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(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares without par value	New York Stock Exchange*
American Depositary Shares, (as evidenced by American Depositary Receipts), each representing one share of Common Stock	New York Stock Exchange

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\* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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**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:**

Common Shares, without par value. 1,457,970,108. For further information, see "Item 7A. Major Shareholders," "Item 9A. Offer and Listing Details" and "Item 10B. Memorandum and Articles of Association."

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

**R Yes 1 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.**

**1 Yes R 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.**

**R Yes 1 No**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).**

**R Yes 1 No**

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

**Large Accelerated Filer R Accelerated Filer 1 Non-accelerated Filer 1**

**Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:**

**U.S. GAAP 1 Other 1**

**International Financial Reporting  
Standards as issued by the  
International Accounting Standards  
Board R**

If "Other" has been checked in response to the previous question, 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

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## **Introduction**

Unless otherwise specified, all references in this annual report to:

“we,” “us,” “our” or “CSN” are to Companhia Siderúrgica Nacional and its consolidated subsidiaries;

“Brazilian government” are to the federal government of the Federative Republic of Brazil;

“*real*,” “*reais*” or “R\$” are to Brazilian *reais*, the official currency of Brazil;

“U.S. dollars,” “\$,” “US\$” or “USD” are to United States dollars;

“billions” are to thousands of millions, “km” are to kilometers, “m” are to meters, “mt” or “tons” are to metric tons, “mtpy” are to metric tons per year and “MW” are to megawatts;

“TEUs” are to twenty-foot equivalent units;

“consolidated financial statements” are to the consolidated financial statements of Companhia Siderúrgica Nacional and its consolidated subsidiaries reported in International Financial Reporting Standards as issued by the IASB – IFRS as of December 31, 2009, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011, together with the corresponding Report of Independent Registered Public Accounting Firm;

“ADSs” are to CSN’s American Depositary Shares and “ADRs” are to CSN’s American Depositary Receipts; and

“Brazil” is to the Federative Republic of Brazil.

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**Forward-Looking Statements**

This annual report includes forward-looking statements, within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, principally under the captions “Item 3. Key Information,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk.” We have based these forward-looking statements largely on our current expectations and projections about future events, industry and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- general economic, political and business conditions in Brazil and abroad, especially in China;
- the ongoing effects of the recent global financial markets and economic crisis;
- changes in competitive conditions and in the general level of demand and supply for our products;
- management’s expectations and estimates concerning our future financial performance and financing plans;
- our level of debt;
- availability and price of raw materials;
- changes in international trade or international trade regulations;
- protectionist measures imposed by Brazil and other countries;
- our capital expenditure plans;
- inflation, interest rate levels and fluctuations in foreign exchange rates;
- our ability to develop and deliver our products on a timely basis;
- lack of infrastructure in Brazil;
- electricity and natural gas shortages and government responses to them;
- existing and future governmental regulation; and
- other risk factors as set forth under “Item 3D. Risk Factors.”

The words “believe,” “may,” “will,” “aim,” “estimate,” “forecast,” “plan,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to identify forward-looking statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not

occur and are not an indication of future performance. As a result of various factors, such as those risks described in “Item 3D. Risk Factors,” undue reliance should not be placed on these forward-looking statements.

## **Presentation of Financial and Other Information**

Our consolidated financial statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 contained in “Item 18. Financial Statements” have been presented in thousands of *reais* (R\$) and prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). See Note 2(a) to our consolidated financial statements.

For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM, and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with the accounting principles required by Brazilian laws No. 6,404, dated December 15, 1976, as amended, and No. 11,638 dated December 28, 2007, as amended, or the Brazilian Corporate Law, and the rules and regulations of the CVM, or Brazilian GAAP.

## **Changes on Regulatory Requirements for Presentation of Financial Statements – Convergence to International Financial Reporting Standards (“IFRS”)**

Starting with the year ended December 31, 2010, Brazilian listed companies are required to publish their consolidated financial statements in accordance with IFRS. Those consolidated financial statements must be prepared based on IFRS as issued by the IASB.

The financial statements and other financial information for the years ended December 31, 2011, 2010 and 2009 included elsewhere in this Form 20-F, unless otherwise indicated, were prepared and presented in accordance with IFRS.

Previously published consolidated financial statements in our annual report on Form 20-F for our financial year ended December 31, 2009, as well as all prior financial periods, were prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). IFRS differs in certain material respects from U.S. GAAP and, accordingly, the consolidated financial statements for our financial years ended December 31, 2011, 2010 and 2009 prepared in accordance with IFRS are not comparable to our consolidated financial statements prepared in accordance with U.S. GAAP for 2009 and prior years presented in our reports on Form 20-F.

Certain 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.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### **Item 3. Key Information**

### 3A. Selected Financial Data

We present in this section the summary financial and operating data derived from our audited consolidated financial statements as of and for the year ended December 31, 2011, 2010 and 2009.

The consolidated financial statements included in this annual report have been prepared in accordance with IFRS, as issued by the IASB, in *reais*. However, we have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2011 was R\$1.8758 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2011, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. See “Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

*IFRS Summary and Financial Data*

The following tables present summary historical consolidated financial and operating data for us for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2011 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2011 as reported by the Central Bank of R\$1.8758 to US\$1.00. The selected financial data below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects.”

Income Statement Data:	Year Ended December 31,			
	2011	2011	2010	2009
	<i>(in million of US\$, except per share data)</i>		<i>(in million of R\$, except per share data)</i>	
<b>Net operating revenues</b>	<b>8,807</b>	<b>16,520</b>	<b>14,451</b>	<b>10,978</b>
Cost of products sold	(5,225)	(9,801)	(7,883)	(7,211)
<b>Gross Profit</b>	<b>3,582</b>	<b>6,719</b>	<b>6,568</b>	<b>3,768</b>
<b>Operating expenses</b>				
Selling	(322)	(604)	(482)	(447)
General and Administrative	(307)	(576)	(537)	(480)
Other Expenses	(267)	(501)	(599)	(648)
Other Income	383	719	49	1,369
<b>Total</b>	<b>(513)</b>	<b>(962)</b>	<b>(1,569)</b>	<b>(206)</b>
<b>Operating income</b>	<b>3,069</b>	<b>5,757</b>	<b>4,998</b>	<b>3,561</b>
Financial Income (expenses), net	(1,069)	(2,006)	(1,911)	(246)
<b>Income Before Taxes</b>	<b>2,000</b>	<b>3,751</b>	<b>3,087</b>	<b>3,315</b>
<b>Income Tax</b>				
Current	(73)	(136)	(363)	(577)
Deferred	28	52	(207)	(123)
<b>Total</b>	<b>1,955</b>	<b>3,667</b>	<b>2,516</b>	<b>2,615</b>
<b>Net income</b>	<b>1,955</b>	<b>3,667</b>	<b>2,516</b>	<b>2,615</b>
<b>Loss attributable to noncontrolling interest</b>	<b>(21)</b>	<b>(39)</b>	<b>-</b>	<b>(4)</b>
<b>Net income attributable to Companhia Siderúrgica Nacional</b>	<b>1,976</b>	<b>3,706</b>	<b>2,516</b>	<b>2,619</b>
Basic earnings per common share	1.35510	2.54191	1.72594	1.75478
Diluted earnings per common share	1.35510	2.54191	1.72594	1.75478



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<b>Balance Sheet Data:</b>	<b>As of December 31,</b>			
	<b>2011</b> <i>(in million of US\$)</i>	<b>2011</b>	<b>2010</b> <i>(in million of R\$)</i>	<b>2009</b>
Current assets	11,699	21,945	15,794	12,835
Investments	1,113	2,088	2,104	322
Property, plant and equipment	9,264	17,377	13,777	11,133
Other assets	2,911	5,460	6,380	6,436
<b>Total assets</b>	<b>24,987</b>	<b>46,870</b>	<b>38,055</b>	<b>30,726</b>
Current liabilities	3,464	6,497	4,456	3,998
Non-current liabilities	17,036	31,956	25,776	20,139
Shareholders' equity	4,487	8,417	7,823	6,589
<b>Total liabilities and shareholders' equity</b>	<b>24,987</b>	<b>46,870</b>	<b>38,055</b>	<b>30,726</b>
Paid-in capital (in millions of <i>reais</i> )	896	1,681	1,681	1,681
Common shares (in million)	1,457	1,457	1,457	1,457
Dividends declared and interest on shareholders' equity <sup>1</sup>	640	1,200	1,856	1,819
Dividends declared and interest on shareholders' equity per common share (in <i>reais</i> ) <sup>1</sup>	0.44	0.82	1.27	1.25

(1) Amounts consist of dividends declared and accrued interest on shareholders' equity during the year. For a discussion of our dividend policy and dividend and interest payments made in 2011, see "Item 8A. Consolidated Statements and Other Financial Information-Dividend Policy."

### Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. The Brazilian *real* has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies during the recent decades.

Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar throughout 2008, reaching R\$2.34 per US\$1.00 on December 31, 2008. From 2009 to 2010, the *real* appreciated 28.7% against the U.S. dollar and on

December 31, 2010 the exchange rate was R\$1.67 per US\$1.00. In 2011, the *real* depreciated 12.6% and on December 31, 2011, the exchange rate was R\$1.88 per US\$1.00. On April 18, 2012 the exchange rate was R\$1.87 per US\$1.00. The Central Bank has intervened occasionally to mitigate volatility in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.



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The following tables present the selling rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated.

<b>Year ended</b>	<b>Low</b>	<b>High</b>	<b>Average <sup>(1)</sup></b>	<b>Period-end</b>
December 31, 2007	1.733	2.156	1.948	1.771
December 31, 2008	1.559	2.500	1.837	2.337
December 31, 2009	1.702	2.422	1.994	1.741
December 31, 2010	1.655	1.881	1.759	1.666
December 31, 2011	1.535	1.902	1.675	1.876
<b>Month ended</b>	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>Period-end</b>
October 2011	1.689	1.886	1.773	1.689
November 2011	1.727	1.894	1.790	1.811
December 2011	1.783	1.876	1.837	1.876
January 2012	1.739	1.868	1.790	1.739
February 2012	1.702	1.738	1.718	1.709
March 2012	1.715	1.833	1.795	1.822
April 2012 (through April 18, 2012)	1.862	1.869	1.835	1.869

Source: Central Bank.

(1) Represents the daily average of the close exchange rates during the period.

We will pay any cash dividends and make any other cash distributions with respect to our common shares in Brazilian currency. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by ADS holders on conversion into U.S. dollars of such distributions for payment by the depositary. Fluctuations in the exchange rate between the *real* and the U.S. dollar may also affect the U.S. dollar equivalent of the *real* price of our common shares on BM&FBOVESPA.

### **3B. Capitalization and Indebtedness**

Not applicable.

### **3C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### 3D. Risk Factors

*An investment in our ADSs or common shares involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our ADSs could decline due to any of these risks or other factors, and you may lose all or part of your investment. The risks described below are those that we currently believe may materially affect us.*

#### **Risks Relating to Brazil**

***The Brazilian government exercises significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could materially and adversely affect us.***

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulation. See “—Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm our business” and “Item 5A. Operating Results—Brazilian Macro-Economic Scenario, Effects of Exchange Rate Fluctuations.” The Brazilian government’s actions, policies and regulations have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by political, social, and economic developments in or affecting Brazil, and by changes in policy or regulations at the federal, state or municipal levels involving or affecting factors, such as:

- interest rates;
- exchange controls;
- currency fluctuations;
- inflation;
- price volatility of raw materials and our final products;
- lack of infrastructure in Brazil;
- energy shortages and rationing programs;
- liquidity of the domestic capital and lending markets;
- regulatory policy for the mining and steel industries;
- environmental policies and regulations;
- tax policies and regulations; and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will make changes affecting these and other factors may create instability. This may also adversely affect our business, financial condition and results of operations.

***Exchange rate instability may adversely affect us and the market price of our common shares and ADSs.***

The Brazilian currency has long experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Most recently, for example, the *real* was R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008 and reached R\$2.34 per US\$1.00 at year end. Since then, the *real* appreciated against the U.S. dollar and reached R\$1.88 per US\$1.00 at year end 2011. On April 18, 2012 the exchange rate was R\$1.87 per US\$1.00.

Depreciation of the *real* against major foreign currencies could create inflationary pressures in Brazil and contribute to Central Bank increases in interest rates, which could negatively affect us and the growth of the Brazilian economy, may curtail access to foreign financial markets and may prompt government intervention, which could include recessionary measures. Depreciation of the *real* can also, as in the context of an economic slowdown, lead to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole.

On the other hand, appreciation of the *real* relative to major foreign currencies could lead to a deterioration of Brazilian foreign exchange current accounts, as well as affect export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and us as well as impact the U.S. dollar value of distributions and dividends on and the U.S. dollar equivalent of the market price of our common shares and our ADSs.

In the event the *real* depreciates 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. On the other hand, if the *real* appreciates in relation to the U.S. dollar, it will cause *real*-denominated production costs to increase as a percentage of total production costs and cause our exports to be less competitive. We had total U.S. dollar-denominated or -linked indebtedness of US\$5,325 million, or 35.59% of our total indebtedness, as of December 31, 2011.

***Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm us.***

Brazil has in the past experienced extremely high rates of inflation, which has led the government to pursue monetary policies that have contributed to one of the highest real interest rates in the world. Since the implementation of the *Real Plan* in 1994, the annual rate of inflation in Brazil has decreased significantly, as measured by the National Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA). Inflation measured by the IPCA index was 4.3%, 5.9% and 6.5% in 2009, 2010 and 2011, respectively. Inflation and the Brazilian government's inflation containment measures, mainly through monetary policies, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient policies and interest rate decreases may trigger increases in inflation, with the consequent reaction of sudden and significant interest rate increases, which could negatively affect Brazilian economic growth and us. In addition, we may not be able to adjust the price of our products in the foreign markets to offset the effects of inflation in Brazil on our cost structure, given that most of our costs are incurred in *reais*.

***Developments and perception of risk in other countries, especially in the United States, China and other emerging market countries, may adversely affect the trading price of Brazilian securities, including our common shares and ADSs.***

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States, China, Latin American and other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crisis in, or economic policies of, other countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the trading price of our common shares and/or ADSs, and could also make it more difficult or impossible for us to access the capital markets and finance our operations on acceptable terms.

**Risks Relating to Us and the Industries in Which We Operate*****We are exposed to substantial changes in the demand for steel and iron ore, which has a substantial impact in the prices of our products and may adversely affect our results of operations.***

The steel and mining industries are highly cyclical, both in Brazil and abroad. The demand for steel and mining products and, thus, the financial condition and results of operations of companies in the steel and mining industries, including us, are generally affected by macroeconomic fluctuations in the world economy and the economies of steel-producing countries, including trends in the automotive, construction, home appliances and packaging industries, as well as other industries which rely upon steel distributors. A worldwide recession, an extended period of below-trend growth in developed countries or a slowdown in the emerging markets that are large consumers of our products (such as the domestic Brazilian market for our steel products and the Chinese market for iron ore) could sharply reduce demand for our products. Reduced demand can lead to overcapacity and excessive downtime, lower utilization of our significant fixed assets and therefore reduced operating profitability. In addition, steel competes with other materials that may be used as substitutes, such as aluminum (particularly in the automobile industry), cement, composites, glass, plastic and wood. Government regulatory initiatives mandating the use of such materials in lieu of steel, whether for environmental or other reasons, as well as the development of other new substitutes for steel products, could also significantly reduce market prices and demand for steel products and thereby reduce our cash

flow and profitability. Any material decrease in demand for steel and iron ore in the domestic or export markets served by us could have a material adverse effect on us.

***The availability and the price of raw materials that we need to produce steel, particularly of coal and coke, may adversely affect our results of operations.***

In 2011 and 2010, raw material costs accounted for 59.4% and 56.4%, respectively, of our total production costs. Our main raw materials include iron ore, coal, coke, limestone, dolomite, manganese, zinc, tin and aluminum. We depend on third parties for some of our raw material requirements, including importing all of the coal required to produce coke and approximately 38% of our coke requirements. In addition, we require significant amounts of energy, in the form of natural gas and electricity, to power our plants and equipment.

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Any prolonged interruption in the supply of raw materials, natural gas or electricity, or substantial increases in their prices, could materially and adversely affect us. These interruptions and price increases may be a result of changes in laws or trade regulations, the availability and cost of transportation, suppliers' allocations to other purchasers, interruptions in production by suppliers or accidents or similar events on suppliers' premises or along the supply chain. Our inability to pass those cost increases on to our customers or to meet our customers' demands because of non-availability of key raw materials could also have a material and adverse effect on us.

***Our steel products face significant competition, including price competition, from other domestic or foreign producers, which may adversely affect our profitability and market share.***

The global steel industry is highly competitive with respect to price, product quality and customer service, as well as technological advances that enable steel companies to reduce their production costs. Brazil's export of steel products is influenced by several factors, including the protectionist policies of other countries, disputes regarding these policies before the WTO (World Trade Organization), the Brazilian government's exchange rate policy and the growth rate of the world economy. Further, continuous advances in materials sciences and resulting technologies have given rise to improvements in products such as plastics, aluminum, ceramics and glass that permit them to substitute steel. Due to high start-up costs, the economics of operating a steelworks facility on a continuous basis may encourage mill operators to maintain high levels of output, even in times of low demand, which increases the pressure on industry profit margins. In addition, downward pressure on steel prices by our competitors may affect our profitability.

The steel industry has historically suffered from structural over-capacity which has recently worsened due to a substantial increase in production capacity in the developing world, particularly in China and India as well as other emerging markets. China is now the largest global steel producer by a large margin and Chinese and other countries' steel exports, or conditions favorable to them (excess steel capacity, undervalued currency or higher market prices for steel in markets outside of such countries) can have a significant impact on steel prices in other markets. If we are not able to remain competitive in relation to China or other steel-producing countries, in the future our results may be adversely affected.

In 2010, steel companies in Brazil faced strong competition of imported products, mainly as a result of the reduction in steel products demand in mature markets, the exchange rate appreciation and tax incentives. The Brazilian government adopted measures to contain imported products and, as a result, prices of imported products stabilized as compared to local products. These measures also had a positive effect in 2011, when imports were consistently reduced. Apart from direct steel imports, the Brazilian industry has also been facing the competition of imported finished goods, which affects the whole steel chain. If the Brazilian Government were to remove the current protective measures or fails to act against cheap subsidized steel imports, our results of operation may also be materially and adversely affected.

***The shift in iron ore pricing and increase in price volatility could adversely affect our iron ore business.***

The previous annual benchmark price system for iron ore adopted by the main iron ore producers, including us, was replaced in the last couple of years by different pricing systems, and is now more sensitive to spot price volatility. Fluctuations in supply and demand could increase price volatility, mainly in spot prices, which could adversely affect our mining business and, consequently, our cash flow. See "Item 5A—Operating Results—Overview—Macro-Economic Scenario—Mining."

***Protectionist and other measures adopted by foreign government could adversely affect our export sales.***

In response to the increased production and export of steel by many countries, anti-dumping, countervailing duties and safeguard measures were imposed in the late 1990s and early 2000s by foreign governments representing the main markets for our exports. In June 2011, safeguard measures imposed by Argentina and the United States were terminated, but restrictions imposed by Canada on imports of hot-rolled products from Brazil and by the European Union on imports of certain chemical substances contained either in products used to protect the steel products or in products used to pack them, remain in effect. The imposition of these and other protectionist measures by foreign countries may materially and adversely affect our export sales.



***Our activities depend on authorizations, concessions, permits and licenses. Changes of laws and regulations and government measures could adversely affect us.***

Our activities depend on authorizations, permits and licenses from and concessions by governmental regulatory agencies of the countries in which we operate. If laws and regulations applicable to these authorizations, concessions, permits or licenses change, modifications to our technologies and operations could be required, and we may need to make unexpected capital expenditures. These changes and additional costs may have a negative impact on the profitability of our projects or even make certain projects economically or otherwise unfeasible. Also, we cannot guarantee that we will be able to maintain, renew or obtain any required authorization, concession, permit or license. Our authorizations, concessions, permits and licenses may require that we meet certain performance thresholds or completion milestones. In case we are unable to meet these thresholds or milestones we may lose our authorizations, concessions, permits and licenses. The loss or inability to obtain any authorization, concession, permit or license, or changes in the regulatory framework we operate in, may materially and adversely affect us.

In addition, our activities are subject to government regulation in the form of taxes and royalties, which can have an important financial impact on our operations. In the countries where we operate, governments may impose new taxes, raise existing taxes and royalties, or change the basis on which they are calculated in a manner unfavorable to us.

***Malfunctioning equipment or accidents on our premises, railways or ports may decrease or interrupt production, internal logistics or distribution of our products.***

The steel and iron ore production processes depend on certain critical equipment, such as blast furnaces, steel converters, continuous casting machines, drillers, crushing and screening equipment and shiploaders, as well as on internal logistics and distribution channels, such as railways and seaports. This equipment and infrastructure may be affected in the case of malfunction or damage. In 2006, there was an accident involving the gas cleaning system adjacent to Blast Furnace No. 3 at the Presidente Vargas Steelworks, which prevented us from operating this blast furnace for approximately six months. Similar or any other significant interruptions in our production process, internal logistics or distribution channels (including our ports and railways) could materially and adversely affect us.

***Our insurance policies may not be sufficient to cover all our losses.***

We maintain several types of insurance policies, in line with the risk management of our business, that attempt to follow industry market practices for similar activities. Coverage in such policies encompasses domestic and international (import and export) cargo transport (road, rail, sea or air), carrier liability, life insurance, personal accidents, health, auto insurance, D&O, general liability, erection risks, boiler and machinery coverage, export credit insurance, surety, ports and terminal liabilities. We also have an operational risks policy for the Presidente Vargas Steelworks and some of our branches and subsidiaries for a total insured value of R\$850 million out of a total risk amount of R\$25.1 billion. Under the terms of this policy CSN remains responsible for the first R\$170 million in losses (material damages and loss of profits) and for 53.55% of the losses above such amount. The coverage obtained in these insurance policies may not be sufficient to cover all risks we are exposed to. Additionally, we may not be able to successfully contract or renew our insurance policies in terms satisfactory to us, which may adversely affect our financial position.

***Our projects are subject to risks that may result in increased costs or delay or prevent their successful implementation.***

We are investing to further increase our steel, mining and cement production capacity, as well as our logistics capabilities. See “Item 4D. Property, Plant and Equipment—Capital Expenditures—Planned Investments.” These projects are subject to a number of risks that may adversely affect our growth prospects and profitability, including the following:

- we may encounter delays, availability problems or higher than expected costs in obtaining the necessary equipment, services and materials to build and operate a project;

- our efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including availability of overburden and waste disposal areas as well as reliable power and water supplies;
- we may fail to obtain, lose, or experience delays or higher than expected costs in obtaining or renewing the required permits, authorizations, licenses, concessions and/or regulatory approvals to build or continue a project; and
- changes in market conditions, laws or regulations may make a project less profitable than expected or economically or otherwise unfeasible.

Any one or a combination of factors described above may materially and adversely affect us.

***New or more stringent environmental, safety and health regulations imposed on us may result in increased liabilities and increased capital expenditures.***

Our steel making, mining, cement and logistics facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating mainly to the protection of health, safety and the environment.

Brazilian pollution standards are expected to continue to change, including the introduction of new effluent and air emission standards, solid waste-handling regulations, and native forest preservation requirements in rural land. The Brazilian government has recently adopted a decree under the climate change national policy (*Política Nacional de Mudanças Climáticas*) that contemplates specific limits on carbon emissions to be established in 2012 and phased in through 2020. These limits will be established jointly by industry and government representatives and will include goals for reduction of emissions, including gradual measures at three-year intervals, which may require a material investment by us.

New or more stringent environmental, safety and health standards imposed on us could require us to make increased capital expenditures, create additional legal preservation areas in our properties, or make modifications in operating practices or projects. As a result, the amount and timing of future environmental and related expenditures may vary substantially from those currently anticipated. These additional costs may also have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible. We could also be exposed to civil penalties, criminal sanctions and closure orders for non-compliance with these regulations. Waste disposal and emission practices may result in the need for us to clean up or retrofit our facilities at substantial costs and/or could result in substantial liabilities. Environmental legislation restrictions imposed by foreign markets to which we export our products may also materially and adversely affect our export sales and us.

***Our governance and compliance processes may fail to prevent regulatory penalties and reputational harm.***

We operate in a global environment, and our activities straddle multiple jurisdictions and complex regulatory frameworks with increased enforcement activities worldwide. Our governance and compliance processes may not prevent future breaches of law, accounting and/or governance standards. We may be subject to breaches of our Code of Ethics, business conduct protocols and instances of fraudulent behavior and dishonesty by our employees, contractors or other agents. Our failure to comply with applicable laws and other standards could subject us to fines, loss of operating licenses and reputational harm, which may materially and adversely affect us.

***Some of our operations depend on joint ventures, consortia and other forms of cooperation, and our business could be adversely affected if our partners fail to observe their commitments.***

We currently operate parts of our business through joint-ventures and consortia with other companies. We have established a joint-venture with an Asian consortium at our 60% consolidated investee Nacional Minérios S.A., or Namisa, to mine iron ore; a joint-venture with other Brazilian steel and mining companies at MRS Logística S.A., or MRS, to explore railway transportation in the Southeastern region of Brazil, a joint-venture with Tractebel and Itambe at Itá Energética S.A., or ITASA, to produce electricity, and a consortium with Vale, Votorantim Metais, CEMIG and Anglo Gold Ashant at Igarapava Hydroelectric Power Plant to produce electricity.

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Our forecasts and plans for these joint-ventures and consortia assume that our partners will observe their obligations to make capital contributions, purchase products and, in some cases, provide managerial personnel or financing. In addition, many of the projects contemplated by our joint-ventures or consortia rely on financing commitments, which contain certain preconditions for each disbursement. If any of our partners fails to observe their commitments or we fail to comply with all preconditions required under our financing commitments, the affected joint-venture, consortium or other project may not be able to operate in accordance with its business plans, or we may have to increase the level of our investment to implement these plans. Any of these events may have a material adverse effect on us.

***Our mineral reserve estimates may materially differ from mineral quantities that we may be able to actually recover; our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine.***

Our reported ore reserves are estimated quantities of ore and minerals that we have determined can be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. As a result, no assurance can be given that the indicated amount of ore will be recovered or that it will be recovered at the rates we anticipate. Estimates of different engineers may vary, and results of our mining and production subsequent to the date of an estimate may lead to revision of estimates. Reserve estimates and estimates of mine life may require revision based on actual production experience and other factors. For example, fluctuations in the market prices of minerals and metals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates or other factors may render proven and probable reserves uneconomic to exploit and may ultimately result in a restatement of reserves. See “Item 4B—Business Overview—Our Mining Segment—Mineral Reserves.”

***We may not be able to adjust our mining production volume in a timely or cost-efficient manner in response to changes in demand.***

Revenues from our mining business represented in 2009, 2010 and 2011, respectively, 17%, 24% and 35% of our total net revenues. Our ability to rapidly increase production capacity is limited, which could render us unable to fully satisfy demand for our products. When demand exceeds our production capacity, we may meet excess customer demand by purchasing iron ore from unrelated parties and reselling it, which would increase our costs and narrow our operating margins. If we are unable to satisfy excess customer demand in this way, we may lose customers. In addition, operating close to full capacity may expose us to higher costs, including demurrage fees due to capacity restraints in our logistics systems.

Conversely, operating at significant idle capacity during periods of weak demand may expose us to higher unit production costs since a significant portion of our cost structure is fixed in the short-term due to the high capital intensity of mining operations. In addition, efforts to reduce costs during periods of weak demand could be limited by labor regulations or existing labor or government agreements.

***Adverse economic developments in China could have a negative impact on our revenues, cash flow and profitability.***

China has been the main driver of global demand for minerals and metals over the last few years. In 2011, Chinese demand represented 61% of global demand for seaborne iron ore. The percentage of our iron ore sales volume to consumers in China was 33% in 2011. A contraction of China's economic growth could result in lower demand for our products, leading to lower revenues, cash flow and profitability. Poor performance in the Chinese real estate sector, one of the largest consumers of carbon steel in China, could also negatively impact our results.

***Drilling and production risks could adversely affect the mining process.***

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial time and expenditures are required to:

- establish mineral reserves through drilling;
- determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;
- obtain environmental and other licenses;
- construct mining, processing facilities and infrastructure required for greenfield properties; and
- obtain the ore or extract the minerals from the ore.

If a mining project proves not to be economically feasible by the time we are able to profit from it, we may incur substantial losses and be obliged to take write-offs. In addition, potential changes or complications involving metallurgical and other technological processes arising during the life of a project may result in delays and cost overruns that may render the project not economically feasible.

***Natural and other disasters could disrupt our operations.***

Our business and operating results could be negatively impacted by social, technical and/or physical risks such as flooding, fire, power loss, loss of water supply, leakages, telecommunications and information technology system failures, and political instability, including a global economic slowdown. For example, flooding in Australia at the end of 2010 affected global coal supply and consequently increased our raw material costs. In addition, heavy rainfall in the Southeast Region of Brazil could affect our iron ore and logistics operations and consequently our revenues. Such events could affect our ability to conduct our business operations and, as a result, reduce our operating results and materially and adversely affect us.

***We may not be able to consummate proposed acquisitions successfully or integrate acquired businesses successfully.***

From time to time, we may evaluate acquisition opportunities that would strategically fit our business objectives. If we are unable to complete acquisitions, or integrate successfully and develop these businesses to realize revenue growth and cost savings, our financial results could be adversely affected. Acquisitions also pose the risk that we may be exposed to successor liability involving an acquired company. Due diligence conducted in connection with an acquisition, and any contractual guarantees or indemnities that we receive, may not be sufficient to protect us from, or compensate us for, actual liabilities. A material liability associated with an acquisition, such as labor- or environmental-related, could adversely affect our reputation and financial performance and reduce the benefits of the acquisition.

In addition, we may incur asset impairment charges related to acquisitions, which may reduce our profitability. Finally, our acquisition activities may present financial, managerial and operational risks, including diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these activities could affect our product sales, financial condition and results of operations.

***We have a substantial amount of indebtedness, which could make it more difficult or expensive to refinance our maturing debt and /or incur new debt.***

As of December 31, 2011, our total debt outstanding amounted to R\$28,067 million, consisting of R\$2,735 million of short-term debt and R\$25,332 million of long-term debt. See “Item 5B. Liquidity and Capital Resources” and “Item 18. Financial Statements.” Although we had R\$15,417 million of cash and cash equivalents as of December 31, 2011, our planned investments in all of our business segments will require a significant amount of cash over the course of 2012 and following years. See “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments.”



The level of our indebtedness could affect our credit rating and ability to obtain any necessary financing in the future and increase our cost of borrowing. In these and other circumstances, servicing our indebtedness may use a substantial portion of our cash flow from operations, which could make it more difficult for us to make payments of dividends and other distributions to our shareholders, including the holders of our ADSs, and adversely affect our financial condition and results of operations.

***We have experienced labor disputes in the past that have disrupted our operations, and such disputes may recur.***

A substantial number of our employees and some of the employees of our subcontractors are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic renegotiation. Strikes and other labor disruptions at any of our facilities or labor disruptions involving third parties who may provide us with goods or services, have in the past and may in the future materially and adversely affect the operation of our facilities, or the timing of completion and the cost of our projects.

#### **Risks Relating to our Common Shares and ADSs**

***Our controlling shareholder has the ability to direct our business and affairs and its interests could conflict with yours.***

Our controlling shareholder has the power to, among other things, elect a majority of our directors and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions, dispositions, and the timing and payment of any future dividends, subject to minimum dividend payment requirements imposed under Brazilian Corporate Law. Our controlling shareholder may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with your interests as a holder of our common shares and ADSs. For a description of our ownership structure, see “Item 7A. Major Shareholders.”

***If you surrender your ADSs and withdraw common shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages.***

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our common shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the common shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw common shares, you will be entitled to continue to rely on the custodian’s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of, or distributions relating to, the common shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our common shares. For more information regarding exchange controls, see “Item 10.D. Exchange Controls.” If you seek to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our common shares or the return of your capital in a timely manner. The depositary’s electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

***Holders of ADSs may not be able to exercise their voting rights.***

Holders of ADSs may only exercise their voting rights with respect to the underlying common shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, ADS holders must vote by giving voting instructions to the depository. Upon receipt of the voting instructions of the ADS holder, the depository will vote the underlying common shares in accordance with these instructions. If we ask for voting instructions, the depository will notify ADS holders of the upcoming vote and will arrange to deliver the proxy card. We cannot assure that ADS holders will receive the proxy card in time to ensure that they can instruct the depository to vote. In addition, the depository and its agents are not liable for failing to carry out voting instructions or for the manner of carrying out voting instructions. Alternatively, ADS holders can exercise their right to vote by surrendering their ADSs for cancellation in exchange for our common shares. Pursuant to our bylaws, the first call for a shareholders' meeting must be published at least 15 days in advance of the meeting, and the second call must be published at least eight days in advance of the meeting. When a shareholders' meeting is convened, holders of ADSs may not receive sufficient advance notice to surrender their ADSs in exchange for the underlying common shares to allow them to vote with respect to any specific matter. As a result, holders of ADSs may not be able to exercise their voting rights.

***The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the common shares underlying the ADSs at the price and time you desire.***

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depository at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented 53.1% of the total market capitalization of the BM&FBOVESPA as of December 31, 2011. The top ten stocks in terms of trading volume accounted for 47.2%, 48.8% and 50.9% of all shares traded on the BM&FBOVESPA in 2011, 2010 and 2009, respectively.

***Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares.***

We may not be able to offer our common shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our common shares in connection with any future issuance of our common shares unless a registration statement under the Securities Act is effective with respect to such common shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our common shares or to undertake steps that may be needed to find exemptions from registration available, and we cannot assure you that we will file any such registration statement or take any such steps. If such a registration statement is not filed and an exemption from registration does not exist, The JP Morgan Chase Bank, N.A., as depository, may attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depository does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights. For a more complete description of preemptive rights with respect to the underlying shares, see “Item 10B. Memorandum and Articles of Association—Preemptive Rights.”

## **Item 4. Information on the Company**

### **4A. History and Development of the Company**

#### **History**

Companhia Siderúrgica Nacional is a Brazilian corporation (*sociedade por ações*) incorporated in 1941 pursuant to a decree of the Brazilian President at the time, Getúlio Vargas. The Presidente Vargas Steelworks, located in the city of Volta Redonda, in the State of Rio de Janeiro, started the production of coke, pig iron and steel products in 1946.

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

The Company was privatized through a series of auctions held in 1993 and early 1994, through which the Brazilian government sold its 91% ownership interest.



Between 1993 and 2002, we implemented a capital improvement program aimed at increasing our annual production of crude steel, improving the quality of our products and enhancing our environmental protection and cleanup programs. As part of the investments, since February 1996, all our production has been based on the continuous casting process, rather than ingot casting, which involved an alternative method that resulted in higher energy use and metal loss. From 1996 until 2002, we spent the equivalent of US\$2.4 billion on the capital improvement program and on maintaining our operational capacity, culminating with the renovation of Blast Furnace No. 3 and Hot Strip Mill No. 2 in 2001. These measures resulted in the increase of our annual production capacity to 5.6 million tons of crude steel and 5.1 million tons of rolled products.

## **General**

We are one of the largest fully integrated steel producers in Brazil and Latin America in terms of crude steel production. Our current annual crude steel capacity and rolled product capacity is 5.6 million and 5.1 million tons, respectively. In 2011, production of crude steel and rolled steel products amounted to 4.9 million tons and 4.7 million tons respectively, both stable when compared to 2010. We also operate in the mining, cement, logistics and energy businesses, which have become increasingly important to our operations and growth.

## ***Steel***

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 2010, we accounted for approximately 46% of the coated steel products market in Brazil. We are also one of the world's leading producers of tin mill products for packaging containers, and were responsible for approximately 100% of the market share in Brazil in 2010. Market share information for 2011 was not yet available as of the date of this annual report.

Our production process is based on the integrated steelworks concept. Below is a brief summary of the steel making process at our Presidente Vargas Steelworks:

- Iron ore produced from our own mines is processed in continuous sintering machines to produce sinter;
- Sinter and lump ore direct charges are smelted with lump coke and injected powdered coal in blast furnaces to produce pig iron;
- Pig iron is then refined into steel via basic oxygen converters;
- Steel is continuously cast in slabs; and
- Slabs are then hot rolled, producing hot bands that are coiled and sent to finishing facilities.

We currently obtain all of our iron ore, limestone and dolomite requirements, and a portion of our tin requirements from our own mines. Using imported coal, we produce approximately 75% 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 processes also require water, industrial gases, electricity, rail and road transportation, and port facilities.

## ***Mining***

We own a number of high quality iron ore mines, all located within Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), in the state of Minas Gerais, including the Casa de Pedra mine, located in Congonhas, and Namisa – Nacional Minérios S.A. mines (Fernandinho, located in Itabirito and Engenho, also located in Congonhas). Our mining assets also include TECAR, a solid bulks seaport terminal, located in Itaguaí Port in the state of Rio de Janeiro, Mineração Bocaina, located in Arcos, in the state of Minas Gerais, which produces dolomite and limestone, and Estanho de Rondônia S.A. (ERSA), which mines and casts tin, located in Ariquemes, in the state of Rondônia.

### ***Logistics***

Our verticalization strategy and intense synergies among the Company's business units are strongly dependent on the logistics created to guarantee the transportation of the inputs at a low operating cost. A number of railroads and port terminals make up the logistics system integrating CSN's mining, steelmaking and cement units.

CSN manages two port terminals at Itaguaí, in Rio de Janeiro, one for bulk solids (TECAR) and one for containers (Sepetiba Tecon).

CSN also has interests in two railways: MRS Logística, which operates the former Southeast Network of the Federal Railroad Network, along the Rio de Janeiro-São Paulo-Belo Horizonte axis, and the Transnordestina Logística S.A., whose Nova Transnordestina project will connect the interior of northeast Brazil to Pecém and Suape Ports, with an extension of 1,728km of track.

### ***Cement***

CSN entered the cement market in May 2009, driven by the high synergy with its current business. This segment takes advantage of the slag generated by our blast furnaces and of our limestone reserves, located in the city of Arcos, in the state of Minas Gerais. Limestone, used to produce clinker, and slag account for approximately 95% of the cost of inputs in cement production.

CSN plans to increase its market share in the cement segment in Brazil in order to diversify its product mix and markets, reducing risks and adding value for its shareholders.

### ***Energy***

CSN is one of Brazil's largest industrial electric power consumers. Since 1999, we have invested in power generation projects in order to ensure self-sufficiency. Our electrical assets include: (i) CSN's 29.5% stake in the Itá Hydroelectric Power Plant, in Santa Catarina, corresponding to 167 MW, through a 48.75% equity interest in Itá Energética S.A.; (ii) CSN's 17.9% interest in the 210-MW Igarapava Hydroelectric Power Plant in Minas Gerais, corresponding to 23 MW; and (iii) a 238 MW cogeneration thermoelectric power plant in Presidente Vargas Steelworks, which is fueled by the waste gases from the steel production process. These three plants give CSN an average generation capacity of 428 MW, supplying the group's total need for power.

### **Other Information**

CSN's legal and commercial name is Companhia Siderúrgica Nacional. CSN is organized for an unlimited period of time under the laws of the Federative Republic of Brazil. Our head offices are located at Av. Brigadeiro Faria Lima, 3400, 20<sup>th</sup> floor, Itaim Bibi, São Paulo, Brazil, CEP 04538-132, and our telephone number is +55-11-3049-7100. CSN's agent for service of process in the United States is CT Corporation, with offices at 111 Eighth Avenue, New York, New York 10011.

## **4B. Business Overview**

### ***Competitive Strengths***

We believe that we have the following competitive strengths:

***Fully integrated business model.*** We believe we are one of the most fully integrated steelmakers in the world. This is due to our captive sources of raw materials, especially iron ore, and access to owned infrastructure, such as railroads and deep-sea water port facilities. We own a number of high quality iron ore mines, all located within Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), in the State of Minas Gerais, which differentiates us from our main competitors in Brazil that purchase their iron ore from mining companies such as Vale S.A., or Vale. In addition to our iron ore reserves, we have captive dolomite and limestone mines that supply our Presidente Vargas Steelworks. Our steelworks are close to the main steel consumer centers in Brazil, with easy access to port facilities and railroads. See "Item 4B. Business Overview—Our mining segment" and "Item 4D—Property Plant and Equipment."



***Profitable mining business.*** Our mining business has received investments in recent years, placing CSN in a prominent position among the country's leading mining firms. Additional investments will increase capacity to approximately 89 mtpy, including third party purchases, thereby strengthening CSN's position as an important player in the global iron ore market. The Company has high-quality iron ore reserves through Casa de Pedra mine and Namisa mines (Engenho and Fernandinho), both located in Minas Gerais. Our mining activities provide strong revenue generation, and have significantly increased in the last five years. We sold 10.5 million tons in 2007, 18.5 million tons in 2008, 17.5 million tons in 2009, 18.6 million tons in 2010 and 23.8 million tons in 2011 (considering our proportional interest in Namisa throughout this period). The company's mining assets also include TECAR, a solid bulks seaport terminal, with a capacity for 30 mtpy, located in Itaguaí Port (RJ), Mineração Bocaina, located in Arcos (MG), which produces dolomite and limestone, and Estanho de Rondônia SA (ERSA), which mines and casts tin.

***Thoroughly developed transport infrastructure.*** We have a thoroughly developed transport infrastructure, from our iron ore mine to our steel mill and to our ports. Our steelworks facility is located next to railroad systems and port facilities, facilitating the supply of raw materials, the shipment of our production and easy access to our principal clients. The concession for the main railroad used and operated by us is owned by MRS, a company in which we hold, directly and indirectly, a 33.27% ownership interest. The railway connects our Casa de Pedra mine to the Presidente Vargas Steelworks and to our terminals at Itaguaí Port, which handles our iron exports and most of our steel exports. Since we obtained the concession to operate MRS railway in 1996, we have significantly improved its tracks and developed its business, with strong cash generation. We also own concessions to operate two deep-sea water terminals from which we export our products and import coal and small amounts of coke, which are the only important raw materials that we need to purchase from third parties.

***Self-sufficiency in energy generation.*** We are self-sufficient in energy, through our interests in the hydroelectric plants of Itá and Igarapava, and our own thermoelectric plant inside the Presidente Vargas Steelworks. We also sell the excess energy we generate in the energy market. Our 238 MW thermoelectric cogeneration plant provides the Presidente Vargas Steelworks with approximately 60% of its energy needs in its steel mills, using as its primary fuel the waste gases generated by our coke ovens, blast furnaces and steel processing facilities. We hold a 29.5% stake in the Itá Hydroelectric Power Plant, in Santa Catarina, through a 48.75% equity interest in Itá Enérgica S.A., or ITASA. This ownership grants us an installed capacity of 167 MW, proportional to our interests in the project, pursuant to 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. In addition, we own 17.9% of the Igarapava hydroelectric plant, with 210 MW fully installed capacity. We have been using part of our 23 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines.

***Low cost structure.*** As a result of our fully integrated business model, our thoroughly developed transportation infrastructure and our self-sufficiency in energy generation, we have been consistently generating high margins. Other factors that lead to these margins are the strategic location of our steelworks facility, the use of state of the art technology and our well qualified work force.

***Diverse product portfolio and product mix.*** We have a diversified product mix that includes hot-rolled, cold-rolled, galvanized and steel tin mill products, in order to meet a wide range of customer needs across all steel consuming industries. We focus on selling high margin products, such as tin plate, pre-painted, galvalume and galvanized products in our product mix. Our galvanized product provides material for exposed auto parts, using hot-dip galvanized steel and laser-welded blanks. Our CSN Paraná branch provides us with additional capacity to produce high-quality galvanized, galvalume and pre-painted steel products for the construction and home appliance industries. In addition, our subsidiary Prada, the largest flat steel distributor in Brazil, offers a strong sales channel in the

domestic market, enabling us to meet demand from smaller customers, thus creating a strong presence in this market.

***Strong presence in domestic market and strategic international exposure for steel products.*** We have a strong presence in the domestic market for steel products, with 86% of our steel sales in the domestic market. In 2010, we accounted for approximately 46% of the market in Brazil for coated steel products and 100% of the market in Brazil for tin mill products. Market share information for 2011 was not yet available as of the date of this annual report. In addition, we use our subsidiaries CSN LLC and Lusosider also as sales channels for our products in the United States and in Europe, with 10.0% of our total sales in 2011 and 2010. Direct exports accounted for 4% of our total sales.

## Strategies

Our goal is to increase value for our shareholders by further benefiting from our competitive cost advantages, maintaining our position as one of the world's lowest-cost steel producers, becoming an important iron ore global player, developing our cement business and optimizing our infrastructure assets (including ports, railways and power generating plants). To achieve this goal we developed specific strategies for each of our business segments, as described below.

### *Steel*

The strategy for our steel business involves:

- ü A focus on the domestic market, in which we have historically recorded higher profit margins and increased competitiveness, by expanding our market share in flat steels and entering in the long steel market;
- ü Constant pursuit of operational excellence, by implementing cost reduction projects (e.g. pellet plant and energy efficiency) and programs (e.g. internal logistic optimization, inventory reduction, project development and implementation disciplines);
- ü Emphasis on high value-added steel products, such as galvanized, pre-painted and tin-coated steel;
- ü Exploring synergies by using our flat steel distribution network and product portfolio to accelerate entrance into the long steel market; and
- ü Increase market share by expanding our services and distribution network.

For information on planned investments relating to our steel activities, see "Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments"

### *Mining*

In order to strengthen our position in the iron ore market, we plan to expand our mining assets, Casa de Pedra and Namisa, and search for investment opportunities, primarily in mines in operation or in an advanced stage of development.

We expect in the next years to reach an annual production level of approximately 89 mtpy of iron ore products, including third party purchases, which represents roughly three times the production observed in 2011, by increasing capacity to 50 mtpy in Casa de Pedra and 33 mtpy in Namisa, thereby strengthening CSN's position as an important player in the iron ore worldwide market.

To sustain this growth, we will increase capacity in TECAR, our solid bulks terminal in Itaguai Port, from 30 mtpy to 84 mtpy and we are also analyzing the possibility of increasing capacity beyond 84 mtpy. We are also studying seaborne shipping opportunities, focused on increasing our competitiveness in the Asian market.

In order to maximize the profitability of our product portfolio, we will also focus on pellet and pellet-feed, by using Itabirito's deposits, investing with strategic partners and clients in pellet capacity.

For information on planned investments relating to our mining activities, see “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments”.

*Logistics*

We expect to take advantage of and expand our current logistics capabilities, including our integrated infrastructure operations of railways and ports.

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In addition to investments in TECAR, we will strengthen Sepetiba TECON, our container terminal, in order to accommodate larger ships, increasing its capacity and competitiveness by adding services to develop client loyalty.

In terms of railways, we plan to continue the implementation of our Transnordestina project and explore its logistic potential through terminals and regional cargo, focusing on iron ore, agricultural, gypsum and fuel. We also plan to invest in increasing our efficiency and capacity in the south of Brazil through our interest in MRS.

We intend to continue to improve the delivery of our products in the domestic market (mainly steel and cement), with low cost and efficiency by integrating and increasing the use of rail transportation, and by providing more distribution centers.

*Cement*

Our cement business strategy involves the utilization of the limestone reserves in our Arcos mine and the slag generated by CSN's blast furnaces in our cement plant in Volta Redonda, inaugurated in 2009, with capacity for producing 2.4 million tons per year. In 2011, CSN also began producing clinker in the Arcos plant with the aim of reducing its production costs. We are evaluating other organic growth initiatives to expand our annual capacity by an additional 3 million tons in order to capture the strong growth expected with the Soccer World Cup of 2014 and the Olympic Games in Rio de Janeiro in 2016, in addition to the expected strong pace of construction of new housing units and commercial and infrastructure projects. For information on planned investments relating to our cement activities, see "Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments".

***Additional Investments***

In addition to the currently planned investments and capital expenditures, we continue to consider possible acquisitions, joint ventures and brownfield or greenfield projects to increase or complement our steel, cement and mining production and logistics capabilities, logistics infrastructure and energy generation.

**Our Steel Segment**

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

The following chart reflects our production cycle in general terms.

Our Presidente Vargas Steelworks produces flat steel products — slabs, hot-rolled, cold-rolled, galvanized and tin mill products. For further information on our production process, see “—Product 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 1,600 millimeters and lengths ranging from 5,250 to 10,500 millimeters. We produce high, medium and low carbon slabs, as well as micro-alloyed, ultra-low-carbon and interstitial free slabs.

### ***Hot-Rolled Products***

Hot-rolled products include heavy 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 5.01 millimeters. We are able to provide coils of heavy gauge hot-rolled sheet having a maximum thickness of 12.70 millimeters 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 1.20 millimeters and are used for welded pipe and tubing, automobile parts, gas containers, compressor bodies and light cold-formed shapes, channels and profiles for the construction industry.

***Cold-Rolled Products***

Cold-rolled products include 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 the base for galvanized and tin mill products. We supply cold-rolled coils in thicknesses of between 0.30 millimeters and 2.99 millimeters.

### ***Galvanized Products***

Galvanized products are comprised of 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.

Galvanized sheets, both painted and bare, are also frequently used for gutters and downspouts, outdoor and indoor cabinets, all kinds of home appliances and similar applications. We produce galvanized sheets and coils in continuous hot-dip processing lines, with thickness ranging from 0.30 millimeters to 3.00 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*<sup>®</sup>, 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*<sup>®</sup> 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, like marine uses.

The value added 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 our branch 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 higher value-added product used primarily in the construction and home appliance markets.

***Tin Mill Products***

Tin mill products consist of flat-rolled low-carbon steel coils or sheets with, as defined by Brazilian standards, a maximum thickness of 0.45 millimeters, coated or uncoated. Coatings of tin or chromium are applied by electrolytic process. 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:

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- Tin plate - coated on one or both sides with a thin metallic tin layer plus a chromium oxide layer, covered with a protective oil film;
- Tin free steel - coated on both sides 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 sides 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.

***Production***

***Production Process***

The principal raw materials for steel production in an integrated steelworks 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 the city of Congonhas, in the State of Minas Gerais, 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.

We import all the coal required for coke production because Brazil lacks quality coking coals. The coal is then charged in coke batteries to produce coke through a distillation process. See “—Raw Materials and Suppliers—Raw Materials and Energy Requirements.” This coal distillation process also produces coke oven gas as a byproduct, 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. In 2011, we produced approximately 62% of our coke needs and imported the balance. Coke output was 17% lower compared to 2010, due to a revamping of the gas systems of two coke batteries.

At sintering plants, fine-sized iron ore and coke or other fine-sized solid fuels 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. We operate a pulverized coal injection, or 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 the blast furnaces, which 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 is now being 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 to the secondary refining equipment (degasser, ladle furnace and Argon Stirring Station). After adjusting the chemical composition, the molten steel is transferred to 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.

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In the hot rolling process, 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 of 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. In 2011, one of the two pickling lines had a 40 day stoppage to allow for the changing of the entire set of pickling tanks. After pickling, the hot-rolled coils selected to produce thinner materials are sent to be rolled in cold strip mills. CSN has three cold strip mills, one of which was revamped in 2011, adding 150,000 tons per year to CSN's cold rolling capacity. The better surface characteristics of cold-rolled products enhance their value to customers when 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 the 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.

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.

Our business encompasses operations and commercial activities. Our operations are undertaken by our production sector, which is composed of the following two units:

- The operations unit - responsible for steel production operations, repair shops, in-plant railroad, and process development at our Presidente Vargas Steelworks; and
- The support unit - 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 consultancy, new product development, capital investment implementation for steel production and processing, and the supervision of CSN Porto Real's and CSN Paraná's operations.

***Quality Management Program***

We practice Total Quality Management, a set of techniques that have been adopted by many leading companies in our industry. 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. In March 1993, we were awarded the ISO 9002 certificate of compliance for the manufacture of several of our products. In April 1996, we were awarded the ISO 9001 certificate of compliance which replaced ISO9002 and included the element of "design" in its scope. In April 1998, we were awarded certification of compliance to QS 9000 standards, requirements specific to the automotive industry. Over the years the ISO 9001 certificate has been maintained and renewed, with the most recent renewal to the ISO 9001:2008 version awarded in August 2011, for the design and manufacture of slabs, hot rolled flats, pickled and oiled steel products, cold rolled, galvanized steel products and tin mill products. In June 2004, we were also awarded the automotive industry's Technical Specification ISO/TS 16949, for the design and manufacture of hot-rolled, pickled and oiled, cold-rolled and galvanized steel products, which replaced the QS 9000 standards. The most recent renewal to the ISO/TS 16949:2009, third edition, was awarded in September 2011. Some important

automotive companies, like Volkswagen, General Motors and Ford, require their suppliers to satisfy the ISO/TS 16949 standards.

***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.

<b>Crude Steel Production</b>	<b>Brazil</b> <i>(In millions of tons)</i>	<b>CSN</b>	<b>CSN % of Brazil</b>
2011	35.2	4.9	13.9%
2010	32.8	4.9	14.9%
2009	26.5	4.4	16.6%
2008	33.7	5.0	14.8%
2007	33.8	5.3	15.7%
2006	30.9	3.5 *	11.3%

Source: Brazilian Steel Institute (*Instituto Aço Brasil*), or IABr.

\* Lower production due to accident at Blast Furnace No. 3 on January 22, 2006.

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

**Certain Operating Statistics**

	<b>2011</b> <i>(In millions of tons)</i>	<b>2010</b> <i>(In millions of tons)</i>	<b>2009</b> <i>(In millions of tons)</i>
Production of:			
Iron Ore *	20.1	21.6	17.1
Molten Steel	5.0	5.0	4.5
Crude Steel	4.9	4.9	4.4
Hot-Rolled Coils and Sheets	4.8	5.0	4.1
Cold-Rolled Coils and Sheets	2.4	2.5	2.4
Galvanized Products	1.4	1.1	0.7
Tin Mill Products	0.7	0.7	0.6
Consumption of Coal for Coke Batteries	2.1	2.2	2.1
Consumption of Coal for PCI *Casa de Pedra	0.6	0.7	0.6

***Raw Materials and Suppliers***

The main 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.

***Raw Materials and Energy Requirements***

In 2010, prices of our main raw materials increased due to larger post-crisis demand and a strengthening of the steel industry worldwide.

In the first half of 2011, prices of the main raw materials used by CSN continuously increased due to unbalanced supply and demand. In the second half of 2011, prices decreased, mainly due to the worsening of the European crisis.

These commodity segments are highly concentrated in the hands of a few global players and there can be no assurance that price increases will not be imposed on steel producers in the future.

***Iron Ore***

We are able to obtain all of our iron ore requirements from our Casa de Pedra mine located in the State of Minas Gerais. For a description of our iron ore segment see “– Our Mining Segment.”

***Coal***

In 2011, our metallurgical coal consumption totaled 2.8 million tons and accounted for 23% of our production cost. Metallurgical coal includes coking coal and PCI coal, which is a lower grade coal injected into the blast furnaces, in a pulverized form, to reduce coke consumption. The PCI system has reduced CSN’s need for imported coking coal and coke, thus reducing production costs. In 2011, we used 622,875 tons of imported PCI coal.

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During 2011, CSN's coking coal and PCI coal costs increased when compared to 2010 because market prices, negotiated on a quarterly basis, were strongly affected by the floods in Australia which reduced coal supply worldwide. The demand for metallurgical coke began to decrease in the fourth quarter due to the financial crisis in Europe and slowdown in China's economic growth.

The sources of the coking coal consumed in our plants in 2011 were as follows: USA (51%), Australia (30%), Canada (17%) and Colombia (2%). It is important to mention that Australia's participation decreased by 25.8% when compared to 2010. In terms of PCI Coal, the sources were: Russia (54%), Australia (29%) and Venezuela (17%).

***Coke***

In 2011, in addition to the approximately 1.3 million tons of coke we produced, we also consumed 631,197 tons of coke bought from third parties in China, India and Colombia, an increase of 43% as compared to our consumption in 2010, due to maintenance in our coking plant. The demand for coke has been increasing significantly since 2002 because China, a major player in the sea-borne trade, has increased its internal consumption and adopted restrictive export quotas. In addition, India has become a major consumer of coke, considerably increasing its imports in the past years. Due to logistical reasons, China supplies most of India's coke and this increase in consumption tightened even more the worldwide supply-demand balance of metallurgical coke. During 2011, market prices for coking coal were strongly affected by weather related supply disruption in Australia and the USA, where some major producers faced difficulties; this situation also affected the coke market price, which increased from April to October 2011. The demand for metallurgical coke began to decrease in the fourth quarter due to the financial crises in Europe and slowdown in China's economic growth.

***Limestone and Dolomite***

Our Bocaina mine is located in Arcos, in the State of Minas Gerais, and has been supplying, since the early '70s, limestone (calcium carbonate) and dolomite (dolomitic limestone) to our Presidente Vargas Steelworks in Volta Redonda. These products are used in the process of sintering and calcination. Arcos has one of the biggest and best reserves of limestone in the world, which is used in the production of various products, including cement.

The annual production of limestone and dolomite for our steelworks is approximately 2 million tons.

The main products obtained from limestone and dolomite that are transferred to our steelworks in Volta Redonda are:

- Limestone and dolomite calcination: with a granulometry between 32 and 76 mm, they are used in the lime plant in Volta Redonda to produce calcitic and dolomitic lime, for further use in the steelmaking process and sintering. At the steelworks, lime is used for chemical controlling of liquid slag, in order to preserve the refractory of the converters and assist in the stabilization of the chemical reactions that occur during the steel manufacturing process. During sintering, the purpose of lime is to increase the performance of this process and the final quality of the sinter that is produced.
- Limestone and dolomite sintering: used in the production of "sinter", in our steelworks. The sinter is composed of fine ores, solid fuel and flux, which enable semi-melting and sintering ore. The sinter is used in blast furnaces as a source of iron for the production of pig iron.



Beginning in 2009, with our entry into the cement market, the mine in Arcos also became responsible for supplying limestone for the cement manufacturing process in Volta Redonda.

*Aluminum, Zinc and Tin*

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 typically purchase aluminum, zinc and tin from third-party domestic suppliers under one year contracts. We maintain approximately 30 and 60 days inventory of zinc/aluminum and tin, respectively, at the Presidente Vargas Steelworks.

***Other Raw Materials***

In our production of steel, we 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 a long-term contract from its gas production facilities located on the Presidente Vargas Steelworks site. In 2011, we used 512,293 tons of oxygen to produce 4.9 million tons of crude steel.

***Water***

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 85% 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\$12.5 million.

***Electricity***

Steelmaking also requires significant amounts of electricity to power rolling mills, production lines, hot metal processing, coking plants and auxiliary units. In 2011, our Presidente Vargas Steelworks consumed approximately 2.88 million MWh of electric energy or 659 kilowatt hours per ton of crude steel. This level means we are one of the largest consumers of electricity in Brazil, accounting for approximately 12% of the overall consumption of electricity in the State of Rio de Janeiro.

Our main current source of electricity is our 238 MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks, besides the Itá and Igarapava hydroelectric facilities, from which we have a take capacity available of 167 MW and 23 MW, respectively. In addition, CSN is installing a new turbine generator at the Presidente Vargas Steelworks, which will add 17 MW to our existing installed capacity with start-up planned for 2012. This turbine will be located near our Blast Furnace No. 3, using the outlet gases from the iron making process to generate energy.

***Natural Gas***

In addition to electricity, we consume natural gas, mainly in our hot strip mill. Companhia Estadual de Gás do Rio de Janeiro S.A., or CEG Rio, which was privatized in 1997, is currently our major 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 Petrobras. In 2011, the Presidente Vargas Steelworks consumed 431,150 dam<sup>3</sup> of natural gas.

***Diesel Oil***

In mid-October 2006 and July 2008, we entered into agreements with Companhia Brasileira de Petróleo Ipiranga, or Ipiranga, to receive diesel oil in order to supply our equipment in our mining plants in the state of Minas Gerais,

which provide the iron ore, dolomite and limestone used in our steel plant in Volta Redonda. In 2011, our consumption totaled 61,290 kiloliters of diesel oil, for which we paid US\$50.3 million.

*Suppliers*

We acquire the inputs necessary for the production of our products in Brazil and abroad, with aluminum, zinc, tin, spare parts, refractory bricks, lubricants, oxygen, nitrogen, hydrogen and argon being the main inputs acquired in Brazil. Coal and coke are the only inputs acquired abroad.

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Our main raw materials suppliers are set forth below:

**Main Suppliers**

BHP Billiton, Jim Walter Resources, Alpha Natural Resources,  
Rio Tinto, Marubeni and Jellinbah  
Noble, Glencore and CI Milpa  
Reciclagem Brasileira de Metais Ltda.  
Votorantim Metais <sup>(1)</sup>  
White Solder, Coopertrading and Melt  
Sotreq, P & H Minepro and MTU do Brasil .  
Magnesita, RHI and Saint Gobain  
Daido, Ipiranga and Quaker

**Raw Material**

Coal  
Coke  
Aluminum  
Zinc  
Tin  
Spare parts  
Refractory bricks  
Lubricants

(1) We depend on Votorantim Metais as it is the only supplier of zinc in Brazil

**Facilities***Steel Mill*

The Presidente Vargas Steelworks, located in the city of Volta Redonda, in the State of Rio de Janeiro, began operating in 1946. It is an integrated facility covering approximately 4.0 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, or 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.

Our major operational units and corresponding effective capacities as of December 31, 2011, including CSN LLC and Lusosider, are set forth in the following chart:

**Effective Capacity**

	<b>Tons per year</b>	<b>Equipment in operation</b>
<b>Process:</b>		
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
<b>Finished Products:</b>		
Hot strip mill	5,100,000	1 mill
Cold strip mill	4,700,000	6 mills

Galvanizing line	2,095,000	7 lines
Electrolytic tinning line	1,190,000	7 lines

*Downstream Facilities*

*CSN Paraná*

Our branch CSN Paraná produces and supplies plain regular galvanized, *Galvalume*® and pre-painted steel products for the construction and home appliance industries. The plant has an annual capacity of 330,000 tons of galvanized products and *Galvalume*® products, 100,000 tons of pre-painted products, 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.

***Metalic***

We have a 99.99% ownership interest in Cia. Metalic Nordeste, or Metalic. Metalic is one of the few two-piece steel can producers in all the Americas. It has approximately 30% of the packaging market for carbonated drinks in the Northeastern regions of Brazil. Currently, we are Metalic's only supplier 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.

***Prada***

We have a 99.99% ownership interest in Cia. Metalúrgica Prada, or Prada. Established in 1936, Prada is the largest Brazilian steel can manufacturer and has an annual production capacity of over one billion cans in its three industrial facilities located in the states of São Paulo, Rio Grande do Sul and Minas Gerais. Currently, we are the only Brazilian producer of tin plate, Prada's main raw material, which makes Prada one of our major customers of tin plate products. Prada has important clients in the food and chemical industries, including packages of vegetables, fish, dairy products, meat, aerosols, paints and varnishes, and other business activities. On December 30, 2008, we merged one of our subsidiaries, Indústria Nacional de Aços Laminados S.A., or INAL, into Prada. INAL was a distributor of laminated steel founded in 1957 and, after the merger, it became a branch of Prada responsible for distribution of Prada's products, or Prada Distribuição.

Prada Distribuição is also the leader in the Brazilian distribution market, with 460,000 tons per year of installed processing capacity. Prada Distribuição has two steel service centers and five distribution centers strategically located in Brazil. Its main service center is located in the city of Mogi das Cruzes between the cities of São Paulo and Rio de Janeiro. Its product mix also includes sheets, slit coils, sections, tubes, and roofing in standard or customized format, according to clients' specifications. Prada Distribuição processes the entire range of products produced by us and services 4,000 customers annually from the civil construction, automotive and home appliances sectors, among others.

***Companhia Siderurgica Nacional, LLC***

CSN LLC holds the assets of former Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana. This facility has an annual production capacity of 180,000 tons of cold-rolled products and 315,000 tons of galvanized products. Currently, CSN LLC is obtaining hot coils by buying slabs from CSN and then having them converted into hot coils by local steel companies or buying hot rolled coils directly from mills in the United States. See "Item 4B. Government Regulation and Other Legal Matters—Anti-Dumping Proceedings—United States" for a discussion about anti-dumping issues on Brazilian hot coils exports to the United States.

***Lusosider, Aços Planos, S.A.***

We own 99.94% of Lusosider, a producer of hot-dip galvanized products and cold-rolled located in Seixal, near Lisbon, Portugal. Lusosider produces approximately 240,000 tons of galvanized products and 50,000 tons of cold-rolled per year. Its main customers include service centers and tube making industries.

***Inal Nordeste***

Inal Nordeste, or INOR, is a distributor of laminates located in the Northeastern Region. INOR has a service center located in the city of Camaçari, in the State of Bahia, to support sales in the Northeastern and North regions. On May

30, 2011, INOR was merged into us, allowing for the optimization of processes and operations as well as the reduction of costs.

### **Our Mining Segment**

Our mining activities are one of the largest in Brazil and are mainly driven by the exploration of one of the richest Brazilian iron ore reserves, Casa de Pedra, in the State of Minas Gerais. We sell our iron ore products mainly in Asia, Europe and Brazil with sales and marketing taking place through our principal hubs of Minas Gerais, in Brazil, Austria, Madeira Islands, Portugal and Hong Kong.

***Our Mines***

*Location, Access and Operation*

***Casa de Pedra***

Casa de Pedra mine is an open pit mine located next to the city of Congonhas in the State of Minas Gerais, Brazil, approximately 80 km south of the city of Belo Horizonte and 360 km north of the city of Rio de Janeiro. The site is approximately 1,000 meters above sea level and accessible from the cities of Belo Horizonte or Congonhas through mostly paved roads.

Casa de Pedra mine is a hematite-rich iron deposit of an early proterozoic banded iron formation in Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), which is located in the central part of the State of Minas Gerais in the Southeastern region of Brazil and has been one of the most important iron producing regions in Brazil for the last 50 years.

Our iron ore at Casa de Pedra is currently excavated by a fleet composed of Marion 191M electric shovels, P&H 1900AL electric shovels, Komatsu PC5500 hydraulic shovels, wheel loaders (Caterpillar 994F, Komatsu WA1200 and LeTourneau 1850) and then hauled by a fleet of Terex Unit Rig MT3300AC (150 tons), Caterpillar 793D (240 tons) and Terex Unit Rig MT4400AC (240 tons).

Casa de Pedra mine is wholly-owned by us and supplies all of our iron ore needs, producing lump ore, sinter feed and pellet feed fines with high iron content. The maps below illustrate the location of our Casa de Pedra mine:





*Namisa*

We own additional iron ore assets through Namisa, our 60% consolidated investee, which acquired CFM (Companhia de Fomento Mineral e Participações) in July 2007. CFM was formed in 1996 with the purpose of utilizing and enhancing the ore treatment facilities of the Itacolomy mines, for the beneficiation of crude ore extracted from the Engenho mine.

The Engenho mine is located at the Southwestern region of the Iron Ore Quadrangle, 60 km South of the city of Belo Horizonte. The map below illustrates the location of our Engenho mine:



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The Fernandinho mine, which we also hold through Namisa, is located in the city of Itabirito, in the State of Minas Gerais. This city is located in the Middle-East region of the State of Minas Gerais and approximately 40 km from the city of Belo Horizonte. The map below illustrates the location of our Fernandinho mine:

***Limestone and Dolomite Mine***

Our extraction and preparation of limestone and dolomite is done at our Bocaína mining facility located in the city of Arcos, in the State of Minas Gerais. This mining facility has an installed annual production capacity of approximately 4.0 million tons. We believe this mining facility has sufficient limestone and dolomite reserves to adequately supply our steel production, at current levels, for more than 38 years. The mining facility is located 455 km from the Presidente Vargas Steelworks.

***Tin***

We own a tin mine in Itapuã do Oeste, in the State of Rondônia, through our subsidiary Estanho de Rondônia S.A. (ERSA). This facility has an installed annual production capacity of approximately 3,600 tons of tin, which we use substantially as a raw material to produce tin plate, a coated steel product. A small part of our tin production that is not used as raw material is sold to third parties; however, the results from these sales are insignificant to our consolidated results.

***Mineral Rights and Ownership***

The Mining Code and the Brazilian Federal Constitution impose requirements on mining companies relating to, among other things, the manner in which mineral deposits are exploited, the health and safety of workers, the protection and restoration of the environment, the prevention of pollution and the promotion of the health and safety of local communities where the mines are located. The Mining Code also imposes certain notifications and reporting requirements.

We hold concessions to mine iron ore, limestone and dolomite. We purchase manganese in the local market. Except for Namisa's mines, in which we have a 60% ownership interest, we own 100% of each of our mines. In addition, each mine is an "open pit" mine. Iron ore extraction, crushing, screening and concentration are done in three different sites: Casa de Pedra (CSN's property), Pires Beneficiation Plant and Fernandinho Mine (both Namisa's property).

***Casa de Pedra***

Our mining rights for Casa de Pedra mine include the mine, a beneficiation plant, roads, a loading yard and a railway branch and are duly registered with the Brazilian Department of Mineral Production (*Departamento Nacional de Produção Mineral*), or DNPM. DNPM has also granted us easements in 15 mine areas located in the surrounding region, which are not currently part of Casa de Pedra mine.

We believe we have obtained and are in compliance with all licenses and authorizations for our operations and projects at Casa de Pedra mine.

Exploration undertaken at the Casa de Pedra mine is subject to mining lease restrictions, which were reflected in our iron ore reserve calculations. Quality requirements (chemical and physical) are the key “modifying factors” in the definition of ore reserves at Casa de Pedra and were properly accounted for by us.

***Mineral Reserves***

The following table sets forth the type of each of our mines, period of operation, projected exhaustion dates and percentage of our interest:

<b>Mine</b>	<b>Type</b>	<b>Operating Since</b>	<b>Projected exhaustion date</b>	<b>CSN % interest</b>
<b>Iron:</b>				
Casa de Pedra (Congonhas, Minas Gerais)	Open pit	1913	2041	100
Engenho (Congonhas, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2041	60
Fernandinho (Itabirito, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2030	60
<b>Limestone and Dolomite:</b>				
Bocaina (Arcos, Minas Gerais)	Open pit	1946	2049	100

The following table sets forth our estimates of proven and probable reserves and other mineral deposits at our mines reflecting the results of reserve studies. 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. In the case of the Engenho and Fernandinho mines, where we own 60% of interests, the mineralized material disclosed are for the entire mine, and not just for our proportional interest in the mine.

According to the report “Audit of Ore Reserves for CSN Casa de Pedra Iron Mine”, prepared by Golder Associates in May 2007, our reserve estimation process is subject to some smoothing, but does not reflect losses for mine dilution and mining recovery. We intend to perform studies regarding those losses during the preparation process for the new

reserve audit. Likewise, Namisa's estimation process for the Engenho and Fernandinho mines does not reflect losses for mine dilution and mining recovery.

**MINERAL RESERVES AND QUANTITY ESTIMATES FOR MINERALIZED MATERIAL – As of December 31, 2011**

Mine Name and Location	Proven and Probable Reserves(1)		Grade(4)	Rock Type	Recoverable Product(5) (millions of tons)	Quantity Estimates for Mineralized Material(2)
	Ore Tonnage(3) (millions of tons) Proven(6)	Probable(7)				Tonnage (millions of tons)
<b>Iron:</b>						
Casa de Pedra(Congonhas, Minas Gerais)	985	514	47.79% Fe	Hematite (21%) Itabirite (79%)	861	8,285
Engenho (Congonhas, Minas Gerais)			46.07%	Itabirite (100%)		852
Fernandinho (Itabirito, Minas Gerais)			40.21%	Itabirite (100%)		578
<b>Total Iron:</b> (Congonhas, Minas Gerais)	<b>985</b>	<b>514</b>			<b>861</b>	<b>9,715</b>
<b>Limestone and Dolomite:</b>						
Bocaina (Arcos, Minas Gerais)			41.3%CaO 5.99%MgO	Limestone (86%) Dolomite (14%)	155.95	1,190

- 
- (1) Reserves means the part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. We do not have reserve audits for the Engenho and Fernandinho. The reserves for the Casa de Pedra mine were audited in 2006 and we have reduced the amount of proven reserves by our annual production since then.
- (2) Mineralization that has been sufficiently sampled at close enough intervals to reasonably assume continuity between samples within the area of influence. This material does not yet qualify as a reserve.
- (3) Represents ROM material.
- (4) Grade is the proportion of metal or mineral present in ore or any other host material.
- (5) Represents total product tonnage after mining and processing losses.
- (6) Means reserves for which: (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and /or quality are computed from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well- established.
- (7) Means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measure) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measure) reserves, is high enough to assume continuity between points of observation.

We do not have audited data for resources estimates, only for reserves estimates.

The metallurgical recovery factor is the proportion of iron in the ore delivered to the processing plant that is recovered by the metallurgical process. In 2011, the metallurgical recovery factor obtained by Casa de Pedra plant was 83.52%. That same factor was 56.34% for the Engenho plant and 58.64% for the Fernandinho plant.

The cutoff grade is the minimum ore percentage that determines which material will be fed in the processing plant. We also plan to perform studies to determine the cutoff grade value during the preparation process for the new audit in Casa de Pedra. In the audit performed in 2006, the Benefit Function considered the lithologies to separate iron from waste. The cutoff grade value for Namisa is also yet to be determined.

The prices used in the 2006 audit for the estimation of Casa de Pedra reserves are shown in the following table (Golder's Final Report for the Audit of Ore Reserves for CSN Casa de Pedra Iron Mine, 2007). As shown, the product price we assumed to estimate our reserves is conservative in comparison to the actual three-year average prices.

	PRICE FOR THE THREE YEARS PRIOR TO THE AUDIT				
	Price for the three years prior to the audit (US\$/t)			Average (US\$/t)	Product Price (US\$/t)
	2004	2005	2006	From 2004 to 2006	Assumption
Lump	28.80	49.40	58.79	45.66	25.26
“Hematitinha”	12.08	28.34	35.75	25.39	18.14
Sinter Feed	21.91	37.58	44.73	34.74	20.73
Pellet Feed Fines	21.40	36.69	43.66	33.92	20.44



NAMISA does not yet have a reserve audit, therefore we have not established prices to estimate reserves for its mines.

***Casa de Pedra***

In 2006, we concluded an extensive, multi-year study of our iron ore reserves at Casa de Pedra. The study consisted of three phases. Phase one, which was completed in 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 Casa de Pedra site. Phase three started in 2005 and involved a complete revaluation of our mineral reserves at Casa de Pedra.

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We conducted extensive work throughout 2006 to document and classify all information related to both the current and future operations of the Casa de Pedra mine. In 2006, we hired Golder Associates S.A., or Golder, to undertake an independent analysis of the Casa de Pedra iron ore reserves. Golder carried out a full analysis of all available information and has independently validated our reported reserves.

Golder accepts as appropriate the estimates regarding proven and probable reserves made by us, totaling 1,631 million tons of iron ore (as of December 31, 2006) at a grade of 47.79% Fe and 26.63% SiO<sub>2</sub>. This new estimate of our iron ore reserves at Casa de Pedra is significantly larger than our estimate of 444 million tons, contained in an appraisal report prepared in 2003.

Over the course of the Casa de Pedra Mine's life we have executed different drilling campaigns and, in total, we have drilled 91,514.63 meters. The last campaign started in May 2010 and ended in April 2011. In the course of that campaign, we drilled 11,068.65 meters. We are extending our drilling campaign by an additional 30,000 meters to increase and improve our knowledge about the iron ore deposits at Casa de Pedra. This campaign includes the programming of laboratory tests for approximately 1,800 samples and is expected to start in 2012. We will use this new campaign and the 2010-2011 campaign for the new reserve audit, which we expect to conclude drilling by December 2013. We expect to have the new Audit Report ready by early 2014.

***Namisa***

An initial study was conducted at Fernandinho and Engenho mines to define the geological reserves and final pits. In 2008 and 2009, we extended our drilling campaign with an additional 5,179 meters at Engenho mine and 2,771 meters at Fernandinho mine (totaling a campaign of 7,950 meters) to increase and improve our knowledge about the iron ore deposits at these mines. In 2012 and 2013, a new drilling campaign with an additional 10,000 meters in the Engenho Mine and 10,000 meters in the Fernandinho Mine will be conducted. We expect that, as soon as a new model and final pit is finished, this reserve can be audited and may be incorporated into our mineral deposits (approximately in December 2013).

***Production******Casa de Pedra***

The Casa de Pedra facilities are located in the city of Congonhas, in the State of Minas Gerais. The Casa de Pedra mine is located 350 km from the Presidente Vargas Steelworks and supplies iron ore products to our steel mill, as well as for export through the Itaguaí Port. Casa de Pedra's equipment fleet and treatment facilities have an installed annual ROM capacity of approximately 86.0 million tons and 22 million tons, respectively.

***Namisa***

Namisa has two beneficiation plants: one is the Pires Plant, which receives material from our Engenho mine (located at the northern border of the Casa de Pedra mine) and the other is the Fernandinho Plant, which receives material from our Fernandinho mine (located in the city of Itabirito). The beneficiation plant at Pires also processes crude ore acquired from other companies, which along with its own ROM, generates final products such as: lump ore, small lump ore (hematitinha), sinter feed and concentrates. The beneficiation plant at Fernandinho generates sinter feed and fines as final products.

Namisa complements our strategy to be a world leading producer of high quality iron ore. Namisa remains fully integrated with our railway and port logistics corridor, through long-term contracts, which provide sufficient railway and port logistics capacity for Namisa's current and future production. Namisa is a leading company in iron ore mining and trading, with mining and processing operations in the State of Minas Gerais. Trading iron ore is obtained from small mining companies in the neighborhood and other trading companies.

The table below sets forth production of iron ore of our mines for the last three years:

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<b>Casa de Pedra (Mt)</b>	<b>17.4</b>	<b>21.6</b>	<b>20.1</b>
Grade (%)	65.4%	65.6%	65.3%
<b>Pires<sup>(2)</sup> (Mt)</b>	<b>5.2</b>	<b>6.1</b>	<b>5.7</b>
Grade (%)	63.8%	62.6%	62.3%
<b>Fernandinho<sup>(2)</sup> (Mt)</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>
Grade (%)	61.5%	59.6%	58.6%

(1) In addition to its own production, Namisa also purchases iron ore from third parties. Third party purchase volumes totaled 5.9 million tons, 5.9 million tons and 7.5 million tons in 2009, 2010 and 2011, respectively.

(2) Production information considers 100% of the mines, not just our 60% interest.

<b>Consolidated Sales (Mt)</b>	<b>17.5</b>	<b>18.6</b>	<b>23.8</b>
<b>Consolidated Net Revenue Per Unit (US\$/t)</b>	<b>49</b>	<b>98</b>	<b>135</b>

(1) Consolidated sales consider our proportional 60% interest in Namisa.

***Distribution***

Transportation costs are a significant component of our steel and iron ore production costs and are a factor in our price-competitiveness in the export market. Railway is the main means of transport by which we convey raw materials from our mines to the Presidente Vargas Steelworks and steel and iron ore products to ports for shipment overseas. Iron ore, limestone and dolomite from our two mines located in the State of Minas Gerais are transported by railroad to the Presidente Vargas Steelworks for processing into steel. The distances from our mines to the Presidente Vargas Steelworks are 328 km and 455 km. The distances from our mines to the ports are 440 km and 160 km. Imported coal and coke bought from foreign suppliers are unloaded at the port of Itaguaí, 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 most important local 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 it has now been largely privatized. In an attempt to increase the reliability of our rail transportation, we hold interests in companies that hold concessions for the main railway systems we use. For further information on our railway concessions, see "—Facilities—Railways."

We export iron ore and import coal and coke through the Itaguaí Port, in the State of Rio de Janeiro. The coal and container terminals have been operated by us since August 1997 and 1998, respectively.

**Our Logistics Segment**

Our logistics segment is comprised of railway and port facilities.

***Railways******Southeastern Railway System***

MRS has a 30-year concession to operate, through the year 2026 and renewable for an equal period of 30 years, Brazil's Southeastern railway system. As of December 31, 2011, we held directly and indirectly 33.27% of MRS' total capital. The Brazilian Southeastern railway system, with 1,643 km of track, serves the São Paulo - Rio de Janeiro - Belo Horizonte industrial triangle in Southeast Brazil, and links our mines located in the State of Minas Gerais to the ports located in the states of São Paulo and Rio de Janeiro and to the steel mills of CSN, Companhia Siderúrgica Paulista, or Cosipa, and Gerdau Açominas. In addition to serving other customers, the line transports iron ore from our mines at Casa de Pedra in the State of Minas Gerais and coke and coal from the Itaguaí Port in the State of Rio de Janeiro to the Presidente Vargas Steelworks and transports our exports to the ports of Itaguaí and Rio de Janeiro. The railway system connects the Presidente Vargas Steelworks to the container terminal at Itaguaí Port, which handles most of our steel exports. Our transport volumes represent approximately 29% of the Brazilian Southeastern railway system's total volume. We are jointly and severally liable, along with the other principal MRS shareholders, for the full payment of the outstanding amount of its indebtedness (See "Item 5E. Off-Balance Sheet Arrangements"), however, we expect that MRS will make the lease payments through internally generated funds and proceeds from financing.



*Northeastern Railway System*

As of December 31, 2011, we hold 70.91% of the capital stock of Transnordestina Logística S.A.. Transnordestina Logística S.A. has a 30-year concession granted in 1998, renewable for an equal 30-year period, to operate Brazil's Northeastern railway system. The Northeastern railway system includes 4,238 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. It also connects with the region's leading ports, thereby offering an important competitive advantage through opportunities for intermodal transportation solutions and made-to-measure logistics projects.

For more information on Transnordestina, see "Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments."

*Port Facilities**Solid Bulks Terminal*

We hold the concession to operate TECAR, a solid bulks terminal, one of four terminals that form the Itaguaí Port, located in the State of Rio de Janeiro, for a term expiring in 2022 and renewable for another 25 years. Itaguaí Port, in turn, is connected to the Presidente Vargas Steelworks, Casa de Pedra and Namisa by the Southeastern Railway System. Our imports of coal and coke are made through this terminal. Under the terms of the concession, we undertook to load and unload at least 3.0 million tons of bulk cargo annually. Among the approved investments that we announced is the development and expansion of the solid bulks terminal at Itaguaí to also handle up to 84 million tons of iron ore per year. For further information, see "Item 4. Information on the Company - D. Property, Plant and Equipment —Planned Investments—Mining."

*Container Terminal*

We own 99.99% of Sepetiba Tecon S.A., or TECON, which has a concession to operate, for a 25-year term expiring in 2026 that is renewable for another 25 years, the container terminal at Itaguaí Port. As of December 31, 2011, US\$177 million of the cost of the concession remained payable over the next 15 years of the concession. For more information, see "Item 5E. Off-Balance Sheet Arrangements". The Itaguaí Port is located in the heart of Brazil's Southeast Region, with all major exporting and importing areas of the states of São Paulo, Minas Gerais and Rio de Janeiro within 500 km from the port. This area represents more than 60% of the Brazilian gross domestic product, or GDP, according to the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*). The Brazilian Federal Port Agency has spent more than US\$48 million in the past few years in port infrastructure projects such as expanding the maritime access channel and increasing its depth. In addition, significant investments were made by the Brazilian federal government in adding two extra lanes to the Rio-Santos road, and are being made in constructing the Rio de Janeiro Metropolitan Bypass, a beltway that will cross the Rio de Janeiro metropolitan area, to be concluded by the end of 2012. Also, MRS railway is investing in an extra rail track to the Itaguaí Port. These investments, together with favorable natural conditions, like natural deep waters and a low urbanization rate around the port area, allow the operation of large vessels and the maintenance of highly competitive prices for all services rendered. All of these factors have made the terminal a major hub port in Brazil.

Investments made from 2007 to 2011, mainly in two Super Post Panamax Portainers and two Rubber Tired Gantry, or RTG, cranes and 6 new Reach Stackers, among others, have shown to be successful. These investments, along with a focused marketing and sales strategy, enabled the terminal to rank first in market share among the three terminals of

the state of Rio de Janeiro in 2011, with 40% of the total moves in those terminals.

We plan to carry out new infrastructure and equipment investments in Sepetiba TECON, such as the Berth 301 Equalization, two new Super Post Panamax Portainers and four new RTG cranes to yard operations. We are also currently investing in dredging Sepetiba Tecon's Berths 302/303 and access channel to 15.5 m depth. These investments will increase TECON's capacity from 320,000 containers (or 480,000 TEUs) to 410,000 containers (or 610,000 TEUs) per year and from 2.0 million tons to 6.0 million tons per year of steel products. We intend to use this port to ship all our exports of steel products. In 2011, 83% of our exported steel products (or 320,963 tons), were shipped from this port, as compared to 69% in 2010.

In 2010, the terminal experienced a 27% growth in units handled, following the global downturn of 2008 and 2009. In 2011 it continued to grow, reaching 216,311 units handled (or 322,680 TEUS), an increase of 10% over 2010.



## **Our Cement Segment**

Our cement segment is comprised of a cement plant in Volta Redonda, in the state of Rio de Janeiro, and a clinker plant in Arcos, in the state of Minas Gerais.

### ***Production***

The production process in CSN's cement factory in Volta Redonda begins with the influx of raw materials: clinker, limestone, gypsum and slag. We currently import clinker, but, with the startup of our clinker plant in Arcos, in mid-2011, imports are gradually being reduced. Limestone comes from Arcos by rail. Clinker is stored in a silo (capacity: 45,000 tons) and limestone in a warehouse (capacity: 10,000 tons). Slag is a by-product of iron and steel, produced in the blast furnace, and is also stored in the warehouse (capacity: 20,000 tons), arriving at the plant by road. CSN uses natural gypsum, from Ouricuri, in the state of Pernambuco, which arrives at the plant by truck and is stored in the warehouse (capacity: 10,000 tons).

All transportation of raw materials within the plant is carried out by conveyor belts, placing inputs in scales according to a predefined formula and delivering them to the mills. There are two grinding lines and each mill has a nominal capacity of 170 tons/h. Annual plant capacity is 2.4 million tons of cement. The mill has a hydropneumatic roller system, which uses pressure to grind the layer of material on the turntable. Hot gas, derived from the combustion of natural gas or petroleum coke, is pumped into the mills to maintain the proper temperature in the circuit.

The type of cement we produce is CP III-40 RS (Sulfator resistant), which is then taken through a bucket elevator to be stored in silos. The plant has four silos, two of them with 10,000 tons of capacity and two with 5,000 tons of capacity. Cement can be shipped in bagged and bulk forms. We have two baggers with 12 filling nozzles (nominal capacity of 3600 bags/hour) and two palletizers for bagging cement.

## **Our Energy Segment**

Our energy segment is comprised of generation plants and is aimed at enabling us to maintain our self-sufficiency in energy, reducing our production cost and our exposure to fluctuations or availability of certain energy sources.

Our energy related assets include:

### ***Thermoelectric Co-Generation Power Plant***

We completed the construction of a 238 MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks in December 1999. Since October 2000, the plant has provided the steelworks with approximately 60% of the electric energy needed in its steel mills. Aside from operational improvements, the power plant supplies our strip mills with electric energy, processed steam and forced air from the blast furnaces, benefiting the surrounding environment through the elimination of flares that burn steel-processing gases into the atmosphere.

### ***Itá Hydroelectric Facility***

Tractebel and CSN each owns 48.75% of ITASA, a special-purpose company formed for the purpose of owning and operating, under a 30-year concession granted in 2000 and renewable for an equal term, 60.5% of the Itá hydroelectric facility on the Uruguay river in Southern Brazil. Companhia de Cimento Itambé, or Itambé, owns the remaining 2.5%

of ITASA. Tractebel directly owns the remaining 39.5% of the Itá hydroelectric facility.

The power facility was built using 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 in debentures issued by ITASA, a US\$144 million loan from private banks and US\$116 million of direct financing from BNDES, all of which are due by 2013. The sponsors of the project have invested approximately US\$306 million in this project.

Itá has an installed capacity of 1,450 MW, with a firm guaranteed output of 668 MW, and became fully operational in March 2001.

We and the other shareholders of ITASA have the right to take our pro rata share (proportionally to our ownership interest in the project) of Itá's output pursuant to 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. Since October 2002, we have been using our entire Itá take internally.

#### *Igarapava Hydroelectric Facility*

We own 17.9% of a consortium that built and has the right to operate for 30 years the Igarapava hydroelectric facility. Other consortium members are Vale, Companhia Mineira de Metais, Votorantim Metais Zinco, AngloGold Ashanti Mineração Ltda., and Companhia Energética de Minas Gerais, or CEMIG. The plant has an installed capacity of 210 MW, corresponding to 136 MW of firm guaranteed output as of December 31, 2011. We have been using part of our 22.8 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines and to the Presidente Vargas Steelworks.

### **Marketing Organization and Strategy**

#### *Steel*

Our steel 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.

Our sales approach is to establish brand loyalty and achieve a reputation for quality products by developing relationships with our clients and focusing on their specific needs, providing tailor-made solutions for each of our clients.

Our commercial area is responsible for sales of all of our products. This area is divided into two major teams, one focused on international sales and the other on domestic sales. The domestic market oriented sales team is divided into seven market segments: Packaging, Distribution Network, Automotive Industry (Automakers and Auto Parts), Home Appliances, Original Equipment Manufacturer, or OEM, Construction and Pipes. The commercial area also has a team called "Special Sales" which is responsible for selling all the process residues, such as blast furnace slag, pitch and ammonia, which are widely used as inputs in chemical and cement industries.

The Distribution Network division is responsible for supplying large steel processors and distributors. Besides the independent distributors, CSN also has its own distributor, called Prada Distribuição. The Pipes division supplies oil and gas pipe manufacturers 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 finished-products. The Automotive unit is supplied by a specialized mill, CSN Porto Real, and also by a portion of the galvanized material produced at Presidente Vargas Steelworks, benefitting from a combined sales strategy.

In 2011, about 65% of our domestic sales were made through our own sales force directly to customers. The remaining sales were to independent distributors for subsequent resale to smaller clients.

Historically, our export sales were made primarily through international brokers. However, as part of our strategy to establish direct, longer-term relationships with end-users, we have decreased our reliance on such brokers. We have focused our international sales on more profitable markets in order to maximize revenues and shareholder returns.

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 from the last two years 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 our profitability.

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Unlike with other commodity products, there is no exchange trading of steel, or uniform pricing, as wide differences exist in terms of size, quality and specifications. In general, exports are priced based on international spot prices of steel at the time of sale in U.S. dollars or Euros, depending on the destination. Sales are normally paid up front, or within 14 or 28 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.

*Sales by Geographic Region*

In 2011, we sold steel products to customers in Brazil as well as to customers in 30 other countries. The fluctuations in the portion of total sales assigned to domestic and international markets, which can be seen in the table below, reflect our ability to adjust sales in light of variations in the domestic and international economies, as well as steel demand and prices, both domestically and abroad.

The two main export markets for our products are Europe and North America, representing 45% and 40%, respectively, of our export sales volume in 2011.

In North America, we take advantage of our subsidiary CSN LLC, which acts as a commercial channel for our products. In order to gain a cost advantage among our U.S. competitors, CSN is able to export hot-rolled to CSN LLC which is then processed and transformed into more value-added products at CSN LLC's plant, such as cold-rolled coil and galvanized. Moreover, we are able to export cold-rolled coils which can be directly sold or processed by CSN LLC in order to manufacture galvanized products.

CSN – Sales of Steel Products by Destination  
(In thousands of metric tons and millions of R\$)

	2011		2010		2009		2011		2010		2009	
	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total
Brazil	4.216	86.1%	8.033	86.8%	4.135	86.2%	8.575	88.6%	3.243	78.9	6.77	85.8
Export	680	13.9%	1.219	13.2%	661	13.8%	1.107	11.4%	867	21.1	1.124	14.2
<b>Total</b>	<b>4.896</b>	<b>100.0</b>	<b>9.252</b>	<b>100.0</b>	<b>4.796</b>	<b>100.0</b>	<b>9.682</b>	<b>100.0</b>	<b>4.110</b>	<b>100.0</b>	<b>7.894</b>	<b>100.0</b>
<b>Exports by Region</b>												
Asia	21	0.4%	31	0.3%	28	0.6%	38	0.4%	259	6.3%	249	3.9%
North America <sup>(1)</sup>	270	5.5%	473	5.1%	268	5.6%	434	4.5%	243	5.9%	307	3.9%
Latin America	58	1.2%	144	1.6%	56	1.2%	136	1.4%	55	1.3%	115	1.5%
Europe	312	6.4%	545	5.9%	277	5.8%	434	4.5%	290	7.1%	411	5.2%
All Others	19	0.4%	27	0.3%	32	0.7%	65	0.7%	20	0.5%	42	0.5%

(1) Sales to Mexico are included in North America.

(2) Total net operating revenues presented above differ from amounts in our IFRS consolidated financial statements because they do not include revenues from non-steel products (non-steel products include mainly by-products, iron ore, logistics services and cement), which in 2011 were R\$7,267 million and in 2010 were R\$4,769 million.

*Sales by Product*

The following table sets forth our market shares for steel sales in Brazil of hot-rolled, cold-rolled, galvanized and tin mill products for 2010, 2009 and 2008. Market Share information for 2011 was not yet available as of the date of this annual report. The data of 2008 and 2009 were filled based on IABr (*Instituto Aço Brasil*) and 2010 considered internal data gathered by CSN.

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<b>CSN Domestic Market Share</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Hot-Rolled Products	36.2%	33.0%	34.0%
Cold-Rolled Products	27.9%	29.0%	26.0%
Galvanized Products			