produced about 75-80% of our coke needs, importing the balance. At

Table of Contents

sintering plants, fine-sized iron ore and coke or other fine-sized solid fuel are mixed with fluxes (limestone and dolomite) to produce sinter. The sinter, lump iron ore, fluxing materials and coke are then loaded into our two operational blast furnaces for smelting. In 1997, we began operating a PCI facility, which injects low-cost pulverized coal directly into the blast furnaces as a substitute for approximately one-third of the coke otherwise required.

The iron ore is reduced to pig iron through successive chemical reactions with carbon monoxide (from the coke and PCI) in two blast furnaces that operate 24 hours a day. The ore is gradually reduced, then melts and flows downward. Impurities are separated from the iron to form a liquid slag with the loaded fluxes (limestone and dolomite). From time to time, white-hot liquid iron and slag are drawn off from the bottom of the furnace. Slag (containing melted impurities) is granulated and sold to neighboring cement companies. Upon completion of our planned cement plant, slag also will be used to produce cement. .

The molten pig iron is transported to the steelmaking shop by 350-ton capacity torpedo cars and charged in basic oxygen furnaces together with scrap and fluxes. In the basic oxygen furnaces, oxygen is blown onto the liquid burden to oxidize its remaining impurities and to lower its carbon content, thus producing liquid steel. The molten steel is conveyed from the basic oxygen furnaces into the continuous casting machines from which crude steel (i.e., rectangular shaped slabs) is produced. A portion of the slab products is sold directly in the export market.

In hot-rolling, reheated slabs from the continuous casting machines are fed into hot strip mills to reduce the thickness of the slabs from 250 millimeters to a range between 1.2 and 12.7 millimeters. At the end of the hot strip mill, the long, thin steel strip from each slab is coiled and conveyed to a cooling yard. Some hot-rolled coils are dispatched directly to customers in the as-rolled condition. Others are further processed in the pickling line, in a hydrochloric bath, to remove surface oxides and improve surface quality. After pickling, the hot-rolled coils selected to produce thinner materials are sent to be rolled in cold strip mills. The better surface characteristics of cold-rolled products enhance their value to customers as compared to hot-rolled products. Additional processing related to cold-rolling may further improve surface quality. Following cold-rolling, coils may be annealed, coated (by a hot dip or electrolytic tinning process) and painted, to enhance medium- and long-term anti-corrosion performance and to add characteristics that will broaden range of steel utilization. Coated steel products have higher profit margins than bare steel products. Of our coated steel products, tin mill and galvanized products are our highest margin products.

The steel plant equipment regularly undergoes scheduled maintenance shutdowns. Typically the rolling mills and coating lines are maintained on a weekly or monthly basis whereas the blast furnaces and other special equipment are scheduled for routine maintenance on a semi-annual or annual basis. In 2001, after 16 years of use, Blast Furnace #3 at the Presidente Vargas Steelworks went through a revamping, lasting 97 days. While Blast Furnace #3 was shut down, we also modernized Hot Strip Mill #2. One month after the two revampings were completed, production levels were back to the levels before the shutdowns. These revampings significantly improved quality and productivity, reducing production costs along the whole steel production chain.

Quality Management Program

We practice Total Quality Management, a set of techniques that have been adopted by many leading transnational companies. We also maintain a Quality Management System that has been certified to be in compliance with the ISO 9001 standards set forth by the International Standardization Organization, or ISO. We were awarded the ISO 9001 Certificate in December 1994 for the design and manufacture of hot-rolled, pickled and oiled products, cold-rolled, galvanized and tin mill products. The maintenance of the ISO 9001 Certificate requires satisfactory semi-annual audits by an ISO-accredited organization. In 1997, we were awarded the automotive industry's QS 9000 Compliance Certificate for the design and manufacture of hot-rolled, pickled and oiled, cold-rolled and galvanized products. Some important automotive companies, like Volkswagen, General Motors and

Table of Contents

Ford, require their suppliers to satisfy the QS 9000 standards. In October 2003, we were certified through Technical Specification 16949, which replaces the QS 9000 standards, and ISO 9000:2000, which replaces ISO 9001.

Production Output

The following table sets forth, for the periods indicated, the annual production of crude steel within Brazil and by us and the percentage of Brazilian production attributable to us.

CRUDE STEEL PRODUCTION
(In millions of metric tons)

	Brazil	CSN	CSN% of Brazil
2005	31.6	5.2	16.5%
2004	32.9	5.5	16.8%
2003	31.1	5.3	17.0%
2002	29.6	5.1	17.2%

Source: *Instituto Brasileiro de Siderurgia IBS* (Brazilian Steel Institute)

The following table contains some of our operating statistics for the periods indicated.

CERTAIN OPERATING STATISTICS
(In millions of metric tons)

	2003	2005	2005
Production of:			
Iron Ore	14.1	15.5	13.7
Molten Steel	5.5	5.7	5.3
Crude Steel	5.3	5.5	5.2
Hot-rolled Coils and Sheets	4.8	5.1	4.8
Cold-rolled Coils and Sheets	2.8	2.8	2.6
Galvanized Products	1.1	1.3	1.0
Tin Mill Products	1.1	1.0	1.0
Consumption of Coal for Coke Batteries	2.3	2.3	2.3
Consumption of Coal for PCI[(1)]	0.9	0.9	0.8

(1) Pulverized coal injection

5. Raw Materials and Transportation

The principal raw materials we use in our integrated steel mill include iron ore, coke, coal (from which we make coke), limestone, dolomite, aluminum, tin and zinc. In addition, our production operations consume water, gases, electricity and ancillary materials and rely on rail and road transportation and port facilities.

Raw Materials and Energy Requirements

We obtain all of our iron ore requirements from our Casa de Pedra mine in Minas Gerais State, which has an installed mining capacity of 21.5 million tons annually (run-of-mine or ROM) with a processing ratio of 74.4%,

resulting in a mining capacity of 16 million tons of processed iron ore. In 2005, the run-of-mine was 19 million tons, resulting in a final quantity of 13.7 million tons of processed iron ore. Of this total, 7.4 million tons were utilized at the Presidente Vargas Steelworks and 5.9 million tons were sold to third parties, consisting of 2.5 million tons of sinter-feed material, 2.2 million tons of pellet feed materials, 0.6 million tons of lump ore and 0.6 million tons of small lump ore. In addition, approximately 0.4 million tons of processed iron ore were kept in inventory.

Table of Contents

We process the iron ore at the mine site prior to shipment by railway to the Presidente Vargas Steelworks. See the map under "Item 4.D. Property, Plant and Equipment" for the location of the Casa de Pedra mine in relation to the Presidente Vargas Steelworks.

In 2005, coal consumption amounted to 3.1 million tons and accounted for approximately 20% of our production cost. Because of the cyclical nature of the coal industry, price and quantity terms contained in our coal supply contracts, which are denominated in U.S. dollars, are usually renegotiated annually. Thus, our coal costs can vary from year to year.

In 2005, in addition to the approximately 1.7 million metric tons we produced, we also consumed 510,000 tons of coke bought from third parties. The market for coke has been very tight since 2002, because China, which supplied approximately 70% of the sea-borne trade, has increased its internal consumption and adopted restrictive export quotas.

Since 1997, we have been using a PCI system that allows us to use less coke in our blast furnaces, substituting a portion of the coke with lower grade coal. The PCI system has reduced our need for imported coal and imported coke, thereby reducing our production costs. In 2005, we used approximately 750,000 tons of imported PCI coal.

In view of the increased demand for coke arising from the increased production of steel worldwide, we have recently revised our production methods to further reduce the amount of coke consumed by injecting natural gas in our blast furnaces. By utilizing these new production methods and with the approved revamping of one of our coke batteries, our goal is to become self-sufficient in our coke needs based on our current crude steel capacity.

We obtain limestone and dolomite from our Bocaina mine at Arcos in Minas Gerais State, which produces 1.6 million tons of limestone and 0.9 million tons of dolomite on an annual basis, more than 90% of which is used in the steelmaking process. See the map under "Item 4.D. Property, Plants and Equipment" for the location of the Bocaina mine in relation to the Presidente Vargas Steelworks.

Aluminum is mostly used for steelmaking. Zinc and tin are important raw materials used in the production of certain higher-value steel products, such as galvanized and tin plate, respectively. We purchase aluminum, zinc and tin typically from third-party domestic suppliers under one- or two-year contracts. We maintain approximately a one-week reserve of such materials at the Presidente Vargas Steelworks.

In April 2005, we acquired a tin mine and smelter facility. This smelter was one of our main tin suppliers in 2004. We intend to increase production from 1,800 tons in 2005 to 3,800 tons in 2009, in order to achieve self-sufficiency of this raw material.

In our production of steel, we also consume, on an annual basis, significant amounts of spare parts, refractory bricks and lubricants, which are generally purchased from domestic suppliers.

We also consume significant amounts of oxygen, nitrogen, hydrogen, argon and other gases at the Presidente Vargas Steelworks. These gases are supplied by a third party under long-term contracts from its gas production facilities located on the Presidente Vargas Steelworks site.

Large amounts of water are also required in the production of steel. Water serves as a solvent, a catalyst and a cleaning agent. It is also used to cool, to carry away waste, to help produce and distribute heat and power and to dilute liquids. Our source of water is the Paraíba do Sul River, which runs through the city of Volta Redonda. Over 80% of the water used in the steelmaking process is recirculated and the balance, after processing, is returned to the Paraíba do Sul River. Since March 2003, the Brazilian government has imposed a monthly tax for our use of water from the

Paraíba do Sul River, based on an annual fee of approximately US$0.8 million.

Table of Contents

Steelmaking requires significant amounts of electricity to power rolling mills, production lines, hot metal processing, coking plants and auxiliary units. In 2005, the Presidente Vargas Steelworks consumed approximately 3.0 million megawatt hours of electric energy or 580 kilowatt hours per ton of crude steel. This consumption made us one of the largest consumers of electricity in Brazil, accounting for approximately 11.6% of the overall consumption of electricity in Rio de Janeiro State. Until 2000, we purchased over 95% of our electric energy needs. In order to reduce our reliance on Light (the main electricity distributor in the state of Rio de Janeiro) and to improve the reliability and price stability of our electric energy supply, we have constructed a 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks and invested in the Itá and Igarapava hydroelectric facilities. In October 2000, we achieved self-sufficiency in electric energy supply, with the receipt of 238 MW from the thermoelectric co-generation power plant, 167 MW from Itá and 22 MW from Igarapava. We have not purchased energy from Light since October 2002.

In addition to electricity, we consume natural gas, mainly in our hot-stripmill. *CEGRio S.A.*, which was privatized in 1997, is currently our sole source of natural gas. Variations in the supply of gas can affect the level of steel production. We have not experienced any significant stoppages of production due to a shortage of natural gas. We also purchase fuel oil from Petrobrás, the Brazilian national oil company.

Transportation

Transportation costs are a significant component of our steel production costs and are a factor in our price-competitiveness in the export market. Railway transportation is the principal means by which we transport raw materials from our mines to the Presidente Vargas Steelworks and steel products to ports for shipment overseas. Iron ore, limestone and dolomite from our two mines located in Minas Gerais State are transported by railroad to the Presidente Vargas Steelworks for processing into steel. The distances from such mines to the Presidente Vargas Steelworks are 328 km and 455 km. Imported coal and coke bought from foreign suppliers are unloaded at the port of Sepetiba, 90 km west of the City of Rio de Janeiro, and shipped 109 km by train to the Presidente Vargas Steelworks. Our finished steel products are transported by train, truck and ships to our customers throughout Brazil and abroad. Our principal Brazilian markets are the cities of São Paulo (335 km from the Presidente Vargas Steelworks), Rio de Janeiro (120 km) and Belo Horizonte (429 km).

Until recently, Brazil's railway system (including railcars and tracks) was principally government-owned and in need of repair, but has now been largely privatized. In an attempt to increase the reliability of our rail transportation, we have participated in the privatization of certain railway systems. See "Item 4.B.6. Investment Programs Infrastructure Investments Railways". We export mainly through the ports of Sepetiba and Rio de Janeiro, and import coal and coke through the Sepetiba Port, all in Rio de Janeiro State. The coal and container terminals have been operated by us since August 1997 and 1998 respectively. See "Item 4.B.7 Facilities".

6. Investment Programs

Current Investment Program

In January 2004, we announced the approval of investments, presently expected to be up to US$1.5 billion , which are currently being implemented. In 2005, when the project actually started, we allocated US$93.3 million in the three fronts of the expansion: mine, port and pelletizing plant. The full capacity of the project will be achieved on July 2011:

- The expansion of the annual production of the Casa de Pedra iron ore mine from approximately 16 million tons to 53 million tons in 2011.

- The expansion of the coal terminal adjacent to our Sepetiba Port facilities to enable annual exports of up to 30 million tons of iron ore.

Table of Contents

- The construction of two pellet plants, with capacity of 3 million tons year each.

In June 2004, we announced the approval of the construction of a facility to make cement, using the slag produced by our blast furnaces, at a cost of up to US$43 million.

In April 2005, we purchased from Brascan Brasil Ltda. 100% of ERSA, which we anticipate will provide 100% of our tin needs by 2009, after planned investments of up to US$24 million. See "Item 4.B.1-Business Overview Business Strategy Mining and Item 4.B.5 Raw Materials and Transportation Raw Materials and Energy Requirements .

In addition to the currently planned investments and maintenance capital expenditures, we continue to consider possible acquisitions, joint ventures and brownfield or greenfield projects to increase our steel producing capabilities.

Investments in Downstream Opportunities, New Products and Market Niches

We have implemented our strategy of developing downstream opportunities, new products and market niches by creating or expanding capacity of galvanized products for the automotive sector and by investing in a galvanizing and pre-painting plant for supply to the construction and home appliance industry sectors, as described in Item 4.B.7 Facilities .

Infrastructure Investments

We intend to control production costs and secure reliable sources of raw materials, energy and transportation in support of our steelmaking operations through a program of strategic investments. The principal strategic investments are set forth in Item 4.B.7 Facilities .

7. Facilities

Steel Mill

The Presidente Vargas Steelworks, located in the city of Volta Redonda, Rio de Janeiro State, began operating in 1946. It is an integrated facility covering approximately 3.8 square km and containing five coke batteries (three of which are currently in operation), three sinter plants, two blast furnaces, a basic oxygen furnace steel shop, which is also referred to as a BOF shop, with three converters, three continuous casting units, one hot strip mill, three cold strip mills, two continuous pickling lines, one continuous annealing line, three continuous galvanizing lines, four continuous annealing lines exclusively for tin mill products and six electrolytic tinning lines.

We maintain "all risk" insurance coverage against damage to our principal operating assets at the Presidente Vargas Steelworks and its mining facilities and port operations, which we believe adequately covers the principal risks of operating such facilities. In addition, we maintain "business interruption" and "transportation risk" insurance, as well as "general third party liability" insurance. We also insure our hydroelectric, electricity distribution, railways, coal and container terminal investments.

Our major operational units and corresponding effective capacities as of December 2005, including CSN LLC and Lusosider are set forth in the following chart:

Table of Contents

EFFECTIVE CAPACITY

	Metric tons per year	Equipment in operation
Process:		
Coking plant	1,680,000	3 batteries
Sintering plant	6,930,000	3 machines
Blast furnace	5,380,000	2 furnaces
BOF shop	5,750,000	3 converters
Continuous casting	5,600,000	3 casters
Finished Products:		
Hot strip mill	5,100,000	1 mill
Cold strip mill	4,550,000	6 mills
Galvanizing line	2,095,000	7 lines
Electrolytic tinning line	1,190,000	7 lines

In addition, *White Martins Gases Industriais S.A.*, one of the largest industrial chemicals manufacturers in Brazil, completed in 1996 the construction of a new captive gas production facility, with a daily capacity of 2,100 tons, located on the premises of the Presidente Vargas Steelworks. The facility is designed to supply oxygen, nitrogen and argon to our steelmaking shop. In 2005, we used 945,000 tons of oxygen to produce 5.2 million tons of crude steel.

Downstream Facilities

In May 1998, we and Thyssen-Krupp Stahl AG, or TKS, formed a joint venture company, GalvaSud, to produce and sell galvanized steel *Galvanew*®, laser-welded and pre-stamped parts for the automotive industry. The galvanizing line started producing in December 2000, and the service center, which produces pre-cut, pre-stamped and pre-welded galvanized material, started in March 2001. GalvaSud has an annual capacity of 350,000 tons. The construction of GalvaSud was financed on a project finance basis, under which we guaranteed 51% of the project finance debt. In June 2004, we acquired an additional 49% stake from TKS for US$28.5 million, becoming the sole owner of GalvaSud, and repaid GalvaSud's project finance debt, including the portion that had been guaranteed by TKS, which aggregated US$132 million.

We built CSN Paraná, a CSN branch, to produce and supply plain and formed regular galvanized, galvalume and pre-painted steel products for the construction and home appliance industries. Our total investment in this project was approximately US$227 million. The first part of this project one galvanizing and one pre-painting line started operations in September 2003. The second phase one pickling line and one reversing cold-rolling mill started operations in the beginning of 2004. The plant has an annual capacity of 330,000 tons of galvanized products and galvalume products, 100,000 tons of pre-painted product, which can use cold-rolled or galvanized steel as substrate, and 220,000 tons of pickled hot-rolled coils in excess of the coils required for the coating process.

As part of our strategy to expand into the tin-coated products market, in November 2002 we acquired 100% of the shares of *Cia. Metalic Nordeste*, or Metalic, for US$30 million. Metalic was purchased from the Steinbruch family in an arm's-length transaction. Metalic is the only two-piece steel can producer in Brazil. It has approximately 50% of the packaging market for carbonated drinks in the North and Northeastern regions of Brazil. Currently, we are the only supplier to Metalic of the steel used to make two-piece cans. The development of drawn-and-wall-ironed steel for the production of two-piece cans is an important achievement in the production process at the Presidente Vargas Steelworks. See "Item 6.A. Directors and Senior Management .

Within the same strategy, we acquired on June 5, through our affiliated Inal, 100% of the shares of *Companhia Metalúrgica Prada*, or Prada, as approved in our Extraordinary General Meeting held on April 28, 2006. Prada is the largest steel can manufacturer in Brazil and produces more than 1 billion steel cans in its four production units

Table of Contents

located in São Paulo, Santa Catarina and Minas Gerais states, on the southeast and south regions of Brazil and, accordingly, is one of our major customers of tin mill products. Currently, we are the only Brazilian producer of tin-coated products, Prada´s principal raw material. Prada has important customers in the food and chemical segments, including seeds, dairy products, lubricants, varnish, resins and other business activities.

As part of our strategy of exploring other markets for potential expansion, in July 2001 CSN LLC purchased the assets of Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana, for approximately US$55 million and the assumption of US$19 million of debt. We also provided US$100 million for working capital and pre-paid interest. The facility has an annual production capacity of 800,000 tons of cold-rolled products and 315,000 tons of galvanized products. Construction of the facility, which cost approximately US$250 million, was completed in January 2000. CSN LLC borrowed US$175 million in order to finance the acquisition and provide anticipated working capital and interest payments for two years. In October 2003, we repaid the borrowing and acquired CSN LLC. In the future, we may integrate this facility with a hot-strip mill or secure long-term tolling arrangements. A new hot-rolling facility could require an investment of approximately US$300 million. Currently, CSN LLC is obtaining hot coils by buying slabs from us and then having them converted into hot coils by American steel companies. See "Item 4.B.10 Government Regulation and Other Legal Matters Anti-Dumping Proceedings United States" to a discussion about anti-dumping issues on Brazilian hot coils exports to United States.

As part of the same strategy mentioned above, in June 2003, we acquired from Banco Espírito Santo de Investimento S.A., for approximately 10.8 million, a 50% stake in Lusosider, a producer of hot-dip galvanized products and tin plate located in Seixal, near Lisbon, Portugal. Additionally, in May 2006, we entered into an agreement with Corus Group Plc, then the owner of the remaining 50% of Lusosider, to purchase the 50% that we did not own, for approximately 25 million. The conclusion of the acquisition is subject to regulatory clearance by the Portuguese Competition Authority, which is expected within 45 days of filing. Lusosider produces approximately 240,000 tons of galvanized products and 80,000 tons of tin plate annually. Its main customers include service centers, food and beverage can making and steel packaging industries.

Mines and Mineral Reserves

We have concessions to mine iron ore, limestone, dolomite and manganese. However, at the present time, we believe it is more cost efficient to purchase manganese on the local market. As a result, we do not currently operate any of the manganese concessions.

We have concluded an extensive, multi-year study of our iron ore reserves at our Casa de Pedra mine in Congonhas, Minas Gerais State. The study consisted of two phases. Phase one, which was completed during 1999, covered the ore bodies that are currently being mined or are close to the current operating open pits. Phase two, which was completed in early 2003, covered the other iron ore deposits at the Casa de Pedra site. Currently, we are finalizing a revaluation of Casa de Pedra reserves for audit purposes.

The following table sets forth our estimates of proven and probable reserves and other mineral deposits at our mines reflecting the results of the phase two reserve study less the run of mine (ROM) mined in years 2003, 2004 and 2005. They have been calculated in accordance with the technical definitions contained in the SEC's Industry Guide 7, and estimates of mine life described herein are derived from such reserve estimates.

Table of Contents

MINERAL RESOURCES

Mine Name and Location	Proven and Probable Reserves[1] Ore Tonnage[3] (millions of tons)		Grade[4]	Rock Type	Recoverable Product[5] (millions of tons)	Mineral Deposits Resources[2] (Hematite and Itabirite) Tonnage (millions of tons)
	Proven[6]	Probable[7]				
Iron:						
Casa de Pedra (Congonhas, Minas Gerais)	139	212	60.4% Fe	Hematite (70%) Itabirite (30%)	275	Approximately 4,000
	Proven+Probable					
Limestone:						
Bocaina (Arcos, Minas Gerais)	84.4		52%CaO[8] 2%MgO[9]		84.4	N/A
Dolomite:						
Bocaina (Arcos, Minas Gerais)	28.3		35%CaO[9] 17%MgO[8]		28.3	N/A
	Proven+Probable (Mm^3)				**(tons)**	**Resources (Mm^3)**
Tin (Itapoã do Oeste, Rondônia)	43.16			Paleo valley and shallow	25,739	97.7

(1) Reserves means that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
(2) Mineral Deposits Resources includes inferred tonnages.
(3) Ore Tonnage represents run-of-mine material.
(4) Grade is the proportion of metal or mineral present in ore or any other host material.
(5) Recoverable Product represents total product tonnage after mining and processing losses.
(6) Proven (measured) reserves means reserves for which: (i) quantity is computed from dimensions revealed in outcrops trenches, workings or drill holes; grade and/or quality are estimated from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established.
(7) Probable (indicated) reserves means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume between points of observation.

(8) Minimum.
(9) Maximum.

We have a 100% ownership interest in each of our mines. In addition, each mine is an "open pit" mine. See the map under "Item 4.D. Property, Plant and Equipment" for the location of the mines in relation to the Presidente Vargas Steelworks.

Iron Ore Mine. Our iron ore extraction, crushing and screening are done at our Casa de Pedra Mine facilities located at Congonhas, Minas Gerais State, 328 km from the Presidente Vargas Steelworks. The mine equipment fleet and treatment facilities currently have an installed annual run-of-mine capacity of approximately 30 and 21.5 million tons, respectively. Assuming current levels of production and quality, we assume that our proven and probable reserves will last for at least 20 years. The current revaluation of Casa de Pedra resources will provide the necessary reserves for the mine expansion under implementation for at least 25 years (See Item 4.B.1 Business Overview Business Strategy Mining).

Until 2001, we held an interest in CVRD, Latin America's largest mining company and the largest producer and exporter of iron ore in the world, through Valepar. Pursuant to an agreement entered into on December 31, 2000, we sold our interest in Valepar for US$1.3 billion to *Bradespar S.A., Bradesplan Participações S.A.* Bradesplan, and *Litel Participações S.A.* Litel, a special purpose company established by *Caixa de Previdência dos Funcionários do Banco do Brasil* Previ, and other pension funds. In connection with the sale of our then controlling stake at

Table of Contents

Valepar to Bradespar S.A. and Litel Participações S.A. and the subsequent sale of CVRD's 10.3% interest in 2003 in our company, CVRD obtained a 30-year right of first refusal to match all the conditions, including price, quality and tenor, obtained by us in contracts with third parties to purchase iron ore produced at Casa de Pedra in excess of our and our affiliates' needs.

In connection with CVRD's right of first refusal, in March 2005, we and CVRD executed a purchase and sale agreement providing for our sale to CVRD of a total of 54.7 million tons of iron ore produced in the Casa de Pedra iron ore mine over the term of the agreement which expires in 2015. The pricing terms of the agreement are subject to prices charged by CVRD to its customers in the Asian market. This agreement is the first long-term sale of iron ore anticipated from the expansion of Casa de Pedra iron ore mine and it marks the beginning of the sales of our iron ore to third parties on a large scale. Currently, the place of delivery of the iron ore and its effects on certain commercial terms are under dispute by means of an arbitration proceeding before the International Chamber of Commerce (ICC).

Additionally, in view of certain acquisitions made by CVRD in 1995, CADE issued a decision in August 2005 according to which CVRD would have to choose between its share participation in Ferteco Mineração S.A. (Ferteco) or its rights of first refusal mentioned above. Such decision is being challenged by CVRD before the Brazilian courts.

Limestone and Dolomite Mine. Our extraction and preparation of limestone and dolomite is done at our Bocaina mining facility located at Arcos, Minas Gerais State. This mining facility has an installed annual production capacity of approximately 4.0 million tons. We believe that the mining facility has sufficient limestone and dolomite reserves to adequately supply our steel production, at current levels, for more than 45 years. The mining facility is located 455 km from the Presidente Vargas Steelworks.

Tin. In April 2005, we purchased ERSA, the assets of a tin mine and smelter located in Rondônia State. The inventory of the geological reserves has been prepared from a review of the major reports from the Santa Barbara Mine Document Centre. The majority of the deposits and/or target areas are within Mining Leases that have been consolidated into a Mining Group (Grupamento Mineiro nº 131/92). The reserves provided was recognized by DNPM, Brazil´s competent authority for the reporting of ore reserves. The reserves and resources presented are in situ . The production in 2005 was 1.22 million cubic meters.

Electricity Distribution and Generation

Thermoelectric Co-Generation Power Plant. We completed construction of the 238 MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks in December 1999. Our US$298 million investment in this project, which represents one of the largest undertakings ever in private thermoelectric power generation in Brazil, was financed entirely with long-term loans from the *Banco Nacional de Desenvolvimento Econômico e Social* BNDES, the Brazilian development bank. Since October 2000, the plant has provided the Presidente Vargas Steelworks with approximately 60% of its electric energy needs for its steel mills. Aside from operational improvements, the power plant supplies our strip mills with electric energy, process steam and blown air for the blast furnaces, benefiting the surrounding environment through the elimination of flares that burn steel-processing gases into the atmosphere. The plant was constructed in accordance with the most stringent international environmental standards, meeting and surpassing applicable Brazilian environmental standards.

Itá Hydroelectric Facility. We and *Tractebel Energia S.A.* Tractebel each own 48.75%, and *Companhia de Cimento Itambé* Itambé owns the remaining 2.5%, of *Itá Energética S.A.* ITASA, a special-purpose company formed for the purpose of implementing, and owning, under a 30-year concession, 60.5% of the Itá hydroelectric facility on the Uruguay river in southern Brazil. Tractebel owns the remaining 39.5% of Itá. ITASA has been responsible for the construction of the Itá plant, while Tractebel has been responsible for environmental matters (such as property condemnations and resettlements). Tractebel is also responsible for the plant operation and maintenance.

32

Table of Contents

The power facility was built under a project finance structure with an investment of approximately US$860 million. The long-term financing for the project was closed in March 2001 and consisted of US$78 million of debentures issued by ITASA, a US$144 million loan from private banks and US$116 million of direct financing from BNDES. The sponsors have invested approximately US$306 million in the project.

Itá has an installed capacity of 1,450 MW, with a firm guaranteed output of 668 MW. The last of five 290 MW units became operational in February 2001.

We and the other shareholders of ITASA have the right to take our pro rata shares (based on our interests in the project) of Itá's output pursuant through 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. Beginning in October 2000, we have used our 167 MW take from Itá to supplement the energy supplied by the thermoelectric co-generation power plant at the Presidente Vargas Steelworks and, until October 2002, sold the excess. Since October 2002, we have been using all of our Itá take internally.

Igarapava Hydroelectric Facility. We own 17.9% of a consortium that built and will operate for 30 years the Igarapava hydroelectric facility. Other consortium members are CVRD, *Companhia Mineira de Metais CMM, Mineração Morro Velho Ltda. MMV, and Companhia Energética de Minas Gerais CEMIG.* The last of five 42 MW units became operational in September 1999, when the plant attained its full installed capacity of 210 MW, corresponding to 126 MW of firm guaranteed output. We have been using part of our 22 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines. The balance is consumed by the Presidente Vargas Steelworks or sold into the energy market.

Railways

Southeastern Railway System. We own 32.22% (20% of the voting capital) of *MRS Logística S.A.*, or MRS, which has a concession to operate, through the year 2026, the assets of Brazil's southeastern railway system. The southeastern railway system, covering 1,674 km of track, serves the São Paulo Rio de Janeiro Belo Horizonte industrial triangle in southeast Brazil, and links the mines of Minas Gerais State to the ports of São Paulo and Rio de Janeiro states and to the steel mills of CSN, Cosipa and Açominas. In addition to serving other customers, the line transports iron ore from our mines at Casa de Pedra in Minas Gerais State and coke and coal from the port of Sepetiba in Rio de Janeiro State to the Presidente Vargas Steelworks and transports our exports to the ports of Sepetiba and Rio de Janeiro. The railway system connects the Presidente Vargas Steelworks to the container terminal at Sepetiba, which handles most of our steel exports. Our transport volumes represent approximately 13% of the southeastern railway system's total volume. As of December 31, 2005, US$1,510 million remained payable over the remaining 21-year life of the lease, of which US$1,336 million are treated as an off-balance item (See "Item 5.E Off-balance Sheet Arrangements"). While we have joint and several liability with the other principal MRS shareholders for the full payment amount, we expect that MRS will make the lease payments through internally generated funds and proceeds from borrowings.

Northeastern Railway System. In November 2003, we and the Steinbruch family increased our interests in *Companhia Ferroviária do Nordeste*, or CFN, which has a concession to operate for a period of 30 years the assets of Brazil's northeastern railway system, to 48.6% each from 32.40%, by purchasing all of CVRD's interest in CFN. Subsequently, we and the Steinbruch family increased our interest to 49.99% each. The northeastern railway system covers 4,238 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. As of December 31, 2005, US$43 million remained payable over the remaining 21-year life of the concession, of which US$26 million are treated as an off-balance item (See "Item 5.E Off-balance Sheet Arrangements"). We and the Steinbruch family have joint and several liability for the full payment amount.

Central-Eastern Railway System. In November 2003, we sold to CVRD our 11.9% interest in *Ferrovia Centro-Atlântica S.A.*, or FCA, which has the concession to operate, through 2026, the assets of the central-eastern railway

Table of Contents

system. We also entered into a 10-year contract with FCA to transport limestone and dolomite from our mines to the Presidente Vargas Steelworks.

Port Facilities

Coal Terminal. We own the concession to operate a coal terminal, one of four terminals that form the Sepetiba Port, located in Rio de Janeiro State, for a term expiring in 2022 that is renewable for another 25 years. Sepetiba Port, in turn, is connected to the Presidente Vargas Steelworks by the southeastern railway system. In addition to our initial investment of US$34 million, we have invested US$39.8 million in modernizing the terminal and bringing it into compliance with environmental regulations. Our imports of coal and coke are made through this terminal. Under the terms of the concession, we undertook to unload at least 3.4 million metric tons of coal and coke through the terminal annually, as well as shipments from third parties.

Container Terminal. In November 2003, we increased our interest in *Sepetiba Tecon S.A.*, or TECON, to 100%, with the purchase of CVRD's 50% interest. TECON has a concession to operate, for a 25-year term that is renewable for another 25 years, the container terminal at Sepetiba Port. As of December 31, 2005, US$137 million of the cost of the concession remained payable over the next 21 years of the lease, of which US$61 million are treated as an off-balance item (See "Item 5.E Off-balance Sheet Arrangements"). TECON is expected to reach a nominal annual capacity of 600,000 containers by 2010. We intend to send all of our exports of steel products through this terminal. Approximately 70% of the steel products that we exported in 2005 were shipped through TECON.

Iron Ore Terminal. Among the approved investments that we announced in January 2004 is the development and expansion of an iron ore terminal at the Sepetiba Port that will have the capacity to export annually up to 30 million tons of iron ore. The investments related to the iron ore terminal are currently being implemented.

8. Competition

Both the worldwide and the Brazilian steel markets are intensely competitive. The primary competitive factors in these markets include quality, price, payment terms and customer service. Moreover, continuous advances in materials sciences and resulting technologies have given rise to new products that pose competition for traditional steel products. These steel substitutes include plastics, aluminum, ceramics, glass and concrete, each one in a specific industrial segment.

Competition in the Brazilian Steel Industry

The primary competitive factors in the domestic market include quality, price, payment terms and customer service. Although we compete with other integrated Brazilian steel mills, we have not experienced significant import competition in Brazil from foreign steel companies. Several foreign steel companies, however, are significant investors in Brazilian steel mills.

The following table sets forth the production of crude steel by Brazilian companies:

Table of Contents

	2003		2004		2005	
	Ranking	**Production**	**Ranking**	**Production**	**Ranking**	**Production**
		(In million tons)		*(In million tons)*		*(In million tons)*
Gerdau[1]	1	7.0	1	7.3	1	6.9
CSN	2	5.3	2	5.5	2	5.2
CST[2]	3	4.8	3	5.0	3	4.8
Usiminas[3]	4	4.5	4	4.7	4	4.5
Cosipa	5	4.1	5	4.2	5	4.1
Belgo[2]	6	2.9	6	3.3	6	3.3
Others		2.5		2.9		2.8
TOTAL		31.1		32.9		31.6

Source: Brazilian Steel Institute
(1) Gerdau is partly integrated, but the bulk of Gerdau's steel production comes from non-integrated plants.
(2) In 2005, Arcelor S.A. accomplished a shareholder restructuring of its companies in Brazil, resulting in a consolidation of its stakes on CST, Belgo and Vega do Sul in a new company called Arcelor Brasil.
(3) Since 1999, Usiminas has had a majority stake in Cosipa, and the companies acted as a group. In 2005, Cosipa was incorporated into Usiminas.

We believe that we have the following competitive advantages over our Brazilian competitors:

- Our focus on selling high margin products, such as tin plate, pre-painted, galvalume and galvanized products, in our product mix.
- Our ownership of iron ore reserves, compared to our domestic competitors that purchase their iron ore requirements mainly from CVRD.
- Our thoroughly developed logistics infrastructure, from our iron ore mine to our steel mill to, finally, our ports.
- Our self-sufficiency in energy, through our interests in hydroelectric plants of Itá and Igarapava, and our own thermoelectric plant inside the Volta Redonda mill.
- GalvaSud, which provides material for exposed auto parts, using hot-dip galvanized steel and laser- welded blanks, a trend in this industry. This, together with our hot-dip galvanizing process know-how, should allow us to increase our sales to the automotive segment.
- CSN Paraná, gives us additional capacity to produce high-quality galvanized, galvalume and pre-painted steel products for the construction and home appliance industries.
- CSN LLC and Lusosider, which constitute a significant sales channels for our products in United States and Europe, the world s two principal steel markets.

Our Brazilian competitors have recently completed construction of additional steel processing capacity in Brazil. These include Usiminas' completion in 2000 of a 400,000 ton galvanizing line and a 600,000 ton continuous annealing line, and CST's completion at the end of 2002 of a 2.0 million ton hot-strip mill. In addition, Vega do Sul, a joint venture between CST and Arcelor S.A., started a 400,000 ton galvanizing facility in July 2003, as well as an 800,000 ton cold-rolling mill.

Table of Contents

Competitive Position Global

During 2005, Brazil retained its place as the largest producer of crude steel in the world, with a production output of 31.6 million tons and a 2.8% share of total world production. Brazil accounted for approximately half of total steel production in Latin America in 2005, approximately twice the size of Mexico's and approximately one-third the size of U.S. steel production. In 2004, the last year for which comparative data are available, Brazil was the eleventh largest steel exporter in the world, behind Japan, Russia, Ukraine, Germany, Belgium-Luxembourg, China, France, South Korea, Italy and Turkey, and the fourth largest net exporter after Japan, Ukraine and Russia. In 2005, Brazil's 12.5 million tons of exports of finished and semi-finished steel products accounted for approximately 3.9% of total global steel exports.

We compete on a global basis with the world's leading steel manufacturers. We have positioned ourselves in the world market with a product mix characterized by high margin, high demand steel products such as tin mill and galvanized. We have relatively low-cost and sufficient availability of labor and energy and own high-grade iron ore reserves that more than meet our production needs. These global market advantages are partially offset by costs of transporting steel throughout the world, usually by ship. Shipping costs, while helping to protect our domestic market, put pressure on our export price. To maintain our competitive viability in the world steel market in light of the highly competitive international situation with respect to price, our product quality and customer service must be maintained at a high level. We have continually monitored the quality of our products by measuring customer satisfaction with our steel in Europe, Asia and the Americas. See "Item 4.B.10. Government Regulation and Other Legal Matters Anti-Dumping Proceedings" for a description of protectionist measures being taken by steel-importing countries that could negatively impact our competitive position.

Competitive Advantages

Brazil's principal competitive advantages are its abundant supply of low-cost, high-grade iron ore, low-cost labor and energy resources and good quality infrastructure (principally railways and ports). Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports that allow the operation of large ships, which facilitates access to export markets. As a result of these advantages, Brazil has some of the lowest steel production costs in the world.

As in most domestic markets, the domestic price of steel in Brazil has historically been higher than its export price. This differential, however, is generally not large enough to compensate for the cost of importing steel to Brazil from producers in Asia, Europe and North America. The low production costs in Brazil are another barrier to foreign steel imports. Consequently, most of the steel sold in the Brazilian steel market is manufactured by Brazilian producers, and we do not believe that sales in Brazil by foreign producers will increase significantly or that steel prices in Brazil will decrease significantly because of competition from foreign steel producers.

Greenfield competition from new market entrants would be discouraged by existing participants' ties to sources of raw materials and well-established distribution networks. In the last years, several foreign competitors announced their intention to undertake Greenfield projects in Brazil. To date, they are still determining the feasibility of such products. The strategic goal of these projects, as announced by their participants, is to replace non-competitive slab production plants in Europe or to expand upon slab capacity production of Asian companies in order to service their home markets.

9. Research and Development

Our research and development center works closely with customers. One of the new features of this unit is the resident engineer concept, where key customers receive our engineers to help them make better use of our steel

products. This new unit works closely with the Commercial sector, focusing on product improvements and developments that will meet our customers' needs.

Table of Contents

Expenditures for research and development were US$10.1 million in 2005. New products developed under our research and development program since 1997 include: *Galvanew*®, electrical steel (a cold-rolled steel used for electric motors), a series of high-strength, low-alloy, hot-rolled steels (used for pipes, steel structures, agricultural appliances, gas containers and automobile wheels), cold-rolled and galvanized steels (used for automobiles, construction and home appliances) special grade tin mill products for two-piece cans and for specially-shaped cans.

We have entered into technical assistance contracts with a number of foreign steel companies and technical cooperation agreements with various universities and research institutes to provide us with assistance and advice from time to time related to specific products and processes. In addition, we have various patent applications pending before, and own various patents approved by, the Brazilian National Institute for Industrial Properties. We also own licenses for patents relating to a number of our products and processes.

10. Government Regulation and Other Legal Matters

Environmental Regulation

We are subject to Brazilian federal, state and municipal environmental laws and regulations governing air emissions, waste water discharges, and solid and hazardous waste handling and disposal. We are committed to controlling the substantial environmental impact caused by our steelmaking, mining and logistics operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. We believe that we are in substantial compliance with applicable environmental requirements.

The Brazilian Federal Constitution gives both the federal and state governments power to enact environmental protection laws and issue regulations under such laws. In addition, we are subject to municipal environmental laws and regulations. While the Brazilian government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations. Most of the environmental regulations in Brazil are thus at the state and local level rather than at the federal level. The environmental regulations of Rio de Janeiro State, in which the Presidente Vargas steelworks is located, are plant-specific. Thus, specific goals and standards are established in operating permits or environmental accords issued to each company or plant that complement the standards and regulations of general applicability and are required to be maintained throughout the life of the permit or accord. The terms of such operating permits are subject to change and are likely to become stricter. All of our facilities have operating permits, except for the Sepetiba coal terminal, which operates under a specific environmental accord, as described below.

We record an accrual for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. We do not anticipate that costs for environmental lawsuits, to the extent not previously accrued, will have a material adverse effect on our consolidated financial position. The accrual for environmental contingencies in the amount of US$9.4 million relates mainly to penalties and lawsuits imposed on our coal mines, which have been decommissioned since 1989.

We operate a corporate environmental department managed under an Environmental Management System ("EMS"), compliant with ISO 14001 requirements. We received the ISO 14001 Certificate for our iron ore mining operations in December 2000, and for our steelmaking units and limestone mining operations in December 2002. All certifications have been periodically renewed.

Since privatization, we have invested heavily in environmental and other clean-up programs. Total environmental expenditures (capitalized and expensed) during the past three years were US$51.0 million in 2003, US$54.4 million in 2004 and US$94.1 million in 2005. Of the US$94.1 million spent in 2005, capital expenditures constituted US$27.2 million and environmental maintenance and operating costs constituted US$66.9 million.

37

Table of Contents

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