
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000
OR
- TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: **1-14732**

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

National Steel Company

(Translation of registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Rua Lauro Müller 116

36° andar

Botafogo

22299-900 Rio de Janeiro, RJ, Brazil

(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, with no par value	New York Stock Exchange*

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the period covered by the annual report.

71,729,261,430 Common Shares, with no par value

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

Yes No

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

Item 17 Item 18

TABLE OF CONTENTS*

INTRODUCTION	4
CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS.....	4
PRESENTATION OF FINANCIAL AND OTHER INFORMATION.....	4
PART I	6
ITEM 3. KEY INFORMATION.....	6
A. SELECTED FINANCIAL DATA	6
D. RISK FACTORS.....	8
1. Risk Factors Relating to the Steel Industry and CSN	8
2. Risk Factors Relating to Brazil.....	9
ITEM 4. INFORMATION ON THE COMPANY	11
A. HISTORY AND DEVELOPMENT OF THE COMPANY	11
1. General.....	11
2. History	11
B. BUSINESS OVERVIEW	12
1. Business Strategy	12
2. Major Products.....	13
3. Sales and Marketing.....	17
4. Production.....	20
5. Raw Materials and Transportation.....	21
6. Investment Programs	23
7. Facilities.....	28
8. Competition	30
9. Research and Development.....	31
10. Insurance.....	32
11. Government Regulation and Other Legal Matters	32
12. Employees and Labor Matters	35
13. Overview of World Steel Industry.....	36
14. Brazilian Steel Industry	37
C. ORGANIZATIONAL STRUCTURE	39
D. PROPERTY, PLANTS AND EQUIPMENT.....	39
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	41
A. OPERATING RESULTS	41
B. LIQUIDITY AND CAPITAL RESOURCES	45
C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.	47
D. TREND INFORMATION.....	47
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.....	48
A. DIRECTORS AND SENIOR MANAGEMENT	48
B. COMPENSATION.....	50
C. BOARD PRACTICES	50
D. EMPLOYEES	50
E. SHARE OWNERSHIP	50

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.....	50
A. MAJOR SHAREHOLDERS	50
B. RELATED PARTY TRANSACTIONS	51
ITEM 8. FINANCIAL INFORMATION	51
A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION	51
B. SIGNIFICANT CHANGES	52
ITEM 9. THE OFFER AND LISTING	52
A.4. PRICE HISTORY.....	52
C. MARKETS	52
ITEM 10. ADDITIONAL INFORMATION	55
B. MEMORANDUM AND ARTICLES OF ASSOCIATION.....	55
C. MATERIAL CONTRACTS.....	60
D. EXCHANGE CONTROLS	60
E. TAXATION	61
1. Brazilian Tax Considerations.....	62
2. U.S. Federal Income Tax Considerations	63
H. DOCUMENTS ON DISPLAY.....	65
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	65
PART III	69
ITEM 18. FINANCIAL STATEMENTS	69
ITEM 19. EXHIBITS	69

INTRODUCTION

Unless the context otherwise requires, references to the “Company” or “CSN” are references to Companhia Siderúrgica Nacional and its consolidated subsidiaries, and references to the “Brazilian Government” are references to the federal government of the Federative Republic of Brazil. References to the “*real*,” “*reais*” or “R\$” are to Brazilian *reais*, the official currency of Brazil. References to “U.S. dollars” and “US\$” are to the currency of the United States of America. In this Annual Report, “billions” means thousands of millions, “km” means kilometers, “tons” or “mt” means metric tons and “MW” means megawatts.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report that are not historical facts, including, without limitation, certain statements made in the sections entitled “Item 4. Information on the Company,” “Item 8.A. Consolidated Statements and Other Financial Information — Dividends and Dividend Policy,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk,” are forward-looking statements. Forward-looking statements include:

- projected cost reductions as a result of the operation of the thermoelectric co-generation facility;
- the projected completion dates of, and the projected total investments in, projects under construction;
- the completion of satisfactory financing arrangements for projects and other transactions;
- the benefits of an increase in the average workshift;
- efforts to expand production capacity for galvanized, pre-painted, tin-coated and other high value-added products and projected demand for such products;
- increased concentration on core steel business, including the divestment of some non-steel investments;
- increased sales to the automotive industry;
- increased crude steel production;
- generation and supply of energy;
- maintenance of CSN’s competitive advantages;

- decrease in CSN’s reliance on brokers and establishment of longer term relationships with end users;
- cost of investment in a hot strip mill in the United States;
- meeting requirements of environmental agreements; and
- decreased exposure to base metal prices.

Such statements are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those expressed or implied in such statements due to, without limitation:

- general economic conditions, including in particular economic conditions in Brazil and the United States;
- electric energy shortages and government responses thereto;
- the performance of the Brazilian and global steel industries and markets;
- export and import market fluctuation levels;
- interest rate levels;
- currency exchange rates, including the *real*/U.S. dollar exchange rate;
- changes in laws and regulations;
- changes in the policies of the Central Bank of Brazil (“Central Bank”) and the Brazilian or foreign governments; and
- global, national and regional competition in the steel market.

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The consolidated financial statements of the Company and its consolidated subsidiaries at December 31, 1999 and 2000 and for each of the three years ended December 31, 2000 and the notes thereto (the “Consolidated Financial Statements”) contained herein have been presented in U.S. dollars and prepared in accordance with generally accepted

accounting principles in the United States (“U.S. GAAP”). See Note 2(a) to the Consolidated Financial Statements. The Company publishes financial statements in Brazil in accordance with the accounting principles required by Law No. 6,404 dated December 15, 1976, as amended (the “Brazilian Corporate Law”), which differ in certain significant respects from U.S. GAAP.

In the Company’s Registration Statement on Form 20-F filed with the U.S. Securities and Exchange Commission (“SEC”) in connection with the listing of the Company’s American Depositary Shares (“ADSs”) on the New York Stock Exchange, the Company used the Brazilian *real* as its reporting currency. Because the Company operates in an industry that uses the U.S. dollar as its currency of reference, management believes that it is appropriate to present its primary financial statements in its SEC filings in U.S. dollars. Accordingly, as permitted by the rules of the SEC, the Company has adopted the U.S. dollar as its reporting currency for its primary financial statements contained in its Annual Reports filed with the SEC.

As described more fully in Note 2(a) to the Consolidated Financial Statements, the U.S. dollar amounts as at the dates and for the periods presented in the Consolidated Financial Statements have been remeasured (translated) from the Brazilian *real* amounts in accordance with the criteria set forth in the U.S. Financial Accounting Standards Board’s Statement of Financial Accounting Standard No. 52 (“SFAS 52”), at the period-end exchange rate (for balance sheet items) or the average exchange rate prevailing during the period (for income statement items).

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy (defined as an economy in which the cumulative inflation rate over the latest three-year period has exceeded 100%). Accordingly, U.S. dollar amounts presented herein that were derived from CSN’s Consolidated Financial Statements as of dates or for periods ending on or prior to June 30, 1997 have been remeasured from Brazilian *reais* (or any predecessor currency) based on historical (non-monetary items), or period-end (monetary items) and monthly average (income statement items) exchange rates.

Unless the context otherwise indicates:

- Historical data contained in this Annual Report that were not derived from the Consolidated Financial Statements have been translated from *reais* on a basis similar to the basis used in the Consolidated Financial Statements for the same periods or as of

the same dates, except investment amounts have been translated at the Commercial Market rate (as defined below) in effect on the date the investment was made.

- Forward-looking statements have been translated from *reais* at the June 15, 2001 Commercial Market rate of R\$2.4079 = US\$1.00, except that estimated future capital expenditures are based on the most recently budgeted amounts, which may not have been adjusted to reflect all factors that could affect such amounts.

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.

There are two principal foreign exchange markets in Brazil: the commercial rate exchange market (the “Commercial Market”) and the floating rate exchange market (the “Floating Market”). Most foreign trade and financial foreign currency exchange transactions are carried out on the Commercial Market. Purchases of foreign exchange in the Commercial Market may be carried out only through a financial institution authorized to buy and sell currency in that market. The Floating Market rate generally applies to transactions to which the Commercial Market rate does not apply. Prior to February 1, 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, banks operating in the Commercial Market have been allowed to unify their positions in the two different markets. These markets are now differentiated solely for regulatory purposes and offer similar pricing and liquidity, despite the potential for distinct treatment for regulatory purposes in the future.

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

	High	Low	Average ⁽¹⁾	Period End
Year ended December 31:				
1996.....	1.0407	0.9726	1.0052	1.0394
1997.....	1.1164	1.0395	1.0786	1.1164
1998.....	1.2087	1.1165	1.1611	1.2087
1999.....	2.1647	1.2078	1.8272	1.7890
2000.....	1.9847	1.7234	1.8348	1.9554
Months in 2001:				
January.....	1.9753	1.9353		1.9711
February.....	2.0452	1.9739		2.0452
March.....	2.1616	2.0208		2.1616
April.....	2.3011	2.1384		2.1847
May.....	2.3599	2.1957		2.3599
June (through June 15).....	2.4079	2.3619		2.4079

(1) Represents the average of the month-end exchange rates during the relevant period.

The Commercial Market rate published by the Central Bank on June 15, 2001 was R\$2.4079 per US\$1.00.

PART I

Item 3. Key Information

A. Selected Financial Data

The following table sets forth selected consolidated financial data for CSN, presented in U.S. dollars and prepared in accordance with U.S. GAAP. Such data for the three years ended December 31, 2000 has been derived from CSN's audited Consolidated Financial Statements, which appear elsewhere in this document. The information below should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and notes thereto and "Item 5. Operating and Financial Review and Prospects." Also see "Presentation of Financial and Other Information." In addition, the following table presents selected financial information for the years ended December 31, 1996 and 1997, which has been prepared in accordance with U.S. GAAP and presented in U.S. dollars in a manner consistent with the information set forth in the Consolidated Financial Statements.

	Year Ended December 31,				
	1996	1997	1998	1999	2000
	<i>(In millions of US\$, except share data)</i>				
Income Statement Data:					
Operating revenues.....	2,821	2,913	2,573	1,964	2,383
Net operating revenues ⁽¹⁾	2,416	2,482	2,145	1,631	1,946
Cost of products sold.....	1,618	1,575	1,193	915	1,115
Gross profit.....	798	907	952	716	831
Operating income.....	319	578	524	444	513
Net financial income (expenses).....	37	(8)	85	109	(157)
Foreign exchange and monetary loss, net ⁽²⁾	(27)	(88)	(147)	(593)	(127)
Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item.....	326	477	457	(39)	210
Equity in results of affiliated companies.....	(10)	24	30	4	82
Income (loss) before extraordinary item.....	212	417	423	(18)	274
Extraordinary item ⁽³⁾	—	—	—	66	—
Net income.....	212	417	423	48	274
Dividends declared ⁽⁴⁾	111	177	243	137	470
Per 1,000 shares:					
Income (loss) before extraordinary item.....	2.74	5.54	5.87	(0.25)	3.82
Extraordinary item ⁽³⁾	—	—	—	0.92	—
Net income.....	2.74	5.54	5.87	0.67	3.82
Dividends declared ⁽⁴⁾	1.44	2.35	3.37	1.91	6.55
Weighted average shares outstanding (in millions).....	77,261	75,233	72,028	71,729	71,729
Balance Sheet Data (at end of period):					
Current assets ⁽⁵⁾	1,776	2,424	1,886	1,536	2,464
Property, plant and equipment, net.....	2,733	2,947	2,886	1,973	2,025
Investments in affiliated companies and other investments ⁽⁵⁾	348	1,323	1,072	1,008	245
Other assets.....	675	494	483	325	384
Total assets.....	<u>5,532</u>	<u>7,188</u>	<u>6,327</u>	<u>4,842</u>	<u>5,118</u>
Minority interest.....	—	—	26	5	—
Current liabilities.....	941	2,071	1,226	1,807	1,923
Long-term liabilities ⁽⁶⁾	1,573	2,279	2,515	1,455	2,004
Stockholders' equity.....	<u>3,018</u>	<u>2,838</u>	<u>2,560</u>	<u>1,575</u>	<u>1,191</u>
Total liabilities and stockholders' equity.....	<u>5,532</u>	<u>7,188</u>	<u>6,327</u>	<u>4,842</u>	<u>5,118</u>

Year Ended December 31,

	1996	1997	1998	1999	2000
	<i>(In millions of US\$, except share data)</i>				
Other Data:					
Cash flows from operating activities ⁽⁵⁾	521	845	705	648	(277)
Cash flows from investing activities ⁽⁵⁾	(832)	(2,314)	320	(311)	264
Cash flows from financing activities	597	1,630	(731)	(211)	(45)
EBITDA ⁽⁷⁾	492	743	757	604	713

- (1) Net operating revenues consist of operating revenues minus value-added tax discounts, returns and allowances.
- (2) Includes translation losses in 1996 and 1997.
- (3) The extraordinary item in 1999 represents a gain on the repurchase of Eurodollar notes. See "Item 5.B. Liquidity and Capital Resources."
- (4) Except for 1996, dividends declared consist of interest on stockholders' equity. For a discussion of dividends declared in respect of 2000, see "Item 8.A. Consolidated Statements and Other Information — Dividends and Dividend Policy."
- (5) During 2000, CSN contracted for the sale of its interests in *Light – Serviços de Eletricidade S.A.* ("Light") and *Valepar S.A.* ("Valepar"), through which CSN held an interest in *Companhia Vale do Rio Doce* ("CVRD"). As a result, the investments in Light and Valepar, aggregating US\$870 million, were moved from investments in affiliated companies and other investments to investments for sale in current assets. This movement is the principal cause of the negative cash flow from operating activities, and the positive cash flow from investing activities, in 2000. The financial closings of these transactions occurred in 2001, and accordingly, results for 2001 will include gains, net of income taxes, from these sales aggregating US\$586 million.
- (6) Excluding the current portion of long-term debt.
- (7) Operating income plus depreciation and other operating expenses. EBITDA is not presented herein as an alternative measure of operating results or cash flow, but rather to provide additional information relating to debt service ability. EBITDA does not represent net income or cash flows from operations, as these terms are defined by generally accepted accounting principles. EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

D. Risk Factors

1. Risk Factors Relating to the Steel Industry and CSN

Cyclicality of Steel Industry; Importance of Export Markets

The steel industry is highly cyclical in nature both in Brazil and abroad. In addition, because the Brazilian steel industry produces substantially more steel than the domestic economy can consume, the Brazilian steel industry is heavily dependent on export markets. The demand for steel products and, thus, the financial condition and results of operations of companies in the steel industry, including CSN, are generally affected by macroeconomic fluctuations in the world economy and the domestic economies of steel-producing countries, including trends in the automotive, construction, home appliances, packaging and container sectors. Any significant material decrease in demand for steel generally in the domestic or export markets served by CSN would have a material adverse effect on results of operations and prospects of CSN.

Competition

Despite significant reductions in steel production capacity by major producers in developed nations over the last decade, the world steel industry continues to be adversely affected by excess worldwide production capacity. This overcapacity reflects generally the decreasing demand for steel in Western industrial countries, as well as a significant increase in steel production capacity in developing countries. Continuous advances in materials sciences and resulting technologies have given rise to new products, such as plastics, aluminum, ceramics, glass and new steel products, that pose competition for traditional steel products. In addition, the economics of operating a steel mill continuously due to high start-up costs may encourage mill operators to maintain high levels of output, even in times of low demand, which exacerbates the pressures on industry profit margins.

The steel industry is highly competitive with respect to price, product quality and customer service, as well as technological advancements that would allow a steel manufacturer to lower its cost of production. See “Item 4.B.8. Competition.” Any increase in prices of raw materials or services (especially those obtained from third-party suppliers over which CSN has no control) or production costs would put further pressure on CSN’s profit margins, especially for CSN’s export sales, where margins tend to be lower.

Antidumping and Government Protectionism

In response to the increased production of steel in many countries, antidumping (“AD”) and countervailing duties (“CVD”) and other protectionist measures are being imposed by countries which represent some of the main markets for CSN’s exports. These measures have had, and are likely to continue to have, an adverse effect on CSN and its exports. In addition, the U.S. Trade Representative has requested the U.S. International Trade Commission (“ITC”) to conduct an investigation into steel imports under Section 201 of the U.S. Trade Act of 1974, which could result in increased tariffs on certain products exported by CSN to the United States. Legislation has also been introduced in the U.S. Congress seeking a five-year quota on steel imports, which could further adversely affect CSN’s exports to the United States. See “Item 4.B.11. Government Regulation and Other Legal Matters — Antidumping Proceedings.”

Electric Energy Shortage

For a description of the possible impact of an electric energy shortage in Brazil, see “Item 3.D.2. Risk Factors Relating to Brazil — Electricity Shortage.”

Raw Materials Costs

CSN’s principal raw materials include iron ore, coal (from which CSN makes coke), limestone, dolomite, manganese, zinc, tin and aluminum. While CSN obtains all of its iron ore, limestone and dolomite requirements from its mines in Minas Gerais state, and it produces most of its coke requirements from its own coke batteries, it is dependent on third parties for the other raw materials required in its operations. All of the coal that CSN uses to produce coke and approximately 10% of CSN’s coke requirements must be imported. Because of the cyclical nature of the coal industry, the price and quantity terms contained in CSN’s coal contracts are renegotiated annually. Thus, CSN’s coal costs can vary from year to year. The negotiations of CSN’s coal contracts for 2001 and 2002 have been concluded, with a 38.5% average price (in U.S. dollars) increase for coking coal compared to the 1999/2000 period. The main drivers for this above-average price increase were the steel production volume increase in 2000, the energy crisis in the State of California and the supply reduction caused by the closing of unprofitable coking coal mines around the world. There can be no assurance that coal prices will not increase further in the future.

CSN purchases zinc, tin, manganese and aluminum from third-party domestic suppliers. In 2000, the costs of raw materials accounted for approximately 29.8% of CSN’s total production costs.

Although CSN believes it will be able to obtain raw materials at reasonable prices, there can be no assurance that increases in prices (particularly those for products and services obtained from third parties) will not occur in the future, resulting in a decrease in profitability to CSN.

Dependence on Water Source

Large amounts of water are required in the production of steel. In addition to its use as a solvent, a catalyst, a cleaning agent and a coolant, it is also used to carry away waste. CSN's principal source of water is the Paraíba do Sul river, which runs through the city of Volta Redonda. The majority is recirculated and a lesser amount, after processing, is returned to the Paraíba do Sul river. A law passed in 1997 permits the Brazilian government to charge for water usage from water courses, but no regulations to this effect have been implemented yet. No assurance can be given that restrictions on CSN's use of water from the Paraíba do Sul river, including fees for such usage, will not be imposed in the near future.

Potential Costs of Environmental Compliance; Mining Regulation

CSN's steelmaking facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating to the protection of human health and the environment. While the Government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations and can, in some instances, suspend plant operations. For a discussion of certain environment-related legal proceedings involving CSN, see "Item 4.B.11. Government Regulation and Other Legal Matters — Environmental Regulation."

2. Risk Factors Relating to Brazil

Brazilian Government—Economic and Political Factors

Over the past 20 years, the Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Government. The Government has often changed monetary, credit, tariff and other policies to influence the course of Brazil's economy. The Government's actions have involved measures such as freezing bank accounts and imposing capital controls, as well as wage and price controls. Less frequently, the Government has limited exports from Brazil. Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to foresee such imbalance, the Government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of

their investments in Brazil. Changes in policy involving the rate of growth of the Brazilian economy, tariffs, exchange controls and other matters in the future could have a material adverse effect on CSN, as could sudden changes in the real exchange rate, social instability and other political, economic or diplomatic developments, and the Government's response to such developments. The Government's desire to control inflation, to reduce budget deficits and to reduce trade deficits may cause it to take actions that will slow or halt Brazilian economic growth and the relative value of the *real*. Governmental actions concerning the economy could have an important effect on market conditions, prices and return on securities.

The government of President Cardoso has supported the *Real* Plan (see "Item 3.D.2. Risk Factors Relating to Brazil — Extreme Inflation"), which was adopted when President Cardoso was Finance Minister. President Cardoso has also stated his intention to continue to support the free market and privatization measures of recent years, and his government has taken steps in the furtherance of such intentions. Some important political factions, however, remain opposed to significant elements of the reform program. President Cardoso's majority in the Congress is based on a coalition of political parties, and as a result, his leadership of Brazil may be subject to compromises. The next round of national elections is scheduled to occur in October 2002, at which time Brazil's voters will elect, among others, a new President to succeed President Cardoso. There is no assurance that the present economic policies will be maintained.

Electricity Shortage

Approximately 93% of Brazil's electric energy is produced by hydroelectric generating facilities. As a result, a recent severe drought in the northeastern and southeastern regions of Brazil has caused the government to announce plans for reducing energy consumption by up to 20%, starting June 2001. While CSN has achieved self-sufficiency in electric energy production, government-imposed restrictions on electricity consumption could have an adverse impact on the Brazilian economy generally and on demand for certain steel products in particular, such as home appliances. This could, in turn, result in a negative effect on CSN's steel sales. Furthermore, the restrictions could adversely affect the suppliers of materials used by CSN in making steel.

Devaluation of the Real; Exchange Controls

Following devaluations of less than 10% in 1997 and 1998, the *real* depreciated against the U.S. dollar approximately 48% in 1999 and 9.3% in 2000. In

2001 (through June 15), the *real* has depreciated a further 23.1% against the U.S. dollar. Further devaluations of the Brazilian currency, in relation to the U.S. dollar or other currencies, may have an adverse effect on the financial condition and results of CSN, increasing the cost in *reais* of its foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke. To the extent that CSN does not succeed in promptly reinvesting the funds received from such borrowings, it creates a mismatch between its foreign currency-denominated expenses and expenditures and revenues. See “Item 5. Operating and Financial Review and Prospects.” The devaluation of the *real* could also adversely affect the value of the Company’s ADSs.

While the Company, as part of its attempt to manage its exchange rate exposure, may from time to time engage in hedging transactions, at any given time it may have a substantial exposure to currency fluctuations. The extent of its hedging will depend on its perception of the risk of currency fluctuations. Although hedging may be used to mitigate risks from exchange rate exposure, it is an imperfect means of managing risk and hedging transactions are subject to risk themselves.

Since 1983, certain payments of principal on external obligations of Brazil have been centralized through the Central Bank, and the Central Bank assumed responsibility for the external obligations to be paid in connection with the formal restructuring of the Brazilian sovereign debt. Pursuant to Resolution 1541, enacted in November of 1988, and Resolution 1564, enacted in January of 1989, the Government effectively prevented domestic public and private borrowers, including CSN, from making payments of principal or interest on certain international debt (excluding certain securities obligations) by restricting their access to foreign currencies and prohibiting remittances abroad. In 1991, partial interest payments were resumed and an agreement was reached on the treatment of past due interest. On June 26, 1991, the Central Bank began to allow all private sector companies and certain state-owned companies to resume the payment of all external debt obligations. There can be no assurance that the Central Bank will not modify its policies or that the Government will not institute restrictions on payments of external obligations.

Extreme Inflation

Brazil has historically experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to combat inflation, have had significant negative effects on the Brazilian economy in general and have affected CSN’s financial condition

and results of operations. At the beginning of 1994, the Government introduced the *Real Plan*, an economic stabilization plan designed to reduce inflation by reducing certain public expenditures, collecting liabilities owed to the Government, increasing tax revenues, continuing the privatization program and introducing a new currency. On July 1, 1994, as part of the *Real Plan*, the Government introduced the *real*, which replaced the *cruzeiro real* as the official currency of Brazil. Since the introduction of the *Real Plan*, Brazil’s inflation rate has been substantially lower than in previous periods. Inflation rates, as measured by the *Índice Geral de Preços–Disponibilidade Interna* (the General Price Index–Internal Availability or “IGP–DI”), were approximately 9.8% in 2000, 20.0% in 1999, 1.7% in 1998, 7.5% in 1997 and 9.3% in 1996, as compared to 909.6% in 1994, 2,708.6% in 1993 and 1,158.0% in 1992. The devaluation of the *real* was the primary cause of the increase in inflation in 1999. There can be no assurance that the lower levels of inflation will continue or that future Brazilian governmental actions (including additional actions to adjust the value of the Brazilian currency) will not trigger the renewal of hyperinflation or that any such increase will not have a material adverse effect on CSN’s financial condition and results of operations.

Controls and Restrictions on U.S. Dollar Remittances

Brazilian law provides that, whenever there exists, or there is a serious risk of, a material imbalance in Brazil’s balance of payments, the Government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1990, as well as on the conversion of the Brazilian currency into foreign currencies. Such restrictions could hinder or prevent *Itaú Corretora de Valores S.A.*, the custodian under CSN’s American Depositary Receipt program (the “Custodian”), or holders who have surrendered ADSs for the underlying Common Shares of CSN, from converting dividends, distributions or the proceeds from any sale of Common Shares into U.S. dollars and remitting such U.S. dollars abroad. Holders of ADSs could be adversely affected by delays in, or refusals to grant, any required governmental approvals for conversion of Brazilian currency payments and remittances abroad in respect of the Common Shares underlying the ADSs. See “Item 9.C. Markets” and “Item 10.D. Exchange Controls” for additional information with respect to the ADSs.

Changes in Brazilian law or regulations and additional restrictions applicable to the holders of

ADSs, the disposition of underlying Common Shares or underlying shares or the repatriation of the proceeds from any such disposition could be imposed in the future, and there can be no assessment of the duration or impact of such restrictions if they were to be imposed. See “Item 10.E.1. Brazilian Tax Considerations.”

Risks Associated with Emerging Markets

Brazil is generally considered by international investors to be an “emerging market.” As a result, political, economic, social and other developments in other “emerging markets” may have an adverse effect on the market value and liquidity of the Common Shares and ADSs. For example, the Brazilian securities markets were adversely affected by the Mexican liquidity crisis at the end of 1994, the Asian financial crisis at the end of 1997, the Russian financial crisis in 1998 and the Turkish and Argentine crises in 2001.

Item 4. Information on the Company

A. History and Development of the Company

1. General

CSN is the largest fully-integrated steel producer in Brazil and one of the largest in Latin America. In 2000, CSN ranked as Brazil’s 21st largest exporting company. See “Item 4.B.14. — Brazilian Steel Industry.” In 2000, CSN produced 4.8 million tons of crude steel and 4.4 million tons of finished steel products. The Company’s fully-integrated manufacturing facilities produce a broad line of steel products, including slabs, hot and cold-rolled coils and sheets for manufacturers of automobiles, home appliances, civil construction and other industrial and consumer items. CSN is a major supplier of steel to the Brazilian automobile industry. In 2000, CSN accounted for 73% of the galvanized steel products sold in Brazil. The Company is also one of the world’s leading producers of tin mill products for packaging containers. In 2000, CSN accounted for 98% of the tin mill products sold in Brazil.

CSN’s production process is based on the integrated steelworks concept. At the Company’s Presidente Vargas Steelworks, located in the city of Volta Redonda, Rio de Janeiro state, iron ore produced from CSN’s own mines is processed in sintering machines to produce sinter. The sinter and lump ore direct charges are smelted with coke and injected powered coal in blast furnaces to produce pig iron, which is then refined into steel in basic oxygen converters. In addition to owning its own source of iron

ore, CSN also currently produces from its own mines its requirements of limestone and dolomite. Using imported coal, the Company produces approximately 90% of its coke requirements, at current production levels, in its own coke batteries at Volta Redonda. Imported coal is also pulverized and used directly in the production process. Tin, zinc, manganese ore and aluminum are purchased in local markets. CSN’s steel production and distribution also require water, gases, electricity, rail and road transportation and port facilities.

2. History

CSN was incorporated in 1941 pursuant to a decree of Brazilian President Getúlio Vargas. The Presidente Vargas Steelworks began operations in 1946, initially producing coke, pig iron castings and long products.

Three major expansions were undertaken at the Presidente Vargas Steelworks during the 1970s and 1980s. During the first, completed in 1974, CSN increased installed annual production capacity to 1.6 million tons of crude steel and broadened its product line. During the second, completed in 1977, CSN raised installed annual production capacity to 2.4 million tons of crude steel. During the third, completed in 1989, CSN inaugurated a new coke plant, a new sinter plant, a basic oxygen shop and a third blast furnace, and also installed a new hot strip mill, a new cold strip mill, two continuous casting units, two galvanizing lines, one continuous annealing line for sheets and two electrolytic tinning lines. After this third expansion, the nominal production capacity was increased to 4.5 million tons of crude steel.

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

In 1993, CSN adopted a Capital Improvement Program, which was revised and extended in 1995. The goals of the Capital Improvement Plan have been to increase CSN’s annual production of crude steel to approximately 5.0 million tons and to improve the productivity of its production units and the quality of its products. Since February 1996, all production has been based on the continuous casting process.

B. Business Overview

1. Business Strategy

CSN is committed to enhancing shareholder value by being responsive to the demands of its customers in Brazil and abroad. CSN's business objective is to become a global steel player, keeping its position as one of the world's lowest-cost producers of steel while maintaining a high EBITDA margin. To achieve this objective, the Company has adopted the following strategies:

- Emphasize a wide range of value-added products, mostly galvanized, pre-painted and tin-coated.
- Keep the Presidente Vargas Steelworks mainly focused on the domestic market.
- Implement a carefully crafted globalization strategy, with exports increasingly targeted to final applications and customer needs. To this end, the Company may consider in the near future taking advantage of its Brazilian infrastructure assets (i.e., mines, ports and railways) to add value to semi-finished products produced in Brazil in countries where strong steel markets are presently being supplied by high cost upstream steel producers.
- Introduce new technologies and systems to enhance CSN's understanding of customers, competitors and industry trends.
- Provide customer solutions supported by quality products and services.

In pursuing these strategies, CSN is:

- Optimizing and increasing steel producing capabilities, through both continuous improvements in the Company's existing steel manufacturing facilities that increase, among other objectives, the production of higher margin steel products and the diversification of product applications, and other investments that result in expanded capacity.
- Developing downstream investments, products and market niches, such as producing cut-to-length (pre-cut), pre-stamped and pre-painted galvanized steel parts mainly for Brazil's automotive, home appliances and civil construction industries.
- Exploring both Brazilian and international steel markets for potential expansion.
- Positioning itself as a customer-oriented company.

CSN has implemented its strategy of optimizing and increasing its steel production capabilities through

its Capital Improvement Program for its Volta Redonda facility. Completed projects under the Capital Improvement Program include:

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

Implementation of CSN's strategy of emphasizing high value-added products will lead to creating or expanding capacity for galvanized and pre-painted products primarily for the automotive, home appliance and civil construction industries. Key features include:

- The formation in May 1998 of *GalvaSud S.A.* ("GalvaSud"), a joint venture with *Thyssen-Krupp Stahl AG* of Germany ("Thyssen-Krupp"), to produce *Galvanew*[®], galvanized steel sheets and laser-welded and pre-stamped parts for the automotive industry. The galvanizing line, which will ultimately have an annual production capacity of 350 thousand tons, started up in December 2000. See "Item 4.B.6. Investment Programs — Investments in Downstream Opportunities, New Products and Market Niches."
- The construction of a plant in Paraná state (*CISA-CSN Indústria de Aços Revestidos S.A.* ("CISA")) to produce plain and formed galvalume and pre-painted steel products for the construction and home appliance industries in Brazil. The plant expects to have annual production of 230 thousand mt of galvalume, 100 thousand mt of pre-painted product and 220 thousand mt of

pickled coils in excess of the coils required for the galvalume and pre-painted products production. See “Item 4.B.6. Investment Programs — Investments in Downstream Opportunities, New Products and Market Niches.”

In addition, CSN has been exploring opportunities for the production and sale of additional tin-coated products for the packaging industry.

In connection with its strategy to become a customer-oriented company, in November 2000 CSN created a Commercial sector, which is divided into separate market units devoted to specific industries. These units, which will carry out CSN’s specific strategy for each industry, are interfacing with the Company’s clients to provide customized solutions and develop new products according to customers’ needs.

CSN has substantially improved the infrastructure needed to support the Presidente Vargas Steelworks and its export/international strategy by making investments in projects such as hydroelectric energy production, railways and port facilities in order to increase its ability to control production costs and secure reliable sources of energy, raw materials and transportation.

As part of its strategy of exploring other markets for potential expansion, as of June 19, 2001 CSN entered into an agreement pursuant to which the assets of Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana, will be purchased by *Companhia Siderúrgica Nacional, LLC* (“CSN, LLC”), a newly formed limited liability company. CSN will have an option to acquire all of the membership interests in CSN, LLC in two years, and CSN, LLC’s lenders will have the right to require CSN to acquire such interests at the end of the two-year period. It is expected that this facility will be integrated with a new or to be acquired hot strip mill to provide additional production cost advantages. See “Item 4.B.6. — Investment Programs — Investments in Downstream Opportunities, New Products and Market Niches.”

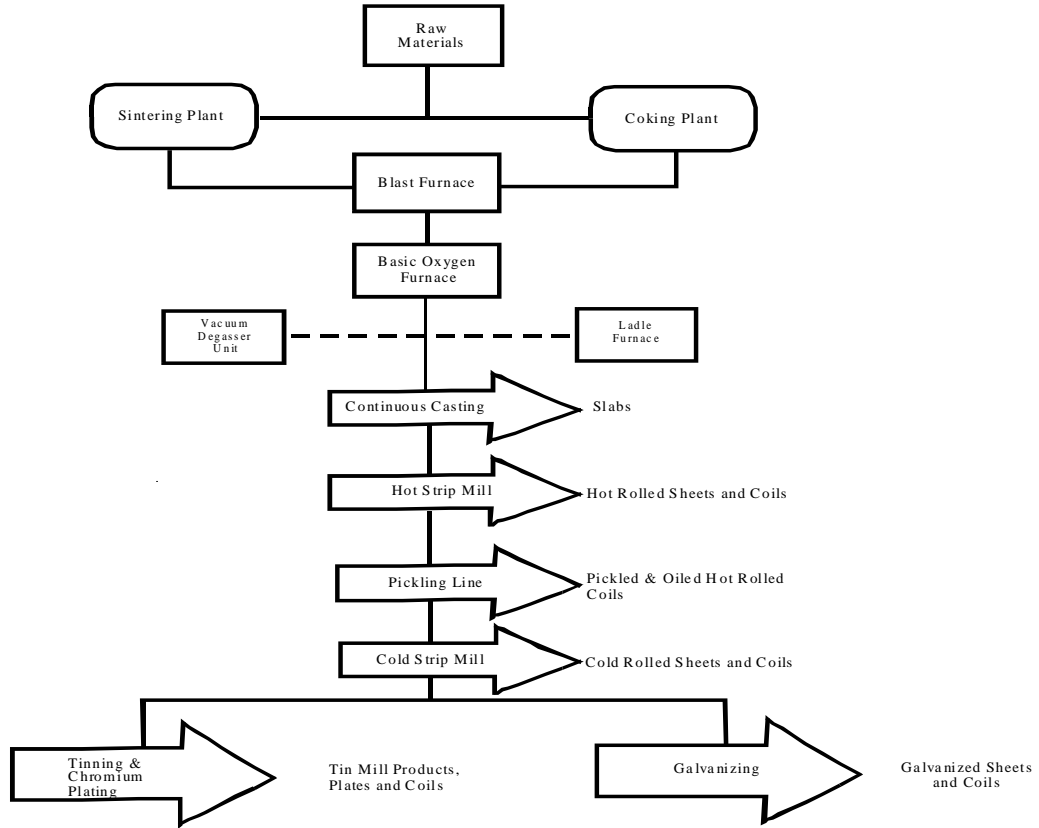
CSN has sold investments not related to its core steel business, including its interest in Light and CVRD. Having succeeded in its goal of establishing stable and adequate sources of electric energy, CSN may also consider divesting its investments in hydroelectric energy generating facilities, as well its 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks, and entering into long-term power purchase agreements with the purchasers of these assets. See “Item 4.B.6. Investment Programs — Infrastructure Investments — Electricity Distribution and Generation — Light,” “Item 4.B.6.

Investment Programs — Investment in CVRD,” “Item 5.B. Liquidity and Capital Resources — Impact of Vicunha Debt,” “Item 7.A. Major Shareholders,” and “Item 7.B. Related Party Transactions.”

2. Major Products

CSN produces carbon steel, which is the world’s most widely produced type of steel, representing the vast bulk of global steel consumption. From carbon steel, CSN sells a variety of steel products, both domestically and abroad, to manufacturers in several industries. The following chart reflects the Company’s production cycle in general terms. See “Item 4.B.4. Production — Production Process.”

The following diagram illustrates CSN's steel production process in general terms.



CSN's Presidente Vargas Steelworks produces flat steel products — slabs, hot-rolled coils and sheets, cold-rolled coils and sheets, galvanized coils and sheets and tin mill products.

The following table sets forth CSN's steel product sales volume and net revenues by products and markets.

SALES VOLUME AND NET REVENUES BY STEEL PRODUCTS

	Sales Volume								
	Metric Tons			% of Sales Volume					
				In Market			Total		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
	<i>(In thousands of metric tons)</i>			<i>(In percentages)</i>					
Domestic Sales									
Hot-rolled.....	1,041	1,030	1,214	35	34	37	26	22	28
Cold-rolled.....	588	563	657	20	19	20	14	12	15
Galvanized.....	690	750	775	23	25	23	17	16	18
Tin Mill.....	661	668	666	22	22	20	16	15	15
Sub-total.....	<u>2,980</u>	<u>3,011</u>	<u>3,312</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>73</u>	<u>65</u>	<u>76</u>
Export sales									
Slabs.....	30	410	108	3	25	10	1	9	2
Hot-rolled.....	498	698	517	45	43	48	12	15	12
Cold-rolled.....	147	87	74	13	5	7	4	2	2
Galvanized.....	89	51	11	8	3	1	2	1	—
Tin Mill.....	338	377	366	31	24	34	8	8	8
Sub-total.....	<u>1,102</u>	<u>1,623</u>	<u>1,076</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>27</u>	<u>35</u>	<u>24</u>
Total.....	<u>4,082</u>	<u>4,634</u>	<u>4,388</u>				<u>100</u>	<u>100</u>	<u>100</u>
Total Sales									
Slabs.....	30	410	108				1	9	2
Hot-rolled.....	1,539	1,728	1,731				38	37	40
Cold-rolled.....	735	650	731				18	14	17
Galvanized.....	779	801	786				19	17	18
Tin Mill.....	999	1,045	1,032				24	23	23
Total.....	<u>4,082</u>	<u>4,634</u>	<u>4,388</u>				<u>100</u>	<u>100</u>	<u>100</u>
	Net Operating Revenues (US GAAP) ⁽¹⁾								
	U.S. Dollars			% of Net Operating Revenues					
				In Market			Total		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
		<i>(In millions of US\$)</i>			<i>(In percentages)</i>				
Domestic Sales									
Hot-rolled.....	390	259	361	24	23	24	19	17	20
Cold-rolled.....	301	194	254	19	17	17	15	12	14
Galvanized.....	437	343	481	27	30	33	21	22	25
Tin Mill.....	474	334	390	30	30	26	23	22	21
Sub-total.....	<u>1,602</u>	<u>1,130</u>	<u>1,486</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>78</u>	<u>73</u>	<u>80</u>
Export sales									
Slabs.....	5	58	15	1	14	4	—	4	1
Hot-rolled.....	141	142	144	32	34	42	7	9	8
Cold-rolled.....	57	28	29	13	7	8	3	2	2
Galvanized.....	48	23	5	11	5	1	3	1	—
Tin Mill.....	192	169	159	43	40	45	9	11	9
Sub-total.....	<u>443</u>	<u>420</u>	<u>352</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>22</u>	<u>27</u>	<u>20</u>
Total.....	<u>2,045</u>	<u>1,550</u>	<u>1,838</u>				<u>100</u>	<u>100</u>	<u>100</u>
Total Sales									
Slabs.....	5	58	15				—	4	1
Hot-rolled.....	531	401	505				26	26	28
Cold-rolled.....	358	222	283				18	14	16
Galvanized.....	485	366	486				24	23	25
Tin Mill.....	666	503	549				32	33	30
Total.....	<u>2,045</u>	<u>1,550</u>	<u>1,838</u>				<u>100</u>	<u>100</u>	<u>100</u>

(1) Net operating revenues do not include revenues from non-steel products (1998 — US\$100 million; 1999 — US\$81 million; 2000 — US\$108 million). The net operating revenues attributed to each product class was obtained by multiplying the average price per ton of each class of product by the sales volume of such class.

Slabs

Slabs are semi-finished products used for processing hot-rolled, cold-rolled or coated coils and sheet products. CSN is able to produce continuously cast slabs with thicknesses of 250 millimeters, widths ranging from 830 to 1,550 millimeters and lengths ranging from 5,250 to 10,660 millimeters. CSN also can produce slabs with medium and low carbon, micro-alloyed, ultra-low-carbon and interstitial free specifications.

Hot-rolled Products

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

Cold-rolled Products

Cold-rolled products are comprised of 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 between 0.30 millimeters and 3.00 millimeters. Compared to hot-rolled products, cold-rolled products have more uniform and better surface quality and are used in applications such as automotive bodies and home appliances. In addition, cold-rolled products serve as a base steel for CSN's galvanized and tin mill products. CSN supplies cold-rolled coils in thickness from 0.30 millimeters to 2.65 millimeters.

Galvanized Products

Galvanized products are comprised of flat-rolled steel that, according to Brazilian standards, is coated on one or both sides with zinc applied by either a hot-dip or an electrolytic process. CSN uses the hot-dip process, which is approximately 20% less expensive than the electrolytic process. Galvanization 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:

- bodies for automobiles, trucks and buses;
- air ducts and parts for hot air, ventilation and cooling systems;
- culverts, garbage cans 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 frequently used for roofing and siding for industrial buildings, gutters and down spouts, interior cabinets, appliances and similar applications. CSN produces galvanized sheets and coils in continuous hot-dip processing lines, with thickness ranging from 0.30 millimeters to 2.70 millimeters. The continuous process results in products with highly adherent zinc coatings capable of being processed in nearly all kinds of bending and deep drawing forming machines.

In addition to standard galvanized products, CSN produces *Galvanew*®, galvanized steel annealed following the hot-dip coating process. This annealing step causes iron to diffuse from the base steel into the zinc coating. The resulting iron-zinc alloy micro structure of the coating allows better welding and paint performance. The combination of these qualities makes CSN's *Galvanew*® product particularly well-suited for automobile and home appliance manufacturing.

Through CISA, CSN will also produce galvalume, a cold-rolled material coated with a zinc-55% 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 construction in more severe corrosion environments.

The added value from the galvanizing process permits the Company to price its galvanized products with a higher profit margin. Management believes that its value-added galvanized products present one of the Company's best opportunities for profitable growth because of the anticipated increase in demand in Brazil for such high margin products.

Tin Mill Products

Tin mill products are comprised of flat-rolled low-carbon steel coils or sheets with, as defined by Brazilian standards, a maximum thickness of 0.38 millimeters, coated or uncoated. Coatings of tin and chromium can be applied by various electrolytic and

hot-dip processes. Coating costs place tin mill products among the highest priced products sold by CSN. The added value from the coating process permits the Company to price its tin mill products with a higher profit margin. There are four types of tin mill products, all produced by CSN in coil and sheet forms:

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

Tin mill products are primarily used to make cans and other containers. CSN's sales of tin mill products totaled slightly more than one million tons in 2000. With six electrolytic coating lines, CSN is one of the major producers of tin mill products in the world and the sole producer of coated tin mill products in Brazil.

3. Sales and Marketing

The Company's products are sold both domestically and abroad as a main raw material for several different manufacturing industries, including the automotive, home appliances, packaging, civil construction and steel processing industries. To facilitate sales and customer service, CSN has a sales office in the city of São Paulo, in São Paulo state, and a regional office in the city of Porto Alegre, Rio Grande do Sul State.

Marketing Organization and Strategy

CSN's sales approach is to establish a brand image and achieve a reputation for quality products by developing relationships with its clients and focusing on their specific needs. In September 1999, CSN reorganized its steel division into five units: Ironmaking & Steelmaking, Rolling, Materials, Technical and Commercial. The Ironmaking & Steelmaking unit is responsible for the production of sinter, coke, pig, iron, liquid steel and slabs. The Rolling unit is responsible for production of rolled and coated products, including hot-rolled, cold-rolled, galvanized and tin mill products. The Materials unit is responsible for the management of all stockyards and stock materials. The Technical unit is responsible for analyzing and implementing capital investments in the

steel division. In April 2000, the Materials unit was renamed the Energy and Production Engineering Department, increasing its scope to include responsibility for all the energy and utility facilities of the Presidente Vargas Steelworks and for most maintenance facilities and all in-plant rail operations.

Reflecting the importance of attention to the specific needs of its customers, in November 2000 the Commercial unit, which was responsible for sales of all of the Company's products, became the newly created Commercial sector. This sector is divided into five business units: automotive, construction, home appliances and OEM (original equipment manufacturers), packaging and distribution. Each one of these business units has a specific strategic goal to provide tailor-made steel solutions that meet the specific needs of each of the segments they service.

The automotive unit complements the GalvaSud joint venture with Thyssen-Krupp using combined sales strategy. The construction and home appliance/OEM units, in addition to being responsible for these segments, will market steel produced at the CISA plant. The packaging unit acts in an integrated way with suppliers, representatives of the canning industry and distributors to respond to customer needs for end-products. Finally, the distribution unit is responsible for supplying large steel processors and distributors, including *Indústria Nacional de Aços Laminados INAL S.A.* ("INAL"), as well as some industries that produce small diameter pipe and light profiles. See "Item 4.B.1. Business Strategy."

In 2000, approximately 74% of domestic sales were made through CSN's own sales force directly to customers. The remainder was sold to distributors for subsequent sale to smaller clients. In 1998, CSN acquired two distributors and steel service centers in order to better serve small- and medium-sized clients, as well as customers that need cut-to-size steel parts. These two distributors were merged into one. See "Item 4.B.6. Investment Programs — Investment in Downstream Opportunities, New Products and Market Niches." Export sales are made primarily through international brokers, some of which export products that are further processed for sale to end users. While the sale of exports through international brokers reduces the Company's operational costs and facilitates the presence of its products worldwide, the Company is attempting to decrease its reliance on such brokers and establish direct, longer term relationships with end users.

All of the Company's sales are on an order-by-order basis and have an average delivery time of 45

days. As a result, the Company's production levels closely reflect its order log book situation. Sales trends in both the domestic and export markets are forecast by CSN based on the historical data available over the prior two-year period and the general economic outlook for the near future. CSN has its own data systems to remain informed of worldwide and Brazilian market developments. Further, CSN's management believes that one of the keys to its success is maintaining a presence in the export market. Such presence gives CSN the flexibility to shift between domestic and export markets, thereby allowing the Company to maximize profitable capacity utilization.

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

Steel Sales by Geographic Region

In 2000, CSN sold steel products to customers in Brazil and 61 other countries. CSN's domestic steel sales were 73% of total sales volume and 78% of operating revenues from steel sales in 1998, decreased to 65% and 78%, respectively, in 1999 and increased to 76% and 81%, respectively, in 2000. The fluctuations in the portion of total sales attributable to domestic sales reflect CSN's ability to adjust sales in light of variations in the domestic economy. Beginning in the fourth quarter of 1998, CSN began exporting slabs in order to keep its production facilities operating at capacity during an anticipated recession in Brazil. In 1999, 9% of CSN's sales were attributable to sales of slabs in the export market. Given the recovery of the domestic market, in 2000, slabs sales represented only 2% of total sales volume.

The three principal export markets for CSN's products have historically been Latin America, North America and Asia. Due to the Asian crisis that started in late 1997, CSN reoriented its exports to Europe, Latin America and North America following the increase in steel product demand in those markets. In 1999, due to continuing recovery in Asia and the impact of antidumping proceedings on Brazilian steel exports to the United States and Argentina, Asia returned to its position as a principal export market. These proceedings were terminated as a result of an agreement, and exports to the United States and Argentina improved. North and Latin America were the most important export markets for CSN in 2000. See "Item 4.B.14. Brazilian Steel Industry" and "Item 4.B.11. Government Regulation and Other Legal Matters."

The following table contains certain information relating to the Company's sales of steel products by destination for the periods indicated.

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

	1998				1999				2000			
	Tons	%	Operating Revenues ⁽¹⁾	%	Tons	%	Operating Revenues ⁽¹⁾	%	Tons	%	Operating Revenues ⁽¹⁾	%
Brazil.....	2,980	73.0	1,981	81.3	3,011	65.0	1,431	77.1	3,312	75.5	1,897	84.3
Export	<u>1,102</u>	<u>27.0</u>	<u>455</u>	<u>18.7</u>	<u>1,623</u>	<u>35.0</u>	<u>425</u>	<u>22.9</u>	<u>1,076</u>	<u>24.5</u>	<u>352</u>	<u>15.7</u>
Total	<u>4,082</u>	<u>100.0</u>	<u>2,436</u>	<u>100.0</u>	<u>4,634</u>	<u>100.0</u>	<u>1,856</u>	<u>100.0</u>	<u>4,388</u>	<u>100.0</u>	<u>2,249</u>	<u>100.0</u>
Exports by Region												
Asia	83	2.0	28	1.2	592	12.8	112	6.0	192	4.4	47	2.1
North America ⁽²⁾ ...	409	10.0	141	5.8	418	9.0	101	5.5	259	5.9	90	4.0
Latin America.....	240	5.9	103	4.2	255	5.5	72	3.9	295	6.7	89	4.0
Europe	314	7.7	154	6.3	262	5.6	112	6.0	215	4.9	84	3.7
All Others	<u>56</u>	<u>1.4</u>	<u>29</u>	<u>1.2</u>	<u>96</u>	<u>2.1</u>	<u>28</u>	<u>1.5</u>	<u>115</u>	<u>2.6</u>	<u>42</u>	<u>1.9</u>
Total Exports	<u>1,102</u>	<u>27.0</u>	<u>455</u>	<u>18.7</u>	<u>1,623</u>	<u>35.0</u>	<u>425</u>	<u>22.9</u>	<u>1,076</u>	<u>24.5</u>	<u>352</u>	<u>15.7</u>

- (1) Total operating revenues presented above differ from such amounts in the Company's US GAAP financial statements because they do not include revenues from non-steel products (1998 – US\$137 million, 1999 – US\$108 million and 2000 – US\$134 million).
(2) Sales to Mexico are included in North America.

Sales by Steel Product

Tin mill and galvanized products represent the Company's highest value-added products. Consistent with its business strategy to emphasize its production in value-added products, in 2000 there was a 7% reduction in the sale of slabs and a 1% increase in the sale of coated products.

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

DOMESTIC MARKET SHARE

(as a percentage of the market share for each product)

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Hot-rolled Products	38.0%	38.0%	37.0%
Cold-rolled Products.....	31.0	27.0	28.0
Galvanized Products.....	75.0	80.0	73.0
Tin Mill Products.....	97.0	98.0	98.0

Sales by Industry Sector

CSN sells its products to manufacturers in several industries. In 2000, the Company's principal customers included package and container producers, distribution and machine manufacturers, automobile manufacturers, civil contractors, home appliance manufacturers and machine manufacturers. CSN has a particularly strong domestic and export position in the sale of tin mill products used for packaging. In 2000, sales to the packaging industry in the domestic market accounted

for 19.8% of the Company's total domestic sales volume. The customers for these products include some of the world's most important food producers, as well as many small- and medium-sized entities. CSN also maintains a strong position in the sale of galvanized products for use in the automobile manufacturing, construction and home appliance industries in Brazil. No single customer accounts for more than 5% of the Company's net operating revenues.

The following table sets forth the percentage distribution of Company sales by industry sector in Brazil for the past three years:

**CSN'S SALES BY INDUSTRY SECTOR
IN BRAZIL**

(In percentages of total domestic volume shipped)

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Packages/Containers.....	22.2%	22.4%	19.8%
Distribution.....	19.0	24.5	25.7
Processing.....	17.8	11.0	6.7
Automotive.....	14.0	11.6	16.0
Civil Construction	8.2	12.9	12.1
Home Appliances	5.9	5.4	4.8
Re-rolling and Shape-cutting	5.0	5.0	5.3
Other ⁽¹⁾	<u>7.9</u>	<u>7.2</u>	<u>9.6</u>

- (1) Includes machinery and electronics equipment, cooking gas containers and farm machinery.

4. Production

Production Process

The principal raw materials for steel production in an integrated steel works are iron ore, limestone, dolomite, manganese ore, coal and coke. The iron ore consumed at the Presidente Vargas Steelworks is extracted, crushed, screened and transported by railway from CSN's Casa de Pedra mine located in Congonhas, Minas Gerais state, 328 km from the Presidente Vargas Steelworks. The high quality of the ores mined at Casa de Pedra, with iron content ranging from 66.5% to 68%, and low extraction costs are major contributors to CSN's lower production costs.

Because Brazil lacks quality coking coals, CSN imports all the coal required for coke production. The coal is then charged in coke ovens to produce coke through a distillation process. See "Item 4.B.5. Raw Materials and Transportation — Raw Materials and Energy Requirements." This coal distillation process also produces gas as a by-product, which CSN uses as a main source of fuel for the thermoelectric power plant. After being screened, the coke is transported to blast furnaces, where it is used as a combustion source, as well as a source for reducing the iron ore. In 2000, CSN produced about 90% of its coke needs, importing the balance. Iron ore and coke fines or other solid fuel are mixed with fluxes (limestone and dolomite) to produce sinter. The sinter, iron ore, fluxing materials and coke are then loaded into the Company's two operational blast furnaces for smelting. In 1997, CSN began operating a pulverized coal injection ("PCI") facility, which injects low-cost pulverized coal into the blast furnaces as a substitute for a portion of the coke required (approximately one third).

With the improved operation of PCI and given current production levels, the Company does not believe that it will need to import substantial quantities of coke. The iron ore is reduced to pig iron (the molten iron formed during the first smelting of iron ore) through successive chemical reactions with carbon monoxide (from the coke and PCI) in two blast furnaces that operate 24 hours a day. The ore is gradually reduced, then melts and flows downward. Impurities are separated from the iron and form liquid slag with the loaded fluxes (limestone and dolomite). From time to time, white-hot liquid iron and melted impurities are drawn off from the bottom of the furnace. Slag (melted impurities) is granulated and sold to neighboring cement companies.

The molten pig iron is then 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 impurities and to lower its carbon content, thus producing liquid steel. The molten steel is conveyed from the basic oxygen furnaces into the continuous casting machines from which crude steel (i.e., rectangular shaped slabs) is produced. A portion of the slab products may be sold directly in the export market. See "Item 5.A.1. Overview — Product Mix and Prices." In February 1996, CSN discontinued its use of ingot casting, an alternative method, which results in higher energy use and metal loss compared to continuous casting.

In hot-rolling, reheated slabs from the continuous casting machines are fed into hot strip mills to reduce the thickness of the slabs from 250 millimeters to a range between 1.2 and 12.7 millimeters. At the end of the hot strip mill, the long, thin strip of steel from each slab is coiled and allowed to cool. Some hot-rolled coils are dispatched directly to customers in the as-rolled condition. Others are further processed in the pickling line, in a hydrochloric bath, to remove surface oxides and improve surface quality. After pickling, the hot-rolled coils selected to produce thinner materials are sent to be rolled in cold strip mills, *i.e.*, mills that do not require the coil to be reheated. The better surface characteristics of cold-rolled products enhances their value to customers as compared to hot-rolled products. Additional processing related to cold-rolling may further improve surface quality. Following cold-rolling, coils may be galvanized (protected against corrosion with a zinc coating) or plated with tin or chromium for use as cans, containers and other products. Coated steel products have higher profit margins than uncoated steel products. Tin mill products are CSN's highest margin products.

The steel plant regularly undergoes scheduled maintenance. Typically the rolling mills and coating lines are maintained on a weekly or bi-monthly basis whereas the blast furnaces and other major operating equipment are maintained on a monthly, semi-annual or annual basis. The revamping of blast furnace No. 3, which will result in a slowdown of CSN's crude steel production for approximately 90 days, began on May 1, 2001. CSN has purchased around 630 thousand mt of slabs to make up for the reduced crude steel production. During this slowdown, CSN will also revamp hot strip mill No. 2 for approximately 30 days. The hot strip mill No. 2 revamp will have no impact on CSN's production of finished products because it is building an inventory of hot bands. When these revampings are concluded, annual capacity of crude steel is expected to increase by at least 800 thousand

mt and annual capacity of finished products by approximately 400 thousand mt.

Quality Management Program

CSN practices Total Quality Management, a set of techniques that have been adopted by many leading multinational companies. CSN also maintains a Quality Management System that has been certified to be in compliance with the ISO 9001 standards set forth by the International Standardization Organization (“ISO”). The ISO 9002 Certificate of Compliance was awarded to CSN in March 1993, and the ISO 9001 Certificate was awarded to CSN in December 1994 for the design and manufacture of hot-rolled flat and pickled and oiled products; cold-rolled and galvanized products; and tin mill products. The maintenance of the ISO 9001 Certificate requires satisfactory semi-annual audits by an ISO-accredited organization. In 1997, CSN was awarded the automotive industry’s QS 9000 compliance certificate for the design and manufacture of hot-rolled flat, pickled and oiled products, and cold-rolled and galvanized products. The main automotive companies, like Volkswagen, General Motors and Ford, require their suppliers to satisfy the QS 9000 standards. The ISO 9002 certificate was renewed in December 2000. The QS 9000 and ISO 9001 certificates were renewed in April 2001.

Production Output

In 2000, CSN produced 4.8 million tons of crude steel. The following table sets forth, for the periods indicated, the annual production of crude steel within Brazil and by CSN and the percentage of Brazilian production attributable to CSN.

CRUDE STEEL PRODUCTION			
<i>(In millions of metric tons)</i>			
	Brazil	CSN	CSN% of Brazil
2000.....	27.8	4.8	17.2
1999.....	25.0	4.9	19.4
1998.....	25.8	4.7	18.3

Source: Brazilian Steel Institute (“IBS”)

The following table contains certain operating statistics of CSN for the period indicated.

CERTAIN OPERATING STATISTICS OF CSN

(In millions of metric tons)

	1998	1999	2000
Production of:			
Iron Ore	11.6	10.3	10.1
Molten steel	4.9	4.9	4.9
Crude steel (slabs).....	4.7	4.8	4.8
Hot-rolled Coils and Sheets	4.5	4.5	4.6
Cold-rolled Coils and Sheets	2.7	2.6	2.7
Galvanized Products ...	0.8	0.8	0.8
Tin Mill Products.....	1.0	1.0	1.0
Consumption of Coal for Coke Batteries	2.4	2.4	2.3
Consumption of Coal for PCI ⁽¹⁾	0.7	0.8	0.8

(1) PCI (pulverized coal injection) was initiated in June 1997.

5. Raw Materials and Transportation

The principal raw materials CSN uses in its integrated steel mill include iron ore, coke, coal (from which CSN makes coke), limestone, dolomite, aluminum, manganese ore, tin and zinc. In addition, CSN’s production operations consume water, gases, electricity and ancillary materials and rely on rail and road transportation and port facilities. For a breakdown of recent production costs, see “Item 5.A.1. Overview — Production Costs.”

Raw Materials and Energy Requirements

CSN obtains all of its iron ore requirements from its Casa de Pedra mine in Minas Gerais state, which has an installed capacity of 15.5 million tons of iron ore annually (run of mine) and a processing capacity of 12.6 million tons of processed iron ore. In 2000, 12.2 million tons were processed, with a productivity ratio of 83%. Therefore, the final quantity of processed iron ore obtained during the year was 10.1 million tons. Of this total, approximately 7.2 million tons were utilized at the Presidente Vargas Steelworks and approximately 3.8 million tons were sold to third parties, consisting of approximately 2.1 million tons of sinter-feed material, 1.2 million tons of pellet feed materials and 0.5 million tons of lump ore. The remaining processed iron ore was kept in stock. Based on data available as of December 31, 2000, the Company estimates that the Casa de Pedra mine has proven and probable reserves of 278 million tons and other mineral deposits (hematite and itabirite) of 731 million tons according to reserve estimates made in 1999. See “Item 4.B.7. Facilities — Mines and Mineral Reserves.” Assuming current levels of production, the estimated proven and

probable reserves will meet CSN's needs for at least 19 years. CSN completed a new drilling campaign recently, and preliminary estimates indicate that Casa de Pedra's proven and probable reserves will increase, as well as the mine's life.

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

In 2000, coal purchases amounted to 3.1 million tons and accounted for approximately 10.1% of CSN's production costs. Because of the cyclical nature of the coal industry, price and quantity terms contained in CSN's coal supply contracts, which are denominated in U.S. dollars, are usually renegotiated annually. Thus, CSN's coal costs can vary from year to year. However, CSN negotiates price and quantity terms through a consortium of Brazilian steel producers (including CSN's main competitors) to obtain the best price for coal. The negotiations of CSN's coal contracts for 2001 and 2002 have been concluded, with a 38.5% average price (in U.S. dollars) increase for coking coal compared to the 1999/2000 period. The main drivers for this above-average price increase were the steel production volume increase in 2000, the energy crisis in the State of California and the supply reduction caused by the closing of unprofitable coking coal mines around the world.

In 2000, in addition to the approximately 1.5 million metric tons CSN produced, CSN also bought approximately 235 thousand tons of coke. Since 1997, CSN has been using a PCI system for its blast furnace operations that allows the Company to use less coke in its blast furnaces and a lower grade coal. The PCI system has reduced the cost of imported coal and CSN's need for imported coke, thereby reducing its production costs. In 2000, CSN used 754 thousand tons of imported PCI coal.

CSN obtains limestone and dolomite from its Bocaina mine at Arcos in Minas Gerais state, which produces 1.4 million tons of limestone and 0.6 million tons of dolomite on an annual basis, all of which is used in the steelmaking process. According to CSN's internal studies, the Bocaina mine has proven and probable reserves of 93 million tons of limestone and 33 million tons of dolomite, respectively, as of December 31, 2000, which, assuming current levels of production, will meet CSN's limestone needs for more than 50 years and dolomite needs for almost 40 years. See "Item 4.B.7. Facilities — Mines and Mineral

Reserves." See the map under "Item 4.D. Property, Plants and Equipment" for the location of the Bocaina mine in relation to the Presidente Vargas Steelworks.

Aluminum and manganese are 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 sheets, respectively. CSN purchases manganese, aluminum, zinc and tin typically from third-party domestic suppliers, primarily under long-term contracts. CSN maintains approximately a one-week reserve of such materials at the Presidente Vargas Steelworks.

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

CSN also consumes significant amounts of oxygen, nitrogen, hydrogen, argon and other gases at the Presidente Vargas Steelworks. These gases are supplied by *White Martins Gases Industriais S.A.* under long-term contracts from gas production facilities located on the grounds of the Presidente Vargas Steelworks.

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. CSN's principal source of water is the Paraíba do Sul River, which runs through the city of Volta Redonda. The majority is recirculated and a lesser amount, after processing, is returned to the Paraíba do Sul River. A law passed in 1997 permits the Brazilian government to charge for water usage from water courses, but no regulations to this effect have been implemented yet.

Steelmaking requires significant amounts of electricity to power rolling mills and energy to convert coal to coke. In 2000, the Presidente Vargas Steelworks, with a 277-MW demand, consumed approximately 2.4 million MW hours of electric energy or 500 kilowatt hours per ton of steel. This consumption made CSN the third largest consumer of electricity in Brazil, accounting for approximately 10% of the overall consumption of electricity in Rio de Janeiro state. Until recently, CSN had purchased over 95% of its electric energy needs. In order to reduce its reliance on Light and to improve the reliability and price stability of its electric energy supply, CSN has constructed a 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks and has invested in the Itá and Igarapava hydroelectric

generation facilities. In October 2000, CSN achieved self-sufficiency in electric energy supply, with the receipt of 238 MW from the thermoelectric co-generation power plant, 167 MW from Itá and 22 MW from Igarapava.

The Company completed construction of the 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks in December 1999. The Company's US\$277 million investment in this project, which represents one of the largest undertakings ever in private thermoelectric power generation in Brazil, was financed entirely with long-term loans from Brazilian Development Bank ("BNDES"). Since October 2000, the plant has provided the Presidente Vargas Steelworks with approximately 60% of its electric energy needs for its steel mills, resulting in a cost reduction in excess of US\$30 million per year. Aside from operational improvements, the power plant supplies the Company's strip mills with process steam and blown air for the blast furnaces, benefiting the surrounding environment through the elimination of flares that burn steel processing gases into the atmosphere. The plant was constructed in accordance with the most stringent international environmental standards, meeting and surpassing applicable Brazilian environmental standards. See "Item 4.B.6. Investment Programs — Infrastructure Investments — Electricity Distribution and Generation" for a description of CSN's investments in the Itá and Igarapava hydroelectric generation facilities.

Until January 2000, substantially all of CSN's purchases of electric energy from Light were made under one-year contracts. The terms and conditions of those contracts remained consistent over the last several years because electricity tariffs have been controlled by ANEEL (the Brazilian regulatory agency). Since January 2000, electricity has been purchased from Light under a six-year contract signed in December 1999. Under the terms of this contract, CSN can reduce the volume of its purchases upon four months' prior notice. The tariffs under this contract are also controlled by ANEEL and will be adjusted annually. Although CSN has achieved self-sufficiency in its electric energy supply, it intends to maintain the supply contract with Light through December 2005 as an alternative source of its electric energy. CSN sells electric energy in excess of its needs in the Brazilian Wholesale Energy Market (*Mercado Atacadista de Energia*) ("MAE").

In addition to electricity, CSN consumes natural gas, principally in its hot-stripping lines. *Cegrio S.A.*, which was privatized in 1997, is currently the sole source of natural gas. Variations in the supply of gas

can affect the level of steel production. Except in the galvanizing lines, the Company believes that it has adequate alternate sources of energy or production methods. The Company has not experienced any significant stoppages of production due to a shortage of natural gas. CSN also purchases fuel oil from *Petróleo Brasileiro S.A.* ("Petrobrás"), the Brazilian national oil company.

Transportation

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

Until recently, Brazil's railway system (including railcars and tracks) was principally government-owned and in need of repair, but has now been largely privatized. In an attempt to increase the reliability of its rail transportation, CSN has participated in the privatization of certain railway systems. See "Item 4.B.6. Investment Programs — Infrastructure Investments — Railways." CSN exports principally from the ports of Sepetiba and Rio de Janeiro, and imports coal and coke through the port of Sepetiba, all in Rio de Janeiro state. The coal terminal of the port of Sepetiba has been operated by CSN since August 1997. See "Item 4.B.6. Investment Programs — Infrastructure Investments — Port Facilities."

6. Investment Programs

Capital Improvement Program

Under its Capital Improvement Program, CSN aims to increase productivity, improve quality, and move its product mix towards higher margin items, while reducing costs and making environmental improvements.

CSN spent approximately US\$215 million in 1998, US\$191 million in 1999 and US\$254 million in 2000, and expects to spend approximately US\$320 million in 2001, for its Capital Improvement Program. In addition to this Program, CSN invested US\$112 million in 1998, US\$67 million in 1999 and US\$123 million in 2000 to maintain its operational capacity (e.g., equipment revamping, spare parts, building repairs, equipment automation and information technology).

To achieve its goals of increased productivity and improved quality, one of the main objectives under its Capital Improvement Program is to engineer CSN's installed capacity in order to produce a product mix that attempts to best match both Brazilian and world demand for steel. This Program is currently focused on increasing the capacity of certain of CSN's mill operations to produce higher quality, value-added products such as cold-rolled and hot-dip galvanized steel products. As a result, CSN has sought to acquire state-of-the-art processing technology and equipment from leading companies in the steel industry. CSN has made certain acquisitions from companies in Japan, Western Europe and the United States and plans further acquisitions as part of the Capital Improvement Program.

Specific projects already completed under the Capital Improvement Program include the installation of sub-lance and combined-blowing in the basic oxygen furnace ("BOF"), the conversion to 100% continuous casting production of slabs, the installation of electrostatic precipitators for the Nos. 2, 3 and 4 sinter plants, the installation of PCI technology and the installation of hydrogen high-convection batch annealing furnaces.

The principal components of the Capital Improvements Program in 2000 were:

- the environmental projects contracted to fulfill an accord with the environmental protection agency of Rio de Janeiro state (*Fundação Estadual de Engenharia do Meio Ambiente* — "FEEMA"), consisting of: (1) a new biological treatment station to purify coke batteries and carbochemical plant liquid and gas rejects (total investment of US\$13.5 million) and (2) the dedusting of blast furnace No.2 cast house (total investment of US\$4.6 million); and
- the completion of containers for blast furnace gas (total investment of US\$ 13.5 million) and a steel shop gas (total investment of US\$9.9 million).

The principal components of the Capital Improvements Program in 2001 that have been contracted for are:

- the revamping of blast furnace No. 3 and hot strip mill No. 2; and
- the implementation of various environmental projects.

The total budgeted amount for these components is US\$395 million, of which US\$170 million was invested in 2000. The revamping of blast furnace No. 3 and hot strip mill No. 2 are expected to increase by at least 800 thousand mt the annual capacity of crude steel and by approximately 400 thousand mt the annual capacity of finished products.

For a discussion of the Company's obligation to make environmental expenditures, see "Item 4.B.11. Government Regulation and Other Legal Matters — Environmental Regulation."

In addition to the Capital Improvement Program, CSN continues to consider possible acquisitions, joint ventures or greenfield projects to increase its steel producing capabilities.

Investments in Downstream Opportunities, New Products and Market Niches

CSN is implementing its strategy of developing downstream opportunities, new products and market niches by creating or expanding capacity for products for sale primarily to the automotive manufacturing and automotive parts industries and potential projects, to be partially financed through specific project finance arrangements, include the construction of a galvanizing line and a service center to produce pre-cut, pre-stamped and pre-painted galvanized steel parts for the automotive industry and the construction of a pickling line, cold-rolling mill, annealing facilities and galvanizing line for production of steel for the construction and appliance industry sectors.

In February 1998, CSN purchased two steel distributors, INAL and the steel distribution business of Emesa S.A. Indústria e Comércio de Metais, named *Intermesa Participações S.A.* ("Intermesa") following the acquisition, in order to enter into the downstream steel distribution business. Intermesa was merged into INAL in May 1998. INAL and Intermesa were respectively Brazil's sixth and ninth largest flat steel distributors.

In May 1998, the Company and Thyssen-Krupp formed a joint venture company, GalvaSud, to produce

and sell galvanized steel *Galvanew*®, laserweld and pre-stamped parts for the auto industry center described above. The galvanizing line, which will ultimately have an annual production capacity of 350 thousand mt, began producing in December 2000, and the service center started in April 2001. Total investment is approximately US\$236 million. *Kreditanstalt für Wiederaufbau* (“KfW”) and BNDES provided approximately US\$160 million of this amount on a project finance basis. CSN and Thyssen-Krupp also have entered into a technical assistance agreement for the production of steel for two-piece steel cans.

In July 1998, CSN and *IMSA Acero, S.A. de C.V.* (“IMSA”) formed a joint venture company, *CSN-IMSA Aços Revestidos S.A.* (CISA), to produce and supply plain and formed galvalume and pre-painted steel products for the construction and home appliance industries. IMSA withdrew from the joint venture in April 2000. CSN intends to proceed with the project on its own, and has changed CISA’s name to *CISA-CSN Indústria de Aços Revestidos S.A.* It is estimated that the total investment in this project will be approximately US\$222 million, a portion of which is expected to be financed by a multilateral agency. This project is expected to be completed by the end of 2002. The plant has an annual design capacity of 230 thousand mt of galvalume, 100 thousand mt of pre-painted product and 220 thousand mt of pickled coils in excess of the coil required for the galvalume and pre-painted products production.

In December 2000, CISA’s service center (in which CSN invested US\$25.5 million) was inaugurated. In early 2001, CISA entered into an agreement to acquire from Precoat Metals, a U.S. company, pre-painted steel products manufacturing and marketing technology.

As part of its strategy of exploring other markets for potential expansion, as of June 19, 2001 CSN entered into an agreement pursuant to which the assets of Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana, will be purchased by CSN, LLC for approximately US\$50 million and the assumption of US\$19 million of debt. Construction of the facility, which cost approximately US\$250 million, was completed in January 2000, but because of production and marketing difficulties, the facility has never operated at more than a fraction of its designed capacity. As a result, Heartland Steel filed for bankruptcy protection in January 2001. CSN will have an option to acquire all of the membership interests in CSN, LLC in two years, and CSN, LLC’s lenders will have the right to require CSN to acquire such interests at the end of the two-year period. It is expected that

this facility will be integrated with a new or to be acquired hot strip mill to provide additional production cost advantages. Until full integration is achieved, hot coils will be sourced in the North American market. A new hot-rolling facility could require an investment of approximately US\$150 million. The request by the Bush Administration that the ITC institute a proceeding under Section 201 of the U.S. Trade Act of 1974 could result in further restrictions on imports of hot-rolled coils and adversely impact the cost and availability of hot-rolled coils in the United States. See “Item 3.D.1. — Risk Factors Relating to the Steel Industry and CSN — Antidumping and Government Protectionism” and “Item 4.B.11. — Government Regulation and Other Legal Matters — Antidumping Proceedings — United States.”

Infrastructure Investments

CSN intends to control production costs and secure reliable sources of raw materials, energy and means of transportation in support of its steelmaking operations through a program of strategic investments. The principal strategic investments are set forth below.

Electricity Distribution and Generation

Itá Hydroelectric Facility. CSN and *Centrais Geradoras do Sul do Brasil S.A.* (“Gerasul”) each own 48.75%, and *Companhia de Cimento Itambé* (“Itambé”) owns the remaining 2.5%, of *Itá Energética S.A.* (“ITASA”), a special-purpose company formed for the purpose of implementing, and owning under a 30-year concession 60.5% of, the Itá hydroelectric facility (“Itá”) on the Uruguay river in southern Brazil. Gerasul owns the remaining 39.5% of Itá. Until December 2000, *Eletrobrás S.A.* (“Eletrobrás”), the government-owned holding company of the electric sector, held ITASA’s preferred capital, having invested R\$100 million (US\$88.6 million) in ITASA in 1998 and an additional R\$100 million (US\$54.7 million) in 1999. In December 2000, subsidiaries of CSN, Gerasul and Itambé bought their proportional stakes (based on their ownership of ITASA’s common shares) of ITASA’s preferred shares from Eletrobrás for an aggregate of R\$309.8 million (US\$156.5 million). ITASA has been responsible for the construction of the Itá plant, while Gerasul has been responsible for environmental matters (such as property condemnations and resettlements). Gerasul is also responsible for the plant operation and maintenance.

The power facility has been built under a project finance structure with a projected investment of approximately US\$850 million. Of this amount, R\$1,053 million (US\$784 million) had been spent as of December 2000, mainly funded with a R\$713 million (US\$454 million) bridge loan from BNDES and with

R\$340 million (US\$306 million) of sponsors' capital. The long-term financing for the project was closed in March 2000 and consisted of R\$168 million (US\$78 million) of debentures issued by ITASA, a R\$300 million (US\$144 million) loan from private banks and R\$242 million (US\$116 million) of direct financing from BNDES.

Itá has an installed capacity of 1450 MW, with a firm capacity of 668 MW (based on an estimated average reservoir level). The first of five 290 MW units became operational in July 2000 and the last of the five in February 2001.

CSN and the other shareholders of ITASA have the right to take their pro rata shares (based on their interests in the project) of Itá's output pursuant to 15-year Power Purchase Agreements (PPA) at a fixed price per MW hour, adjusted annually for inflation. Since October 2000, CSN has taken 167 MW. CSN has used part of its 167 MW take from Itá to supplement the energy supplied by the thermoelectric co-generation power plant at the Presidente Vargas Steelworks. Energy in excess of CSN's needs is sold in the MAE.

Igarapava Hydroelectric Facility. CSN has also taken part in a consortium to build and operate for 30 years the Igarapava hydroelectric facility ("Igarapava"). Other consortium members are CVRD, *Companhia Mineira de Metais, Mineração Morro Velho Ltda.* ("MMV") and *Companhia Energética de Minas Gerais*. The consortium will also be responsible for the plant's operation and maintenance. In 1998, CSN increased its participation in the consortium from 7.5% to its current 17.9% position, by acquiring a portion of MMV's original stake and a former consortium member's participation. The overall cost was US\$233 million. Three out of five 42 MW units became operational in the first half of 1999, the fourth in July 1999 and the final in September 1999, when the plant attained its full installed capacity of 210 MW, corresponding to 126 MW of firm guaranteed output. Since September 1999, CSN's take from Igarapava has been 22 MW. CSN has used part of its 22 MW take from Igarapava to supply energy to Casa de Pedra and Arcos mines. The balance is consumed by the Presidente Vargas Steelworks. See "Item 3.D.2. Risk Factors Relating to Brazil — Electricity Shortage."

Light. In May 1996, CSN invested R\$248.5 million (US\$249.6 million) in Light, the electricity distributor which supplies electric power in 30 municipalities of Rio de Janeiro state and was, until the 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks came fully on stream

in October 2000, the principal source of electricity for CSN. In May 1999, at a cost of approximately R\$30 million (US\$17.3 million), CSN subscribed to its portion of Light's approximately R\$400 million (US\$238 million) capital increase. Pursuant to an agreement entered into on December 11, 2000, CSN sold its entire interest in Light to AES Corporation and EDF International S.A., controlling shareholders of Light, for US\$362 million. The financial closing occurred in January 2001. In accordance with U.S. Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 125 ("SFAS 125") — "Accounting for Transfers and Servicing of Financial Assets," the sale was recorded in 2001. CSN's results for 2001 will include a gain, net of income taxes, of US\$150 million from the sale.

For a description of the Company's recently completed 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks and its new electricity supply contract with Light, see "Item 4.B.5. Raw Materials and Transportation – Raw Materials and Energy Requirements."

Railways

Central-Eastern Railway System. CSN owns 11.9% of *Ferrovias Centro-Atlântica S.A.* ("FCA"), which has the lease to operate, through the year 2026, the assets of the Central-Eastern Railway System. The Central-Eastern Railway System covers 7,080 km of track extending into Sergipe, Bahia, Espírito Santo, Minas Gerais, Goiás and Rio de Janeiro states and Brasília. In addition to serving other customers, the line transports limestone and dolomite from CSN's mines at Arcos in Minas Gerais to the Presidente Vargas Steelworks and transports CSN's exports to the port of Angra dos Reis. CSN transport volumes represent approximately 10% of the Central-Eastern Railway System's total volume. The total amount payable under the terms of the lease is R\$317 million (US\$316 million), which, with the exception of the 20% down payment, will be paid over the life of the lease. While CSN has joint and several liability with the other principal FCA shareholders for the full payment amount, CSN expects that FCA will pay the purchase price through internally generated funds and proceeds from borrowings. In August 1998, FCA successfully bid for the concession to operate, for a term of 25 years, the Port of Angra dos Reis. CVRD is also a shareholder of FCA.

Southeastern Railway System. CSN owns 32.2% (18.6% of the voting capital) of *MRS Logística S.A.* ("MRS"), which has a lease to operate, through the year 2026, the assets of the *Malha Sudeste* (the "Southeastern Railway System"). The Southeastern

Railway System, covering 1,674 km of track, serves the São Paulo—Rio de Janeiro—Belo Horizonte industrial triangle in southeast Brazil, and links the mines of Minas Gerais state to the ports of São Paulo and Rio de Janeiro states and to the steel mills of CSN, Cosipa and Açominas. In addition to serving other customers, the line transports iron ore from CSN's mines at Casa de Pedra in Minas Gerais and coke and coal from the port of Sepetiba in Rio de Janeiro state to the Presidente Vargas Steelworks and transports CSN's exports to the ports of Sepetiba and Rio de Janeiro. The railway system connects the Presidente Vargas Steelworks to the *Terminal de Contêineres de Sepetiba* (the Container Terminal of Sepetiba), which should handle most of CSN's steel exports in the near future. CSN transport volumes represent approximately 19% of the Southeastern Railway System's total volume. CSN's capital contribution to the acquisition of the right to operate the system was R\$50.1 million (US\$49.0 million). The total amount payable under the terms of the lease is R\$889 million (US\$871 million), which, with the exception of the 30% down payment, will be paid over the life of the lease. While CSN has joint and several liability with the other principal MRS shareholders for the full payment amount, CSN expects that MRS will pay the purchase price through internally generated funds and proceeds from borrowings. In September 1999, CSN invested an additional R\$54 million (US\$29 million) in MRS, which represented its portion of a capital increase of approximately R\$165 million (US\$88 million).

Northeastern Railway System. CSN has a 30% interest in *CFN-Companhia Ferroviária do Nordeste* ("CFN"), which has a lease to operate for a period of 30 years, the assets of the *Malha Nordeste* (the "Northeastern Railway System"). The Northeastern Railway System covers 4,535 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. The total amount payable under the terms of the lease is R\$15.8 million (US\$14.6 million), which, with the exception of the 42% down payment, will be paid over the life of the lease. CSN has joint and several liability with the other principal CFN shareholders for the full payment amount. CVRD and the Steinbruch family are also shareholders of CFN. See "Item 7.A. Major Shareholders" and "Item 6.A. Directors and Senior Management."

Port Facilities

Coal Terminal. In April 1997, the Company successfully bid for the concession to operate, for a renewable term of 25 years, the *Instalações Portuárias do Terminal de Carvão do Porto de Sepetiba* (the coal terminal of the port of Sepetiba, or "Sepetiba"), for

which the final cost to the Company was R\$37 million (US\$34 million). The Company imports all of its coal requirements through Sepetiba, which is located in Rio de Janeiro state. Under the terms of the concession, the Company undertook to transport at least 3.4 million metric tons of coal and coke through the terminal annually, as well as to transport shipments of third parties. The Company invested R\$18.1 million (US\$14.9 million) in 1998, R\$28.8 million (US\$15.8 million) in 1999, and R\$7.3 million (US\$4.0 million) in 2000 to modernize the terminal.

Container Terminal. In September 1998, CSN and CVRD each acquired a 50% interest in *Sepetiba Tecon S.A.* ("TECON"). TECON has a concession to operate, for a 25-year term that is renewable for another 25 years, the Container Terminal of Sepetiba in Rio de Janeiro state. The Container Terminal is one of four terminals, including a coal terminal, forming the Sepetiba Port, which is connected to the Presidente Vargas Steelworks by the southeastern railway system. CSN and CVRD each contributed R\$19.5 million (US\$16.6 million) to the acquisition of the concession. The total amount payable under the terms of the concession is R\$93 million (US\$78.9 million) which, with the exception of R\$39 million (US\$33.1 million), will be paid over the life of the concession. TECON invested R\$26.3 million (US\$14.4 million) and R\$48.2 million (US\$26.3 million) in the container terminal in 1999 and 2000, respectively, and plans to invest an additional R\$67 million (US\$28 million) over the next two years. TECON began operations in September 1999 and is expected to reach a nominal capacity of 600 thousand containers per year by 2008. CSN intends to concentrate on the exportation of its steel products through the port. Approximately 44% of the total steel products exported by CSN in 2000 were shipped through TECON.

Investment in CVRD

CSN was a member of a group that on May 6, 1997 successfully bid in the Brazilian Government's auction of a controlling stake in Brazil's CVRD, Latin America's largest mining company and the largest producer and exporter of iron ore in the world. The auction was conducted as part of the privatization of CVRD.

The group paid a total of US\$3.1 billion for 42% of the ordinary shares of CVRD, which in turn represented approximately 27% of the issued and outstanding shares of CVRD (as of May 6, 1997). The group members formed a special purpose company, Valepar, to hold their interests in CVRD. CSN owned 31.2% of Valepar, giving it an indirect interest in 13.2% of CVRD's ordinary shares, representing 8.5%

of CVRD's total capitalization. The other Valepar shareholders and their respective percentage ownership interests in Valepar included:

- *Litel Participações S.A.* ("Litel"), a special purpose company established by pension funds (*Caixa de Previdência dos Funcionários do Banco do Brasil* ("Previ"), PETROS, Funcef and Fundação CESP) – 24.7%;
- *Eletron S.A.* ("Eletron"), a special purpose company controlled by Bradesplan and *Opportunity Anafi Participações S.A.* – 20.8%;
- *Sweet River Investments, Ltd.* ("Sweet River"), a special purpose company controlled by NationsBanc Corporation (now BancAmerica) – 11.5%;
- *BNDES Participações S.A. – BNDESPAR* ("BNDESPAR"), a subsidiary of BNDES — 10.7%; and
- *InvestVale* (owned by CVRD's employees) — 1.1%.

CSN's portion of the investment in CVRD was US\$989 million. CSN accounts for its interest in CVRD pursuant to the equity method.

Pursuant to an agreement entered into on December 31, 2000, CSN sold its interest in Valepar, through which it held its interest in CVRD, to *Bradespar S.A.* ("Bradespar"), *Bradesplan Participações S.A.* ("Bradesplan") and *Litel*. The financial closing occurred in March 2001. In accordance with SFAS 125, the sale was recorded in 2001. CSN's results for 2001 will include a gain, net of income taxes, of US\$436 million from the sale. See "Item 7.A. Major Shareholders," "Item 7.B. Related Party Transactions" and "Item 8.B. Significant Changes."

7. Facilities

Steel Mill

The Presidente Vargas Steelworks, located in the city of Volta Redonda, Rio de Janeiro state, began operating in 1946. It is an integrated facility covering approximately 3.8 square km and containing five coke batteries (three of which are currently in operation), four sinter plants (three of which are currently in operation), three blast furnaces (two of which are currently in operation), a basic oxygen furnace ("BOF") steel shop with three converters (all in operation), four continuous casting production lines (three of which are currently in operation), two hot strip mills (one of which is in operation), three cold

strip mills, two continuous pickling lines, a continuous annealing line for sheet steel, three continuous galvanizing lines, four continuous annealing lines for tin mill products and six electrolytic tinning lines. The Presidente Vargas Steelworks has a nominal annual installed capacity of 5.0 million tons of crude steel.

The major operational units and corresponding production capacities are set forth in the following chart:

Process	EFFECTIVE CAPACITY	
	Metric tons per year	Equipment in Operation
Coking Plant.....	1,650,000	3 Batteries
Sintering Plant....	5,950,000	3 Machines
Blast Furnace.....	4,800,000	2 Furnaces
BOF Shop.....	5,100,000	3 Converters
Continuous Casting	5,000,000	4 Casters
Finished Products		
Hot Strip Mill....	5,000,000	1 Mill
Cold Strip Mill ...	2,800,000	3 Mills
Galvanizing Line	800,000	3 Lines
Electrolytic Tinning Line	1,060,000	6 Lines

In addition, *White Martins Gases Industriais S.A.*, one of the largest industrial chemicals manufacturers in Brazil, completed in 1996 the construction of a captive gas production facility, with a daily capacity of 2,100 tons, on the premises of the Presidente Vargas Steelworks. This facility is designed to supply oxygen, nitrogen and argon to CSN's steelmaking shop. In 2000, the Company used 806 thousand tons of oxygen to produce 4.8 million tons of crude steel.

Mines and Mineral Reserves

The Company has concessions to mine iron ore, limestone, dolomite and manganese. At the present time, the Company believes it is more cost efficient to purchase manganese on the local market. As a result, the Company does not currently operate any of the manganese concessions.

The Company is currently engaged in an extensive, multi-year study of its iron ore reserves at its Casa de Pedra mine in Congonhas, Minas Gerais state. The study consists of two phases. Phase one, which was completed during 1999, covered the ore bodies that are currently being mined or are close to the current operating open pits. Phase two covers the other iron deposits at the Casa de Pedra site, and exploratory drilling is still being carried out.

The following table sets forth the Company's estimates, as of December 31, 2000, of proven and probable reserves and other mineral deposits at the Company's mines. 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.

MINERAL RESOURCES						
Mine Name and Location	Proven and Probable Reserves⁽¹⁾				Other Mineral Deposits⁽²⁾	
	Ore Tonnage⁽³⁾		Grade⁽⁴⁾	Rock Type	(Hematite and Itabirite)	
	Proven⁽⁶⁾	Probable⁽⁷⁾			Recoverable⁽⁵⁾ Product	Tonnage
	(millions of tons)			(millions of tons)	(millions of tons)	
Iron:						
Casa de Pedra Congonhas, Minas Gerais	120	158	60.6% Fe	Hematite (70%) Itabirite (30%)	231	731
	Proven+Probable					
Limestone:						
Bocaina Arcos, Minas Gerais	93		52% CaO ⁽⁸⁾ 2% MgO ⁽⁹⁾	— —	93	N/A
Dolomite:						
Bocaina Arcos, Minas Gerais	33		35% CaO ⁽⁹⁾ 17% MgO ⁽⁸⁾	— —	33	N/A

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

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

Iron Ore Mine. The Company's iron ore extraction, crushing and screening are done at the Company's Casa de Pedra mining facility located at

Congonhas, Minas Gerais state. This mining facility has an installed annual production capacity of approximately 15.5 million tons (ROM). Assuming current levels of production, the estimated proven and probable reserves will meet CSN's needs for at least 19 years. The Casa de Pedra mining facility is located 328 km from the Presidente Vargas Steelworks.

In connection with the sale of its 10.3% interest in CSN, CVRD obtained a 30-year right of first refusal to purchase any production of iron ore from CSN's Casa de Pedra mine in excess of CSN's and its affiliates' needs. CVRD also has a right of first refusal to buy the Casa de Pedra mine if CSN decides to sell it. For a description of the agreement, see "Item 7.A. Major Shareholders" and "Item 7.B. Related Party Transactions."

Limestone and Dolomite Mine. The Company's extraction and preparation of limestone and dolomite is done at the Company's Bocaina mining facility located at Arcos, Minas Gerais state. This mining facility has an installed annual production capacity of approximately four million tons. The Company believes that the mining facility has sufficient limestone and dolomite reserves to supply adequately the Company's steel production, at current levels, for more than 50 and nearly 40 years, respectively. The mining facility is located 455 km from the Presidente Vargas Steelworks.

8. Competition

Both the worldwide and the Brazilian steel markets are intensely competitive. The primary competitive

factors in these markets include quality, price, payment terms and customer service. Moreover, continuous advances in materials sciences and resulting technologies have given rise to new products that pose competition for traditional steel products. These steel substitutes include plastics, aluminum, ceramics, glass, concrete and new steel products.

Competition in the Brazilian Steel Industry

The Brazilian steel market is intensely competitive. The primary competitive factors in the domestic market include quality, price, payment terms and customer service. CSN competes with other integrated Brazilian steel mills, but CSN has not experienced significant import competition in Brazil from foreign steel companies. Several foreign steel companies, however, are significant investors in Brazilian steel mills.

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

	1998		1999		2000	
	Ranking	Production (in million tons)	Ranking	Production (in million tons)	Ranking	Production (in million tons)
CSN*.....	1	4.7	1	4.9	1	4.8
Companhia Siderúrgica de Tubarão ("CST")*.....	3	3.8	2	4.4	2	4.8
Usinas Siderúrgicas de Minas Gerais S.A. ("Usiminas")*.....	2	4.0	4	3.0	3	4.4
Gerdau S.A. *(1).....	5	3.0	3	3.2	4	3.4
Companhia Siderúrgica Paulista ("Cosipa")*.....	4	3.5	5	2.6	5	2.7
Aços Minas Gerais S.A. ("Açominas")*.....	6	2.3	6	2.4	6	2.6
Companhia Siderúrgica Belgo Mineira*.....	7	2.2	7	2.3	7	2.6
Others.....		2.3		2.3		2.5
TOTAL.....		25.8		25.0		27.8

Source: IBS

* Indicates integrated producer

(1) Gerdau is partly integrated, but the bulk of Gerdau's steel production comes from non-integrated plants.

Only CSN, Usiminas and Cosipa produce flat-rolled carbon steel products in sizeable quantities. CSN believes that it has the following competitive advantages over its Brazilian competitors:

- CSN's focus on selling high margin products, such as tin plate and galvanized products, in its product mix;

- CSN's ownership of iron ore reserves compared to its domestic competitors purchase of their iron ore requirements from CVRD;
- CSN's thoroughly developed logistics infrastructure; from its iron ore mine to its steel mill to, finally, its ports; and
- CSN's start up of GalvaSud will provide material for exposed autoparts, using hot-dip galvanized

(or HDG) steel, a trend in this industry. This, together with CSN's HDG process know-how, should allow CSN to increase its sales to the automotive segment. USIMINAS also has a new HDG line.

Competitive Position—Global

During 2000, Brazil was the eighth largest producer of crude steel in the world with a production output of 27.8 million tons and a 3.3% share of total world production. Brazil accounts for close to 50% of total steel production in Latin America, with 2000 production 70% higher than Mexico's and approximately 27% of the size of U.S. production. In 1998, the last year for which comparative data are available, Brazil was the ninth largest steel exporter in the world, behind Japan, Russia, Germany, Belgium-Luxembourg, Korea, Ukraine, France and Italy and the fifth largest net exporter after Russia, Japan, Ukraine and Korea. In 1998, Brazil's 9.2 million tons of exports of finished and semi-finished steel products accounted for approximately 5% of total global steel exports.

CSN, Brazil's largest steel manufacturer, competes on a global basis with the world's leading steel manufacturers. CSN has positioned itself in the world market with a product mix characterized by high margin, high demand steel products such as tin mill and galvanized steel, although lower value-added, lower margin hot-rolled products and slabs constitute a higher percentage of CSN's export sales than of CSN's domestic sales. CSN has relatively low-cost labor available and owns high-grade iron ore reserves that more than meet its production needs. These global market advantages are partially offset by costs of transporting steel throughout the world, usually by ship. Shipping costs, while helping to protect CSN's domestic market, put pressure on CSN's export price. To maintain its competitive viability in the world steel market in light of the highly competitive international situation with respect to price, product quality and customer service must be maintained at a high level. CSN has continually monitored the quality of its products by measuring customer satisfaction with its steel in Europe, Asia and the Americas. See "Item 4.B.11. Government Regulation and Other Legal Matters — Antidumping Proceedings."

Competitive Advantages

Brazil's principal competitive advantages are its abundant supply of low-cost, high-grade iron ore and low-cost labor and energy resources. Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports that allow the operation of large ships, which facilitates access to

export markets. As a result of such advantages, Brazil has some of the lowest steel production costs in the world.

Similar to what happens in most countries, the domestic price of steel in Brazil has historically been higher than in international markets. This differential, however, is generally not large enough to compensate for the cost of transporting steel to Brazil (including high port costs) from producers in Asia, Europe and North America. The low production costs in Brazil are another barrier to foreign steel imports. Consequently, most of the steel sold in the Brazilian steel market is manufactured by Brazilian producers, and CSN does not believe that sales in Brazil by foreign producers will increase significantly or that steel prices in Brazil will decrease significantly because of competition from foreign steel producers.

Greenfield competition from new market entrants would be discouraged by existing participants' ties to sources of raw materials and well-established distribution networks.

9. Research and Development

Until 1999, the Company's research and development ("R&D") center at Volta Redonda employed around 70 employees and focused on product and process development. Subsequently, the R&D center, which now employs almost 90 employees, has been restructured to work closely with customers. One of the new features of this unit is the Resident Engineer concept, where key customers receive CSN's engineers to help them make better use of CSN steel. This new unit works closely with the newly created Commercial sector, focusing on product improvements and developments that will meet the needs of CSN's customers.

Expenditures for research and development for the years ended December 31, 1998, 1999 and 2000 were US\$6.8 million, US\$3.5 million, and US\$2.9 million respectively. The decrease in nominal amounts for R&D expenditures in 1999 and 2000 resulted mainly from the *real* devaluation and the increased focus on product development activities, leaving process improvement to the operating areas. Since 1997, new products developed under the Research and Development Program include: Galvanew®, electrical steel (a cold-rolled steel used for electric motors), a series of high-strength, low-alloy, hot-rolled steels (used for pipes, steel structures, agricultural appliances, gas containers and automobile wheels), cold-rolled and galvanized steels (used for

automobiles, construction and home appliances) and tin mill products for two-piece cans.

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

10. Insurance

CSN maintains “all risk” insurance coverage against damage to its principal operating assets at the Presidente Vargas Steelworks and its mining facilities, which it believes adequately covers the principal risks of operating such facilities.

In addition, CSN maintains “business interruption” and “transportation risk” insurance, as well as “third party liability” insurance. CSN also insures its hydroelectric, electricity distribution, railway, coal and container terminal investments.

11. Government Regulation and Other Legal Matters

Environmental Regulation

CSN is subject to Brazilian federal, state and municipal environmental laws and regulations governing air emissions, waste water discharges, and solid and hazardous waste handling and disposal. The Company is committed to controlling the substantial environmental impact caused by steelmaking, mining and port operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. The Brazilian Federal Constitution (the “Brazilian Constitution”) gives both the federal and state governments power to enact environmental protection laws and issue regulations under such laws. In addition, the Company is subject to municipal environmental laws and regulations. While the Government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations. Most of the environmental regulations in Brazil are thus at the state and local level rather than at the Federal level. The environmental regulations of Rio de Janeiro state, in which the Company’s Presidente Vargas Steelworks are located,

are plant specific. Thus, specific goals and standards are established in the operating permits issued to each company or plant rather than through regulations of general applicability and are required to be maintained throughout the life of the permit. The terms of such operating permits are subject to change and are likely to become stricter. Subject to completion of the projects required under the FEEMA Accord described below, the Company believes that it is in substantial compliance with applicable environmental requirements.

Steelmaking facilities generate hazardous wastes in their production process. In addition, CSN operates two mines from which key steel inputs are obtained: an iron ore mine and a limestone and dolomite mine. The mines, all located in Minas Gerais state, are subject to the Brazilian Mining Code (the “Mining Code”). The Mining Code and the Brazilian Constitution impose on mining operations requirements 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 notification and reporting requirements. In the event of a release of hazardous substances generated by CSN from either its steelmaking or mining activities, CSN could be responsible for the remediation of contamination associated with such a release. Unforeseen expenditures necessary to remain in compliance with environmental laws and regulations, including site or other remediation costs, or unforeseen environmental liabilities, could have a material adverse impact on CSN. In addition, since CSN’s steelmaking facilities are located in a populated city, the impact of environmental liabilities or remediation may be exacerbated.

Prior to CSN’s privatization in 1993, environmental protection at the Presidente Vargas Steelworks, or the remediation of lands affected by the Company’s coal mining activities carried out in Santa Catarina state until 1989, was not considered a first priority by the Company. Fines were applied by the state environmental authorities in response to environmental violations relating to water quality degradation of the Paraíba do Sul, the major river in Rio de Janeiro state, to air pollution in the city of Volta Redonda, and to recover land degraded by coal mining activities in Santa Catarina state.

Since privatization, CSN has invested heavily in environmental protection and cleaning up programs.

Total environmental expenditures (capitalized and expensed) during the past three years were as follows: 1998 – R\$65.2 million (US\$56.0 million), 1999 – R\$112.1 million (US\$61.8 million) and 2000 – R\$172.5 million (US\$ 94.3 million). Of the R\$172.5 million (US\$94.3 million) spent in 2000, capital expenditures constituted R\$112.9 million (US\$61.7 million) and environmental maintenance and operating costs constituted R\$59.6 million (US\$32.6 million). As a result of recent environmental improvements, CSN has received the ISO 14,000 certificate for its mining operations in the state of Minas Gerais, and expects that its other units will be fully certified by December 2002.

The Company signed an accord relating to environmental matters at the Presidente Vargas Steelworks in September 1994 with FEEMA, the environmental protection agency of Rio de Janeiro state, which was amended in January 1996, December 1998 and January 2000 (the “FEEMA Accord”). Under the FEEMA Accord, the Company is obligated to make expenditures aggregating R\$181.5 million (US\$100.7 million, based on the average exchange rate for January 2000) on approximately 130 items. The 130 items include environmental technology and new equipment to control air and water pollution. The Company also agreed in the most recent amendment of the FEEMA Accord to spend R\$14 million (US\$7.9 million) to build facilities to benefit the Volta Redonda community.

As of December 31, 2000, the Company had invested under the FEEMA Accord an aggregate of R\$116.5 million (US\$64 million), completing 57 of the 130 items, and R\$14.5 million (US\$7.9 million) in new infrastructure and community services. As a result of these expenditures and the continuing compliance with the FEEMA Accord, environmental fines of R\$36.0 million (US\$19.7 million) were suspended. These fines had been imposed by FEEMA against the Company during the two decades prior to the FEEMA Accord for a variety of environmental violations relating to water quality degradation of the Paraíba do Sul river and to air pollution in the city of Volta Redonda. These fines will be dismissed if the Company can verify that it has completed the expenditures required by the FEEMA Accord and also that it has completed three compensatory measures: doubling the local water treatment plant facility, building a sanitary landfill and donating land for the construction of a wastewater plant for the city of Volta Redonda. All these requirements are expected to be met by the end of 2002.

The remaining expenditures required under the FEEMA Accord are expected to be made through 2002. CSN’s performance of its obligations is covered by bank guarantees.

The Company also entered into an accord relating to environmental matters at the Presidente Vargas Steelworks with the city of Volta Redonda in January 1995 (the “January 1995 Accord”). Under the January 1995 Accord, the Company has invested R\$1.4 million (US\$0.79 million) in an environmental quality program designed both to preserve the environment and provide assistance to the Volta Redonda community. The program’s priority is to compensate the city of Volta Redonda for environmental damage allegedly caused by the Presidente Vargas Steelworks. The January 1995 Accord also requires funds to be allocated to protect one of the last Atlantic rainforest reserves in the city of Volta Redonda and the several endangered species that inhabit it. The January 1995 Accord also provides for the creation of an ecological park for the development of botanical and environmental research of urban areas in Volta Redonda. Beyond the scope of the January 1995 Accord, in June 2000 the CSN Foundation (“FCSN”) voluntarily started a R\$2 million (US\$1.1 million) conservation program at the rainforest reserve under a partnership with The Brazilian Fund for Biodiversity (“FUNBIO”), and carried out an urban slope regeneration project at Volta Redonda, on which CSN expects to make total expenditures of R\$4 million (US\$2.2 million).

Pursuant to an accord proposed by CSN to the Rio de Janeiro state government in 1998, CSN is spending up to R\$5 million over a three-year period to bring the Sepetiba bay port facilities in compliance with the applicable environmental laws and regulations. Under this obligation, CSN has installed equipment and systems to control and monitor air emissions, as well as sea pollution from port activities and handling imported coal.

Prior to 1990, CSN operated coal mining facilities in Santa Catarina state. As a part of such operations, CSN and other companies used waste ponds for mine tailings. The local environmental authority has required CSN and the other companies to take environmentally corrective action to restore the ponds. CSN has developed and begun to implement a restoration plan with a total projected cost to CSN of approximately R\$10 million (US\$5.5 million).

Mining Concessions

CSN’s mining operations are governed by the Brazilian Constitution and the Mining Code, and are subject to the laws, rules and regulations promulgated pursuant thereto. Under the Brazilian Constitution, all mineral resources belong to Brazil. CSN’s mining activities at the Casa de Pedra mine are based on its holding of a Manifesto de Mina, which gives a party

full ownership over the mineral deposits existing within its property limits. CSN's mining activities at the Bocaina mine are based on a concession which gives a party the right to mine for as long as ore reserves exist.

The Mining Code and the Brazilian Constitution impose on mining companies, such as CSN, requirements 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 notification and reporting requirements.

Antitrust Regulation

CSN is subject to various laws in Brazil which seek to maintain a competitive commercial environment in the Brazilian steel industry. For instance, under Law 8884/94 ("*Lei de Defesa da Concorrência*" or "Competition Defense Law"), the *Secretaria de Direito Económico* (the "Secretariat of Economic Rights" or "SDE") of Brazil's Ministry of Justice has broad authority to promote economic competition between companies in Brazil, including the ability to suspend price increases and investigate collusive behavior between companies. In addition, if the *Conselho Administrativo de Defesa Económica* (the "Administrative Council on Economic Defense" or "CADE") determines companies have acted collusively to raise prices, CADE has the authority to impose fines on such companies, prohibit them from receiving loans from Brazilian Government sources and bar them from bidding on public works projects. In addition, CADE has the authority to disallow mergers and to require a company to divest assets should it determine that the industry in which it operates is insufficiently competitive.

Following an investigation begun in 1997, the SDE, acting under its authority described above, indicated that there are grounds to believe that CSN, Usiminas and Cosipa acted collusively in violation of Brazilian antitrust law in raising prices of hot-rolled and cold-rolled steel products in April 1997. The case was referred to CADE for a final decision. In 1999, CADE ordered the three companies to pay a fine equivalent to 1% of their gross revenues for 1996. CSN filed a petition for reconsideration, which was denied by CADE. CSN is challenging CADE's decision in a judicial proceeding.

In addition, in connection with the privatization of CVRD, which owns 11.57% of USIMINAS (increased from 7.74% in June 1998), 22.69% of CST and 4.84%

of AHominas, SDE began investigating concentration in the Brazilian steel industry. Based on the first phase of the investigation, which was joined by the *Secretaria Especial de Acompanhamento Económico* ("SEAE") of the Finance Ministry, SDE has expressed concern about interlocking directorships among steel producers and concentration in the transportation industry. SDE has sent the matter to CADE.

Antidumping Proceedings

Over the past several years, steel products from various countries and companies, including Brazil and CSN, have been the subject of AD, CVD and other trade-related investigations in some of the principal world steel markets. Most of these investigations resulted in duties limiting the investigated companies' abilities to access such markets. To date, however, such investigations have not had a significant impact on CSN's export volume, either because the quantities exported by CSN were small or because CSN has found new markets to replace the ones affected by the protectionist activities of the governments of importers.

United States. In October 1998, authorities initiated AD and CVD investigations on hot rolled steel sheet and coils imported from Brazil and other countries. On November 23, 1998, the Department of Commerce ("DOC") decided that there were no factors justifying a "critical circumstances" finding with respect to the imports from Brazil. On February 19, 1999, the DOC reached a preliminary determination on the AD and CVD margins, on which AD and CVD duties are based, with respect to Brazil. CSN's preliminary margins were determined as follows: AD 50.7% and CVD 6.6%. On July 6, 1999, Brazil and the United States signed a five-year suspension agreement that became effective as of October 1, 1999. Under this suspension agreement, a ceiling on Brazilian hot-rolled exports to the United States is fixed at 295 thousand tons per year. As a result of an agreement among Brazilian producers, CSN's share was 120 thousand tons in each of the first two years. This amount will be adjusted by further agreement among Brazilian producers prior to each subsequent period. A minimum price of US\$327 per ton (DDP-delivery duty paid) is also fixed, subject to quarterly review by the DOC. CSN is currently exporting at the limits prescribed in the suspension agreement. The DOC is reviewing sales under the agreement. CSN believes the review will be completed in the third quarter of 2001.

On July 19, 1999, the ITC determined that Brazilian cold-rolled exports were unfavorable to the U.S. market. On January 19, 2000, the DOC reached a

final determination on AD and CVD margins applicable to CSN's cold-rolled exports to the United States as follows: AD 63.32% and CVD 7.14%. On March 3, 2000, the ITC determined that there was no injury to the U.S. market from Brazilian cold-rolled exports and the margins fixed by the DOC were removed.

On June 22, 2001, the U.S. Trade Representative requested the ITC to conduct an investigation into steel imports under Section 201 of the U.S. Trade Act of 1974. If the ITC determines that imports are a "substantial" cause of "serious" injury to U.S. producers of particular steel products, the ITC may recommend safeguard measures such as increased tariffs on the products at issue. Unlike AD or CVD cases, remedies under Section 201 apply to targeted imports regardless of country of origin. Section 201 relief is generally granted for three or four years, during which the domestic industry is expected to restructure itself so as to compete internationally. The President may, however, extend relief for an additional four years.

Legislation has also been introduced in the U.S. Congress seeking a five-year quota on steel imports, a 1.5% excise tax on all steel sales in the U.S. with revenues directed to retirement benefits in the domestic industry, and a package of government grants and loans. Similar legislation passed the house in the last session of Congress but failed to clear the Senate. This year, according to a recent vote count, the Senate could also be expected to pass the measure if it is brought to a vote.

Argentina. On April 19, 1999, Argentina imposed a preliminary and temporary minimum import price of US\$410 per ton FOB on hot rolled steel sheets and coils originating in Brazil. On December 12, 1999, the governments of Brazil and Argentina signed a five-year suspension agreement establishing a ceiling on Brazilian hot-rolled steel sheet and coil exports to Argentina of 36 thousand tons in the first year, 38 thousand tons in the second year and 39 thousand tons in the third, fourth and fifth years, with a minimum price per ton as published by the Argentine *Instituto Nacional de Estadística y Censos* ("INDEC").

In September 1999, Argentina began an investigation on the importation of cold rolled sheets and coils from Brazil and other countries. In order to avoid a lengthy process, the Brazilian industry and the Government of Argentina signed in February 2001 a suspension agreement for five years, following the same shape and amounts of the hot rolled agreement. The minimum price of US\$420 per ton was fixed,

subject to quarterly review based on the price published by INDEC.

Mexico. In December 1995, the Mexican authorities imposed AD and CVD margins on imported hot rolled sheets and coils and on cold rolled sheets and coils from Brazil and other countries. For CSN, these duties equal approximately the following ad valorem figures: hot rolled sheet/coils — AD 22.3% and CVD 9.1%; cold rolled sheet/coils — AD 22.5% and CVD 9.1%; and plate in coils — AD 15.9% and CVD 8.1%. The AD duties expired in December 2000.

Canada. In July 1994, the government of Canada imposed AD duties on Brazil's and other countries' exports of galvanized steel sheets and coils. The AD margin on CSN's exports has been determined to be 105.8%. In July 1998, the Canadian International Trade Tribunal ("CITT") determined there were grounds to proceed with a review in order to decide whether or not the original AD duties should be rescinded. On July 28, 1999, the CITT determined that duties over Brazilian exports should be maintained, except with respect to exports destined for the automotive industry. CSN is studying the possibility of requesting a revision of the AD margin applicable to its exports.

In January 2001, the Canadian Customs and Revenues Agency ("CCRA") began an investigation of hot rolled sheets and coils imported from Brazil and other countries. In March 2001, the CITT preliminarily determined that these imports have caused injury in the local market, in spite of Brazil's sales volume representing only 2.1% of total imports into Canada. In April 2001, the CCRA preliminarily determined the AD margin on CSN's exports to be 24.1%. CITT's final determination should be issued in July 2001. In March 2001, the CCRA began an investigation of cold rolled sheets and coils imported from Brazil and other countries. Preliminary determinations by CCRA and CITT should be made available in the middle of 2001.

12. Employees and Labor Matters

As of December 31, 2000, the Company had approximately 12,300 employees, of whom 9,300 were employed by the parent company. This reflects a significant reduction from over 24,500 employees that the Company had at December 31, 1989. At December 31, 1997, CSN had approximately 13,570 employees.

Approximately 7,700 of CSN's employees, who are employed at the Presidente Vargas Steelworks, are members of the steelworkers' union of Volta Redonda and region, which is affiliated with the *Força Sindical* national union. An additional 340 employees are members of the iron ore miners' union of Congonhas, which is affiliated with the *Central Única dos Trabalhadores* ("CUT") national union. The CUT national union has been a long-time political ally of the *Partido dos Trabalhadores* (PT), the workers' party which advocates socialism and social democracy. An additional 60 employees are members of five other unions.

CSN has collective bargaining agreements, renewable annually each May 1, with the seven unions. So far in 2001, CSN has completed agreements with four of the unions, including *Força Sindical* and CUT.

CSN is the principal sponsor of *Caixa Beneficente dos Empregados da CSN* (the Pension Benefit Fund for the Employees of CSN, or "CBS"), its employee pension plan. As a result of a general pay increase granted by CSN at the time of its privatization and a decline in the value of CBS's assets, CBS has substantial unfunded projected benefit obligations. On January 25, 1996, the *Secretaria de Previdência Complementar* (the Brazilian Government Secretary for Supplementary Social Security) approved a proposed settlement of CBS's unfunded projected benefit obligations, pursuant to which 57.5% of such unfunded obligations will be paid by CSN over a 30-year period and the remaining 42.5% will be paid by the participants in CBS over a 35-year period through increased payroll deductions. CSN's unfunded pension benefits obligations totaled US\$303.3 million at December 31, 2000. The amount of the unfunded pension benefits obligations is affected by fluctuations in the value of CBS's assets, which aggregated US\$174.4 million at December 31, 2000, approximately 50.6% of which was attributable to Common Shares of CSN held by CBS. See Note 14(a) to the Consolidated Financial Statements.

In March 1997, CSN established an employee profit participation plan. All employees participate in the plan, and earn bonuses based on the Company reaching certain goals for each year, including a Company profitability target as well as goals based on such measures as sales, cost control, productivity and inventory levels, appropriate to the nature of the different sectors.

Consistent with worldwide industry trends, CSN increased in June 2000 the average workshift at its Volta Redonda steel plant from six to eight hours. This

increase was implemented in the Company's iron ore, limestone and dolomite mines during 1999. CSN has signed a collective bargaining agreement with its employees' unions pursuant to which it has agreed not to dismiss employees in connection with this workshift increase. This eight-hour workshift is expected to improve productivity, quality and job safety for CSN and its employees as a result of fewer interruptions in the production process, which is continuous.

13. Overview of World Steel Industry

The worldwide steel industry is comprised of hundreds of steelmaking facilities divided into two major categories, integrated steelworks and non-integrated steelworks (sometimes called mini-mills), characterized by the method used for producing steel. Integrated plants, which accounted for approximately 64% of worldwide crude steel production in 1999, typically produce steel by smelting in blast furnaces the iron oxide found in ore and refining the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, in electric arc furnaces. Non-integrated plants (sometimes referred to as "mini-mills"), which accounted for approximately 36 % of worldwide crude steel production in 2000, produce steel by melting scrap metal, occasionally complemented with other metallic materials, such as DRI or hot-briquetted iron ("HBI"), in electric arc furnaces. Nonetheless, industry experts expect that through the end of the century, a lack of a reliable and continuous supply of quality scrap metal, as well as the high cost of electricity, may restrict the growth of mini-mills.

Over the last ten years, total global crude steel production has ranged between approximately 720 million and 799 million tons per year. In 2000, global steel production was 844 million tons, representing an increase of 7.1% when compared to steel production of 787 million tons in 1999. Steel continues to be the material of choice in the automotive, construction, machinery and other industries. Notwithstanding potential threats from substitute materials, such as plastics, aluminum, glass and ceramics, especially for the automotive industry, steel continues to demonstrate its economic advantage. Although South East Asia's and Japan's apparent steel consumption (which is a country's production less exports plus imports) were reduced by the economic crisis begun in late 1997, they have already shown a recovery in 2000. The International Iron and Steel Institute has reported that world demand for finished steel products dropped from 694.8 million tons in 1997 to 691.6 million tons in 1998, but increased back to 705.5 million tons in 1999 and continued to increase to

752.0 million tons in 2000. It is expected to increase a further 2.0% during 2001, reaching 769.2 million tons.

Brazil has been playing an important role in the export market, primarily as an exporter of semi-finished products. The Brazilian steel industry has taken several steps towards enlarging its capacity to produce value-added products. Therefore, the exports of finished products from Brazil have continuously decreased in the last few years as a response to an increasing domestic demand for such products. Brazil's exports of semi-finished steel products aggregated 6.4 million tons in 1999 and 6.2 million tons in 2000, which represented 64% and 65% of total exports for both periods, respectively.

Developing economies, such as China, while increasing their own production capacity, have been major steel importers over the past decade. Brazil, with its large steel production capacity and tradition as a global exporter, has consistently exported a substantial portion of its production. Brazil's sales of steel products aggregated 23.3 million tons in 1999 and 24.3 million tons in 2000, which exceeded domestic demand of 13.4 and 14.9 million tons by 9.9 and 9.3 million tons, respectively.

14. Brazilian Steel Industry

Since the 1940s, steel has been of vital importance to the Brazilian economy. During the 1970s, huge government investments were made to provide Brazil with a steel industry able to support the country's industrialization boom. After a decade of little to no investment in the sector in the 1980s, the Government selected the steel sector as the first for privatization commencing in 1991, resulting in a more efficient group of companies operating today.

In 2000, Brazil was the eighth largest crude steel producer in the world with a production output of 27.8 million tons and a 3.3% share of global crude steel production. Brazil accounted for almost 50% of total steel production in Latin America in 1998, with production 70% greater than Mexico's and approximately 27% the size of U.S. steel production.

A Privatized Industry

During the almost 50 years of state control, the Brazilian flat steel sector was coordinated on a national basis under the auspices of Siderbrás, the national steel monopoly. The state had far less involvement in the non-flat steel sector, which has traditionally been made up of smaller private sector companies. The larger integrated flat steel producers operated as semi-autonomous companies under the control of Siderbrás,

which were each individually privatized over the period from 1991 to 1993. CSN believes that the privatization of the steel sector in Brazil has resulted in improved financial performance of the eight operating companies as a result of increased efficiencies, higher levels of productivity, lower operating costs, a decline in the labor force and a resumption of investment.

Domestic Demand

Historically, the Brazilian steel industry has been affected by substantial fluctuations in domestic demand for steel. Although national per capita consumption varies with GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Over the past several years, per capita crude steel consumption in Brazil fluctuated from between 96 kilograms in 1989 to 68 kilograms in 1992. In the last four years, it has declined from 107 kilograms per capita in 1997 to 93.0 kilograms in 2000, which is low by world standards.

Brazil's real GDP grew at a rate of 3.0% in 1997. The world economic crisis caused the Brazilian real GDP to grow only 0.15% in 1998 and 0.83% in 1999. The fluctuations in growth rates reflect inflation control and other measures taken by the Brazilian Government, such as increases in domestic interest rates, to counter economic pressures in 1998 and early 1999. In 2000, the country showed a real recovery and GDP grew 4.2%. From 1999 to 2000, total domestic steel sales increased approximately 11.2%, from 13.4 million tons to 14.9 million tons.

The manufacturing industry, which accounts for the vast majority of Brazil's industrial production, grew 5.5% in real terms in 1997. Brazil's industrial production decreased, however, 2.2% and 0.7% in real terms in 1998 and 1999, respectively, in the wake of the world economic slowdown. In 2000, industrial production led the Brazilian GDP growth, increasing 6.5%. The Brazilian flat steel sector is shifting production to the higher value-added consumer durables sector, a sector which is dependent on domestic consumer confidence, which, in turn, is linked to the economic and political record of the current Government administration. The consumer durable goods sector grew by 2.9% in 1997, decreased by 20.5% in 1998 as a result of the economic problems in Brazil, and increased by 7.7% in 1999 and 20.5% in 2000, as the economy improved.

Over the past years, significant investments were announced by the principal automobile manufacturers already in Brazil: General Motors, Ford, Fiat and

Volkswagen. In addition, Renault, Honda, Daimler, Chrysler, Audi and Peugeot/Citroen are investing in new facilities in Brazil. During 2000, a total of 1.6 million vehicles were produced in Brazil, compared to 1.3 million and 1.6 million vehicles in 1999 and 1998, respectively. The automotive industry predicts production of 2.0 million vehicles in 2001, nearing the record of 2.1 million in 1997.

Prevailing Production Processes

The Brazilian steel industry is dominated by integrated steel makers employing conventional blast furnaces and basic oxygen furnaces, utilizing Brazil's abundant supplies of iron ore.

The Brazilian steel industry produced approximately 88.2% of its total output in 1999 using continuous casting technology, which is slightly higher than the world average of approximately 82.9% and less than the 95.6% and 97.2% rates in the U.S. and Japan, respectively. As Brazil's flat steel producers invest in new technologies, including continuous casting, this percentage should increase. CSN, for example, has produced 100% of its total output using continuous casting since February 1996. See "Item 4.B.4. Production — Production Process."

Market Participants

Today the Brazilian steel industry is composed of 12 companies, with an installed annual capacity of approximately 30 million tons, producing a full range of flat, long, carbon, stainless and specialty steel. For the production by the largest Brazilian steel companies during the last three years, see "Item 4.B.8. Competition — Competition in the Brazilian Steel Industry."

Capacity Utilization

The Brazilian steel industry operated at approximately 92% of nominal crude steel capacity during 2000. The flat steel sector operated at a higher percentage of nominal capacity, with CSN operating at 96% and CST at 99%. Total Brazilian nominal capacity in 2000 was estimated at 30 million tons.

Exports/Imports

Brazilian steel exports were 8.8 million tons in 1998, 10.0 million tons in 1999 and 9.6 million tons in 2000. In 1998 and 1999, export sales were 39% and 42%, respectively, of total Brazilian sales (domestic plus exports). In 2000, export sales as a percentage of total Brazilian sales decreased to 38%, mainly as a result of the recovery of the domestic market and the devaluation of the *real*. Export sales accounted for US\$2.8 billion in export earnings for Brazil in 2000, with steel representing the third largest dollar export of

Brazil, behind aeronautics and iron ore. In 1998, the last year for which such data is available, Brazil was the ninth largest steel exporter in the world. See "Item 4.B.8. Competition — Competitive Position— Global." Brazil is a negligible importer of foreign steel products. Steel imports were 899 thousand tons or 6.2% of domestic apparent consumption in 1998, 651 thousand tons or 4.6% of domestic apparent consumption in 1999, and 938 thousand tons or 5.9% of domestic apparent consumption in 2000. According to IBS, domestic apparent consumption equals domestic sales plus imports. In 2000, Brazil had a steel trade surplus of US\$2.1 billion, contrasting with an overall trade deficit of US\$0.7 billion.

Over the last 20 years, the Brazilian steel industry has been characterized by a structural need to export, which is demonstrated by the industry's supply-demand curve. The Brazilian steel industry has experienced periods of overcapacity, cyclical and intense competition during the past several years. Demand for finished steel products, as measured by domestic apparent consumption, has consistently fallen short of total supply (defined as total production plus imports). In 2000, supply totaled 28.7 million tons, compared to domestic demand of 15.9 million tons.

Brazil enjoys a diversified export market. In 2000, export sales were made to over 120 countries. The United States is Brazil's major export market, accounting for 16.2% of all Brazilian flat-rolled steel exports, by value, in 2000. The next nine largest markets, taken together, accounted for 48.4% of Brazil's 2000 flat-rolled steel exports. CSN believes that the amount exported to the United States, which represented a decrease from 26.6% in 1998, was caused by the antidumping suits filed against Brazilian steel exporters. See "Item 4.B.11. Government Regulation and Other Legal Matters — Antidumping Proceedings." Other markets, such as Asia, Europe and Latin America, are expected to increase imports of steel in the coming years and, therefore, offset the potential reduction in the exports to the U.S. market.

Raw Materials

One of Brazil's primary competitive advantages is low-cost raw materials. Brazil has an abundance of high-grade iron ore. Many of the integrated producers are based in the State of Minas Gerais, the site of some of the world's largest iron ore mines. Brazil's costs of iron ore are approximately one-third of those of Japan, Western Europe, the U.S. and South Korea. All coking coal is imported, because domestic supplies are considered to be of low quality. While charcoal is readily available, environmental concerns are causing

many charcoal integrated mills to consider abandoning charcoal for imported coke. The Brazilian steel industry has a low dependence on steel scrap due to the high percentage of integrated producers.

Electricity

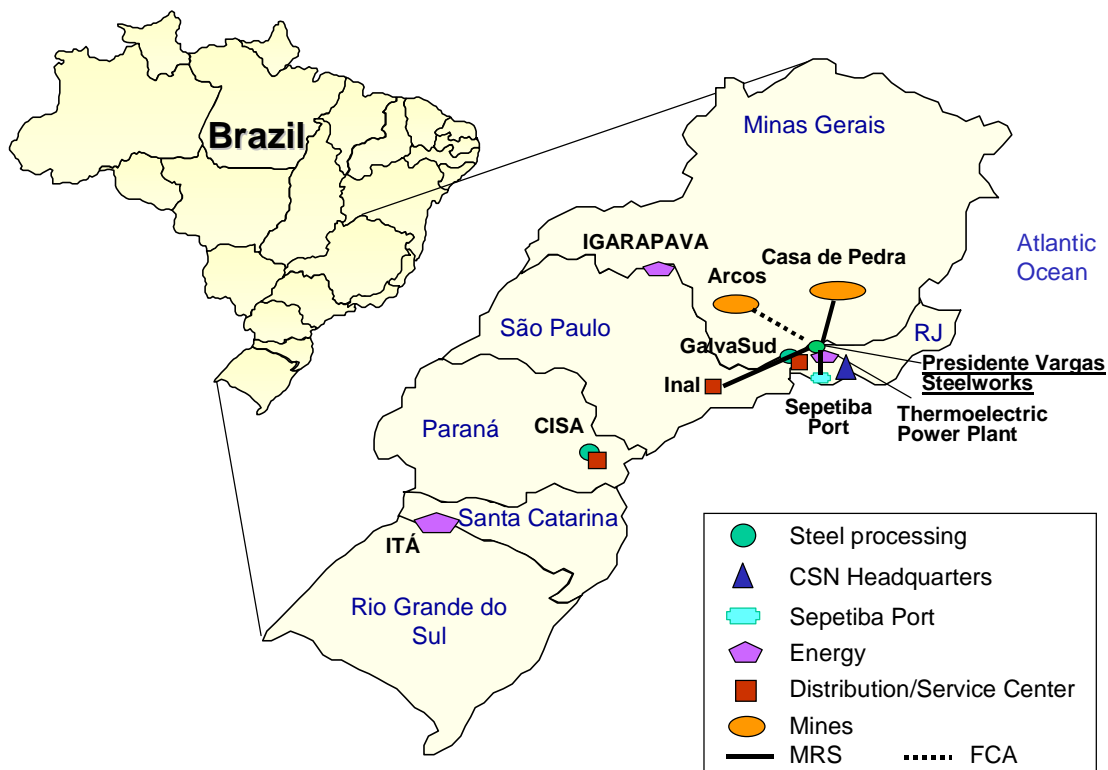
Brazil benefits from vast hydroelectric resources, which greatly reduce costs of electrical power to industrial users. For a discussion of the possible impact of restrictions on electric energy consumption as a result of a drought in the northeastern and southeastern regions of Brazil, see “Item 3.D.2. Risk Factors Relating to Brazil — Electricity Shortage.”

C. Organizational Structure

CSN does business directly and through subsidiaries, none of which is a significant subsidiary as defined under Regulation S-X.

D. Property, Plants and Equipment

The Company’s headquarters are located in the city of Rio de Janeiro, Rio de Janeiro state, and its production operations are located in the city of Volta Redonda, Rio de Janeiro state, approximately 120 km from the city of Rio de Janeiro. The Presidente Vargas Steelworks, CSN’s main steel mill, is an integrated facility covering approximately 3.8 square km and located in the city of Volta Redonda in Rio de Janeiro state. The Company’s iron ore, limestone and dolomite mines are located in Minas Gerais state, which borders Rio de Janeiro state to the north. Each of these mines is within 500 km of, and is connected by rail and paved road to, the city of Volta Redonda.



The above map shows the locations of the Presidente Vargas Steelworks, the CISA, GalvaSud and INAL facilities, the Company's iron ore, limestone and dolomite mines, the electric generating facilities in which the Company has an interest, and the main port used by the Company to export steel products and import coal and coke as well as the main railway connections.

CSN owns undeveloped plots of land in Rio de Janeiro, Santa Catarina and Minas Gerais states. CSN holds title to 1,045 hectares of land in Santa Catarina. The Company holds title to 4,745 hectares of land in Minas Gerais. The steel plant area in Volta Redonda is 302 hectares.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company as at December 31, 1999 and 2000 and for the three years ended December 31, 2000, including the notes thereto, included elsewhere in this Annual Report. Such Consolidated Financial Statements were prepared in accordance with U.S. GAAP and are presented in U.S. dollars, as explained in Note 2(a) to the Consolidated Financial Statements.

A. Operating Results

1. Overview

The primary factors affecting the Company's results of operations include:

- the cyclical dynamics of supply and demand for steel products both inside and outside Brazil, including the prices for such products;
- the mix of products sold by the Company (between domestic and export sales and between lower value-added and higher value-added products);
- the Company's production costs; and
- Brazilian economic conditions generally, including changes in the *real* exchange rate against other currencies, particularly the U.S. dollar, and the inflation rate.

Supply and Demand for Steel

Prices of steel are sensitive to changes in worldwide and local demand, which in turn are affected by worldwide and country-specific economic cycles, and to available production capacity. While the export price of steel (which is denominated in U.S. dollars) is the spot price, there is no exchange trading of steel or uniform pricing. Unlike other commodity products, steel is not completely fungible due to wide differences in terms of shape, chemical composition, quality and specifications, all of which impact prices. Many companies (including CSN) discount their list prices for regular customers, making actual transaction prices difficult to determine.

In general, export prices are lower than domestic prices, because of the more competitive international marketplace and higher transportation costs and tariffs. Therefore, Brazilian steel producers generally prefer to

sell their products in the domestic market. Because the production of steel products in Brazil exceeds the domestic demand, the Brazilian steel producers must, however, export a significant percentage of their production. The portion of their production that is exported is affected by domestic demand and the prices that can be obtained in the international markets. Exchange rate fluctuations can, however, result in higher export prices, which may counter the Brazilian producers' incentive to sell their products in the domestic market.

Product Mix and Prices

As discussed above, the prices that the Company receives for its sales in Brazil are generally significantly higher than the prices that it receives for its export sales. This had led the Company to adopt a strategy of increasing the percentage of its sales in the domestic market. The Company also has a strategy of maintaining production at full capacity, in order to spread fixed costs over a higher volume of products and to maintain flexibility, so that its product mix may be changed in response to changes in domestic and export demand brought about by domestic and international macroeconomic conditions. As a result of this strategy, production levels are maintained, notwithstanding a decrease in domestic demand. This strategy could, therefore, in any particular period, cause the percentage of sales attributable to exports sales to increase and the percentage attributable to domestic sales to decrease.

The Company also has a strategy of increasing the portion of its sales attributable to higher value-added coated products, particularly galvanized products. Galvanized products are directed at the automotive construction and home appliance industries in the domestic market. As part of its strategy of maintaining production at full capacity, the Company began producing steel slabs for the export markets in the fourth quarter of 1998, in anticipation of a predicted recession in Brazil. In 1999, 9% of CSN's sales were attributable to sales of slabs in the export market. Given the recovery of the domestic market, slabs sales represented only 2% of total sales volume in 2000. The full production strategy could, therefore, in any particular period, cause the percentage of sales attributable to coated products to decrease. In addition, increased production capacity coming on stream could have a similar impact, because increased capacity results in an increase in hot-rolled product production before the production of downstream coated products increases. See "Item 4.B.2. Major Products" for the amounts and percentages of the Company's sales volume and operating revenues attributable to each class of products.

Production Costs

The following table sets forth the production cost per ton (based on U.S. GAAP) of crude steel and the

portion of production costs attributable to the primary components of the Company's cost of production:

	PRODUCTION COSTS ⁽¹⁾					
	(U.S. GAAP Basis)					
	Year Ended December 31,					
	1998		1999		2000	
	US\$/ton	%	US\$/ton	%	US\$/ton	%
Raw Materials						
Iron ore	\$ 4.34	1.6%	\$ 3.38	1.9%	5.76	2.7%
Coal.....	31.09	11.6	23.70	13.0	21.51	10.1
Coke.....	6.03	2.2	1.81	1.0	3.84	1.8
Other ⁽²⁾	<u>32.08</u>	<u>12.0</u>	<u>25.94</u>	<u>14.2</u>	<u>32.59</u>	<u>15.2</u>
	73.54	27.4	54.83	30.1	63.70	29.8
Energy/Fuel.....	23.20	8.7	16.49	9.1	20.24	9.4
Transportation.....	18.51	6.9	14.28	7.9	14.72	6.9
Labor.....	60.78	22.7	32.49	17.9	35.08	16.4
Services and Maintenance...	37.04	13.8	23.18	12.7	32.92	15.4
Depreciation.....	29.49	11.0	22.34	12.3	24.06	11.2
Tools and Supplies.....	19.92	7.4	15.50	8.5	21.17	9.9
Others.....	<u>5.53</u>	<u>2.1</u>	<u>2.74</u>	<u>1.5</u>	<u>2.06</u>	<u>1.0</u>
	\$ <u>268.01</u>	<u>100.0%</u>	\$ <u>181.85</u>	<u>100.0%</u>	<u>213.95</u>	<u>100.0%</u>

(1) With the exception of coal and some coke, which the Company imports, and some alloys (such as zinc and tin), whose domestic prices are linked to international prices, the Company's costs of production, as well as its other operating expenses, are predominantly denominated in *reais*. The devaluation of the *real* causes U.S. dollar-denominated or -linked production costs to increase as a percentage of total production costs.

(2) Includes mainly limestone, dolomite, manganese ore, zinc and tin.

The Company's total number of employees has declined from approximately 13,570 at December 31, 1997 to approximately 12,300 at December 31, 2000. The average number of employees in operations declined from approximately 7,840 in 1998 to approximately 6,960 in 2000, while average operational productivity, measured in tons of crude steel produced per employee-year, increased from 621 in 1998 to 701 in 2000.

Brazilian Economic Conditions – Impact of Real Devaluation

CSN's results of operations are affected by Brazilian economic conditions generally, in addition to factors that affect the supply and demand for steel, discussed above. In the three years covered by this "Operating and Financial Review and Prospects," inflation has been relatively moderate, compared to previous years, and has not had a material impact on CSN's results of operations.

The impact during the three years of fluctuations in the *real* exchange rate against other currencies on CSN's results of operations, particularly the 48% devaluation of the *real* against the U.S. Dollar during 1999, can be seen in the "foreign exchange and monetary loss" lines in the Consolidated Statements of Operations. The impact on CSN's financial condition can be seen under "cumulative translation adjustments" in the Consolidated Statements of Changes in Stockholders' Equity. In addition, the devaluation of the *real* results in the remeasurement of *reais* amounts of revenues, cost and expenses into lower dollar amounts.

2. Results of Operations

For purposes of comparison, the following table presents the items indicated as percentages of net operating revenues for the three years ended December 31, 2000 and the percentage change in each of these items from 1998 to 1999 and from 1999 to 2000:

	Year Ended December 31,			Increase (Decrease)	
	1998	1999	2000	1999/1998	2000/1999
Operating revenues	%	%	%	%	%
Domestic sales	98.8	94.3	104.3	(27.3)	31.8
Export Sales	21.2	26.1	18.2	(6.6)	(16.7)
	120.0	120.4	122.5	(23.7)	21.3
Sales taxes, discounts, returns and allowance	(20.0)	(20.4)	(22.5)	(22.2)	31.2
Net operating revenues	100.0	100.0	100.0	(24.0)	19.3
Cost of products sold	55.6	56.1	57.3	(23.3)	21.9
Gross profit	44.4	43.9	42.7	(24.8)	16.1
Operating expenses					
Selling	8.7	7.8	6.5	(31.2)	(0.8)
General and administrative	7.4	6.3	6.0	(35.8)	14.7
Others	3.9	2.6	3.8	(49.4)	76.2
Operating income	24.4	27.2	26.4	(15.2)	15.5
Non-operating expenses (income), net					
Financial income	15.1	22.3	6.2	12.0	(66.7)
Financial expenses	(11.1)	(15.6)	(14.3)	6.3	9.4
Foreign exchange and monetary loss, net	(6.9)	(36.4)	(6.5)	303.4	(78.6)
Others	(0.2)	0.1	(1.0)	—	—
Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item	21.3	(2.4)	10.8	—	—
Income taxes					
Current	(1.4)	(1.3)	(5.3)	(30.0)	395.2
Deferred	(1.6)	2.3	4.4	(211.8)	126.3
	(3.0)	1.0	(0.9)	(126.6)	(205.9)
Equity in results of affiliated companies	1.4	0.3	4.2	(86.7)	1,950.0
Income (loss) before extraordinary item	19.7	(1.1)	14.1	(104.3)	1,622.2
Extraordinary item	—	4.0	—	—	—
Net Income	19.7	2.9	14.1	(88.6)	470.8

2000 Compared to 1999

Operating Revenues

Operating revenues were US\$2,383 million, a US\$419 million increase from operating revenues of US\$1,964 million in 1999, reflecting a 25.2% increase in average net prices, partially offset by a 5.3% decrease in sales volume.

Operating revenues from domestic sales increased 31.8% to US\$2,029 million in 2000 from US\$1,539 million in 1999, reflecting a 19.5% increase in average prices received and a 10.0% increase in domestic sales volume. This price increase is a reflection of readjustments implemented from April to June 2000 in an attempt to readjust domestic prices, which were still very depressed from the *real* devaluation in 1999. Domestic sales constituted 85.1% of operating revenues in 2000 and 78.4% in 1999, while domestic sales volume as a percentage of total sales volume increased in 2000 to 75.5% from 65.0% in 1999. The increase in domestic sales reflects the recovery of the Brazilian economy, which grew 4.2% in 2000.

Operating revenues from export sales decreased 16.7% to US\$354 million in 2000 from US\$425 million

in 1999, reflecting a 33.7% decrease in sales volume, which was partially offset by a 26.4% increase in average prices received in the export market. This increase reflects the higher value added mix sold in the export market, due to the decrease in slabs sales in 2000. Export sales accounted for 14.9% of operating revenues and 24.5% of sales volume in 2000, compared to 21.6% of operating revenues and 35.0% of sales volume in 1999. This decrease reflects the increase in domestic sales, a consequence of the Brazilian economy recovery in 2000.

Net Operating Revenues

Net operating revenues were US\$1,946 million in 2000, a US\$315 million (or 19.3%) increase from net operating revenues of US\$1,631 million in 1999, reflecting mainly the increase in average prices received.

Gross Profit

The Company's cost of products sold increased US\$200 million (or 21.9%) to US\$1,115 million in 2000 from US\$915 million in 1999, reflecting a US\$230 million increase attributable to a 22.4% increase in average unit costs of goods sold in 2000, compared to 1999, as a result of a higher portion of

sales of higher value added products, primarily reflecting the cessation of slab sales in February 2000, and an increase in maintenance levels. These were partially offset by a US\$30 million decrease attributable to the decrease in sales volume. Despite the foregoing, the Company's gross profit increased US\$115 million (or 16.1%) to US\$831 million in 2000 from US\$716 million in 1999, as a result of the increase in operating revenues in 2000. The Company's gross profit margin was essentially stable, decreasing slightly from 43.9% in 1999 to 42.7% in 2000.

Operating Income

In 2000, the Company's operating income increased US\$69 million (or 15.5%) to US\$513 from US\$444 million in 1999, reflecting the US\$115 million increase in gross profit, which was partly offset by a US\$46 million (or 16.9%) increase in operating expenses. The increase in operating expenses was caused by a US\$15 million increase in general and administrative expenses and a US\$32 million increase in other operating expenses. The increase in general and administrative expenses was mainly due to an increase in contracted services from consultants. The increase in other operating expenses reflects increases in:

- pre-operational expenses in the finalization of the implementation of the production and cost modules as part of the SAP R3 integrated systems; and
- provisions for the employees' profit sharing program and for labor contingencies.

Non-operating Expenses (Income), Net

In 2000, CSN's net non-operating expenses decreased US\$180 million to US\$303 million, compared to US\$483 million in 1999, primarily as a result of a US\$466 million decrease in net foreign exchange and monetary loss to US\$127 million in 2000 from US\$593 million in 1999, reflecting a 9.3% devaluation of the *real* against the U.S. dollar in 2000, compared to a 48.0% devaluation in 1999. This decrease was partially offset by a negative swing of US\$266 million in net financial income/expenses, as CSN incurred net financial expenses of US\$157 million in 2000, compared to net financial income of US\$109 million in 1999, primarily reflecting a US\$276 million decrease in interest income as a result of lower interest rates in Brazil on CSN's floating rates investments.

Net foreign exchange and monetary loss is the result of the impact of changes in exchange rates and indices for assets and liabilities denominated in foreign currencies or subject to monetary variances as compared to the *real*. See Note 2(a) to CSN's

Consolidated Financial Statements appearing elsewhere herein.

Income Taxes

The Company recorded a net tax expense of US\$18 million in 2000 compared to a net tax benefit of US\$17 million in 1999, primarily reflecting a higher net income before taxes in 2000.

Equity in Results of Affiliated Companies

The Company's equity in results of affiliated companies increased in 2000 to US\$82 million from US\$4 million in 1999. The largest factor in such increase was a US\$67 million increase in its equity in Valepar's results, which in turn reflected an increase in CVRD's net income from US\$ 412 million in 1999 to US\$1.1 billion in 2000. See Note 9 to the Consolidated Financial Statements, as well as "Item 4.B.6. Investment Program — Investment in CVRD."

1999 Compared to 1998

Operating Revenues

Operating revenues were US\$1,964 million in 1999, a US\$609 million decrease from operating revenues of US\$2,573 million in 1998, reflecting a 33.3% decrease in average net prices, which was partially offset by a 13.5% increase in sales volume.

Operating revenues from domestic sales decreased 27.3% to US\$1,539 million in 1999 from US\$2,118 million in 1998, reflecting a 30.3 % decrease in average prices received, which was partially offset by an 1.0% increase in domestic sales volume. The decrease in prices reflected the 48% devaluation of the *real* during 1999. Domestic sales constituted 78.4% of operating revenues in 1999 and 82.3% in 1998, while domestic sales volume as a percentage of total sales volume decreased in 1999 to 65.0% from 73.0% in 1998.

Operating revenues from export sales decreased 6.6% to US\$425 million in 1999 from US\$455 million in 1998, reflecting a 35.6% decrease in average prices received in the export market, which was partially offset by a 47.3% increase in export sales volume. The decrease in prices reflected lower international steel prices during 1999, as well as the inclusion of export sales of slabs for the entire year. Export sales accounted for 21.6% of operating revenues and 35.0% of sales volume in 1999, compared to 17.7% of operating revenues and 27.0% of sales volume in 1998. The Company began sales of slabs in the export market in the fourth quarter of 1998 in order to maintain production levels during an anticipated recession in Brazil. In 1999, export sales of slabs

accounted for 3.7% of net operating revenues and 8.9% of sales volume.

Net Operating Revenues

Net operating revenues were US\$1,631 million in 1999, a US\$514 million (or 24.0%) decrease from net operating revenues of US\$2,145 million in 1998, reflecting mainly the decrease in average prices received.

Gross Profit

The Company's cost of products sold decreased US\$278 million (or 23.3%) to US\$915 million in 1999 from US\$1,193 million in 1998, reflecting a US\$437 million decrease attributable to a 32.1% reduction in average unit production costs in 1999, compared to 1998, primarily as a result of the *real* devaluation, which was partially offset by a US\$159 million increase attributable to the increase in sales volume. The reduction in production costs as a result of the *real* devaluation was also partially offset by higher fuel and energy costs to the Company as a result of rate increases, as well as higher costs in *reais* of dollar-linked raw materials. As a result of the foregoing, the Company's gross profit decreased US\$236 million (or 24.8%) to US\$716 million in 1999 from US\$952 million in 1998. The Company's gross profit margin was substantially unchanged — 44.4% in 1998 compared to 43.9% in 1999.

Operating Income

In 1999, the Company's operating income decreased US\$80 million (or 15.2%) to US\$444 million from US\$524 million in 1998, reflecting the US\$236 million decrease in gross profit, which was partly offset by a US\$156 million (or 36.4%) decrease in operating expenses. The decrease in operating expenses was caused primarily by a US\$58 million decrease in selling expenses, a US\$57 million decrease in general and administrative expenses, and a US\$41 million decrease in other operating expenses. The decrease in selling expenses was the result of a US\$43 million decrease in the provision for doubtful accounts, better freight prices and the *real* devaluation. The devaluation was also the main factor responsible for the decrease in general and administrative expenses and in other operating expenses.

Non-operating Expenses (Income), Net

In 1999, CSN's net non-operating expenses increased US\$416 million to US\$483 million from US\$67 million in 1998. This increase was primarily the result of a US\$446 million increase in net foreign exchange and monetary loss to US\$593 million in 1999

from US\$147 million in 1998, reflecting a 48.0% devaluation of the *real* against the U.S. dollar in 1999, compared to a 8.3% devaluation in 1998. This increase was partially offset by a US\$24 million increase in net financial income in 1999 to US\$109 million from US\$85 million in 1998, primarily reflecting a US\$121 million increase in interest income as a result of higher interest rates in Brazil on its floating rate investments.

Income Taxes

The Company recorded a net tax benefit of US\$17 million in 1999 compared to a net tax expense of US\$64 million in 1998, primarily reflecting exchange variation expenses recorded in 1999 associated with the devaluation of the *real*.

Equity in Results of Affiliated Companies

The Company's equity in results of affiliated companies declined in 1999 to US\$4 million from US\$30 million in 1998. The largest factor in such decline was a US\$48 million decrease in its equity in Valepar's results, which in turn reflected a decrease in CVRD's net income from US\$896 million to US\$412 million. CVRD's net income decreased in 1999, notwithstanding an increase in its operating income in 1999 to US\$920 million from US\$854 million in 1998. The decrease in CVRD's net income in 1999 reflects lower financial income of US\$200 million in 1999, compared to US\$394 million in 1998, and its equity in net losses of its affiliates of US\$227 million in 1999, compared to its equity in net earnings of its affiliates of US\$101 million in 1998.

Extraordinary Item

The extraordinary item relates to a gain on the repurchase of US\$202 million of Eurodollar notes issued in 1997.

B. Liquidity and Capital Resources

During the three years ended December 31, 2000, the Company's EBITDA (i.e., operating income plus depreciation and other operating expenses) has aggregated US\$2,074 million. During the same period, the Company's capital expenditures and long-term investments under its Strategic Investments Program have aggregated US\$1,207 million, consisting of capital expenditures of US\$962 million and investments of US\$245 million.

Capital expenditures of approximately US\$445 million are planned during 2001. See "Item 4.B.6.

Investment Programs.” The Company expects to meet its working capital and capital expenditure requirements from cash generated from operations, and, if needed, short-term and long-term secured and unsecured borrowings, including project financings and issuances of debt securities.

At December 31, 1999 and 2000, the Company’s total debt (including pre-payments on export contracts) aggregated US\$2,518 million and US\$2,571 million, respectively, compared to US\$2,874 million at December 31, 1998. The total debt amounts were equal to 159.9% and 225.3% of total stockholders’ equity at December 31, 1999 and 2000, respectively, compared to 112.3% at December 31, 1998. At December 31, 2000, short-term debt (including current portion of long-term debt of US\$278 million) was US\$1,065 million, and total long-term debt (excluding current portion) was US\$1,506 million. At December 31, 2000, approximately 3.4% of the Company’s debt was denominated in *reais* and substantially all of the remaining balance was denominated in U.S. dollars.

Of the Company’s US\$723 million of short-term debt outstanding at December 31, 2000, US\$526 million was outstanding under two commercial paper programs. The commercial paper is backed by a letter of credit, has a duration of 364 days (maturing in June and August 2001) and in 2000 bore interest at an average rate of 7.6% per annum. In April 2001, CSN initiated a two-year commercial paper program in the amount of US\$250 million with an average interest rate of 5.9% per annum. Depending on market conditions, CSN intends to continue its use of commercial paper facilities.

The major components of the Company’s US\$1,784 million (including current portion) of long-term debt outstanding at December 31, 2000 were (amounts are the amounts reflected in long-term debt):

- US\$440 million of loans from BNDES;
- US\$367 million of Eurodollar notes described below;
- US\$350 million of Notes described below;
- US\$200 million of pre-payments on export contracts;
- US\$165 million of raw materials and equipment import financing;
- US\$110 million outstanding under a securitization of receivables concluded in 1996; and
- US\$91 million of loans from export credit agencies.

The BNDES loans are in large part secured by property, plant and equipment, with all-in costs and maturities which are significantly more favorable than terms available in the local capital markets.

The Eurodollar Notes are the remaining Notes outstanding from a US\$600 million Rule 144A/Regulation S offering in June 1997. They mature in 2007 and bear interest at 9.125% per annum. Pursuant to tender offers in February 1999 and May 2001 and open market purchases, CSN has purchased US\$521 million of the Notes, leaving US\$79 million outstanding as of June 8, 2001. The other Notes were issued in August and September 2000 in Rule 144A/Regulation S transactions in the North American and European markets. They have two-year terms and bear interest at 9.625% per annum.

Pre-payments on export contracts are receivables-based financing made available by importers and international financing institutions at fixed or floating rates and with maturities of up to six months or over one year. This form of financing usually has the longer maturity (i.e., more than one year).

The commercial paper programs, the pre-payments on export contracts, the import financing, the securitization of receivables and the loans from export credit agencies are trade-related financings. In February 2001, CSN repaid its securitized export receivables.

In January 2001 and March 2001, CSN received proceeds of US\$362 million and US\$1,313 million, respectively, from the sales of its interests in Light and CVRD. See “Infrastructure Investments — Electricity Distribution and Generation — Light” and “Investment in CVRD” under Item 4.B.6. It used US\$812 million of such proceeds to make an extraordinary payment of dividends and interest on stockholders’ equity of R\$1,588 million, and the remaining US\$863 million was added to cash and cash equivalents. On June 15, 2001, CSN made dividend and interest on stockholders’ equity payments aggregating R\$836.1 million (US\$354.0 million).

Maturity Profile

The following table sets forth the maturity profile of CSN’s long-term debt as of December 31, 2000:

<u>Maturity in</u>	<u>Millions of US\$</u>
2002	575
2003	147
2004	94
2005	72
2006	65
2007	405 ⁽¹⁾
2008 and thereafter	148
Total	<u>1,506</u>

(1) Reduced to US\$118 million by the May 2001 tender offer for the Eurodollar Notes.

Impact of Vicunha Debt

As described under “Item 7.A. Major Shareholders” and “Item 7.B. Related Party Transactions,” *Vicunha Siderurgia S.A.* (“Vicunha Siderurgia”) financed the increase in its interest in CSN from 14.1% to 46.5% by issuing debentures in an aggregate principal amount of R\$1.9 billion. The trust deed under which the debentures were issued (the “Deed”) and an agreement between Vicunha Siderurgia and BNDESPAR in effect impose financial restrictions on CSN, which are determined in accordance with the accounting principles applied by CSN in its statutory financial statements prepared in accordance with the Brazilian Corporate Law. Following are summaries of such financial restrictions and calculations of the restrictions as of December 31, 2000 and for 2000, on a pro forma basis after giving effect to the sale by CSN of its interests in Light and CVRD and the use of the proceeds from those sales to pay the extraordinary dividend and interest on shareholders’ equity:

- CSN’s net financial debt may not exceed three times EBITDA — at December 31, 2000, pro forma net financial debt was 1.6 times EBITDA for 2000.
- CSN’s net financial expenses (including net monetary variations but excluding net exchange rate variations in excess of INPC (National Consumer Price Index — *Índice Nacional de Preços ao Consumidor*) plus 5%) may not exceed 60% of EBITDA in 2001 or 50% thereafter — in 2000, such pro forma net financial expenses were 51.4% of EBITDA.
- CSN’s net financial expenses (including net monetary variations but excluding net exchange rate variations) may not exceed the lower of (a) 30% of EBITDA in 2001 and 2002 (40% thereafter) or (b) EBITDA less income taxes, social contribution, dividends paid in an amount equal to the debt service on the debentures and CSN’s capital expenditures from cash generated by operations and increases in capital of unconsolidated subsidiaries (“modified EBITDA”)

— in 2000, 30% of EBITDA was R\$399 million, pro forma modified EBITDA was R\$633 million, such pro forma net financial expenses were R\$253 million or 19.0% of EBITDA and R\$380 million lower than modified EBITDA.

Vicunha Siderurgia is a special purpose company with no assets other than shares of common stock of CSN. Accordingly, the only source of funds (other than an increase in capital) to meet the principal and interest payments on its debentures is dividends on the CSN’s Common Shares owned by it. Following are the nominal amounts of principal of Vicunha Siderurgia’s debentures due in the periods indicated:

<u>Maturity in</u>	<u>Payment of Principal⁽¹⁾</u> <i>(in millions of R\$)</i>
2001	352
2002	—
2003	117
2004	88
2005	176
2006	205
2007	203
2008	208
2009	210
2010	261
2011	179

(1) These amounts do not include interest or additional amounts of principal required by adjustments for inflation.

C. Research and Development, Patents and Licenses, etc.

See “Item 4.B.9. Research and Development.”

D. Trend Information

Recent significant developments that were not fully reflected in the Company’s results of operations for 2000 or in its financial position as of December 31, 2000 and that could impact CSN’s future results of operation and financial position include: the recent devaluation of the *real* (see “Item 3.D.2. Risk Factors Relating to Brazil — Devaluation of the *Real*; Exchange Controls”), the electricity shortage in Brazil (see “Item 3.D.2. Risk Factors Relating to Brazil — Electricity Shortage”), the threatened Section 201 action in the United States (see “Item 3.D.1. Risk Factors Relating to the Steel Industry and CSN — Antidumping and Government Protection” and “Item 4.B.11. Government Regulation and Other Legal Matters”), and the issuance of Vicunha Siderurgia debentures (see “Item 5.B. Liquidity and Capital Resources — Impact of Vicunha Debt”).

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The Company is managed by its Board of Directors (*Conselho de AdministraçHvo*), which consists of nine members, and its Board of Executive Officers (*Diretoria Executiva*), which consists of from three to six executive officers (one of which is the Chief Executive Officer). In accordance with the Company's *Estatuto Social* (the "By-laws"), each Director is elected for a term of one year by the Company's stockholders at a stockholders' meeting. CSN's By-laws require CSN's employees to be represented by one Director on the Board of Directors. The members of the Board of Executive Officers are appointed by the Board of Directors for a two-year term.

The Board of Directors primarily establishes corporate strategy and reviews business plans and policies. In connection with the CSN share ownership realignment, six members of CSN's Board of Directors resigned, and on April 24, 2001, four new directors were elected.

The Board of Executive Officers is responsible for the formulation of business plans and policies and for the implementation of specific operating decisions. In April 1999, CSN changed its corporate structure by creating the position of a Chief Executive Officer of the Company, who reports to the Board of Directors, and consolidating the existing four sectors into three: Corporate Center, Steel and Infrastructure/Energy. In addition, the Company created another sector — New Businesses. In November 2000, CSN divided the Steel sector into two sectors — Operations and Commercial. Each sector is headed by an Executive Officer, who reports to the Chief Executive Officer of the Company.

The Chief Executive Officer is responsible for strategic planning, Fundação CSN (CSN's Foundation), and external corporate communications. The Corporate Center Executive Officer is responsible for financial comptrolling/financial reporting, information technology, legal, investor relations, corporate human resources, corporate communications and CBS. The Operations Sector Executive Officer is responsible for the manufacturing of CSN's steel and steel products. The Commercial Sector Executive Officer is responsible for the sales and marketing of CSN's steel products. The Infrastructure/Energy Executive Officer is responsible for CSN's mines, investments in logistics (railways and ports), real estate, procurement, power generation and distribution facilities. The New Businesses Executive Officer is responsible for new and current projects.

CSN's Directors and Executive Officers are as follows.

<u>Name</u>	<u>Position</u>
<i>Board of Directors</i>	
Benjamin Steinbruch	Chairman
Jacks Rabinovich	Vice Chairman
Edmar Lisboa Bacha	Member
Mauro Molchansky	Member
Paulo Guilherme Aguiar Cunha	Member
Vagner Laerte Ardeo	Member
Onofre Perez Netto	Member
Antonio Francisco dos Santos	Member
Fúlvio Vieira Fonseca	Member
<i>Board of Executive Officers</i>	
Maria Sílvia Bastos Marques	Chief Executive Officer
João Luis Tenreiro Barroso	Executive Officer – Corporate Center
Albano Chagas Vieira	Executive Officer – Operations
José Paulo de Oliveira Alves	Executive Officer – Infrastructure & Energy and New Businesses (interim)
Vasco Augusto Pinto da Fonseca Dias Junior	Executive Officer – Commercial

1. Board of Directors

Benjamin Steinbruch. Mr. Steinbruch has been Chairman of the Board of Directors of the Company since April 28, 1995. He is also Superintendent Officer of Vicunha Siderurgia.

Jacks Rabinovich. Mr. Rabinovich has been a Member of the Board of Directors of the Company since April 23, 1993. He was elected Vice Chairman of CSN's Board of Directors on April 24, 2001. He is also Chief Executive Officer of Vicunha Siderurgia.

Edmar Lisboa Bacha. Mr. Bacha has been a Member of the Board of Directors of the Company since April 24, 2001. Since February 1996, he has been Senior Advisor of Banco BBA Creditanstalt. He is also President of ANBID - *Associação Nacional de Bancos de Investimento*.

Mauro Molchansky. Mr. Molchansky has been a Member of the Board of Directors of the Company since April 24, 2001. Since August 1994, he has been Executive Officer of *Globo Comunicações e Participações S.A.* ("Globopar"). Before joining Globopar in 1994, he was Financial Officer and Investor Relations Officer of *Aracruz Celulose S.A.*

Paulo Guilherme Aguiar Cunha. Mr. Cunha has been a Member of the Board of Directors of the Company since April 24, 2001. For more than 20 years, he has been Chairman of the Ultra Group and Oxiten. He is also Vice President of *ABIQUIM – Associação Brasileira de Indústria Química*.

Vagner Laerte Ardeo. Mr. Ardeo has been a Member of the Board of Directors of the Company since November 25, 1997. He is also President of CSN Employee Investment Club. Mr. Ardeo has been with the Company since August 1996. He is also a member of the Board of Directors of CBS.

Onofre Perez Netto. Mr. Perez Netto has been a Member of the Board of Directors of the Company since April 23, 1993. He is also Chief Executive Officer of *Intermesa Investimentos S.A.* Mr. Perez Netto was Industrial Officer of CSN from May 1995 to October 1996.

Antonio Francisco dos Santos. Mr. Santos has been a Member of the Board of Directors of the Company since November 25, 1997. Since 1972, Mr. Santos has served the Company in various positions of responsibility, including Coordinator of Industrial Engineering, Chief of Industrial Engineering, and Chief of Production Planning. He is currently Vice Chairman of the Board of CSN Employee Investment Club.

Fúlvio Vieira Fonseca. Mr. Fonseca was elected a Member of the Board of Directors of the Company on April 24, 2001 upon exercise by *Fundação Vale do Rio Doce de Seguridade Social-Valia* (“Valia”) of its cumulative voting rights, which arise as a result of its owning more than 5% of the Common Shares. He is an independent advisor/consultant. He was the Advisor to the Chief Executive Officer of CVRD from 1988 to 1991.

2. Board of Executive Officers

Maria Silvia Bastos Marques. Mrs. Bastos Marques, the Chief Executive Officer, has been with CSN since May 20, 1996. She became Chief Executive Officer in connection with the change in the Company’s management structure on April 29, 1999. She was Executive Officer of the Corporate Center from May 20, 1996 to April 29, 1999. During that period, she also filled the statutory position of *Diretor de Relações com o Mercado* (“Investor Relations Executive Officer”). Mrs. Bastos Marques is president of the *Instituto Brasileiro de Siderurgia* (Brazilian Steel Institute), a Director of *Souza Cruz S.A.* and Petrobrás, and a member of Ford South America’s Advisory Board. Before joining the Company, she was Treasury Secretary of the city of Rio de Janeiro.

João Luis Tenreiro Barroso. Since June 17, 1999, Mr. Tenreiro Barroso has been the Executive Officer of the Corporate Center. He also fills the statutory position of Investor Relations Executive Officer. Before that, Mr. Tenreiro Barroso occupied the position of President of CBS since November 1996. Prior to joining the Company, he was the Superintendent of the Municipal

Treasury of Rio de Janeiro and was Assistant Secretary to the Federal Economy Ministry.

Albano Chagas Vieira. Mr. Chagas Vieira joined the Company as Executive Officer of the Steel sector on April 29, 1999. He became Executive Officer of the Operations sector on November 28, 2000. Prior to joining the Company, Mr. Chagas Vieira occupied positions in *Companhia de Aços Especiais Itabira — ACESITA*, *Companhia Siderúrgica de Tubarão – CST*, *Aços Villares S.A.* and *Acesita Sandvik Tubos Industriais – ASTI S.A.*

José Paulo de Oliveira Alves. Mr. Alves has been Executive Officer of the Infrastructure/Energy sector since May 20, 1998 and has been the Executive Officer of New Businesses sector since June 17, 1999. Previously, Mr. Alves occupied the position of president of *Ferrovias Sul Atlântico S.A.* and positions at *GP Investimentos CS Ltda.*, *Minerações Brasileiras Reunidas S.A.-MBR*, *CAEMI Mineração* and *CAEMI Internacional*.

Vasco Augusto Pinto da Fonseca Dias Junior. Mr. Dias Junior has been the Executive Officer of the Commercial sector since December 15, 2000. Prior to joining the Company, he was a Vice President of Shell Brasil S.A.

3. Audit Committee

Under Brazilian Corporate Law, shareholders may request the appointment of a *Conselho Fiscal* (an “Audit Committee”), a corporate body independent of management and the Company’s external auditors. The primary responsibility of the Audit Committee is to review management’s activities and the financial statements, and report its findings to the shareholders. A three-member Audit Committee was elected in April 2000 pursuant to a vote of the shareholders of CSN. The shareholders, at their meeting on April 24, 2001, did not request the continuation of the Audit Committee.

4. Indemnification of Officers and Directors

There is no provision for or prohibition against the indemnification of officers and directors in Brazilian law or in the Company’s By-laws. Officers are generally not individually liable for acts within the course of their duties. CSN maintains directors and officers liability insurance, insuring the Directors, the Chief Executive Officer, the Executive Officers and certain key employees against liabilities incurred in connection with their positions within the Company.

B. Compensation

For the year ended December 31, 2000, the aggregate compensation paid by the Company to all members of the Board of Directors, the alternate directors and the members of the Board of Executive Officers and of the Audit Committee for services in all capacities was approximately US\$3.2 million. In addition, the members of the Board of Executive Officers receive certain additional Company benefits generally provided to Company employees and their families, such as medical assistance.

C. Board Practices

See “Item 6.A. Directors and Senior Management.”

D. Employees

See “Item 4.B.12. Employees and Labor Matters.”

E. Share Ownership

Other than the Common Shares that Messrs. Steinbruch and Rabinovich may be deemed to own as a result of their interests in Vicunha Siderurgia and 1,168,100,001 shares (1.62% of the outstanding Common Shares) underlying forward purchase contracts owned by Mr. Steinbruch, CSN’s directors and officers as a group own less than 1% of the outstanding Common Shares.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

The following table sets forth, as of May 31, 2001, the number of Common Shares owned by all persons known to CSN to own more than 5% of its outstanding Common Shares as of such date:

<u>Name of Person or Group</u>	<u>Common Shares</u>	
	<u>Shares Owned</u>	<u>Percent of Total</u>
	(In thousands)	
<i>Vicunha Siderurgia S.A.</i> ⁽¹⁾	33,337,091	46.5
<i>Fundação Vale do Rio Doce de Seguridade Social – Valia</i> ⁽²⁾	7,410,457	10.3

- (1) Owned indirectly by Benjamin Steinbruch, Chairman of the Board of Directors of CSN, Jacks Rabinovich, Vice Chairman of the Board of Directors of CSN, and members of their families. Does not include the outstanding shares that are described under “Item 6.E. Share Ownership,” which are beneficially owned by Benjamin Steinbruch.
- (2) The pension fund for CVRD’s employees.

Pursuant to an agreement entered into on December 31, 2000, CSN sold its interest in Valepar, through which it held its interest in CVRD, to Bradespar, Bradesplan and Litel. In connection with this transaction, Vicunha Siderurgia purchased Bradespar’s 17.9% and Previ’s 13.8% interests in CSN, bringing Vicunha Siderurgia’s total stake in CSN to 46.5%. In addition, CVRD sold its 10.3% interest in CSN to Valia. See “Item 4.B.6. Investment Programs — Investment in CVRD,” “Item 4.B.7. Facilities — Mines and Mineral Reserves — Iron Ore Mine,” “Item 5.B. Liquidity and Capital Resources — Impact of Vicunha Debt,” and “Item 7.B. Related Party Transactions.”

Vicunha Siderurgia, which is owned indirectly by Benjamin Steinbruch, Chairman of the Board of Directors of CSN, Jacks Rabinovich, Vice Chairman of the Board of Directors of CSN, and members of their families, financed the purchase of the Bradespar’s and Previ’s interests in CSN by issuing debentures in an aggregate principal amount of R\$1.9 billion. The debentures are secured by all of the CSN shares owned by Vicunha Siderurgia and are guaranteed by Messrs. Steinbruch and Rabinovich and members of their families. In connection with the issuance of the debentures, Vicunha Siderurgia and BNDESPAR entered into an agreement pursuant to which Vicunha Siderurgia agreed to maintain at least a 46.0% interest in CSN while the debentures are outstanding. BNDESPAR can require Vicunha Siderurgia to vote against changes in CSN’s corporate purpose, capital structure, minimum dividend payment and mergers. BNDESPAR may also block any sale of the Casa de Pedra mine, if the sale would create BNDESPAR’s risk as a creditor of Vicunha Siderurgia or CSN. The deed under which the debentures were issued and the agreement between Vicunha Siderurgia and BNDESPAR in effect impose financial restrictions on CSN, which are described under “Item 5.B. Liquidity and Capital Resources — Impact of Vicunha Debt” and “Item 10.C. Material Contracts.”

Vicunha Siderurgia, together with *Clube de Investimento CSN* (“CSN Employee Investment Club”) and Intermesa, which own 3.3% and 1.2%, respectively, of CSN’s Common Shares, are parties to a shareholders’ agreement (the “Shareholders’ Agreement”) dated April 23, 1993, as amended on March 27, 2000, which includes, among other provisions, (a) an agreement by the parties to vote as a block with respect to certain matters to be voted upon at any meeting of the stockholders or Board of Directors, (b) an agreement entitling each party to appoint either one or two directors and (c) reciprocal rights of first refusal for any transfer of a party’s CSN Common Shares. As a result of the Shareholders’ Agreement, the parties have the ability to determine

the composition of the Board of Directors (other than directors elected as a result of stockholders' exercise of cumulative voting rights) and to decide any significant corporate actions, in certain cases by a vote of the parties based on Common Shares owned. In April 1999, the Shareholders' Agreement was automatically renewed for a period of three years. Previ, Bradespar and CVRD's subsidiary through which it held its 10.3% interest in CSN had been parties to the Shareholders' Agreement. Under the Shareholders' Agreement, CVRD was entitled to purchase or market any excess production from CSN's Casa de Pedra mine. See "Item 10.C. Material Contracts."

As the holder of more than 5% of CSN's Common Shares, Valia is entitled to vote its shares cumulatively for the election of directors.

B. Related Party Transactions

Pursuant to agreements entered into on December 31, 2000:

- Vicunha Siderurgia, which owned 14.1% of CSN's Common Shares, purchased the 13.8% and 17.9% of CSN's Common Shares held, respectively, by Previ and by Bradespar.
- Litel, Bradespar and Bradesplan purchased CSN's interest in Valepar and assumed CSN's put obligation to purchase the interest in Valepar owned by Sweet River.
- CSN granted CVRD a 30-year right of first refusal to purchase any production of iron ore from CSN's Casa de Pedra mine in excess of CSN's and its affiliates' needs and a right of first refusal to buy the Casa de Pedra mine if CSN decides to sell it, provided that prior to April 23, 2002 CVRD disposed of its 10.3% interest in CSN. CVRD has transferred its interest in CSN to Valia and consequently withdrawn from the Shareholders' Agreement (thus losing the specific rights it had under this agreement).

See "Item 10.C. Material Contracts."

From time to time CSN conducts transactions with companies directly or indirectly owned by its principal shareholders or members of its Board of Directors. In 2000, CSN sold steel products, at prevailing market prices, for an aggregate of R\$8.3 million (US\$4.5 million) to *Metalic S.A.*, which is owned by the Steinbruch family. See "Infrastructure Investments — Railways — Northeastern Railway System" under "Item 4.B.6. Investment Programs," "Item 7.A. Major Shareholders" and "Item 6.A. Directors and Senior Management." See also Note 18 to the Consolidated Financial Statements.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See "Item 18. Financial Statements" for CSN's consolidated financial statements.

Legal Proceedings

The Company is party to a number of legal actions arising from its normal business activities, none of which is required to be disclosed under this Item. For a discussion of certain pending legal matters to which CSN is a party, see "Item 4.B.11. Government Regulation and Other Legal Matters." As of December 31, 2000, the Company had a US\$157 million provision relating to certain tax and other civil lawsuits and claims, for which it had deposited US\$155 million in judicial escrow accounts. See Note 16 to the Consolidated Financial Statements.

Dividends and Dividend Policy

Subject to certain exceptions, Brazilian Corporate Law requires that the Company pay a yearly minimum dividend equal to 25% of adjusted net profits, calculated in accordance with Brazilian Corporate Law. Proposals to declare and pay dividends in excess of the statutory minimum are generally made at the recommendation of the Board of Directors and require approval by the vote of holders of Common Shares. Any such proposal will be dependent upon the Company's results of operations, financial condition, cash requirements for its business, future prospects and other factors deemed relevant by the Board of Directors. Until December 2000, it had been the Company's policy to pay dividends on its outstanding Common Shares not less than the amount of its required distributions for any particular fiscal year, subject to any determination by the Board of Directors that such distributions would be inadvisable in view of the Company's financial condition. In December 2000, the Board of Directors decided to adopt a policy of paying dividends equal to all legally available net profits, after taking into consideration the following priorities: (i) the Company's business strategy; (ii) the performance of the Company's obligations; (iii) the accomplishment of the Company's required investments, and (iv) the maintenance of the Company's good financial status. See "Item 4.B. Liquidity and Capital Resources — Impact of Vicunha Debt."

Pursuant to a change in Brazilian tax law effective January 1, 1996, Brazilian companies are also permitted to pay limited amounts of interest on

stockholders' equity to holders of equity securities and to treat such payments as an expense for Brazilian income tax purposes. Such payments may be counted in determining if the statutory minimum dividend requirement has been met, subject to shareholder approval.

The following table sets forth the dividends and interest on stockholder's equity declared on Common Shares in respect of each year during the past five years (these amounts differ from the amounts in the Company's U.S. GAAP financial statements because the latter only reflect dividends declared during the year):

	R\$(nominal)		US\$ ⁽¹⁾	
	Per 1,000 Common Shares	Aggregate (thousands)	Per ADS	Aggregate (thousands)
2000.....	26.735	1,917,666	13.098	939,512
1999.....	3.385	242,800	1.913	137,224
1998.....	3.416	245,614	2.893	208,048
1997.....	3.225	235,520	2.910	212,530
1996.....	1.545	116,492	1.471	110,954

(1) Translated into U.S. dollars at the Commercial Market Rate in effect on the declaration date.

On June 15, 2001, CSN made an aggregate payment of R\$836.1 million (US\$354.0 million) of dividends and interest on stockholders' equity, representing R\$11.66 per one thousand shares (US\$4.93 per ADS). See "Item 5.B Liquidity and Capital Resources."

B. Significant Changes

There have been no significant changes since December 31, 2000, except for:

- the pre-payment of US\$108.5 million of CSN's securitized export receivables in February 2001 (see "Item 5.B. Liquidity and Capital Resources");
- the financial settlement of CSN's sale of its participation in Light and CVRD in January and March 2001 (see "Item 4.B.6. Investment Programs — Investment in CVRD," "Item 5.B. Liquidity and Capital Resources," "Item 7.A. Major Shareholders," and "Item 7.B. Related Party Transactions");
- the R\$1,588 million extraordinary dividend and interest on stockholders' equity payments made in March 2001 (see "Item 5.B. Liquidity and Capital Resources") and the R\$836.1 million (US\$354.0 million) extraordinary

dividend and interest on stockholders' equity paid on June 15, 2001;

- the US\$250 million two-year commercial paper program issued in April 2001 (see "Item 5.B. Liquidity and Capital Resources");
- the tender offer made in May 2001 and open market purchases in which CSN has purchased US\$287.4 million of its Eurodollar Notes due 2007, leaving US\$79 million outstanding as of June 8, 2001 (see "Item 5.B. Liquidity and Capital Resources"); and
- the agreement for the acquisition of assets of Heartland Steel, a flat-rolled processing facility in Terre Haute, Indiana (see "Item 4.B.6. Investments in Downstream Opportunities, New Products and Market Niches").

CSN's U.S. GAAP consolidated financial statements for 2001 will include a gain, net of income taxes, of US\$586 million from the sale of CSN's investments in Light and CVRD.

Item 9. The Offer and Listing

A.4. Price History

and

C. Markets

The capital stock of the Company is comprised of *ações ordinárias*, without par value (the "Common Shares"). The principal trading market for the Company's Common Shares is the São Paulo Stock Exchange. The Company's American Depository Shares trade on the New York Stock Exchange ("NYSE") under the symbol "SID."

Since November 14, 1997, American Depository Shares, each representing 1,000 Common Shares (the "ADSs"), have traded on the New York Stock Exchange. Prior to November 14, 1997, the ADSs traded in the U.S. over the counter market under the symbol "CSNNY" and dealers' prices for such ADSs were quoted in the "pink sheets" published by the National Quotations Bureau, Inc. Prior to November 1, 1997, the ADSs were issued by Citibank N.A., as depositary. Subsequent to such date, ADSs have been issued by Morgan Guaranty Trust Company of New York, as Depositary, pursuant to an amended and restated deposit agreement among the Company, such Depositary and the holders of the ADSs from time to time. As of December 31, 2000, there were approximately 6.3 million ADSs outstanding,

representing approximately 6.3 billion Common Shares or approximately 8.8% of the Company's outstanding Common Shares. Such ADSs were held by seven record holders as of such date, including The Depository Trust Company, which held 6.3 million ADSs for 63 participant accounts. In addition, the Company's records indicate that at such date there were approximately 121 record holders (other than the Depository) with addresses in the U.S. holding an aggregate of approximately 14.3 billion Common Shares. The Common Shares held (directly or through ADSs) by persons with addresses in the U.S. constituted approximately 20.0% of the Company's outstanding Common Shares.

Over the past few years, CSN's Board of Directors has authorized the Company to purchase Common Shares. Such purchases took place primarily on the São Paulo Stock Exchange at market prices. During 1999, the Company acquired approximately 1.7 million Common Shares. No purchases were made in 2000.

The following table sets forth information concerning the high and low closing sale prices and the average daily trading volume of the Common Shares on the São Paulo Stock Exchange (per lot of 1,000 Common Shares) and the ADSs on the NYSE for the periods indicated.

	Common Shares ⁽¹⁾			American Depositary Shares		
	US\$ per Share ⁽²⁾		Volume	US\$ per ADS		Volume
	High	Low		High	Low	
Previous Five Years						
1996	11.27	11.02	74,950	—	—	—
1997	15.84	15.37	103,376	18.98 ⁽³⁾	18.60 ⁽³⁾	20,32
1998	12.11	11.68	71,207	15.42	15.16	9,19
1999	13.75	13.30	93,882	15.23	14.90	39,08
2000	20.51	19.74	109,308	21.51	21.06	58,59
Previous Six Months						
December 2000	18.89	18.15	183,168	19.76	19.44	42,71
January 2001	23.52	23.00	137,590	22.96	22.60	49,65
February 2001	23.92	23.16	126,267	23.43	22.90	30,96
March 2001	23.00	22.27	128,541	22.32	21.84	26,62
April 2001	21.58	22.51	92,995	22.45	21.63	29,47
May 2001	23.41	19.89	88,018	23.71	19.80	33,07

(1) Common Share prices and volumes per 1,000 Common Shares.

(2) U.S. dollar amounts are translated from Brazilian *reais* at the Commercial Market rates in effect on the respective dates of the quotations for the Common Shares set forth above. Such U.S. dollar amounts may reflect exchange rate fluctuations and may not correspond to changes in nominal *reais* prices over time.

(3) From the listing on the NYSE on November 14, 1997 until the end of the year.

Source: Bloomberg

On June 15, 2001, the closing sale price per (i) 1,000 Common Shares on the São Paulo Stock Exchange was R\$44.00 and (ii) ADS on the NYSE was US\$18.25.

Trading on the Brazilian Stock Exchanges

Since April 28, 2000, the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo – BOVESPA*) has been Brazil’s only stock exchange.

The São Paulo Stock Exchange a non-profit entity owned by its member brokerage firms. Trading on the exchange is limited to member brokerage firms and a limited number of authorized non-members. The São Paulo Stock Exchange has one open outcry trading session each day, from 10:00 a.m. to 5:00 p.m. Trading is also conducted during this time on an automated system called *Sistema de Negociação Assistida por Computador* (Computer Assisted Trading System or “CATS”). There are no specialists or market makers for the Company’s shares on the São Paulo Stock Exchange. The *Comissão de Valores Mobiliários* (the Brazilian Securities Commission or “CVM”) and the São Paulo Stock Exchange have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Off-exchange trading may be effected in certain circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of the São Paulo Stock Exchange’s clearinghouse, *Caixa de Liquidação de São Paulo S.A.* (“CALISPA”). The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date.

As of December 31, 2000, the aggregate market capitalization of the 467 companies listed on the São Paulo Stock Exchange was equivalent to approximately US\$225.5 billion, and the five largest companies represented approximately 29.4% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on the São Paulo Stock Exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by governmental entities or by one principal stockholder. As of December 31, 2000, approximately 24.4% of the market capitalization of all listed companies on the São Paulo Stock Exchange was controlled, directly or indirectly, by

the Brazilian Government. As of December 31, 2000, the Company accounted for approximately 1.0% of the market capitalization of all listed companies on the São Paulo Stock Exchange.

Although the Brazilian equity market was Latin America’s largest in terms of market capitalization, expressed in U.S. dollars as of December 31, 2000, it is relatively small and illiquid compared to major world markets. In 2000, the average daily trading value was approximately US\$410 million on the São Paulo Stock Exchange. In 2000, the five most actively traded equity issues represented approximately 47% of the total value of equity issues traded on the São Paulo Stock Exchange.

Brazil is generally considered by international investors to be an “emerging market.” As a result, political, economic, social and other developments in other “emerging markets” may have an adverse effect on the market value and liquidity of the Common Shares and ADSs. For example, the Brazilian securities markets were adversely affected by the Mexican liquidity crisis at the end of 1994, the Asian financial crisis at the end of 1997, the Russian financial crisis in 1998 and the devaluation of the *real* at the beginning of 1999.

The following table reflects the fluctuations in the IBOVESPA index (the São Paulo stock exchange index) during the periods indicated:

IBOVESPA Index			
	<u>High</u>	<u>Low</u>	<u>Close</u>
1999	17,091	5,057	17,091
2000	19,046	4,797	15,259
2001 (1 st Q)	18,023	13,761	14,438

The IBOVESPA index closed at 14,985 on June 15, 2001.

Trading on the São Paulo Stock Exchange by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. See “Item 10.D. Exchange Controls.”

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is

governed by Law No. 6,385 dated December 7, 1976, as amended (the “Brazilian Securities Law”), and the Brazilian Corporate Law.

Under the Brazilian Corporate Law, a company is either public, a “*companhia aberta*,” such as the Company, or private, a “*companhia fechada*.” All public companies are registered with the CVM and are subject to reporting requirements.

Trading in securities on the São Paulo Stock Exchange may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of the São Paulo Stock Exchange or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the CVM or the São Paulo Stock Exchange.

The Brazilian Securities Law provides for, among other things, disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority stockholders. However, the Brazilian securities markets are not as highly regulated and supervised as the United States securities markets or markets in certain other jurisdictions.

Item 10. Additional Information

B. Memorandum and Articles of Association

Registration and Objects and Purposes

CSN is registered under number 15,910 in the Department of Trade Registration. Its purpose is “the manufacture, transformation, marketing, including import and export of steel products, as well as establishing and exploring any other related and similar activities, which may directly or indirectly be of interest to the purposes of the Company, such as: mining and transportation industries, operating activities of navigation ports and of constructions, manufacture and assemblage of metal structures.”

Directors’ Powers

A description of the general duties and powers of CSN’s Board of Directors may be found in “Item 6.A. Directors and Senior Management.” A director cannot vote on a proposal, arrangement or contract in which the director’s interests conflict with the

Company’s interests. CSN’s stockholders must approve the total compensation of CSN’s management. The Board of Directors is responsible for allocating individual amounts of such compensation. There is no mandatory retirement age for CSN’s directors. The Brazilian Corporate Law requires that a director be a shareholder of the company, but no minimum amount of shares is required to be owned.

Description of the Common Shares

Set forth below is a description of the authorized and issued capital stock of the Company together with a brief summary of certain significant provisions of the Company’s By-laws and Brazilian Corporate Law affecting the Company. For further information concerning the Company’s By-laws, please see the Company’s By-laws, an English translation of which has been filed as an exhibit to this Annual Report.

Capital Stock

The share capital of the Company is comprised of Common Shares, all without par value. CSN’s issued and outstanding capital stock is comprised of 71,729,261,430 Common Shares. CSN’s total authorized capital stock is 100,000,000,000 shares. There are currently no classes or series of preferred shares issued or outstanding. The authorized capital stock of CSN may be increased only by an amendment of CSN’s By-laws, through the vote of the holders of CSN’s Common Shares at a stockholders’ meeting. CSN’s Board of Directors may authorize the issuance of shares within the limits of the authorized capital stock without the necessity of additional stockholder action. CSN may purchase its own shares for purposes of cancellation or maintenance in the treasury subject to certain limits and conditions established by CVM and the Brazilian Corporate Law.

Calculation of Distributable Amount

At each annual stockholders’ meeting, the Board of Directors is required to recommend how the Company’s earnings for the preceding fiscal year are to be allocated. For purposes of the Brazilian Corporate Law, a company’s net income after income taxes and social contribution taxes for such fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to employees’ and management’s participation in earnings, represents its “net profits” for such fiscal year. In accordance with the Brazilian Corporate Law, an amount equal to the Company’s “net profits,” as further (i) reduced by amounts allocated to the legal reserve, (ii) reduced by amounts allocated to other reserves established by the Company in compliance with applicable law (as

hereinafter discussed) and (iii) increased by reversions of reserves constituted in prior years, will be available for distribution to stockholders (the “adjusted net profits,” “herein referred to as the “Distributable Amount”) in any particular year.

Legal Reserve. Under the Brazilian Corporate Law, the Company is required to maintain a “legal reserve” to which it must allocate 5% of its “net profits” for each fiscal year until the amount of the reserve equals 20% of the Company’s paid-in capital. Net losses, if any, may be charged against the legal reserve.

Discretionary (or Statutory) Reserves. Under the Brazilian Corporate Law, a company may also provide for discretionary allocations of “net profits” to the extent set forth in its by-laws. The Company’s By-laws do not provide for a discretionary reserve.

Contingency Reserve. Under the Brazilian Corporate Law, a portion of the Company’s “net profits” may also be discretionally allocated to a “contingency reserve” for an anticipated loss that is deemed probable in future years. Any amount so allocated in a prior year must be either (i) reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur or (ii) charged off in the event that the anticipated loss occurs.

Reserve for Investment Projects. Under the Brazilian Corporate Law, a portion of the Company’s net income may be allocated for plant expansion and other capital investment projects, the amount of which is based on a capital budget previously presented by management and approved by stockholders. After completion of the relevant capital projects, the Company may retain the appropriation until a stockholder vote to transfer all or a portion of the reserve to capital or retained earnings.

Unrealized Income Reserve. Under the Brazilian Corporate Law, if the amount of “unrealized income” (as hereinafter defined) for any particular year exceeds the sum allocated to (i) the legal reserve, (ii) the discretionary reserves, (iii) the contingency reserve and (iv) the reserve for investment projects in such year, such excess may be allocated to an “unrealized income reserve.” “Unrealized income” in any particular year represents the sum of (i) price-level restatement of certain balance sheet accounts in such year in which the system of price-level restatement was applicable (up to December 31, 1995), (ii) the share of equity earnings of subsidiary and associated companies in such year and (iii)

profits from installment sales to be received after the end of the next succeeding fiscal year.

The Brazilian Corporate Law provides that all discretionary allocations of “net profits,” including discretionary reserves, the contingency reserve, the unrealized income reserve and the reserve for investment projects are subject to approval by the stockholders voting at the annual stockholders’ meeting and can be transferred to capital or used for the payment of dividends in subsequent years. The fiscal incentive investment reserve and legal reserve are also subject to approval by the stockholders voting at the annual stockholders’ meeting and may be transferred to capital but are not available for the payment of dividends in subsequent years.

For purposes of determining reserve amounts, the calculation of “net profits” and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with the Brazilian Corporate Law. The Consolidated Financial Statements included herein have been prepared in accordance with U.S. GAAP and, although the Company’s allocations to reserves and dividends will be reflected in such financial statements, investors will not be able to calculate such allocations or required dividend amounts from the Consolidated Financial Statements.

Mandatory Dividend

Under its By-laws, the Company is required to distribute to stockholders as dividends in respect of each fiscal year ending on December 31, to the extent profits are available for distribution, an amount equal to not less than 25% of the Distributable Amount (the “Mandatory Dividend”) in any particular year (the amount of which shall include any interest paid on capital during such year). See “— Additional Payments on Stockholders’ Equity” below. In addition to the Mandatory Dividend, the Board of Directors may recommend to the stockholders payment of dividends from other funds legally available therefor. Any payment of interim dividends will be netted against the amount of the Mandatory Dividend for that fiscal year. Under the Brazilian Corporate Law, if the Board of Directors determines prior to the annual stockholders’ meeting that payment of the Mandatory Dividend for the preceding fiscal year would be inadvisable in view of the Company’s financial condition, the Mandatory Dividend need not be paid. Such determination must be reviewed by the Audit Committee, if existent, and reported to the stockholders and to the CVM.

Payment of Dividends

The Company is required to hold an annual stockholders' meeting by April 30 of each year at which an annual dividend may be declared. Additionally, interim dividends may be declared by the Board of Directors. Under the Brazilian Corporate Law, dividends are generally required to be paid to the holder of record on a dividend declaration date within 60 days following the date the dividend was declared, unless a stockholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which such dividend was declared. A stockholder has a three-year period from the dividend payment date to claim dividends (or interest payments as described under "— Additional Payments on Stockholders' Equity" below) in respect of its shares, after which the Company will have no liability for such payments.

Payments of cash distributions by the Company on Common Shares underlying the ADSs will be made in Brazilian currency to the Custodian on behalf of the Depository, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the Depository for distribution to holders of ADSs.

Additional Payments on Stockholders' Equity

Since January 1, 1996, Brazilian companies have been permitted to pay interest on stockholders' equity to holders of equity securities and to treat such payments as an expense for Brazilian income tax purposes. The amount paid may not exceed the greater of (i) 50% of net income (before taking into account any such payment or any tax deductions attributable thereto) for the relevant period or (ii) 50% of prior year retained earnings. The calculation is based on stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the *Taxa de Juros de Longo Prazo* (the long-term interest rate or the "TJLP") as determined by the Brazilian Central Bank from time to time (currently approximately 9.3% per annum).

Liability for Further Capital Calls of the Company

Generally, a stockholder's liability under the Brazilian Corporate Law is limited to the issue price of the subscribed or purchased shares in the Company. There is no obligation of a stockholder to participate in additional capital calls.

Voting Rights

Each Common Share entitles the holder thereof to one vote at meetings of stockholders of the Company.

Any change in the preferences or advantages of the Company's Common Shares, or the creation of a class of shares having priority over the Common Shares, would require the approval of holders of a majority of the outstanding Common Shares, voting as a class at a special meeting. Such a meeting would be called pursuant to the procedures described under "—Stockholders Meetings" below.

According to a CVM ruling applicable to CSN, stockholders that represent at least 5% of capital stock with voting rights may request cumulative voting in a Board of Directors' election.

Stockholders Meetings

Under the Brazilian Corporate Law, the stockholders present at a general meeting of stockholders, which may be an annual or a special meeting, convened and held in accordance with such law and the Company's By-laws (a "General Meeting"), are empowered to decide all matters relating to the purposes of the Company and to pass such resolutions as it deems necessary for the protection and well-being of the Company.

In order to participate in a General Meeting, a stockholder must be the recorded owner of the stock at the day the meeting is held, and maybe represented by an attorney-in-fact.

General Meetings are called, convened and presided over by the Chairman or by the Vice-Chairman of the Board of Directors of the Company. A General Meeting is convened by publishing, no fewer than eight days prior to the scheduled meeting date or 15 days for companies that have ADSs and no fewer than three times, a notice in the *Diário Oficial do Estado do Rio de Janeiro* and in a newspaper with general circulation in the city where the Company has its registered office which is Rio de Janeiro. The stockholders of the Company have previously designated *Jornal do Commercio* for this purpose. In addition, because CSN's Common Shares trade on both the São Paulo and Rio de Janeiro Stock Exchanges, CSN is required to publish such notice in a newspaper with national circulation. The *Gazeta Mercantil* has been designated for such purposes. Such notice must contain the agenda for the meeting and, in the case of an amendment to the Company's By-laws, an indication of the subject matter.

A General Meeting may be held if stockholders representing at least one-quarter of the voting capital are present. A stockholder may be represented at a General Meeting by an attorney-in-fact appointed not more than one year before the meeting, who must be a stockholder, a company officer or a lawyer. For a

public company, such as the Company, the attorney-in-fact may also be a financial institution. If no such quorum is present, notice must again be given in the same manner as described above, and a meeting may then be convened without any specific quorum requirement, subject to the minimum quorum and voting requirements for certain matters, as discussed below. A stockholder without a right to vote may attend a General Meeting and take part in the discussion of matters submitted for consideration.

Except as otherwise provided by law, resolutions of a General Meeting are passed by a simple majority vote, abstentions not being taken into account. Under the Brazilian Corporate Law, the approval of stockholders representing at least one-half of the issued and outstanding voting shares is required for the types of action described below (as well as, in the case of clause (a), a majority of issued and outstanding shares of the affected class): (a) changing a priority, preference, right, privilege or condition of redemption or amortization of any class of preferred shares or creating any class of non-voting preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of shares; (b) creating founders' shares; (c) changing the Mandatory Dividend; (d) changing the corporate purposes; (e) merging the Company with another company or consolidating or splitting it; (f) dissolving or liquidating the Company; and (g) participating in a centralized group of companies as defined under the Brazilian Corporate Law.

Pursuant to the Brazilian Corporate Law, stockholders voting at a General Meeting have the power, among other powers, to: (a) amend the By-laws; (b) elect or dismiss members of the Board of Directors (and members of the Audit Committee) at any time; (c) receive the yearly accounts by management and to accept or reject management's financial statements, including the allocation of net profits and the Distributable Amount for payment of the Mandatory Dividend and allocation to the various reserve accounts; (d) authorize the issuance of debentures; (e) suspend the rights of a stockholder; (f) accept or reject the valuation of assets contributed by a stockholder in consideration for issuance of capital stock; (g) authorize the issuance of founders' shares; (h) pass resolutions to reorganize the legal form of, merge, consolidate or split the company, to dissolve and liquidate the Company, to elect and dismiss its liquidators and to examine their accounts; and (i) authorize management to declare the company insolvent and to request a *concordata* (a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code).

Redemption Rights

The Common Shares of the Company are not redeemable, except that a dissenting and adversely affected stockholder is entitled, under the Brazilian Corporate Law, to obtain redemption upon a decision made at a General Meeting by stockholders representing at least 50% of the voting shares: (i) to create a new class of preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of shares (unless such actions are provided for or authorized by the By-laws); (ii) to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than an existing class of preferred shares; (iii) to reduce the mandatory distribution of dividends; (iv) to change the corporate purposes of the Company; (v) to merge the Company with another company or consolidate it; (vi) to transfer all of the shares of the Company to another company in order to make the Company a wholly-owned subsidiary of such company ("*incorporação*"); (vii) to approve the acquisition of control of another company at a price which exceeds certain limits set forth in the Brazilian Corporate Law; (viii) to approve the participation of the Company in a centralized group of companies as defined under the Brazilian Corporate Law; or (ix) in the event that the entity resulting from (a) a merger, (b) an "*incorporação*" as described in clause (vi) above or (c) a spin-off of a listed company fails to become a listed company within 120 days of the General Meeting at which such decision was taken. The right of redemption lapses 30 days after publication of the minutes of the relevant General Meeting. The Company would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting stockholders would jeopardize the financial stability of the Company. Law No. 9,457 dated May 5, 1997, which amended the Brazilian Corporate Law, contains provisions which, among other provisions, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. According to the Company's By-laws, the reimbursement value of the Common Shares shall be the quotient of the division of the economic value of the Company, ascertained by appraisal in accordance with the Brazilian Corporate Law, by the total number of shares issued by the Company, excluding treasury shares.

Preemptive Rights

Each stockholder of the Company has a general preemptive right to subscribe for shares in any capital

increase, in proportion to his or her shareholding. A minimum period of 30 days following the publication of notice of a capital increase is allowed for the exercise of the right and the right is negotiable. In the event of a capital increase which would maintain or increase the proportion of capital represented by Common Shares, holders of ADSs will have preemptive rights to subscribe only to newly issued Common Shares. In the event of a capital increase which would reduce the proportion of capital represented by Common Shares, holders of ADSs will have preemptive rights to subscribe for Common Shares, in proportion to their shareholdings, only to the extent necessary to prevent dilution of their interest in the Company.

Form and Transfer

Common Shares of the Company are in registered form and the transfer of such shares is made under Article 31, paragraph 3, of the Brazilian Corporate Law which provides that a transfer of shares is effected by a transfer recorded in the Company's share transfer records upon presentation of valid share transfer instructions to the Company by a transferor or its representative. When Common Shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on the Company's records by a representative of a brokerage firm or the stock exchange's clearing system. Transfer of shares by a foreign investor are made in the same way and are executed by the investor's local agent, except that if the original investment was registered with the Central Bank pursuant to the Annex IV Regulations, the foreign investor should also seek an amendment, if necessary, through its local agent, of the Certificate of Registration to reflect the new ownership.

The São Paulo Stock Exchange operates a central clearing system. A holder of the Common Shares may choose, at its discretion, to participate in these systems and all shares elected to be put into the systems will be deposited in custody with the relevant stock exchange (through a Brazilian institution that is duly authorized to operate by the Central Bank and maintains a clearing account with the relevant stock exchange). The fact that such shares are subject to custody with the relevant stock exchange will be reflected in the Company's registry of stockholders. Each participating stockholder will, in turn, be registered in the register of beneficial stockholders of the Company that is maintained by the relevant stock exchange and will be treated in the same way as registered stockholders.

Limitations on the Rights to Own Securities: Restrictions on Ownership by Non-Brazilians

There are no restrictions on ownership or voting of the Company's Common Shares by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of Common Shares into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally require, among other things, obtaining a Certificate of Registration under the Brazilian National Monetary Council's Resolution 2689 or its direct foreign investment regulations. See "Item 10.D. Exchange Controls."

Changes in Control

As described under "Item 7.A. Major Shareholders," Vicunha Siderurgia, CSN Employee Investment Club and Intermesa have a mutual right of first refusal in case of sale of their interests in CSN. In addition, Vicunha Siderurgia agreed in the BNDESPAR Agreement (see "Item 10.C. Material Contracts") to maintain at least a 46.0% interest in CSN while its debentures are outstanding. See "Item 7.A. Major Shareholders." BNDESPAR may also veto a corporate reorganization of CSN that is against the stockholders' rights or materially adversely increase creditors' risks.

Share Ownership Disclosure

There are no provisions in CSN's By-laws governing the ownership threshold above which shareholders ownership must be disclosed. Regulations enacted by CVM require the disclosure of the acquisition of 10% of the voting stock of a listed company, additional acquisitions by a controlling stockholder and the purchase of shares by members of management.

Differences Between the Laws of the United States and Brazil

The Brazilian Corporate Law is, in general nature, similar to corporate laws in the United States, including the possibility of stockholders' derivative action (*ação de responsabilidade*) and the responsibilities of directors (i.e., directors owe duties of care and loyalty). Liabilities predicated upon U.S. federal securities laws, including civil liabilities under those laws, may not be enforceable in Brazil, whether in original actions or in actions for enforcement of judgments of U.S. courts.

Conditions Governing Changes in Capital

No conditions governing changes in the Company's capital that are more stringent than required by the Brazilian Corporate Law.

C. Material Contracts

The only material contracts other than contracts in the ordinary course of business in the last two years are:

- the Shareholders' Agreement, which includes, among other provisions, an agreement by the parties to vote their Common Shares as a block with respect to certain matters to be voted upon at any meeting of the stockholders or Board of Directors. See "Item 7.A. Major Shareholders."
- the Agreement Setting Rules Applicable to Purchase and Sale Agreements, dated December 31, 2000, as amended on January 9, 2001, among CSN, Vicunha Siderurgia, Litel, Bradespar, Bradesplan and Previ (the "Master Stock Purchase and Sale Agreement"), which contains the general terms of CSN's sale of its interest in Valepar and Previ's and Bradespar's sale of their interest in CSN. See "Item 7.B. Related Party Transactions."
- the Stock Purchase and Sale Agreement dated December 31, 2000, as amended on January 9, 2001, among Bradespar, Previ and Vicunha Siderurgia (the "CSN Stock Purchase and Sale Agreement"), pursuant to which Vicunha Siderurgia purchased the 13.8% and 17.9% of CSN's Common Shares held, respectively, by Previ and Bradespar. See "Item 7.B. Related Party Transactions."
- the Stock Purchase and Sale Agreement dated December 31, 2000, among Litel, Bradespar, Bradesplan and CSN (the "Valepar Stock Purchase Agreement"), pursuant to which Litel, Bradespar, Bradesplan purchased CSN's interest in Valepar and assumed CSN's put obligation to purchase the interest in Valepar owned by Sweet River. See "Item 7.B. Related Party Transactions."
- the Agreement dated February 6, 2001, between CSN and CVRD (the "Casa de

Pedra Mine Agreement"), in which CSN granted to CVRD a 30-year right of first refusal to purchase any production of iron ore from CSN's Casa de Pedra mine in excess of CSN's and its affiliates' needs and a right of first refusal to buy the Casa de Pedra mine if CSN decides to sell it. See "Item 7.A. Major Shareholders" and "Item 7.B. Related Party Transactions."

- the Pre-Emption Agreement for the Acquisition of Stocks, Participation in CSN's Control Premium (the "Pre-Emption Agreement"), dated March 9, 2001, among BNDESPAR and the controlling persons of *Vicunha Steel S.A.* ("Vicunha Steel"), establishing certain restrictions on transfers of Common Shares owned by Vicunha Siderurgia. See "Item 7.A. Major Shareholders" and "Item 7.B. Related Party Transactions."
- the Deed among Vicunha Siderurgia, as issuer, Vicunha Aços S.A., Vicunha Steel and the shareholders of Vicunha Steel, as guarantors, BNDESPAR, the Company and the Trustee named therein, pursuant to which Vicunha Siderurgia has issued debentures and pledged all Common Shares it holds in CSN to guarantee the performance of its obligations while the debentures are outstanding. See "Item 7.A. Major Shareholders" and "Item 7.B. Related Party Transactions."
- the shareholders' agreement (the "BNDESPAR Agreement"), dated as of March 9, 2001, between Vicunha Siderurgia and BNDESPAR, in which Vicunha Siderurgia has agreed to maintain at least a 46.0% interest in the Company while the Debentures are outstanding. See "Item 7.A. Major Shareholders."

The descriptions of the foregoing agreements are qualified by reference to copies of those, which are filed, or incorporated by reference, as exhibits to this Annual Report.

D. Exchange Controls

There are no restrictions on ownership or voting of the Company's Common Shares by individuals or legal entities domiciled outside Brazil. See "Item 10.C.6. Limitations on the Rights to Own Securities: Restrictions on Ownership by Non-Brazilians."

However, the right to convert dividend payments and proceeds from the sale of Common Shares into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally require, among other things, obtaining a Certificate of Registration under the Brazilian National Monetary Council's Resolution 2689 or its direct foreign investment regulations.

Resolution 2689, which went into effect on March 31, 2000, introduced new rules to facilitate foreign investment in Brazil. The principal changes for foreign investors entering the Brazilian market include:

- the removal of restrictions on investments by portfolio composition (e.g., equities, fixed income and derivatives); and
- permission for foreign individuals and corporations to invest in the Brazilian Market, in addition to foreign institutional investors.

The previous investment regulations, the Annex IV Regulations, have ceased to exist. Prior to Resolution 2689, foreign investors had to leave and reenter the country in order to switch their investments from equity to fixed income. Now foreign investors can freely switch their investments without leaving the local market. Foreign investors registered with the CVM and acting through authorized custody accounts and a legal representative may buy and sell any local financial product traded on the local exchanges and registered on the local clearing systems, including shares on the São Paulo Stock Exchange, without obtaining separate Certificates of Registration for each transaction. Investors under Resolution No. 2689, as amended, are also generally entitled to favorable tax treatment. See "Taxation—Brazilian Tax Considerations."

A Certificate of Registration has been issued in the name of Morgan Guaranty Trust Company of New York, as Depositary for the ADSs (the "Depositary"), and is maintained by the *Itaú Corretora de Valores S.A.* (the "Custodian") on behalf of the Depositary. Pursuant to the Certificate, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Common Shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs surrenders such ADSs for Common Shares, such holder will be entitled to continue to rely on the Depositary's Certificate of Registration for only five business days after such surrender, following which such holder must obtain

its own Certificate of Registration. Thereafter, unless the Common Shares are held pursuant to Resolution 2689 or direct foreign investment regulations, such holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such Common Shares, and such holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See "Item 10.E.1. Brazilian Tax Considerations."

A non-Brazilian holder of Common Shares may experience delays in obtaining a Certificate of Registration, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Under current Brazilian legislation, the Brazilian Government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Brazilian Government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Brazilian Government directives. See "Item 3.D. Risk Factors Relating to Brazil — Controls and Restrictions on U.S. Dollar Remittances."

For a description of the foreign exchange markets in Brazil, see "Presentation of Financial and Other Information."

E. Taxation

The following is a summary of certain United States federal income and Brazilian tax consequences of the ownership of Common Shares or ADSs by an investor that holds the Common Shares or ADSs as capital assets. This summary does not purport to address all material tax consequences of the ownership of Common Shares or ADSs, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock of CSN, investors that hold Common Shares or ADSs as part of a straddle or a hedging or conversion transaction or investors whose functional currency is not the U.S. dollar), some of which may be subject to special rules.

This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) and Brazil as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect. In addition, this summary is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

Although there is, at present, no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of Common Shares or ADSs.

The discussion does not address any aspects of United States taxation other than federal income taxation or any aspects of Brazilian taxation other than income taxation, gift and inheritance taxation and capital taxation. Prospective investors are urged to consult their tax advisors regarding the United States federal, state and local and the Brazilian and other tax consequences of owning and disposing of Common Shares and ADSs.

1. Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of Common Shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of Common Shares, has obtained a Certificate of Registration with respect to its investment in Common Shares as a U.S. dollar investment (in each case, a “non-Brazilian holder”). It is based on Brazilian law as currently in effect. Any change in such law may change the consequences described below. The following discussion summarizes the principal tax consequences applicable under current Brazilian law to non-Brazilian holders of Common Shares or ADSs; it does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Each non-Brazilian holder of Common Shares or ADSs should consult their tax advisors concerning Brazilian tax consequence of an investment in Common Shares or ADSs.

Taxation of Dividends and Interest on

Stockholders’ Equity

Dividends, including dividends paid in kind, paid by the Company (i) to the Depositary in respect of the Common Shares underlying the ADSs or (ii) to a non-Brazilian holder in respect of Common Shares will generally not be subject to income tax for distribution of profits earned as from January 1996.

Since 1996, Brazilian companies have been permitted to pay limited amounts of interest on stockholders’ equity to holders of equity securities and to treat such payments as a deductible expense for purposes of its Brazilian income tax. The purpose of the tax law change was to encourage the use of equity investments as opposed to indebtedness to finance corporate activities. As a general rule, income tax is withheld on interest payments at the rate of 15%. However, Article 8 of Law No. 9779, dated January 20, 1999, provides that payment of income to a beneficiary residing in a country considered a tax haven under Brazilian law is subject to a withholding income tax at the rate of 25%. Tax haven is defined as any country that taxes income at a rate lower than 20%. The Brazilian tax authorities may take the position that the 25% rate applies to payments on interest on stockholders’ equity, if the beneficiary of such interest payments is located in a country considered to be a tax haven.

Taxation of Gains

Gains realized outside Brazil by a non-Brazilian holder on the disposition of ADSs to another non-Brazilian holder are not subject to Brazilian tax. The deposit of Common Shares in exchange for ADSs is not subject to Brazilian tax provided that the a Certificate of Registration has been issued under Resolution 2689 with respect to the Common Shares. See “Item 3.D.2. Devaluation of the *Real*; Exchange Controls.” In the event a Certificate has not been obtained, the deposit of Common Shares in exchange for ADSs may be subject to Brazilian capital gains tax at the rate of 15%. The withdrawal of Common Shares upon surrender of ADSs is not subject to Brazilian tax.

Gains realized outside Brazil by a non-Brazilian holder on the disposition of Common Shares to another non-Brazilian holder are not subject to Brazilian tax. Non-Brazilian holders are subject to an income tax imposed at a rate of 15% on gains realized on sales or exchanges of Common Shares that occur in Brazil to or with a resident of Brazil other than on a Brazilian stock exchange. However, if such a sale is made on a Brazilian stock exchange (a) by a non-Brazilian holder with a Resolution 2689 Certificate of Registration or (b) within three business days of the withdrawal of such Common

Shares upon surrender of ADSs and the proceeds thereof are remitted abroad within such three-day period, no withholding tax will be imposed. The “gain realized” as a result of a transaction on a Brazilian stock exchange is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost, without any correction for inflation, of the shares sold. The “gain realized” as a result of a transaction that occurs other than on a Brazilian stock exchange will be calculated based on the foreign currency amount registered with the Central Bank.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of Common Shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of Common Shares or ADSs.

Brazilian currency resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with an investment in the Common Shares or the ADSs and those made under Resolution 2689) are subject to the *Imposto sobre Operações de Crédito, Câmbio e Seguro ou relativas a Títulos ou Valores Mobiliários* (Financial Transaction Tax or “IOF”). While at present the IOF tax rate is zero, the Brazilian Government may increase the IOF tax rate at any time to a maximum of 25%.

The *Contribuição Provisória Sobre a Movimentação de Valores e de Créditos e Direitos de Natureza Financeira* (“CPMF” tax) is levied on all funds transfers in connection with financial transactions in Brazil. The rate of the CPMF tax, which will expire on June 17, 2002, is up to 0.38%.

2. U.S. Federal Income Tax Considerations

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of Common Shares or ADSs that is (i) a citizen or resident of the United States, (ii) a corporation organized under the laws of the United States or any State, (iii) an estate the income of which is subject to United States federal income tax without regard to its source or (iv) a trust if a United States court is able to exercise primary

supervision over administration of the trust and one or more United States persons have authority to control all substantial decisions on the trust. A “Non-U.S. Holder” is any beneficial owner of Common Shares or ADSs that is not a United States person for United States federal income tax purposes.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, holders of ADSs evidencing ADSs will be treated as the owners of the Common Shares represented by those ADSs, and exchanges of Common Shares for ADSs, and ADSs for Common Shares, will not be subject to United States federal income tax.

Taxation of Dividends

U.S. Holders. Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, U.S. Holders will include in gross income the gross amount of any dividend (including payments considered “interest” in respect of stockholders’ equity under Brazilian Law) paid (before reduction for Brazilian withholding taxes) by CSN out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. Holder, in the case of Common Shares, or by the Depository, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the *real* payments made, determined at the spot *real*/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be income from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of the U.S. Holder’s basis in the Common Shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Brazilian tax withheld will be creditable against the U.S. Holder's United States federal income tax liability.

For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, but generally will be treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income").

Distributions of additional Common Shares to U.S. Holders with respect to their Common Shares or ADSs that are made as part of a pro rata distribution to all stockholders of CSN generally will not be subject to United States federal income tax.

Non-US. Holders. Dividends paid to a Non-U.S. Holder in respect of Common Shares or ADSs will not be subject to United States federal income tax unless such dividends are effectively connected with the conduct of a trade or business within the United States by such Non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by such Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such Non-U.S. Holder to be subject to United States taxation on a net income basis in respect of income from Common Shares or ADSs), in which case the Non-U.S. Holder generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a non-United States corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Taxation of Capital Gains

US. Holders. Subject to the PFIC rules discussed below, upon a sale or other disposition of Common Shares or ADSs, a U.S. Holder will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's tax basis (determined in U.S. dollars) in such Common Shares or ADSs. Generally, such gain or loss will be capital gain or loss and any such gain will be income from sources within the United States for foreign tax credit limitation purposes. Long-term capital gain of a non-corporate U.S. Holder is generally subject to a maximum rate of 20% in respect of property held for more than one year, and 18% where the property is held for more than five years.

Non-US Holders. A Non-U.S. Holder will not be subject to United States federal income tax in respect of gain recognized on a sale or other disposition of Common Shares or ADSs unless (i) the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by such Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such Non-U.S. Holder to be subject to United States taxation on a net income basis in respect of gain from the sale or other disposition of the Common Shares or ADSs) or (ii) in the case of a Non-U.S. Holder who is an individual, such holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply. Effectively connected gains realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Additional United States Federal Income Tax Considerations

PFIC Rules. CSN believes that Common Shares and ADSs should not be treated as stock of a passive foreign investment company (a "PFIC") for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change. CSN will monitor its status and will, promptly following the end of any taxable year, notify stockholders if it believes that it is properly classified as a PFIC for that taxable year.

In general, CSN will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held CSN's ADSs or Common Shares, either (i) at least 75% of CSN's gross income of the Common Shares for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of CSN's assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If CSN is treated as a PFIC, a U.S. Holder that did not make a “mark-to-market election” or “QEF election,” each as described below, would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of Common Shares or ADSs and (b) any “excess distribution” by CSN to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the Common Shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the Common Shares or ADSs during the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the Common Shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the Common Shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

The special PFIC tax rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election (i) to “mark to market” with respect to the Common Shares (a “mark-to-market election”) or (ii) to have CSN treated as a “qualified electing fund” (a “QEF election”) and CSN provides certain required information to holders. The QEF and mark-to-market elections only apply to taxable years in which the U.S. Holder’s Common Shares are treated as stock of a PFIC. CSN intends to provide U.S. Holders of Common Shares with U.S. addresses (including the Depositary), and to other registered stockholders on request, with such information as may be required to make a QEF election effective. The Depositary has agreed to distribute such information to registered holders of ADSs.

A U.S. Holder that makes a mark-to-market election must include for each year in which the U.S. Holder’s Common Shares are treated as shares of a PFIC, as ordinary income, an amount equal to the excess of the fair market value of the Common Shares at the close of the taxable year over the U.S. Holder’s adjusted basis in the Common Shares, and is allowed a deduction for any excess of the adjusted basis over the fair market value of the Common Shares at the close of the taxable year, but only to the extent of previously included mark-to-market inclusions.

A U.S. Holder that makes a QEF election will be currently taxable on its pro rata share of CSN’s ordinary earnings and net capital gain (at ordinary income and capital gain rates, respectively) for each taxable year of CSN, regardless of whether such income and gain was distributed by CSN. The U.S. Holder’s basis in the Common Shares or ADSs will be increased to reflect taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of basis in the Common Shares or ADSs and will not be taxed again as a distribution to the U.S. Holder.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC or, in certain cases, QEF inclusions.

A U.S. Holder who owns Common Shares or ADSs during any year that CSN is a PFIC must file Internal Revenue Service Form 8621.

H. Documents on Display

Any documents filed by CSN with the SEC, including this Form and the exhibits thereto, may be inspected and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

CSN is exposed to a number of different market risks arising from its normal business activities. Market risk is the possibility that changes in interest rates, currency exchange rates or commodity prices will adversely affect the value of its financial assets, liabilities or expected future cash flows and earnings. CSN has developed policies aimed at managing the volatility inherent in certain of these natural business exposures. The Company uses financial instruments, such as derivatives, in order to achieve the main goals established by its Board of Directors to minimize the cost of capital and maximize the returns on financial assets, while observing the parameters of credit and risk determined by the Financial Committee of the Board of Directors. Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices which are defined in the contract. Only well-understood, conventional derivative instruments are used. These include futures and options traded on regulated exchanges and “over-the-counter” swaps,

options and forward contracts. Because derivatives are only used as hedges and not for trading purposes, CSN's exposure to market risk created by the derivative is offset by the opposite exposure arising from the asset, liability or transaction being hedged.

Market Risk Exposures and Market Risk Management

CSN's Treasury Department is responsible for managing CSN's market risk exposures. The Company uses a "Risk Management System" in order to:

- help it understand market risks;
- increase transparency to shareholders, creditors and regulators;
- reduce the likelihood of financial losses; and
- diminish the volatility of financial results.

The principal tools used by the Treasury Department are:

- "Value at Risk" or "VAR," which is a measure of the maximum potential change in value of financial instruments and commodity positions and projected cash flows with a given probability over a set horizon (generally one year).
- "Stress Testing," which measures the worst possible loss from a set of consistent scenarios to which probabilities are not assigned. The scenarios are deliberately chosen to include extreme changes in the underlying market risk exposures that determine the values of assets and liabilities and the prices of commodities.

The VAR approach used by CSN is the "Analytical Method" or "Variance/Covariance Method," which assumes that the distribution of returns from assets and liabilities are normal. The model uses historic volatility and correlation data to predict how markets are likely to move in the future and states that the total market risk of a financial position is a function of two factors: volatilities and correlations. To the extent that price movements of assets and liabilities are not perfectly correlated, there will be a diversification effect. The total market risk of the position will be less than the direct summation of individual components.

The VAR measure can differ from actual results because financial return distributions have "fat tails," which means that extreme price movements occur more frequently than implied by a normal

distribution. The peak of the return distribution is also higher and narrower than that predicted by a normal distribution ("leptokurtotic distribution").

Following is a discussion of the primary market risk exposures that CSN faces:

- *Foreign currency exchange rate risk.* Fluctuations in exchange rates can have significant effects on CSN's operating results, which in filings with the SEC are presented in U.S. dollars. Therefore, such fluctuations affect the values of CSN's *real*-denominated assets, the carrying and repayment costs of its *real*-denominated financial liabilities, its *real*-denominated production costs, the cost of *real*-denominated capital items and the prices it receives in the Brazilian market for its finished steel products. The Company attempts to manage its net foreign exchange rate exposures, reflecting either an imbalance in its assets and liabilities or the projected cash flow imbalance for the next 12 months. Prior to the 1998 financial crisis in Brazil, the Company's hedging activities had not been significant. Since September 1998, the Company has significantly increased such activities, but at any given time, it may still have significant foreign currency exchange rate risk exposure. The 1998 Brazilian financial crisis was followed in early January 1999 by the Central Bank's abandonment of its policy of controlling the devaluation of the *real*, and the *real* was allowed to float, thus increasing the volatility of the exchange rate for the *real* against most other currencies, including the U.S. dollar. See "Presentation of Financial and Other Information."
- *Interest Rate Risk.* CSN is exposed to interest rate risk on short- and long-term instruments and as a result of refinancing of fixed-rate instruments included in its consolidated debt. Consequently, as well as managing the currency and maturity of debt, CSN manages interest costs through a balance between lower-cost floating rate debt, which has inherently higher risk, and more expensive, but lower risk, fixed-rate debt. As a general policy, the Company attempts to maintain a 1:2 ratio between its floating-rate and fixed-rate debt. The Company uses swaps, options and other derivatives to maintain this ratio. In addition, many trade-related assets and liabilities bear interest at floating rates. The principal rates to which CSN is exposed are the U.S. dollar LIBOR rate and the *real* TJLP. As a result of its investments of cash or cash equivalents in local markets, CSN is also

exposed to local interest rate risk, which is appropriately measured and controlled.

- **Commodity price risk.** Fluctuations in certain of the commodities used in producing steel, such as zinc, aluminum, tin, coal, coke and energy, can have an impact on the Company's earnings. The biggest commodity price exposure is the price of coal, but there are no liquid instruments that provide an effective hedge against coal price fluctuations. The Company implemented in the beginning of the second quarter of 2000 a continuous hedging policy aimed toward diminishing its 12-month exposure to base metals prices.

The following table shows the VAR calculation for the Company's principal categories of financial instruments and positions, based on values at December 31, 2000:

	Monthly VAR ⁽¹⁾		
	(U.S. dollars in millions)		
	Confidence Level		Stress
	95%	99%	Test ⁽³⁾
Current assets ⁽⁴⁾	42.1	59.4	83.6
Debt	75.6	106.7	(222.2)
Net debt ⁽⁵⁾	75.5	106.6	(138.6)
Operating revenues/costs ⁽⁶⁾	74.4	105.1	3.4

- (1) Monthly VAR is the estimated monthly change in the value of the assets, liabilities or positions with a given probability or confidence level.
- (2) Confidence level is the level of confidence in the VAR estimation process, selected by the number of standard deviations applied to the probability distributions. With a 95% confidence level, there is only a 5% probability that losses will be bigger than approximately 1.65 standard deviation times the value of all financial instruments and projected cash flows. With a 99% confidence level, there is only a 1% probability that losses will be bigger than approximately 2.32 standard deviation times the value of all financial instruments and projected cash flows. Extreme price movements occur more frequently than implied by a normal distribution. The peak of the return distribution is also higher and narrower than that predicted by the normal distribution.

- (3) The following assumptions were used in the stress test calculations: on January 1, 2001, the IBOVESPA index fell 30% and CSN's common share price fell 20%; the interest rate on *real*-denominated instruments increased from the 2000 year-end level by 70% in January and February and by 50% in March, then falling by 5% each month thereafter, until reaching 20%, where it will remain for the balance of 2001; the interest rate on U.S. dollar-denominated instruments in Brazil increased to 30% per annum in January and February and then decreased to 12% for the balance of the year; the *real* devalued 30% against the U.S. dollar on January 1, 2001; and on January 1, 2001, the spread between the U.S. Treasury bond benchmark and the Brazilian "C" (Brady) bond increased 500 basis points (i.e., five percentage points) and the spread between CSN's debt and the "C" bond increased 300 basis points.
- (4) Current assets consist of cash and cash equivalents.
- (5) Net debt consists of debt minus current assets.
- (6) Operating revenues/costs consist of the revenues from the sale of finished steel products, the cost of commodities used in producing steel (such as zinc, aluminum, tin, coal, coke and energy) and foreign currency-denominated trade payables and receivables. They do not include labor or transportation costs or the cost of iron ore, all of which comes from the Company's mines.

The data in the foregoing table constitute forward-looking statements. See “Cautionary Statement with Respect to Forward-Looking Statements.”

PART III

Item 18. Financial Statements

The following consolidated financial statements of the Registrant, together with the reports of Arthur Andersen and PriceWaterhouseCoopers Auditores Independentes thereon, are filed as part of this Annual Report.

	<u>Page</u>
Reports of independent accountants	
Consolidated financial statements:	
Balance sheets at December 31, 1999 and 2000	FS-1
Statements of operations for the years December 31, 1998, 1999 and 2000	FS-3
Statements of cash flows for the years ended December 31, 1998, 1999 and 2000	FS-4
Statements of change in stockholders' equity for the years ended December 31, 1998, 1999 and 2000	FS-6
Notes to financial statements	FS-8

The following consolidated financial statements of Companhia Vale do Rio Doce, together with the report of PriceWaterhouseCoopers Auditores Independentes thereon, are filed as part of this Annual Report.

	<u>Page</u>
Report of independent accountants	F-2
Consolidated financial statements:	
Balance sheets at December 31, 1999 and 2000	F-3
Statements of operations for the years December 31, 1998, 1999 and 2000	F-5
Statements of cash flows for the years ended December 31, 1998, 1999 and 2000	F-6
Statements of change in stockholders' equity for the years ended December 31, 1998, 1999 and 2000	F-7
Notes to financial statements	F-8

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
1.1	By-laws of CSN, as amended to date.*
2.1	Amended and Restated Deposit Agreement, dated as of November 1, 1997, and as further amended on November 13, 1997, among CSN, Morgan Guaranty Trust Company of New York, as depositary, and the registered holders from time to time of the American Depositary Receipts, including the form of American Depositary Receipt (such Agreement is incorporated herein by reference to the Registration Statement on Form F-6 relating to the ADSs (File No. 333-7818) filed with the SEC on November 12, 1997).
4.1	Shareholders' Agreement, dated April 23, 1993, as amended, among Vicunha Siderurgia S.A., Clube de Investimento CSN and Intermesa Investimentos S.A. (incorporated by reference to Exhibit 1.2 to the Company's Registration Statement on Form 20-F filed on November 13, 1997 (File No. 1-14732)).
4.2	First Amendment to Shareholders' Agreement, dated March 27, 2000, among Vicunha Siderurgia S.A., Clube de Investimento CSN and Intermesa Investimentos S.A. (incorporated by reference to Exhibit 1 to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1999 (File No. 1-14732)).
4.3	Agreement Setting Rules Applicable to Purchase and Sale Agreements, dated December 31, 2000, by and among CSN, Vicunha Siderurgia S.A., Litel Participações S.A., Bradespar S.A., Bradesplan S.A. and Caixa de Previdência dos Funcionários do Banco do Brasil – Previ.*

**Exhibit
Number**

Description

- 4.4 Addendum to the Agreement Establishing Rules Applicable to Stock Purchase and Sales Agreements, dated January 9, 2001, by and among CSN, Vicunha Siderurgia S.A., Litel Participações S.A., Bradespar S.A., Bradesplan S.A. and Caixa de Previdência dos Funcionários do Banco do Brasil – Previ.*
- 4.5 Stock Purchase and Sale Agreement, dated December 31, 2000, by and among Bradespar S.A., Caixa de Previdência dos Funcionários do Banco do Brasil – Previ and Vicunha Siderurgia S.A.*
- 4.6 Addendum to the Stock Purchase and Sale Agreement, dated January 9, 2001, by and among Bradespar S.A., Caixa de Previdência dos Funcionários do Banco do Brasil – Previ and Vicunha Siderurgia S.A.*
- 4.7 Stock Purchase and Sale Agreement, dated December 31, 2000, by and among Litel Participações S.A., Bradespar S.A., Bradesplan S.A. and CSN.*
- 4.8 Casa de Pedra Mine Agreement, dated March 15, 2001, by and between CSN and Companhia Vale do Rio Doce.*
- 4.9 Pre-Emption Agreement for the Acquisition of Stocks, Participation in CSN's Control Premium, dated March 9, 2001, by and among BNDES Participações S.A. and the controlling persons of Vicunha Steel.*
- 4.10 Private Deed, dated February 6, 2001, for Issuance of Non-Convertible Debentures with Collateral Security and Reorganization Clause to the Sixth Series of Debentures of First Issue of Vicunha Siderurgia S.A.*
- 4.11 Shareholders' Agreement, dated March 9, 2001, as amended, between Vicunha Siderurgia S.A. and BNDES Participações S.A.*

(*) English translation.

SIGNATURE

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

June , 2001

Companhia Siderúrgica Nacional

By: _____

Name: Claudia de Azerêdo Santos

Title: General Counsel

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequentially Numbered Page</u>
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(*) English translation.

Companhia Siderúrgica Nacional

Consolidated Financial Statements

at December 31, 2000

and Report of Independent Public Accountants

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Companhia Siderúrgica Nacional

(1) We have audited the accompanying consolidated balance sheets of COMPANHIA SIDERÚRGICA NACIONAL (a Brazilian corporation) and its subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

(2) The financial statements of the affiliate CVRD – Companhia Vale do Rio Doce as of December 31, 2000 and 1999 were audited by other auditors. As of December 31, 2000 this asset represents 14% of the total assets and 28% of the net income (15% and 21% respectively as of December 31, 1999). Our opinion on such asset is based solely on the report of other auditors.

(3) We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(4) In our opinion, based on our audits and the report of other auditors for the years ended December 31, 2000 and 1999 as mentioned in paragraph (2) above, the consolidated financial statements referred to in paragraph (1) present fairly, in all material respects, the financial position of Companhia Siderúrgica Nacional and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

Rio de Janeiro, Brazil,
February 19, 2001 (except for Notes 7, 9 and 21, as to which the date is June 19, 2001).

Report of Independent Accountants

To the Board of Directors and Stockholders of
Companhia Siderúrgica Nacional

In our opinion, the consolidated statements of income, of cash flows and of changes in stockholders' equity for the year ended December 31, 1998 (included on the Companhia Siderúrgica Nacional 2000 Form 20-F) present fairly, in all material respects, the results of operations and cash flows of Companhia Siderúrgica Nacional and its subsidiaries at December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Companhia Siderúrgica Nacional for any period subsequent to December 31, 1998.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil
February 9, 1999, except for the last paragraph of Notes 13
for which the date is February 12, 1999.

Companhia Siderúrgica Nacional

Consolidated Balance Sheets
Expressed in millions of United States dollars

Assets	As of December 31	
	1999	2000
Current assets		
Cash and cash equivalents	815	688
Accounts receivable - trade	196	198
Investments for sale		870
Inventories	307	395
Taxes recoverable	72	40
Deferred income taxes	40	137
Prepaid expenses	26	14
Others	80	122
	1,536	2,464
Property, plant and equipment, net	1,973	2,025
Investments in affiliated companies and other Investments	1,008	245
Other assets		
Accounts receivable	10	10
Restricted deposits for legal proceedings	84	155
Taxes recoverable	60	68
Deferred income taxes	121	84
Prepaid expenses	23	19
Others	27	48
	325	384
	4,842	5,118

Companhia Siderúrgica Nacional

Consolidated Balance Sheets
Expressed in millions of United States dollars
(Continued)

Liabilities and stockholders' equity	As of December 31	
	1999	2000
Current liabilities		
Suppliers	147	244
Payroll and related charges	38	45
Taxes payable	38	49
Interest on stockholders' equity	69	470
Current portion of long-term debt	928	278
Short-term debt and advances on export contracts	509	723
Accrued finance charges	33	64
Others	45	50
	1,807	1,923
Long-term liabilities		
Employees post-retirement benefits	305	303
Long-term debt	1,048	1,506
Provision for contingencies	78	157
Others	24	38
	1,455	2,004
Commitments and contingencies – see Note 16		
Minority interest	5	
Stockholders' equity (shares in thousands)		
Common stock – 100,000,000 shares (no par value)		
Authorized – 71,729,261 shares issued	2,447	2,447
(1999 – 71,729,261 shares)		
Capital surplus	53	53
Treasury stock	(24)	(24)
Retained earnings		
Appropriated	1,019	636
Unappropriated	(275)	(99)
Other comprehensive loss		
Cumulative translation adjustments	(1,610)	(1,806)
Unrealized loss on available-for-sale security	(35)	(16)
	1,575	1,191
	4,842	5,118

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

Companhia Siderúrgica Nacional

Consolidated Statements of Operations

Expressed in millions of United States dollars, except share data

	Year ended December 31		
	1998	1999	2000
Operating revenues			
Domestic sales	2,118	1,539	2,029
Export sales	455	425	354
	2,573	1,964	2,383
Sales taxes, discounts, returns and allowances	(428)	(333)	(437)
Net operating revenues	2,145	1,631	1,946
Cost of products sold	1,193	915	1,115
Gross profit	952	716	831
Operating expenses			
Selling	186	128	127
General and administrative	159	102	117
Others	83	42	74
	428	272	318
Operating income	524	444	513
Non-operating expenses (income) , net			
Financial income	324	363	121
Financial expenses	(239)	(254)	(278)
Foreign exchange and monetary loss, net	(147)	(593)	(127)
Others	(5)	1	(19)
	(67)	(483)	(303)
Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item	457	(39)	210
Income taxes			
Current	(30)	(21)	(104)
Deferred	(34)	38	86
	(64)	17	(18)
Equity in results of affiliated companies	30	4	82
Income (loss) before extraordinary item	423	(18)	274
Extraordinary item		66	
Net income for the year	423	48	274
Earnings per thousand common shares (in U.S. dollars)			
Income (loss) before extraordinary item	5.87	(0.25)	3.82
Extraordinary item		0.92	
	5.87	0.67	3.82
Weighted average number of common shares outstanding (thousands)	72,027,899	71,729,332	71,729,261

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

Companhia Siderúrgica Nacional

Consolidated Statements of Cash Flows
Expressed in millions of United States dollars

	Year ended December 31		
	1998	1999	2000
Cash flows from operating activities			
Net income for the year	423	48	274
Adjustments to reconcile net income for the year with cash provided by operating activities:			
Non-cash items			
Depreciation	150	118	126
Foreign exchange and monetary loss, net	147	593	127
Provision for Contingencies			45
Residual value of equipment retired	15	14	9
Deferred income taxes	34	(38)	(86)
Equity in results of affiliated companies	(30)	(4)	(82)
Gain on long-term investment disposal		(27)	
Gain on debt extinguishment		(66)	
Others	(32)	(14)	25
Decrease (increase) in assets			
Trade accounts receivable	20	(54)	(20)
Advances to suppliers	8	(4)	(9)
Inventories	(77)	9	(86)
Taxes recoverable	(33)	(33)	26
Investments for sale			(870)
Others	(33)	(12)	16
Increase (decrease) in liabilities			
Suppliers	72	49	113
Taxes payable	(10)	43	82
Employees post-retirement benefits	42	30	24
Accounts payable in installments	(16)	(8)	(6)
Others	25	4	15
Net cash provided by operating activities	705	648	(277)

Companhia Siderúrgica Nacional

Consolidated Statements of Cash Flows
Expressed in millions of United States dollars
(Continued)

	Year ended December 31		
	1998	1999	2000
Cash flows from investing activities			
Time deposits, net	666	(3)	4
Additions to property, plant and equipment	(327)	(258)	(377)
Acquisition of long-term investments	(4)	(87)	(154)
Disposition of long-term investments		38	885
Restricted deposits for legal proceedings	(9)	(4)	(78)
Loans to related parties	(6)	3	(16)
Net cash provided by (used in) investing activities	320	(311)	264
Cash flows from financing activities			
Short-term debt, net issuances and repayments	(79)	190	212
Advances (payments) on export contracts, net	(219)	(7)	
Long-term debt			
Proceeds	355	249	697
Repayments	(431)	(575)	(891)
Treasury stock	(16)		
Interest on stockholders' equity	(341)	(68)	(63)
Net cash provided by (used in) financing activities	(731)	(211)	(45)
Increase (Decrease) in cash and cash equivalents	294	126	(58)
Effects of changes in exchange rates on cash and cash equivalents	(64)	(297)	(69)
Cash and cash equivalents, beginning of year	756	986	815
Cash and cash equivalents, end of year	986	815	688
Cash paid during the year for:			
Interest	330	181	163
Income tax and social contribution, including Withholding income tax	49	54	90

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

Companhia Siderúrgica Nacional

Consolidated Statements of Changes in Stockholders' Equity
Expressed in millions of United States dollars

	Year ended December 31		
	1998	1999	2000
Common stock			
Balance, beginning of year	2,571	2,447	2,447
Cancellation of treasury stock	(124)		
Balance, end of year	2,447	2,447	2,447
Capital surplus			
Balance, beginning of year	44	53	53
Stock acquisition	9		
Balance, end of year	53	53	53
Treasury stock			
Balance, beginning of year	(123)	(24)	(24)
Stock acquisition	(25)		
Cancellation (write off) of treasury stock	124		
Balance, end of year	(24)	(24)	(24)
Amounts not recognized as net periodic pension cost			
Balance, beginning of year		(7)	
Excess of additional minimum liability	(7)	7	
Balance, end of year	(7)		
Cumulative translation adjustments			
Balance, beginning of year	(346)	(645)	(1,610)
Change in the year	(299)	(965)	(196)
Balance, end of year	(645)	(1,610)	(1,806)
Unrealized gain (loss) on available-for-sale security			
Balance, beginning of year	43	(88)	(35)
Unrealized gain (loss)	(195)	78	28
Tax effect on above	64	(25)	(9)
Balance, end of year	(88)	(35)	(16)

Companhia Siderúrgica Nacional

Consolidated Statements of Changes in Stockholders' Equity
Expressed in millions of United States dollars
(Continued)

	Year ended December 31		
	1998	1999	2000
Retained earnings			
Appropriated			
Investment reserve			
Balance, beginning of year	954	1,261	963
Transfer from (to) unappropriated retained earnings	307	(298)	(420)
Balance, end of year	1,261	963	543
Legal reserve			
Balance, beginning of year	34	69	56
Transfer from (to) unappropriated retained earnings	35	(13)	37
Balance, end of year	69	56	93
Total balance, end of year	1,330	1,019	636
Unappropriated retained earnings			
Balance, beginning of year	(339)	(506)	(275)
Net income for the year	423	48	274
Adjustments relating to investments by affiliates	(5)	9	(11)
Interest on stockholders' equity – US\$ 6.55 per thousand shares (1999 - US\$1.91 and 1998 – US\$ 3.39)	(243)	(137)	(470)
Appropriation from (to) reserves	(342)	311	383
Balance, end of year	(506)	(275)	(99)
Total retained earnings	824	744	537
Total stockholders' equity	2,560	1,575	1,191
Comprehensive income (loss) is comprised as follows:			
Net income for the year	423	48	274
Cumulative translation adjustments	(299)	(965)	(196)
Unrealized gain (loss) on available-for-sale security, net of taxes	(131)	53	19
Amounts not recognized as net periodic pension cost	(7)	7	
Total comprehensive income (loss)	(14)	(857)	97

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

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

Companhia Siderúrgica Nacional is a publicly held company, incorporated on April 9, 1941 under the laws of the Federative Republic of Brazil (Companhia Siderúrgica Nacional and its subsidiaries are collectively referred to herein as "CSN" or "the Company").

CSN is a vertically integrated company that produces a wide range of value-added steel products, such as hot-dip galvanized sheets and tin mill products, and it is Brazil's sole tinplate producer. CSN also runs its own iron ore, limestone and dolomite mines, in the State of Minas Gerais, which supply all the needs of its Presidente Vargas Steelworks in the State of Rio de Janeiro. As a complement to its activities, the Company has also made strategic investments in railroads and power supply companies, among others. The Company's consolidated operating subsidiaries are:

- CSN Cayman Ltd. (wholly-owned) – a trading company located in the Cayman Islands, established for the principal purpose of facilitating a securitization of the Company's receivables;
- CSN Steel Corp. (wholly-owned) – located in the Cayman Islands, holds the investment in Valepar S.A. made in connection with the acquisition of shares of Companhia Vale do Rio Doce;
- CSN Iron, S.A. (wholly-owned) – located in the Republic of Panama, established to act as an issuer of securities in order to obtain funds for CSN;
- CSN Panama, S.A. (99.99% owned) – located in the Republic of Panama, holds 37.5% interest in CSN Aceros S.A. in connection with the acquisition of shares of Sepetiba Tecon S.A.;
- CSN Overseas (wholly-owned) – a trading company for CSN's export sales;
- FEM – Projetos, Construções e Montagens S.A. (99.99% owned) – develops projects and manufactures and assembles metallic structures;
- INAL – Indústria Nacional de Aços Laminados S.A. (99.99% owned) – a steel distribution company located in São Paulo;
- CISA - CSN Indústria de Aços Revestidos S.A. (99.99% owned) - It began operations in January 2001. CISA consists of a large galvanizing complex, focusing on the civil construction and white goods segments in Brazil;
- CENER S.A. (99.99% owned) – Participation in Itá, an electric power generation company;
- Energy I Corp. (wholly-owned) – Major objective is the sale of CSN's stakes in Light Serviços de Eletricidade S.A.;
- CSN Islands Corp. (wholly-owned) – established to act as an issuer of Eurobonds;
- CSN Participações Energéticas S.A. (99.70% owned) – Participation in other companies through equity stakes (in preoperating stage);
- CSN Energia S.A. (99.99% owned) – Trading of electric power;
- CSC Cia. Siderúrgica do Ceará (99.99% owned) – Steel making;
- CSN I S.A. (99.67% owned) – Steel making.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

2 Summary of significant accounting policies

In preparing the consolidated financial statements, the use of estimates is required to account for certain assets, liabilities and transactions. The Company's consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment and goodwill, provisions necessary for losses on accounts receivable and for contingent liabilities, employee post-retirement benefits and other similar evaluations. Actual results may vary from estimates.

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which differ in certain respects from the Brazilian accounting principles applied by the Company in its statutory financial statements prepared in accordance with the Brazilian Corporate Law.

The U.S. dollar amounts for the periods presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards ("SFAS") No. 52 "Foreign Currency Translation" ("SFAS 52").

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy, defined as an economy in which the cumulative inflation rate over the latest 36-month period had exceeded 100%. Accordingly, the remeasurement procedures adopted by the Company up to June 30, 1997 were as follows:

- i) inventories, property, plant and equipment and accumulated depreciation and depletion, as well as stockholders' equity accounts, were translated at historical exchange rates, and monetary assets and liabilities denominated in Brazilian currency were translated at period end exchange rates;
- ii) depreciation and other costs and expenses relating to assets remeasured at historical exchange rates were calculated based on the U.S. dollar amount of the assets. Other accounts in the statements of operations and cash flows were translated at the average exchange rates prevailing during the period, except for amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency, which were not translated;
- iii) the translation gain or loss resulting from this remeasurement process was included in the statements of operations currently; and
- iv) pursuant to paragraph 9(f) of SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"), deferred taxes were not recorded with respect to differences relating to assets and liabilities translated at historical rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes.

As from July 1, 1997, the Company concluded that the Brazilian economy had ceased to be highly inflationary and changed its functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais). Accordingly, at July 1, 1997, the Company translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

At each period ended after July 1, 1997, the Company has remeasured all assets and liabilities into U.S. dollars at the current exchange rate (R\$1.7890 and R\$1.9554 to US\$ 1.00 at December 31, 1999 and 2000, respectively), and all accounts in the statements of operations and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency, which were previously not translated) at the average rates prevailing during the period. The translation gain or loss resulting from this new remeasurement process is included in the cumulative translation adjustments component of stockholders' equity.

Stockholders' equity included in the financial statements presented herein differs from that included in the Company's statutory accounting records as a result of differences between the variations in the U.S. dollar exchange rate and in the indices mandated for indexation of the statutory financial statements and adjustments made to reflect the requirements of US GAAP.

(b) Basis of consolidation

The financial statements of majority-owned subsidiaries that CSN controls have been consolidated. All significant intercompany accounts and transactions have been eliminated.

(c) Inventories

Inventories are stated at the lower of the average cost of purchase or production and replacement or realizable values. Allowances for slow-moving or obsolete inventories are recorded when considered appropriate.

(d) Investments in affiliated companies and other investments

The Company uses the equity method of accounting for all long-term investments for which it owns at least 20% of the investee's outstanding voting stock or has the ability to exercise significant influence over operating and financial policies of the investee, but not the control. The equity method requires periodic adjustments to the investment account to recognize the Company's proportionate share in the investee's results, reduced by receipt of investee dividends. Goodwill, representing the excess of cost over the fair value of net assets acquired, is amortized using the straight-line method over 20 years. Other investments are accounted for at cost.

The Company accounts for its investment securities carried on the cost basis and having a quoted market price in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). The Company's investment in LIGHT – Serviços de Eletricidade S.A. was classified as available-for-sale under the provisions of SFAS 115. Accordingly, any unrealized holding gains or losses, net of taxes, are excluded from income and recognized as a separate component of stockholders' equity (comprehensive income) until realized.

The investment in LIGHT – Serviços de Eletricidade S.A. was sold subsequent to year end, as further disclosed in Note 7.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest incurred during the construction period of major new facilities. Depreciation is computed on the straight-line basis at rates which take into consideration the useful lives of the related assets, as follows (average): buildings - 25 years; equipment - 15 years; furniture and fixtures - 10 years; and vehicles - 5 years.

Costs of developing iron ore and other mines or expanding the capacity of operating mines are capitalized and charged to operations on the units-of-production method based on the total quantity to be recovered. These costs have not been material for the years presented.

(f) Blast furnaces programmed maintenance

Expenditures for the revamping of the blast furnaces at the end of each cycle (production periods averaging 12 years in the case of the Company's blast furnaces) are capitalized and depreciated over the following cycle. Until December 31, 1998, the Company estimated future expenditures for intermediate maintenance for each cycle provided through charges to cost of production during the related cycle. These costs were amortized over the estimated time until the next scheduled revamping. Beginning in 1999, the Company began charging maintenance expenses as incurred to the cost of production. The provision which remained in 1999 of US\$5 was reversed to cost of production.

(g) Recoverability of long-lived assets

In accordance with SFAS No. 121 "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of" ("SFAS 121"), management reviews long-lived assets, primarily property, plant and equipment to be used in the business and goodwill, for the purpose of determining and measuring impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. The Statement requires the recognition of an impairment loss when the estimate of undiscounted future cash flows expected to be generated by the asset is less than its carrying value. Measurement of the impairment loss is based on the fair value of the asset.

(h) Revenues and expenses

Revenues are recognized when: the products have been delivered to the customer or shipped and the risk of ownership has passed to the customer, persuasive evidence of the basis of the sale exists, the price is fixed or determinable, the customer no longer has a right of return and collectibility is reasonably assured. Expenses and costs are recognized on the accrual basis

(i) Environmental and remediation costs

The Company provides for remediation costs and penalties when a loss is probable and the amount of associated costs is reasonably determinable. Generally, the timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

Expenditures relating to ongoing compliance with environmental regulations are charged to earnings or capitalized, as appropriate. Capitalization is considered appropriate when the expenditures relate to items that will continue to provide benefits to the Company and primarily pertain to the acquisition and installation of equipment for control of air and effluent emissions. These ongoing programs are designed to minimize the environmental impact of the Company's mining and steel operations and are also expected to reduce costs that might otherwise be incurred on cessation of mining activities.

(j) Research and development

Research and development costs relating to improvement of processes and development of products are expensed as incurred. In 2000, US\$2.9 (US\$3.5 and US\$6.8 in 1999 and 1998, respectively) were recognized as expenses related to research and development cost.

(k) Post-employment and post-retirement benefits

SFAS No. 87 "Employers' Accounting for Pensions" ("SFAS 87") has been applied as from the beginning of the earliest year presented in these financial statements. However, amortization of the net transition obligation existing at January 1, 1995, when the Company first adopted SFAS 87, has been computed retroactively as if it had been established on January 1, 1989, which is the date that SFAS 87 first became applicable for non-U.S. pension funds.

SFAS No. 132 "Employers' Disclosure About Pensions and Other Post-retirement Benefits" ("SFAS 132") provides a new basis of disclosure for pension and other post-retirement benefit plans in the annual financial statements of a company. The intent of the new disclosures, among others, is to provide information that will allow the reader to reconcile annual changes in a plan's financial position and the related financial impact on the plan's sponsor. The Company has adopted SFAS 132, retroactively, as from January 1, 1997, and the required disclosures are presented in Note 14.

(l) Compensated absences

Liability regarding employee compensation for vacation benefits is accrued.

(m) Income taxes

SFAS 109 has been applied for all years presented. The effect of adjustments made to reflect the requirements of US GAAP, as well as differences between the tax basis of non-monetary assets and liabilities and the amounts included in these financial statements, have been recognized as temporary differences for the purpose of recording deferred income taxes, except that in accordance with paragraph 9 (f) of SFAS 109, up to June 30, 1997, deferred taxes were not recorded with respect to differences relating to assets translated at historical exchange rates that resulted from changes in exchange rates or indexing for Brazilian tax purposes (see discussion of the effect of change in functional currency in (a) above). Net operating loss carryforwards are recognized as deferred tax assets and a valuation allowance is recorded when management believes it to be more likely than not that deferred tax assets will not be fully recovered in the future.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

(n) Statements of cash flows

Cash flows relating to overnight financing and investments are reported on a net basis. Short-term investments that have a ready market and maturity, when purchased, of 90 days or less are considered cash equivalents.

(o) Earnings per share

The Company has adopted SFAS No. 128 "Earnings Per Share" ("SFAS 128"). Earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. The shares of the Company are traded in stock markets in thousands of shares, and earnings per share are presented per thousand shares.

(p) Concentration of credit risk

Financial instruments which potentially subject CSN to concentrations of credit risk are cash and cash equivalents, time deposits and trade accounts receivable. CSN limits its credit risk associated with cash and cash equivalents and time deposits by placing its investments with highly rated financial institutions in very short-term applications. With respect to trade accounts receivable, CSN limits its credit risk by performing ongoing credit evaluations and, depending on the results of the evaluation, requiring letters of credit, guarantees or collateral. CSN's products are utilized in a wide variety of industry segments, therefore accounts receivable and sales are not concentrated in one single industry and, accordingly, management does not believe significant concentration of risk exists.

(q) Comprehensive income

SFAS No. 130 "Reporting Comprehensive Income" ("SFAS 130") requires that companies display, in a separate statement, changes in the equity of a business enterprise during a period resulting from transactions and other events and circumstances from nonowner sources. The Company has adopted SFAS 130 for all years presented and has included a Comprehensive Income statement as part of the Statement of Changes in Stockholders' Equity.

(r) Segment information

SFAS No. 131 "Disclosures about Segments of Enterprise and Related Information" ("SFAS 131") requires that a business enterprise supplementally disclose certain financial information among its various and distinct operating activities. Such information is to be oriented from the point of view of how operating and financial decisions are made for each business sector. The Company has adopted SFAS 131 for all years presented, as further disclosed in Note 17.

3 Recently issued accounting pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements Expressed in millions of United States dollars, unless otherwise stated

If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, may have to be immediately recorded in earnings. Any portion of a change in a derivative's fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will be recorded in earnings.

Adoption of SFAS No. 133 will not have a material effect on the Company's net income or stockholders' equity.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No.101, "Views on Selected Revenue Recognition Issues", which sets forth the SEC's views in applying US GAAP to selected revenue recognition issues. The SAB provides that if registrants have not applied the accounting therein they should implement the SAB and report a change in accounting principle. SAB No.101, as amended, became effective as of the fourth quarter of 2000. The adoption of SAB No.101 did not have a material impact on the consolidated financial statements under U.S.GAAP reporting.

In March 2000, FASB issued FASB Interpretation ("FIN") No.44, "Accounting for Certain Transactions Involving Stock Compensation". FIN No. 44 clarifies the application of APB Opinion No.25, "Accounting for Stock Issued to Employees", for certain issues. FIN No.44 became effective July 1, 2000. Adoption of this interpretation had no effect on the Company's consolidated results of operations and financial position under U.S.GAAP reporting.

In October 2000, FASB issued SFAS No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125". SFAS No. 140 carries forward most of SFAS No. 125's provisions without amendment. However, it revises criteria for accounting for certain transfers of financial assets and the reporting and disclosure requirements for collateral arrangements. SFAS No. 140's disclosure requirements must be applied for fiscal years ending after December 15, 2001. The other provisions of SFAS No. 140 apply prospectively to transactions and commitments occurring after March 31, 2001. Management believes that the adoption of SFAS No. 140 will have no effect on its consolidated results of operations and financial position under US GAAP reporting.

4 Income taxes

Income taxes in Brazil comprise Federal income tax and social contribution (which is an additional Federal income tax). The statutory rates applicable for the three years presented herein are 25% for Federal income tax and 8% for social contribution, except that in May 1999, the social contribution rate increased from 8% to 12%, through a Provisional Measure. Provisional Measures are temporary and lapse if not reapproved every 30 days; therefore, they are not considered to be enacted law under SFAS No. 109 "Accounting for Income Taxes". The tax rate changes were enacted in the year prior to that in which they became effective. Accordingly, the deferred tax balances at each year end are computed at the rates in force in the subsequent year, according to enacted laws (33%). Tax loss carryforwards do not lapse if not used within a specific time period. The amounts reported as income tax expense in these financial statements are reconciled to the statutory rates as follows:

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

	Year ended December 31		
	1998	1999	2000
Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item	457	(39)	210
Federal income tax and social contribution at statutory rates	(151)	13	(69)
Adjustments to derive effective tax rate			
Interest on stockholders' equity	80	45	82
Non taxable income (loss) from subsidiaries abroad	32	(25)	(17)
Others	(25)	(16)	(14)
Tax benefit (expense) per statement of operations	(64)	17	(18)

The major components of deferred income tax accounts in the balance sheet are as follows:

	As of December 31	
	1999	2000
Current assets		
Non-deductible accrued expenses	40	137
Net current deferred tax assets	40	137
Non-current assets		
Tax loss carryforwards	33	7
Non-deductible accrued expenses	60	21
Pension fund liability, net of unrecognized pension obligation	101	100
Tax effect on unrealized loss on available-for-sale security	17	
	211	128
Liabilities		
Property, plant and equipment	38	26
Investments in affiliated companies	52	18
	90	44
Net non-current deferred tax assets	121	84

5 Cash and cash equivalents

	As of December 31	
	1999	2000
Cash in hand and bank deposits		
Local currency	9	7
U.S. dollars	1	1
Time deposits		
Local currency	442	630
U.S. dollars	363	50
Total	815	688

Company management has been investing surplus cash in Investment Fund comprised of Brazilian government bonds and fixed income securities with monetary or foreign exchange variation.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

6 Trade accounts receivable

	As of December 31	
	1999	2000
Domestic	239	243
Export – Denominated in U.S. dollars	37	32
	276	275
Allowance for doubtful accounts	(80)	(77)
Total	196	198

No single customer accounted for more than 10% of total trade accounts receivable at December 31, 1999 and 2000 or total revenues for the years then ended. As of December 31, 1999 and 2000, the Company fully provided for the receivables from certain customers, after negotiations over past due accounts failed.

7 Investments for sale

On December 11, 2000, CSN sold through its subsidiary Energy I Corp., its participation in the capital stock of Light – Serviços de Eletricidade S.A., to the companies EDF International S.A. and AES Treasure Cove Ltd., for the total amount of R\$708 Million, equivalent to US\$362, with financial closing on January 11, 2001. The expected gain, net of income taxes, totals US\$150.

On December 31, 2000, agreements were signed, for the purpose of eliminating existing cross-holdings between CSN and CVRD.

By these agreements CSN sold 32,926,078 ordinary shares issued by Valepar S.A., corresponding to 8.4739% of the shares issued by CVRD, for the amount equivalent to US\$1,313, to BRADESPAR S.A., BRADESPLAN Participações S.A. and Litel Participações S.A., with financial closing in March 2001. The expected gain, net of income taxes, totals US\$ 436.

As the financial closing occurred in 2001, the Company did not record such transactions in the 2000 financial statements. Instead, the sales were recorded in the subsequent year, as established by SFAS 125 – “Accounting for Transfers and Servicing of Financial Assets”, that states that the sales of financial assets must be accounted for at the time the transfer of securities and the financial closing occurs.

As of December 31, the investments in Light and Valepar S.A. in the amounts of US\$160 and US\$710, respectively, were recorded as Investments for sale – current assets.

8 Inventories

	As of December 31	
	1999	2000
Finished products	57	77
Products in process	65	50
Raw materials	76	158
Spare parts and maintenance supplies	83	82
Others	26	28
Total	307	395

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

9 Investment in affiliated companies and other investments

	As of and for the years ended December 31						
	Ownership		Investments		Equity adjustments		
	Voting	Total	1999	2000	1998	1999	2000
Equity method							
MRS Logística S.A. (“MRS”)	18.63%	32.17%	60	75	(5)	(2)	10
Companhia Ferroviária do Nordeste (“CFN”)	30.00%	30.00%			(5)	3	(1)
Valepar S.A. (“Valepar”)			737		58	10	77
Itá Energética S.A. (“ITASA”)	48.75%	25.20%	49	95		1	2
Inepar-Fem Equipamentos e Montagens S.A. (“Inepar-Fem”)			15			(4)	
GalvaSud S.A. (“GalvaSud”)	51.00%	51.00%	15	19		(1)	(3)
CSN Aceros, S.A. (“Aceros”)	37.50%	37.50%	5	3		(2)	(2)
SePETIBA Tecon S.A. (“Tecon”)	20.00%	20.00%	3	2		(1)	(1)
Companhia de Cimento Ribeirão Grande (“CCRG”)					(18)		
			884	194	30	4	82
Other investments							
Available-for-sale							
Light – Serviços de Eletricidade S.A. (“Light”)							
			Cost	167			
			Gross unrealized loss	(53)			
			Estimated fair value	114			
At cost							
Ferrovia Centro-Atlântica S.A. (“FCA”)	11.66%	11.95%	10	9			
Inepar S/A Indústria e Com. (“Inepar-Ind”)	3.98%	3.98%		14			
			10	23			
Goodwill							
Itá Energética S.A. (“ITASA”)				32			
				32			
Provision for loss							
Inepar S/A Indústria e Com. (“Inepar-Ind”)				(4)			
				(4)			
			1,008	245	30	4	82

Light

The Company acquired its interest in Light, its major source of electrical power, previously a subsidiary of Eletrobrás - Centrais Elétricas Brasileiras S.A., on May 21, 1996, through a privatization auction.

The investment was sold on December 11, 2000, with financial closing on January 11, 2001 and as of December 31, 2000, it was recorded at fair value as established SFAS No. 115, in Investments for sale – current assets (see Note 7).

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

FCA, MRS and CFN

The interests in these railroad networks were acquired through participation in consortia which obtained, in privatization auctions, the concessions to operate the railway networks of the Rede Ferroviária Federal S.A. (“RFFSA”). The Company’s aim is to help FCA, MRS and CFN to improve the efficiency and reliability of the railway networks. FCA and MRS are the principal means of transporting the Company’s raw materials to the Presidente Vargas Steelworks facility.

Valepar

The Company was a member of a consortium that on May 6, 1997 successfully bid in the auction for a controlling stake in Companhia Vale do Rio Doce (“CVRD”), one of the world’s largest mining companies.

The consortium paid a total of US\$3.1 billion for 42% of the common shares of CVRD, which in turn represents approximately 27% of the issued and outstanding shares of CVRD, as of May 6, 1997. The members of the consortium formed Valepar, a special purpose company, to hold their interests in CVRD. CSN owned 31% of Valepar, giving it an indirect interest in 13.2% of CVRD’s common shares, representing 8.5% of CVRD’s total capitalization. The Company paid US\$989 for its investment in Valepar, of which US\$786 was financed by a bridge loan from a syndicate of lenders, including NationsBank N.A, also an indirect shareholder of Valepar (see Note 12).

The summarized information as of and for the years ended December 31, 1998, 1999 and 2000 with respect to CVRD’s financial position and results of operations in accordance with US GAAP is as follows:

Balance sheet	As of December 31	
	1999	2000
Current assets	2,498	2,515
Noncurrent assets	6,463	7,562
Current liabilities	2,038	2,124
Noncurrent liabilities	1,891	3,031
Stockholders’ equity	5,032	4,922

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

Statements of operations	Year ended December 31		
	1998	1999	2000
Net operating revenue	3,553	3,076	3,935
Net cost and expenses	(2,561)	(2,631)	(2,860)
Income before income taxes and Extraordinary items	992	445	1,075
Income taxes	(96)	(33)	25
Extraordinary items			
Net income for the year	896	412	1,100

NationsBank N.A., through its affiliates, had the right to sell to the Company, at any time during a two-year period beginning May 2002, the common shares of Valepar. However the “put option” was transferred to the companies which have acquired CSN’s participation in Valepar.

The investment was sold on December 31, 2000, with financial closing on March 15, 2001 and as of December 31, 2000 its value, based on the equity method, was recorded in Investments for sale – current assets (see Note 7).

ITASA

Formed in July 1996, this special-purpose company is responsible for the construction of the Itá Hydroelectric facility, a 1,450 MW power facility that is being built on the Uruguay river in southern Brazil.

Inepar-Fem/Inepar-Ind

Inepar-Fem was formed pursuant to an agreement with Inepar-Ind and Banco Bradesco S.A. It was created as part of the restructuring of a subsidiary and for the purpose of providing industrial assembly and metal structure manufacturing services. On July 28, 2000, the Company swapped its 27.07% interest in Inepar-Fem for shares of Inepar-Ind constituting 3.9% of Inepar-Ind’s capital shares.

GalvaSud

A joint-venture formed in May 1998 with Thyssen Krupp Stahl A.G., GalvaSud began producing hot-dipped galvanized steel for the automobile industry in December 2000. The plant is located in the State of Rio de Janeiro, approximately 45 Km from the Presidente Vargas Steelworks.

Aceros and Tecon

CSN's investment in Aceros is held through its subsidiary CSN Panama, S.A.. Located in the Republic of Panama, Aceros holds an 80.00% interest in Tecon, a joint-venture company formed with CVRD for the purpose of carrying out a concession agreement to use for 25 years a container marine terminal in the State of Rio de Janeiro, where the Company intends to concentrate its steel export sales.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

CCRG

On March 31, 1999, the Company sold its interest in this Brazilian cement maker, recognizing a gain of US\$27 in Other non-operating income in 1999.

10 Property, plant and equipment

	As of December 31, 1999		
	Cost	Accumulated Depreciation	Net
Land	5		5
Buildings	70	27	43
Equipment	3,109	1,441	1,668
Furniture and fixtures	39	23	16
Vehicles	5	4	1
Others	29	13	16
	<u>3,257</u>	<u>1,508</u>	<u>1,749</u>
Construction in progress	224		224
	<u>3,481</u>	<u>1,508</u>	<u>1,973</u>

	As of December 31, 2000		
	Cost	Accumulated Depreciation	Net
Land	4		4
Buildings	99	17	82
Equipment	3,057	1,438	1,619
Furniture and fixtures	35	22	13
Vehicles	6	4	2
Others	34	15	19
	<u>3,235</u>	<u>1,496</u>	<u>1,739</u>
Construction in progress	286		286
	<u>3,521</u>	<u>1,496</u>	<u>2,025</u>

Construction in progress consists principally of a group of investments in equipment in order to improve the productivity of the Company's production units and quality of its products. The main investments are for undertakings in the area of environmental protection, cost reduction, infrastructure and automation, information and telecommunication technologies. In 1999 and 2000, interest capitalized amounted to US\$25 and US\$17, respectively.

11 Short-term debt

At December 31, 2000, the Company's short-term borrowings were principally from commercial banks, denominated in U.S. dollars, incurred for the purpose of financing working capital and bearing interest at rates ranging from 7.5% to 8.36% (1999 – 5.24% to 8.92%) per annum. The variable rates range from Libor plus 0.83% to Libor plus 1.30%.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

12 Long-term debt

	<u>at December 31, 2000</u>	<u>1999</u>		<u>at December 31, 2000</u>	
		CSN	Subsidiaries	CSN	Subsidiaries
Denominated in local currency					
Indexed to the "Long-term Interest Rate" ("TJLP"), "Taxa de Referência" ("TR") or "Índice Geral de Preços" ("IGP-DI")	9.2 to 12.50	123	3	82	6
Denominated in foreign currencies					
Loans and financing contracted in the following currencies					
United States dollar	5.3 to 10.66	726	1,019	763	865
Japanese yen	0.86 to 6.6	102		88	
Others	5.57 to 14.35	34		40	
		862	1,019	891	865
		985	1,022	973	871
Current portion of long-term debt					
Principal		(392)	(536)	(204)	(74)
Accrued finance charges		(25)	(6)	(42)	(18)
Total		568	480	727	779

Indices applied to debt in each year are as follows:

	<u>%</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
TJLP – Long-term interest rate	11.84	13.41	10.93
United States dollar exchange rate change	8.27	48.01	9.30
Japanese yen exchange rate change	25.27	62.55	(2.16)

The long-term portion of the Company's debt outstanding at December 31, 2000 becomes due in the following amounts in the years indicated:

2002	575
2003	147
2004	94
2005	72
2006	65
2007	405
2008	41
2009 and thereafter	107
Total	1,506

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Security for the Company's debt outstanding at December 31, 2000 is as follows:

Property, plant and equipment	844
Notes receivable from foreign clients	367
Bank guarantee	147
Total	1,358

In August 2 and September 15, 2000 the Company issued notes in the North American and European markets, through its subsidiary CSN Islands Corp., with a two-year term, and an interest rate of 9.625% p.a., in the amounts of US\$250 and US\$100, respectively. The proceeds were used to repay borrowings incurred by the subsidiary CSN Steel Corp to finance its investment in Valepar .

In June 28 and August 29, 2000, CSN issued commercial paper, through its subsidiary CSN Overseas, in the amounts of US\$250 and US\$300, respectively, with a one-year term, and interest rates of approximately 7.51% and 7.75% p.a. The proceeds were used, primarily to repay commercial paper of US\$175 and US\$300 issued in June and September, 1999, respectively.

Loans and financing totaling US\$1,358 at December 31, 2000 (1999 – US\$ 1,503) were secured, mainly by fixed assets , notes receivable from foreign clients and bank guarantees. This amount does not take into consideration the guarantees granted to joint subsidiaries and associated companies.

During 2000, the Company obtained pre-payments on export contracts of US\$185 (1999 – US\$45). These are receivables-based financing made available by important financing institutions at floating rates.

So long as any note remains, outstanding the Company shall ensure that net debt shall not exceed 40% of net capitalization. The calculation is based on Brazilian GAAP consolidated financial statements.

13 Stockholder's equity

(a) Capital

The capital stock of the Company at December 31, 2000 is represented by 71,729,261 (1999 – 71,729,261) thousand common shares (no par value). Each common share has the right to one vote in the General Stockholders' Meeting.

(b) Appropriated retained earnings

Brazilian laws and CSN's By-laws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis. The purpose and basis of appropriation to such reserves is described below:

- Investment reserve - this is a general reserve for future expansion of CSN's activities.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

- Legal reserve - this reserve is a requirement for all Brazilian corporations and represents the annual appropriation of 5% of net income up to a limit of 20% of capital stock, as determined according to Brazilian corporate legislation. This reserve may be used to increase capital or to absorb losses, but may not be distributed as cash dividends.

(c) Treasury stock

During 1998 and 1999, the Company purchased, at no higher than the market price, an aggregate of 3,305,100 thousand shares, which were cancelled in 1999, as approved in Extraordinary General Meetings. The balance remaining in 1999 and 2000, represents the cost of the shares of the Company held by CVRD group.

(d) Dividends and interest on stockholders' equity

The Company's By-laws guarantee a minimum annual dividend equal to 25% of the adjusted net income for the year, as determined by Brazilian corporate law. Interest on stockholders' equity as from January 1, 1996 is considered part of the minimum dividend.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the Company's statutory accounting records. At December 31, 2000, the Company had the equivalent to US\$ 223 recorded as retained earnings as stated in the statutory accounting records that could be paid as dividends, if approved by the stockholders. In addition, in accordance with the statutory accounting records, appropriated retained earnings at December 31, 2000 includes the equivalent of US\$543 (1999 – US\$963), related to the investment reserve, which could be transferred to unappropriated retained earnings and paid as dividends, if approved by the stockholders.

Brazilian corporations are permitted to pay interest on stockholders' equity, which may either be paid in cash or be used to increase capital stock. The calculation is based on stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the TJLP (approximately, 12% , 13% and 11% for 1998, 1999 and 2000, respectively). In addition, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves. The amount of interest on stockholders' equity is deductible for income tax purposes. Accordingly, the benefit to the Company, as opposed to making a dividend payment, is a reduction in its income tax charge equivalent to 33% of such amount. Income tax is withheld from the payments at the rate of 15%. The Company paid US\$470 of interest on stockholders' equity for the year ended December 31, 2000 (US\$137 in 1999).

14 Pension plan

(a) Description of the plans

The Company has pension plans, which cover substantially all employees. The plans are administered by the Deliberative Council of a foundation named *Caixa Beneficente dos Empregados da CSN* ("CBS"), a private non-profit pension fund established in July 1960, which has as its members employees of CSN and certain CSN subsidiaries which join to the fund by agreement, and CBS' own employees. The Deliberative Council of the foundation is comprised of its president and ten members, six of whom are chosen by CSN, the principal sponsor of CBS, and four of whom are chosen by the participants.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Up to January 1996, CBS had only defined benefit plans with benefits based on years of service, salary and social security benefits.

On December 27, 1995, the *Secretaria de Previdência Complementar* (Government Secretariat for Supplementary Social Security or the "SPC") approved the implementation of a new benefit plan as from January 1996, called *Plano Misto de Benefício Suplementar* (a hybrid plan), structured in the form of a defined contribution plan. Employees hired after that date can only join the new plan.

Additionally, all active employees who were participants in the defined benefit plans were offered the opportunity to transfer to the new plan (*Plano Misto de Benefício Suplementar*). At the end of the process, in August 1996, 4,197 employees had transferred, representing approximately 60% of the total number of active employees at that date.

As a result of the transfer of participants from the defined benefit plan to the *Plano Misto de Benefício Suplementar*, approximately US\$56 was recorded as a curtailment loss in accordance with SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits" ("SFAS 88").

On December 31, 2000, CBS had 24,793 participants, of whom 19,517 were contributors (24,545 and 19,350, respectively, at December 31, 1999), enrolled in its benefit plans, including 7,521 active (7,362 at December 31, 1999) and 17,272 retired employees (17,183 at December 31, 1999). Of the total participants, 17,870 belong to defined benefit plans and 6,923 to the *Plano Misto de Benefício Suplementar*.

CBS's assets comprise principally time deposits, shares of CSN, equity securities, government securities and properties. At December 31, 2000, CBS owned 3,065,222 thousand (1999 – 3,891,322 thousand) common shares of CSN with a market value at that date of US\$100 (1999 – US\$149). CBS also had at December 31, 2000, 1,258,457 thousand quotas of the *Clube de Investimento CSN*, an investment club comprised of CSN's employees and itself a shareholder of CSN, with a carrying value of US\$ 38 (1,788,436 thousand quotas with a carrying value of US\$66 at December 31, 1999).

(b) Defined-contribution plan

The plan is funded through contributions of the Company and the participants to the plan. CSN is committed to contribute to the plan a percentage of the salary of each participant, ranging from 3% to 7%. Contributions made by the Company to the plan during 2000 amounted to US\$4 (1999 – US\$4).

(c) Defined-benefit plan

Information with respect to the Company's pension plan, in the form required by SFAS 132, for the years presented is as follows:

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

(i) Change in benefit obligation	As of December 31	
	1999	2000
Projected benefit obligation at beginning of year	628	496
Service cost	4	3
Interest cost	46	49
Benefits paid	(42)	(38)
Effect of exchange rate changes	(204)	(42)
Actuarial (gain) loss	64	(43)
Projected benefit obligation at end of year	496	425

(ii) Change in plan assets	As of December 31	
	1999	2000
Fair value of plan assets at beginning of year	206	227
Actual return on plan assets	124	(2)
Employer contributions	4	5
Employees contributions	2	2
Benefits paid	(42)	(38)
Effect of exchange rate changes	(67)	(20)
Fair value of plan assets at end of year	227	174

(iii) Accrued pension cost liability	As of December 31	
	1999	2000
Funded status, excess of projected benefit obligation over plan assets	269	251
Unrecognized net transition obligation	(1)	(1)
Unrecognized net actuarial gain (loss)	37	53
Accrued pension cost liability	305	303

(iv) Recognition of additional minimum liability	As of December 31	
	1999	2000
Accrued pension cost liability	305	303
Minimum liability	305	303

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

Net periodic pension cost includes the following components:

	As of December 31		
	1998	1999	2000
Service cost-benefits earned during the year	8	4	3
Interest cost on projected benefit obligation	40	46	49
Actual return on assets	14	(14)	(22)
Net amortization and deferral	16		1
	78	36	31
Employees contributions	(3)	(2)	(2)
Net periodic pension cost	75	34	29

Actuarial assumptions used for the calculations were:

Discount rates	-	Inflation plus 6%
Rates of increase in compensation levels	-	Inflation plus 1%
Expected long-term rate of return on assets	-	Inflation plus 6%

The projected annual inflation rate adopted was 5%.

(v) Funded status

	As of December 31	
	1999	2000
Actuarial present value of:		
Vested benefit obligation	461	394
Non vested benefit obligation	33	23
Total accumulated benefit obligation	494	417
Projected benefit obligation	496	425
Fair value of plan assets	(227)	(174)
Funded position	269	251
Unrecognized net transition obligation	(1)	(1)
Unrecognized net gain (loss)	37	53
Accrued pension cost liability	305	303

As a result of the reduction in the value of the fund's assets in past years, in order to assure the ability of the fund to continue to provide the intended benefits to its participants, on January 25, 1996, the SPC approved the proposal of the Company to settle CBS's reserve shortages, taking into consideration the concept of joint responsibility of the participants and CSN, for the amortization of 57.5% of this shortage in 30 years, by the sponsors, and 42.5% in 35 years, by the participants, by means of increasing percentages applied to the payroll, as from April 30, 1996.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

During 1999, the Company and its actuaries revised certain assumptions which have been utilized in the calculation of the pension obligation and determined, among other changes, that the future salary increases assumption would be limited to inflation plus 1% as from 2000.

15 Employee benefits

In addition to the pension fund, the Company makes monthly contributions based on the payroll, to the government pension, social security and severance indemnity plans and such payments are expensed as incurred. Also, certain severance payments are due on dismissal of employees, consisting principally of one month's salary and a severance payment calculated at 40% of the accumulated contributions made to the government severance indemnity plan on behalf of the employee. Amounts paid on dismissal totalled US\$5 and US\$7 in the years ended December 31, 1999 and 2000, respectively. Based on current operating plans, management does not expect that amounts of future severance indemnities will be material.

16 Commitments and contingencies Employee benefits

(a) Provisions and deposits

The provision for contingencies and the related judicial deposit balances are as follows:

	As of December 31, 1999		As of December 31, 2000	
	Deposits	Provision	Deposits	Provision
Civil				
Environmental		7		3
Others	2	12	1	12
Labor	13	25	12	45
Fiscal				
Social contribution	57	44	60	48
Income tax			65	64
Value-added tax	5		5	
Others	7		7	3
Administrative and fiscal			5	
	84	88	155	175
Current (included in others)		(10)		(18)
Long-term	84	78	155	157

(i) Environmental

The Company is subject to Federal, State and local laws and regulations relating to the environment. These laws generally provide for control of air and effluent emissions and require responsible parties to undertake remediation of hazardous waste disposal sites. Civil environmental lawsuits may be imposed for non-compliance.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The Company provides for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. Management does not anticipate that costs for environmental lawsuits, to the extent not previously provided for, will have a material adverse effect on the consolidated financial position. The Company operates an environmental department, including an environmental quality assurance division.

For a number of years, CSN has made substantial expenditures (fixed assets and expenses) to bring existing facilities in line with various environmental laws (1998 – US\$56; 1999 – US\$62; 2000 – US\$94).

The provision for environmental contingencies relates mainly to penalties imposed on the Company's coal mines in the State of Santa Catarina, which were sold in 1991, and on the Presidente Vargas Steelworks.

On January 10, 1995, the Company entered into an agreement with the City of Volta Redonda under which it would spend approximately US\$13 in environmental projects as well as other projects for the well being of the population of the City of Volta Redonda.

In addition, in September 1994 CSN signed an agreement with *Fundação Estadual de Engenharia do Meio-Ambiente* (environmental protection agency of the state of Rio de Janeiro or “FEEMA”), which was amended in January 1996. Under this accord, CSN committed to invest during a five-year period, beginning in September 1994, US\$94 in environmental technology and new infrastructure in exchange for the release of proposed environmental fines by FEEMA. The investments include installation of water-treatment plants, electrostatic collectors on smokestacks, and production and safety control equipment to modernize CSN’s industrial processes and thereby increase productivity and product quality.

In December 1998, the Company entered into an agreement with the State of Rio de Janeiro in which it committed itself, through an environmental audit, to review the necessary investments to bring Presidente Vargas steelworks to the international standards of environmental controls.

During 1999, a comprehensive third party-environmental site audit was carried out in order to check how much of the 1994 accord had been accomplished and the environmental needs of the Presidente Vargas Steelworks. The audit concluded that 61.25% of the accord had been accomplished and 130 new projects were to be implemented.

On January 27, 2000, the Company and FEEMA amended the accord to require that CSN invest R\$181 million (US\$101) in these 130 environmental protection projects, to be carried out over a period of three years. These projects consist of steel mill environmental enhancement and modernization at the Presidente Vargas Steelworks, which will be capitalized. To guarantee these projects, the Company provided six bank guarantee letters in the total amount of R\$181 million (US\$101) (R\$30 million each (US\$17)).

These bank guarantees were given in advance by CSN to Rio de Janeiro State Government, to be released after compliance verification through semi-annual audits. In 2000, FEEMA auditors performed two of these audits and concluded that CSN had complied with 100% of its obligations under the FEEMA accord for the year and completed 57 of the 130 projects, with an accumulated expenditure since September, 1999 of R\$116.5 million (US\$64). In February 2001, the auditors checked engineering and financial information. Two of these bank guarantees have been released as a result of these audits.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Under the FEEMA accord amendment, important water and air pollution control systems started operating in 2000, as well as telemetric equipment for continuous air quality monitoring in Volta Redonda. Also, as part of this amendment, the Company agreed to spend the equivalent of US\$8 to build facilities to benefit the community of Volta Redonda, discharging its liability for pre-FEEMA Accord environmental fines. The Company has fully provided for this US\$8 commitment.

CSN is obligated to spend up to R\$5 million over a three-year period to bring the Sepetiba bay port facilities in compliance with the applicable environmental laws and regulations. Under this obligation, CSN has installed equipment and systems to control and monitor air emissions, as well as sea pollution from port activities and handling imported coal.

(ii) Civil and labor contingencies

The Company is a defendant in numerous civil and labor actions in the normal course of business. Based on the advice of its legal counsel, management believes that the provision made against contingent losses is sufficient to cover probable losses in connection with such actions.

(iii) Income tax & Social contribution

In 1994, CSN's management reviewed the procedures adopted in previous years for the payment of Federal income tax and social contribution. This review identified additional social contribution charges of US\$99 related to taxes through 1994, which were recorded in that year.

During 1995, CSN obtained authorization to pay US\$60 over a sixty-month period. The remaining US\$39 is being challenged in court, as are current social contributions amounting to US\$31 at December 31, 2000 and US\$25 at December 31, 1999. The Company is also challenging in court income tax amounting to US\$64. The amounts under dispute, plus accrued fines, were deposited in an escrow account.

(iv) Value-added tax

The Company is challenging in court the revoking in September 1997 of the Decree 22,595/96 by the Government of the State of Rio de Janeiro. This Decree allowed the deferral for five years of a portion of the current value-added tax. The escrow deposits related to that matter in the amount of US\$85 were forfeited to the Government of the State of Rio de Janeiro, through a judicial decision on April 8, 1998, and reversed against the corresponding provision for contingencies.

(b) Workers Participation Fund ("PIS / PASEP")

During 1995, CSN recognized a tax credit amounting to US\$32 related to the excess PIS/PASEP paid from October 1988 to March 1993. The credit has been recorded as Other assets - Taxes recoverable, on the basis of the Resolution of the Senate No. 49, dated October 9, 1995, which, considering the declared unconstitutionality of the decrees that changed the basis for PIS/PASEP, suspended its execution.

On June 30, 1999, as a result of a favorable final decision by the Federal Supreme Court, the Company recognized as income for the year a credit derived from monetary variation as well as an additional part of the principal in the amount of US\$31.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

(c) Anti-trust penalty

In October 1999, the Company and other steel industries were fined by the Brazilian anti-trust board (“CADE”) based on allegations of having agreed beforehand to increase steel prices in 1996. CADE fined all companies involved 1% of their gross operating revenues in 1996. CSN’s part amounted to US\$12. In the opinion of the Company’s legal counsel it is not possible at this time to estimate the probability of loss, in relation to this contingency. For this reason, no provision has been accrued at this time.

(d) Commitments

Itá Hydroelectric Facility

The Company has a 25.2% interest (48.75% voting capital) in ITASA, a special purpose company that has a 60.5% interest in the consortium that operates the Itá Hydroelectric facility (“IHF”) in southern Brazil for 30 years. In December 1, 2000, CENER S.A., a company 100% owned by CSN, acquired 23.555% of ITASA’s (preferred shares) from Eletrobrás.

The first of five turbines became operational in June 30, 2000, and the completion of the project is expected by the second half 2001. IHF will have a firm generation of 668 megawatts (nominal capacity of 1,450 megawatts) that will be shared among the members proportionally to their interest in the consortium. ITASA estimates that the total expenditures for this project will reach approximately US\$850, of which the Company’s commitment will be approximately US\$415 (48.75%), including guarantees given by CSN in relation to a loan obtained by Itá.

As of December 31, 2000, the project had absorbed US\$784, of which US\$149 had been invested by the Company and its subsidiary CENER S.A. In addition to the investments made by the members of the consortium, the project used funds obtained by ITASA from Banco Nacional de Desenvolvimento Econômico e Social (“BNDES”) in the amount of US\$454.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

Collateral Signature and Guarantees

The Company has financial responsibility (collateral signature and/or bonds and guarantees for obligations) of investees as follows:

		In Millions of R\$/US\$	
		As of December 31	
	Currency	1999	2000
LIGHT – Serviços de Eletricidade S.A.	US\$	31	
GalvaSud S.A.	US\$	8	
Sepetiba Tecon S.A.	US\$		4
Sepetiba Tecon S.A.	R\$		20
Itá Energética S.A.	R\$	583	224
CFN – Companhia Ferroviária do Nordeste	R\$	28	28
Other	R\$	6	2

Other commitments

The Company makes investments through the participation in consortia formed for the development or operation of concessions granted by government entities. Under Brazilian law, each member of such a consortium is jointly and severally liable for the obligations arising from the concession.

17 Segment and geographical information

In 1998, the Company adopted SFAS 131 with respect to the information it presents about its operating segments. SFAS 131 introduces a “management approach” concept for reporting segment information, whereby financial information is required to be reported on the basis that the top decision-maker uses such information internally for evaluating segment performance and deciding how to allocate resources to segments.

In 1996, the Company reorganized its corporate structure in order to focus managerial decisions, establishing four sectors: Corporate Center, Steel, Energy and Infrastructure. Each sector was headed by a chief executive officer who reports to the Board of Directors. In April 1999, the Company changed the existing corporate structure by creating the position of a Chief Executive Officer of the Company, who reports to the board of Directors and consolidated the existing four sectors into three: Corporate Center,

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Steel Sector and the Energy and Infrastructure Sector. In addition, the Company created a new sector - New Businesses. In November 2000, CSN divided the Steel Sector into two new sectors Operations and Commercial. Each sector is headed by an Executive Officer, who reports to the Chief Executive Officer of the Company.

The Chief Executive Officer is responsible for strategic planning, Fundação CSN (CSN's Foundation) and external corporate communications. The Corporate Center Executive Officer is responsible for financial management, comptrolling/financial reporting and information technology, legal, investor relations, corporate human resources, corporate communications and CBS – CSN's pension fund. The Operations Sector Executive Officer is responsible for the manufacturing of CSN's steel and steel products. The Infrastructure and Energy Sector Executive Officer is responsible for the Company's mines, investments in logistics (railways and ports), real estate, power generation and distribution facilities. The New Businesses Sector Executive Officer is responsible for new and current projects related to the steel segment. The Commercial Sector Executive Officer is responsible for sales and marketing of CSN's Steel products.

Information presented to top management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with Brazilian corporate law together with certain relatively minor inter-segment allocations.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

	1998				
	Steel and New Businesses	Corporate Center	Energy and Infrastructure	Eliminations	Consolidated
Results					
Domestic sales	2,291			(173)	2,118
Export sales	440	384		(369)	455
Sales taxes, discounts and allowances	(428)				(428)
Cost and operating expenses	(1,716)	(420)	(9)	524	(1,621)
Financial income		448		(124)	324
Financial expenses		(363)		124	(239)
Other non-operating income (expenses)	(4)	(148)			(152)
Income taxes		(70)		6	(64)
Equity in results of affiliated companies		58	(28)		30
Net income (loss)	583	(111)	(37)	(12)	423
Assets					
Cash and cash equivalents	12	972	2		986
Property, plant and equipment, net	2,666	24	196		2,886
Capital expenditures	283		44		327
Investments in affiliated companies and other investments		899	173		1,072
Sales by geographic area					
Export sales					
Asia	27	24		(23)	28
North America	136	119		(114)	141
Latin America	99	87		(83)	103
Europe	150	130		(126)	154
Others	28	24		(23)	29
	440	384		(369)	455
Domestic sales	2,291			(173)	2,118
Total	2,731	384		(542)	2,573

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

	1999				
	Steel and New Businesses	Corporate Center	Energy and Infrastructure	Eliminations	Consolidated
Results					
Domestic sales	1,627			(88)	1,539
Export sales	399	388		(362)	425
Sales taxes, discounts and allowances	(333)				(333)
Cost and operating expenses	(1,244)	(402)		459	(1,187)
Financial income	6	457		(100)	363
Financial expenses	(1)	(353)		100	(254)
Other non-operating income (expenses)	(24)	(585)	29	(12)	(592)
Income taxes		20		(3)	17
Equity in results of affiliated companies	(1)	9	(4)		4
Extraordinary item		66			66
Net income (loss)	429	(400)	25	(6)	48
Assets					
Cash and cash equivalents	10	805			815
Property, plant and equipment, net	1,815	58	100		1,973
Capital expenditures	241	3	14		258
Investments in affiliated companies and other investments	15	742	251		1,008
Sales by geographic area					
Export sales					
Asia	105	102		(95)	112
North America	95	92		(86)	101
Latin America	67	66		(61)	72
Europe	106	102		(96)	112
Others	26	26		(24)	28
	399	388		(362)	425
Domestic sales	1,627			(88)	1,539
Total	2,026	388		(450)	1,964

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

	2000				
	Steel and New Businesses	Corporate Center	Energy and Infrastructure	Eliminations	Consolidated
Results					
Domestic sales	2,142		17	(130)	2,029
Export sales	338	337		(321)	354
Sales taxes, discounts and Allowances	(436)		(1)		(437)
Cost and operating expenses	(1,519)	(181)	(10)	277	(1,433)
Financial income	2	235		(116)	121
Financial expenses	(6)	(396)		124	(278)
Other non-operating income (expenses)	(25)	(115)		(6)	(146)
Income taxes		(21)		3	(18)
Equity in results of affiliated Companies	(3)	74	11		82
Net income (loss)	493	(67)	17	(169)	274
Assets					
Cash and cash equivalents	36	650	2		688
Investments for sale		710	160		870
Property, plant and equipment, net	2,017	6	2		2,025
Capital expenditures	354	5	18		377
Investments in affiliated companies and other investments	19	3	223		245
Sales by geographic area					
Export sales					
Asia	45	45		(43)	47
North America	86	86		(82)	90
Latin America	85	84		(80)	89
Europe	80	80		(76)	84
Others	42	42		(40)	44
	338	337		(321)	354
Domestic sales	2,142		17	(130)	2,029
Total	2,480	337	17	(451)	2,383

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

18 Related parties

Transactions with major related parties relating primarily to purchases and sales in the ordinary course of business resulted in the following balance sheet and income statement amounts as of and for the years ended December 31:

	1999		2000	
	Assets	Liabilities	Assets	Liabilities
Current assets				
Trade accounts receivable	1			
Others	40		28	
Other assets				
Others	1			
Current liabilities				
Suppliers		1		
Current portion of long-term debt		10		
Accrued finance charges		1		
Others		14		8
Long-term liabilities				
Long-term debt		52		
Others		6		
Total	42	84	28	8

Balances at December 31 relate to the following related parties:

	1999		
	Assets	Liabilities	Expenses
Banco Bradesco S.A.		63	6
Valepar S.A.	26		
MRS Logística S.A.	3	1	48
Companhia Ferroviária do Nordeste	7		
Ferrovias Centro Atlântica S.A.	1		18
Light - Serviços de Eletricidade S.A.	1	19	115
CSN Employees' Pension Fund			20
CSN Foundation			4
Inepar-Fem Equip. Montagens S.A.	1		2
Nordeste Energia Participações S.A.	2		
Others	1	1	2
Total	42	84	215

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

	Assets	Liabilities	2000 Expenses (Revenues)
Itá Energética S.A.			1
Valepar S.A.			1
MRS Logística S.A.	3		42
Companhia Ferroviária do Nordeste	11		
Ferrovias Centro Atlântica S.A.	1	1	16
Galvasud S.A.	7		
Light - Serviços de Eletricidade S.A.	1	7	120
CSN Employees' Pension Fund			9
CSN Foundation			4
Inepar-Fem Equip. Montagens S.A.			1
Metalic S.A.	3		(5)
Nordeste Energia Participações S.A.	2		
Total	28	8	189

19 Derivatives

Although the major part of the Company's revenues is denominated in Brazilian reais, as of December 31, 2000, US\$ 2,483 of the Company's total debt was denominated in foreign currencies. Accordingly, it is exposed to market risk from changes in foreign-exchange rates and interest rates. The Company manages risk arising from fluctuations in currency exchange rates, which affect the amount of Brazilian reais necessary to pay foreign currency denominated obligations, by using derivative financial instruments, primarily futures contracts, swaps, forwards and option agreements with banks.

Management's objective for holding the instruments was to match the gains from investing the proceeds of borrowings and loans with exchange losses relating to the devaluation of the Brazilian real against the US dollar and the Japanese yen. A portion of these borrowings and loans was invested in Brazilian short-term liquid investments, which earned interest at the market rate in Brazil.

While such instruments reduce the Company's foreign-exchange risks, they do not eliminate them. Credit risk exposure is managed by restricting the counterparties on such derivative instruments to major financial institutions with high credit quality. Therefore, management believes that the risk of nonperformance by the counterparties is negligible. The Company does not hold or issue financial instruments for trading purposes.

In 1999, the Company entered into interest-rate cap and floor agreements to reduce the impact of changes in interest rates on a portion of its floating-rate debt. These contracts became effective at December 31, 1999 and they will expire at December 30, 2003.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The interest-rate cap agreements on the 6 months USD Libor reference rate published by the British Bankers Association have a strike rate at 6% and knock out at 8.25%. The Company paid a premium of US\$5.2 for these agreements, which have a notional amount of US\$500.

Originally, the Company sold US\$500 of interest-rate floor with strike rate at 5% and “knock in” at 4.50% and received a premium of US\$2.2 for these agreements. During 2000, the Company decided to purchase US\$500 in agreements with the same characteristic and paid a premium of US\$0.4, for the period from June 2001 to December 2003.

In 2000, the Company entered into Swap Foreign Exchange Agreement, Japanese yen versus US dollar with interest rate at 9.625% p.a., and US dollar versus Japanese yen with interest rate at 2.8% p.a., in the amount of US\$ 350 with maturity in August 2, 2002.

Under U.S. GAAP, SFAS 80 - "Accounting for Futures Contracts", these contracts do not meet the criteria to qualify as a hedge of an exposure to price or interest rate risk. Therefore, the Company accounts for the derivatives transactions by calculating the unrealized gain or loss at each balance sheet date and the realized gain or loss at the maturity date of the contract. The gain or loss for each period is recorded in that period.

a) Option agreements

The contracts outstanding at December 31, 2000 were as follows:

<u>Description</u>	<u>Position</u>	<u>Strike price</u>	<u>Premium (paid) Received</u>	<u>Date of contract</u>	<u>Expiration date</u>	<u>Notional amount</u>
Dollar call	Long	US\$-1.90	(2.5)	04/17/00	01/29/01	30.0
Dollar call	Short	US\$-2.10	1.2	04/17/00	01/29/01	30.0
Dollar put	Short	US\$-1.75	0.4	04/17/00	01/29/01	30.0
Dollar put	Short	US\$-1.80	1.5	08/11/00	08/01/01	120.0
Dollar call	Short	US\$-2.10	4.3	08/11/00	08/01/01	120.0
Dollar put	Short	US\$-1.80	1.1	09/25/00	07/02/01	180.0
Dollar call	Short	US\$-2.10	5.5	09/25/00	07/02/01	180.0
Dollar put	Short	US\$-1.80	0.1	09/27/00	06/01/01	40.0
Dollar call	Short	US\$-2.10	0.9	09/27/00	06/01/01	40.0

Given that CSN received US\$12.4 for the foreign exchange options traded, and that the market value of these contract amounted to US\$10.5, the net gain related to these contracts amounted to US\$1.9 as of December 31, 2000.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

b) Forwards

The contracts outstanding at December 31, 2000, can be summarized as follows:

Description	Expiration Dates	Notional Amount Total
Dollar	From 06/01/01 to 07/02/01	208.8
Yen	From 08/13/01 to 12/14/01	<u>75.6</u>
Total		<u>284.4</u>

The net gain related to these contracts amounted to US\$1.9 as of December 31, 2000.

20 Fair value of financial instruments, other than derivatives

The Company considers the carrying amount of its financial instruments generally approximate fair market value because of the short-term maturity or frequent repricing of these instruments and the fact that non-indexed instruments are stated at present value.

Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair market value of financial instruments is estimated as follows:

	As of December 31, 1999		As of December 31, 2000	
	Fair market value	Carrying Value	Fair market value	Carrying value
Cash and cash equivalents	815	815	688	688
Short and long-term debt, including accrued finance charges	2,518	2,518	2,528	2,571

Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature, involve uncertainties and matters of significant judgement, and therefore can not be determined with precision. Changes in assumptions could significantly affect the estimates.

Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements
Expressed in millions of United States dollars, unless otherwise stated

21 Subsequent events

(a) Debt

In February 15, 2001, CSN called its US\$108.5 of securitized export receivables due in September 2001 and 2003. This will allow CSN to place more products in the growing domestic market.

In April 12, 2001, the Company issued Commercial Paper in the international market, through its subsidiary CSN Overseas, in the total amount of US\$250, with a two-year maturity, at an approximate cost of 5.9% p.a.

These issuances are intended to extend the debt profile.

Pursuant to tender offers in February 1999 and May 2001 and open market purchases, CSN has purchased US\$521 of Eurodollar Notes due 2007, leaving US\$79 outstanding as of June 8, 2001.

(b) Dividends

On March 9, 2001 the Board of Directors declared dividends in the amount of R\$999 million (US\$485) in respect of 2000, which were not reflected in the Company's US GAAP financial statements as of December 2000, because the declaration occurred after the balance sheet date.

On June 15, 2001, CSN paid an aggregate of R\$836 million (US\$354) of dividends and interest on stockholder's equity, on net income of previous years which will be considered on 2001 dividends.

(c) Businesses

On June 19, 2001, the Company obtained the right to acquire certain assets which belong to Heartland Steel Inc., located in Terre Haute, Indiana - USA and operating under Chapter 11 protection. The amount which will be paid is approximately US\$50. The financial closing of the transaction is expected to occur by July 30, 2001. Liabilities in the amount of approximately US\$19 will also be assumed.

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