

# **Companhia Siderúrgica Nacional**

Consolidated Financial Statements  
**at December 31, 1999**  
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 sheet of COMPANHIA SIDERÚRGICA NACIONAL (a Brazilian corporation) and its subsidiaries (the "Company") as of December 31, 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

(3) We conducted our audit 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 audit provides a reasonable basis for our opinion.

(4) In our opinion, 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, 1999, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States.

Rio de Janeiro, Brazil,  
February 15, 2000 (except for Notes 8 and 20, as to which the dates are February 18, 2000 and May 31, 2000, respectively).

## Report of Independent Accountants

To the Board of Directors and Stockholders of  
Companhia Siderúrgica Nacional

In our opinion, the consolidated balance sheet as of December 31, 1998 and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity for each of the two years in the period ended December 31, 1998 (included on the Companhia Siderúrgica Nacional 1999 Form 20-F) present fairly, in all material respects, the financial position, results of operations and cash flows of Companhia Siderúrgica Nacional and its subsidiaries at December 31, 1998 and for each of the two years in the period ended 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 Note 13  
for which the date is February 12, 1999.

# Companhia Siderúrgica Nacional

Consolidated Balance Sheets  
Expressed in millions of United States dollars

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Assets	As of December 31	
	1998	1999
<b>Current assets</b>		
Cash and cash equivalents	986	815
Trade accounts receivable	228	196
Inventories	470	307
Taxes recoverable	58	72
Deferred income taxes	42	40
Prepaid expenses	21	26
Others	81	80
	<b>1,886</b>	<b>1,536</b>
<b>Property, plant and equipment, net</b>	<b>2,886</b>	<b>1,973</b>
<b>Investments in affiliated companies and other investments</b>	<b>1,072</b>	<b>1,008</b>
<b>Other assets</b>		
Accounts receivable	16	10
Restricted deposits for legal proceedings	118	84
Taxes recoverable	36	60
Deferred income taxes	186	121
Prepaid expenses	76	23
Others	51	27
	<b>483</b>	<b>325</b>
	<b>6,327</b>	<b>4,842</b>

## Companhia Siderúrgica Nacional

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

Liabilities and stockholders' equity	As of December 31	
	1998	1999
<b>Current liabilities</b>		
Suppliers	157	147
Payroll and related charges	58	38
Taxes payable	16	38
Interest on stockholders' equity		69
Current portion of long-term debt	579	928
Short-term debt and advances on export contracts	325	509
Accrued finance charges	32	33
Others	59	45
	<b>1,226</b>	<b>1,807</b>
<b>Long-term liabilities</b>		
Employees post-retirement benefits	416	305
Long-term debt	1,938	1,048
Provision for contingencies	126	78
Others	35	24
	<b>2,515</b>	<b>1,455</b>
<b>Commitments and contingencies – see Note 15</b>		
<b>Minority interest</b>	<b>26</b>	<b>5</b>
<b>Stockholders' equity (shares in thousands)</b>		
Common stock – 100,000,000 shares (no par value) authorized – 71,729,261 shares issued (1998 – 71,731,461 shares)	2,447	2,447
Capital surplus	53	53
Treasury stock	(24)	(24)
Retained earnings		
Appropriated	1,330	1,019
Unappropriated	(506)	(275)
Other comprehensive income (loss)		
Amounts not recognized as net periodic pension cost	(7)	
Cumulative translation adjustments	(645)	(1,610)
Unrealized loss on available-for-sale security	(88)	(35)
	<b>2,560</b>	<b>1,575</b>
	<b>6,327</b>	<b>4,842</b>

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		
	1997	1998	1999
<b>Operating revenues</b>			
Domestic sales			
Related parties	64		
Others	2,333	2,118	1,539
Export sales	516	455	425
	<b>2,913</b>	<b>2,573</b>	<b>1,964</b>
Sales taxes, discounts, returns and allowances	(431)	(428)	(333)
Net operating revenues	2,482	2,145	1,631
<b>Cost of products sold</b>	<b>1,575</b>	<b>1,193</b>	<b>915</b>
<b>Gross profit</b>	<b>907</b>	<b>952</b>	<b>716</b>
<b>Operating expenses</b>			
Selling	168	186	128
General and administrative	147	159	102
Others	14	83	42
	<b>329</b>	<b>428</b>	<b>272</b>
<b>Operating income</b>	<b>578</b>	<b>524</b>	<b>444</b>
<b>Non-operating income (expenses)</b>			
Financial income	282	324	363
Financial expenses	(290)	(239)	(254)
Foreign exchange and monetary loss, net	(56)	(147)	(593)
Translation loss, net	(32)		
Others	(5)	(5)	1
	<b>(101)</b>	<b>(67)</b>	<b>(483)</b>
<b>Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item</b>	<b>477</b>	<b>457</b>	<b>(39)</b>
<b>Income taxes</b>			
Current	(29)	(30)	(21)
Deferred	(55)	(34)	38
	<b>(84)</b>	<b>(64)</b>	<b>17</b>
<b>Equity in results of affiliated companies</b>	<b>24</b>	<b>30</b>	<b>4</b>
<b>Income (loss) before extraordinary item</b>	<b>417</b>	<b>423</b>	<b>(18)</b>
<b>Extraordinary item</b>			<b>66</b>
<b>Net income for the year</b>	<b>417</b>	<b>423</b>	<b>48</b>
<b>Earnings per thousand common shares (in U.S. dollars)</b>			
Income (loss) before extraordinary item	5.54	5.87	(0.25)
Extraordinary item			0.92
	<b>5.54</b>	<b>5.87</b>	<b>0.67</b>
<b>Weighted average number of common shares outstanding (thousands)</b>	<b>75,232,994</b>	<b>72,027,899</b>	<b>71,729,332</b>

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

	<b>Year ended December 31</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Cash flows from operating activities</b>			
Net income for the year	417	423	48
Adjustments to reconcile net income for the year with cash provided by operating activities:			
Non-cash items			
Depreciation	151	150	118
Foreign exchange and monetary loss, net	56	147	593
Residual value of equipment retired	39	15	14
Deferred income taxes	55	34	(38)
Equity in results of affiliated companies	(24)	(30)	(4)
Gain on long-term investment disposal			(27)
Gain on debt extinguishment			(66)
Translation loss, net	32		
Others	16	(32)	(14)
Decrease (increase) in assets			
Trade accounts receivable	(56)	20	(54)
Advances to suppliers	88	8	(4)
Inventories	74	(77)	9
Taxes recoverable	(8)	(33)	(33)
Others	(53)	(33)	(12)
Increase (decrease) in liabilities			
Suppliers	36	72	49
Taxes payable	(25)	(10)	43
Employees post-retirement benefits	51	42	30
Accounts payable in installments	(13)	(16)	( 8)
Others	9	25	4
<b>Net cash provided by operating activities</b>	<b>845</b>	<b>705</b>	<b>648</b>

## Companhia Siderúrgica Nacional

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

	<b>Year ended December 31</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Cash flows from investing activities</b>			
Time deposits, net	(728)	666	(3)
Additions to property, plant and equipment	(505)	(327)	(258)
Acquisition of long-term investments	(989)	(4)	(87)
Disposition of long-term investments			38
Restricted deposits for legal proceedings	(93)	(9)	(4)
Loans to related parties	1	(6)	3
Net cash provided by (used in) investing activities	<b>(2,314)</b>	<b>320</b>	<b>(311)</b>
<b>Cash flows from financing activities</b>			
Short-term debt, net issuances and repayments	1,011	(79)	190
Advances (payments) on export contracts, net	38	(219)	(7)
Long-term debt			
Issuances	1,190	355	249
Repayments	(365)	(431)	(575)
Treasury stock	(84)	(16)	
Dividends paid	(81)		
Interest on stockholders' equity	(79)	(341)	(68)
Net cash provided by (used in) financing activities	<b>1,630</b>	<b>(731)</b>	<b>(211)</b>
<b>Increase in cash and cash equivalents</b>	<b>161</b>	<b>294</b>	<b>126</b>
Effects of changes in exchange rates on cash and cash equivalents	(70)	(64)	(297)
Cash and cash equivalents, beginning of year	665	756	986
<b>Cash and cash equivalents, end of year</b>	<b>756</b>	<b>986</b>	<b>815</b>
<b>Cash paid during the year for:</b>			
Interest	188	330	181
Income tax and social contribution, including withholding income tax	6	49	54

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		
	1997	1998	1999
<b>Common stock</b>			
Balance, beginning of year	2,571	2,571	2,447
Cancellation of treasury stock		(124)	
Balance, end of year	<b>2,571</b>	<b>2,447</b>	<b>2,447</b>
<b>Capital surplus</b>			
Balance, beginning of year	36	44	53
Stock acquisition	8	9	
Balance, end of year	<b>44</b>	<b>53</b>	<b>53</b>
<b>Treasury stock</b>			
Balance, beginning of year	(7)	(123)	(24)
Stock acquisition	(116)	(25)	
Cancellation of treasury stock		124	
Balance, end of year	<b>(123)</b>	<b>(24)</b>	<b>(24)</b>
<b>Amounts not recognized as net periodic pension cost</b>			
Balance, beginning of year	(85)		(7)
Excess of additional minimum liability	126	(7)	7
Tax effect on above	(41)		
Balance, end of year		<b>(7)</b>	
<b>Cumulative translation adjustments</b>			
Balance, beginning of year		(346)	(645)
Initial effect of change in functional currency as of July 1, 1997	(196)		
Change in the year	(150)	(299)	(965)
Balance, end of year	<b>(346)</b>	<b>(645)</b>	<b>(1,610)</b>
<b>Unrealized gain (loss) on available-for-sale security</b>			
Balance, beginning of year	13	43	(88)
Unrealized gain (loss)	46	(195)	78
Tax effect on above	(16)	64	(25)
Balance, end of year	<b>43</b>	<b>(88)</b>	<b>(35)</b>

## Companhia Siderúrgica Nacional

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

	<b>Year ended December 31</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Retained earnings</b>			
<b>Appropriated</b>			
Investment reserve			
Balance, beginning of year	763	954	1,261
Transfer from (to) unappropriated retained earnings	191	307	(298)
Balance, end of year	<b>954</b>	<b>1,261</b>	<b>963</b>
Legal reserve			
Balance, beginning of year	36	34	69
Transfer from (to) unappropriated retained earnings	( 2)	35	(13)
Balance, end of year	<b>34</b>	<b>69</b>	<b>56</b>
Total balance, end of year	<b>988</b>	<b>1,330</b>	<b>1,019</b>
<b>Unappropriated retained earnings</b>			
Balance, beginning of year	(309)	(339)	(506)
Net income for the year	417	423	48
Adjustments relating to investments by affiliates		(5)	9
Cash dividends – US\$ 1.08 per thousand shares	(81)		
Interest on stockholders' equity – US\$ 1.91 per thousand shares (1998 - US\$3.39 and 1997 – US\$ 2.35)	(177)	(243)	(137)
Appropriation from (to) reserves	(189)	(342)	311
Balance, end of year	<b>(339)</b>	<b>(506)</b>	<b>(275)</b>
<b>Total retained earnings</b>	<b>649</b>	<b>824</b>	<b>744</b>
<b>Total stockholders' equity</b>	<b>2,838</b>	<b>2,560</b>	<b>1,575</b>
<b>Comprehensive income (loss) is comprised as follows:</b>			
Net income for the year	417	423	48
Cumulative translation adjustments	(346)	(299)	(965)
Unrealized gain (loss) on available-for-sale security, net of taxes	30	(131)	53
Amounts not recognized as net periodic pension cost	85	(7)	7
<b>Total comprehensive income (loss)</b>	<b>186</b>	<b>(14)</b>	<b>(857)</b>

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

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## 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 as further discussed in Note 11;
- 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; and
- CSN-IMSA Aços Revestidos S.A. (51% owned), a joint-venture company formed with the Mexican IMSA Acero, S.A. in the south of Brazil to produce long and flat steel products.

## 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.

## Companhia Siderúrgica Nacional

### Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

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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. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases, in the amount of US\$196, including those relating to affiliates, were reflected as a debit to the cumulative translation adjustments component of stockholders’ equity.

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\$1.2087 and R\$1.7890 to US\$ 1.00 at December 31, 1998 and 1999, 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.

## **Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

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**(b) Basis of consolidation**

The financial statements of majority-owned subsidiaries and which 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 and/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.

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. is classified as available-for-sale under the provision 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. Other investments are accounted for at cost.

**(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.

## **Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

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### **(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 products are shipped. 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.

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.

### **(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 Postretirement Benefits" ("SFAS 132") provides a new basis of disclosure for pension and other postretirement 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 13.

# Companhia Siderúrgica Nacional

## Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

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**(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.

**(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 to the Company, 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, usually, 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.

# Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

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## (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 16.

## 3 Recently issued accounting pronouncements

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") will be applicable as from the fiscal year beginning January 1, 2001. SFAS 133 will require that a company recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It will also require significantly more disclosure about a company's derivative transactions and hedging strategies than what has been required under existing accounting standards. The financial impact of the adoption of SFAS 133 upon the Company, has not been determined as of the date of these financial statements.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Views on Selected Revenue Recognition Issues" ("SAB 101"), which sets forth the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. SAB 101 is effective for the second quarter of 2000. The Company believes that the financial impact of the adoption of SAB 101 will not be relevant.

## 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%). The amounts reported as income tax expense in these financial statements are reconciled to the statutory rates as follows:

	Year ended December 31		
	1997	1998	1999
<b>Income (loss) before income taxes, equity in results of affiliated companies and extraordinary item</b>	<b>477</b>	<b>457</b>	<b>(39)</b>
Federal income tax and social contribution at statutory rates	(157)	(151)	13
Adjustments to derive effective tax rate			
Interest on stockholders' equity (see Note 12 d)	58	80	45
Others	15	7	(41)
<b>Tax benefit (expense) per statement of operations</b>	<b>(84)</b>	<b>(64)</b>	<b>17</b>

## Companhia Siderúrgica Nacional

### Notes to the Consolidated Financial Statements

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Other adjustments relate mainly to the (loss) income of foreign subsidiaries, which are not subject to income taxes. The major components of deferred income tax accounts in the balance sheet are as follows:

		<b>As of December 31</b>	
		<b>1998</b>	<b>1999</b>
<b>Current assets</b>			
	Non-deductible accrued expenses	42	40
	<b>Net current deferred tax assets</b>	<b>42</b>	<b>40</b>
<b>Non-current assets</b>			
	Tax loss carryforwards	82	33
	Non-deductible accrued expenses	80	60
	Pension fund liability, net of unrecognized pension obligation	137	101
	Tax effect on unrealized loss on available-for-sale security	43	17
		<b>342</b>	<b>211</b>
<b>Liabilities</b>			
	Property, plant and equipment	148	38
	Investments in affiliated companies	8	52
		<b>156</b>	<b>90</b>
	<b>Net non-current deferred tax assets</b>	<b>186</b>	<b>121</b>
<b>5</b>	<b>Cash and cash equivalents</b>	<b>As of December 31</b>	
		<b>1998</b>	<b>1999</b>
	Cash in hand and bank deposits		
	Local currency	3	9
	U.S. dollars	4	1
	Time deposits		
	Local currency	939	442
	U.S. dollars	40	363
	<b>Total</b>	<b>986</b>	<b>815</b>
<b>6</b>	<b>Trade accounts receivable</b>	<b>As of December 31</b>	
		<b>1998</b>	<b>1999</b>
	Domestic	271	239
	Export – Denominated in U.S. dollars	58	37
		329	276
	Allowance for doubtful accounts	(101)	(80)
	<b>Total</b>	<b>228</b>	<b>196</b>

No single customer accounted for more than 10% of total trade accounts receivable at December 31, 1998 and 1999 or total revenues for the years then ended. As of December 31, 1998 and 1999, the Company fully provided for the receivables from certain customers, after negotiations over past due accounts failed.

# Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

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## 7 Inventories

	As of December 31	
	1998	1999
Finished products	79	57
Products in process	135	65
Raw material	112	76
Spare parts and maintenance supplies	95	83
Others	49	26
<b>Total</b>	<b>470</b>	<b>307</b>

## 8 Investment in affiliated companies and other investments

	As of and for the years ended December 31						
	Ownership 1999		Investments		Equity adjustments		
	Voting	Total	1998	1999	1997	1998	1999
<b>Equity method</b>							
MRS Logística S.A. ("MRS")	14.60%	29.70%	31	60	(6)	(5)	(2)
Companhia Ferroviária do Nordeste ("CFN")	24.00%	24.00%				(5)	3
Valepar S.A., including unamortized goodwill of US\$158 (1998 – US\$167) ("Valepar")	31.23%	31.23%	899	737	26	58	10
Itá Energética S.A. ("ITASA")	48.75%	24.41%		49			1
Inepar-Fem Equipamentos e Montagens S.A. ("Inepar-Fem")	27.07%	24.85%	25	15			(4)
GalvaSud S.A. ("GalvaSud")	51.00%	51.00%		15			(1)
CSN Aceros, S.A. ("Aceros")	37.50%	37.50%		5			(2)
Sepetiba Tecon S.A. ("Tecon")	50.00%	50.00%		3			(1)
Companhia de Cimento Ribeirão Grande ("CCRG")			11		4	(18)	
			966	884	24	30	4
<b>Other investments</b>							
<b>Available-for-sale</b>							
Light – Serviços de Eletricidade S.A. ("Light")	7.32%	7.32%					
Cost			223	167			
Gross unrealized loss			(131)	(53)			
Estimated fair value			92	114			
<b>At cost</b>							
Ferrovias Centro-Atlântica S.A. ("FCA")	11.95%	11.66%	14	10			
			1,072	1,008	24	30	4

### 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.

## Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

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### 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 is 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 a special purpose company, Valepar S.A. (“Valepar”), to hold their interests in CVRD. CSN owns 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 a shareholder of Valepar (see Note 11). Certain consortium members will transfer additional CVRD shares to Valepar in exchange for Valepar shares pursuant to the CVRD bidding rules. After such transfer, Valepar will own approximately 52% of CVRD’s common shares. CSN will then own 25.2% of Valepar (although its indirect interest in CVRD will not change), unless CSN exercises its preemptive right under Brazilian Corporate Law to acquire additional shares of Valepar in order to maintain its current interest in Valepar.

NationsBank N.A., through its affiliates, has the right to sell to the Company, at any time during a two-year period beginning May 2002, the common shares of Valepar acquired by it at the time of the auction of CVRD, at a price equal to the cost of such shares (US\$375), plus interest at LIBOR plus 1% (“the put option”).

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

	As of December 31	
	1998	1999
<b>Balance sheet</b>		
Current assets	2,856	2,498
Noncurrent assets	8,454	6,463
Current liabilities	2,057	2,038
Noncurrent liabilities	2,475	1,891
Minority interest	63	
Stockholders’ equity	6,715	5,032

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<b>Statements of operations</b>	<b>Year ended December 31</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
Net operating revenue	3,748	3,553	3,076
Net cost and expenses	(2,974)	(2,561)	(2,631)
Income before income taxes and extraordinary items	774	992	445
Income taxes	(52)	(96)	(33)
Extraordinary items	(372)		
<b>Net income for the year</b>	<b>350</b>	<b>896</b>	<b>412</b>

### 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

In April 1998, as a part of the operational restructuring of the Company's subsidiary FEM – Projetos, Construções e Montagens S.A., CSN entered into an association agreement with Inepar S.A. Indústria e Construções and Banco Bradesco S.A. to form this new company. Inepar-Fem was set up in order to provide industrial assembly and metal structure manufacturing services.

### GalvaSud

A joint-venture formed in May 1998 with Thyssen Krupp Stahl A.G., GalvaSud will produce hot-dipped galvanized steel for the automobile industry. The plant is located in the State of Rio de Janeiro, approximately 45 Km from CSN Steelworks, and it is expected to be operating in the first half of 2001.

### 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.

### 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.

## Companhia Siderúrgica Nacional

Notes to the Consolidated Financial Statements

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### 9 Property, plant and equipment

	As of December 31, 1998		
	Cost	Accumulated depreciation	Net
Land	6		6
Buildings	75	37	38
Equipment	4,094	1,964	2,130
Furnitures and fixtures	54	30	24
Vehicles	8	7	1
Others	24	15	9
	4,261	2,053	2,208
Construction in progress	678		678
	<b>4,939</b>	<b>2,053</b>	<b>2,886</b>

  

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

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 1998 and 1999, interest capitalized amounted to US\$57 and US\$25, respectively.

### 10 Short-term debt

At December 31, 1999, 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 5.24% to 8.92% (1998 – 7.32% to 8.94%) per annum.

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### 11 Long-term debt

	Annual interest rate at December 31, 1999	As of December 31	
		1998	1999
<b>Denominated in local currency</b>			
Indexed to the "Long-term Interest Rate" ("TJLP"), "Taxa de Referência" ("TR") or "Índice Geral de Preços" ("IGP-DI")	6 to 12.50	<b>295</b>	<b>126</b>
<b>Denominated in foreign currencies</b>			
Loans and financing contracted in the following currencies			
United States dollar	5 to 11.3	2,131	1,745
Japanese yen	6.6	101	102
Others	4.9 to 14.2	19	34
		<b>2,251</b>	<b>1,881</b>
		<b>2,546</b>	<b>2,007</b>
Current portion of long-term debt			
Principal		(579)	(928)
Accrued finance charges		(29)	(31)
<b>Total</b>		<b>1,938</b>	<b>1,048</b>

Indices applied to debt in each year are as follows:

	%		
	1997	1998	1999
TJLP – Long-term interest rate	10.27	11.84	13.41
United States dollar exchange rate change	7.41	8.27	48.01
Japanese yen exchange rate change	(4.18)	25.27	62.55

The long-term portion of the Company's debt outstanding at December 31, 1999 becomes due in the following amounts in the years indicated:

2001	167
2002	105
2003	88
2004	65
2005	63
2006 and thereafter	560
<b>Total</b>	<b>1,048</b>

## Companhia Siderúrgica Nacional

### Notes to the Consolidated Financial Statements

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Security for the Company's debt outstanding at December 31, 1999 is as follows:

Property, plant and equipment	1,099
Notes receivable from foreign clients	379
Promissory notes	201
Bank guarantee	25
<b>Total</b>	<b>1,704</b>

In August 1996, the Company, through CSN Cayman Ltd., signed a financing agreement under which such entity received from a trust and advanced to the Company US\$300, representing funds received by the trust through the private placement of trust certificates. In return, the Company securitizes the financing with current and future export receivables from designated customers. The financing bears fixed annual interest of 8.4% and floating interest of LIBOR plus 1.85% with an average term of four years.

In May 1997, CSN Steel Corp. took down a US\$ 786 bridge loan primarily used to finance the CVRD investment. In May 1998, the Company paid approximately US\$300 of the bridge loan and the maturity of the remaining balance was extended to June 1998, when it was refinanced with the proceeds from the sale by CSN's subsidiary, CSN Steel Corp., to a syndicate of financial institutions. The refinancing of US\$500 of two year unsecured medium term notes, guaranteed by the Company, at the initial interest rate of LIBOR plus 3.25% per annum, the equivalent of approximately 9% at that time

On June 17, 1997, CSN Iron, S.A. issued US\$600 principal amount of 9 1/8% Eurodollar Notes due 2007. The Company has unconditionally guaranteed the payment of all amounts due on such Notes. On February 12, 1999, the Company made a public offer to repurchase the Eurodollar Notes issued in June 1997, with a ten-year maturity, by the subsidiary CSN Iron, S.A.. The transaction was closed on March 15, 1999. As a result, US\$163 of the principal amount originally issued was repurchased. As of December 31, 1999, only US\$367 of the US\$600 principal amount originally issued was outstanding, since the Company had already repurchased US\$70 before this public offer. From this amount, US\$31 was repurchased in November 1997, and the remaining US\$39 in January 1999. The gain on these transactions amounted to US\$66 in 1999 and was recognized as extraordinary item.

During 1999, the Company obtained pre-payments on export contracts of US\$45 (1998 – US\$30). These are receivables-based financings made available by import and financing institutions at floating rates.

## 12 Stockholders' equity

### (a) Capital

The capital stock of the Company at December 31, 1999 is represented by 71,729,261 (1998 – 71,731,461) thousand common shares (no par value). Each common share has the right to one vote in the General Stockholders' Meeting.

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## (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:

- Fiscal incentive investment reserve - this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. The reserve also includes the tax benefit on the excise tax of certain sales.
- Investment reserve - this is a general reserve for future expansion of CSN's activities.
- 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 the three year-period ended December 31, 1999, the Company purchased, at no higher than the market price, 3,305,100 thousand shares, which were cancelled, as approved in Extraordinary General Meetings. The balance remaining in 1999 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 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, 1999, the Company had distributed or allocated all such retained earnings. In addition, in accordance with the statutory accounting records, appropriated retained earnings at December 31, 1999 includes the equivalent of US\$963 (1998 - US\$1,261), related to the investment reserve, which could be transferred to unappropriated retained earnings and paid as dividends, if approved by the stockholders.

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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 10%, 12% and 13% for 1997, 1998 and 1999, 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 attributed US\$137 of interest on stockholders' equity for the year ended December 31, 1999 (US\$243 in 1998).

### 13 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 of CSN associated companies, who 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.

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 switch to the new plan (*Plano Misto de Benefício Suplementar*). At the end of the switch 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, 1999, CBS had 24,545 participants, of whom 19,350 were contributors (25,016 and 19,946, respectively, at December 31, 1998), enrolled in its benefit plans, including 7,362 active (7,827 at December 31, 1998) and 17,183 retired employees (17,189 at December 31, 1998). Of the total participants, 18,079 belong to defined benefit plans and 6,466 to the *Plano Misto de Benefício Suplementar*.

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CBS's assets comprise principally time deposits, shares of CSN, equity securities, government securities and properties. At December 31, 1999, CBS owned 3,891,322 thousand (1998 – 4,972,322 thousand) common shares of CSN with a market value at that date of US\$149 (1998 – US\$112). CBS also had at December 31, 1999, 1,788,436 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\$66 (2,348,015 thousand quotas with a carrying value of US\$46 at December 31, 1998).

#### (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 the participant ranging from 3% to 7%. Contributions made by the Company to the plan during 1999 amounted to US\$4 (1998 – US\$7).

#### (c) Defined-benefit plan

Information with respect to the Company's pension plan, in the form required by SFAS132, for the years presented is as follows:

##### (i) Change in benefit obligation

	<b>As of December 31</b>	
	<b>1998</b>	<b>1999</b>
Projected benefit obligation at beginning of year	627	628
Service cost	8	4
Interest cost	40	46
Benefits paid	(64)	(42)
Effect of exchange rate changes	(47)	(204)
Actuarial (gain) loss	64	64
	<b>628</b>	<b>496</b>
Projected benefit obligation at end of year		

##### (ii) Change in plan assets

	<b>As of December 31</b>	
	<b>1998</b>	<b>1999</b>
Fair value of plan assets at beginning of year	298	206
Actual return on plan assets	(14)	124
Employer contributions	6	4
Employees contributions	3	2
Benefits paid	(64)	(42)
Effect of exchange rate changes	(23)	(67)
	<b>206</b>	<b>227</b>
Fair value of plan assets at end of year		

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(iii) <b>Accrued pension cost liability</b>	<b>As of December 31</b>	
	<b>1998</b>	<b>1999</b>
Funded status, excess of projected benefit obligation over plan assets	422	269
Unrecognized net transition obligation	(3)	(1)
Unrecognized net actuarial gain (loss)	(13)	37
<b>Accrued pension cost liability</b>	<b>406</b>	<b>305</b>

(iv) <b>Recognition of additional minimum liability</b>	<b>As of December 31</b>	
	<b>1998</b>	<b>1999</b>
Accrued pension cost liability	406	305
Unrecognized pension obligation, limited to unrecognized net transition obligation	3	
Additional amount not recognized as net periodic pension cost	7	
<b>Minimum liability</b>	<b>416</b>	<b>305</b>

Net periodic pension cost includes the following components:

	<b>As of December 31</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
Service cost-benefits earned during the year	6	8	4
Interest cost on projected benefit obligation	57	40	46
Actual return on assets	(22)	14	(14)
Net amortization and deferral	23	16	
	64	78	36
Employees contributions	( 13)	( 3)	(2)
<b>Net periodic pension cost</b>	<b>51</b>	<b>75</b>	<b>34</b>

Assumptions used 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%

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(v) <b>Funded status</b>	<b>As of December 31</b>	
	<b>1998</b>	<b>1999</b>
Actuarial present value of:		
Vested benefit obligation	574	461
Non vested benefit obligation	48	33
Total accumulated benefit obligation	<u>622</u>	<u>494</u>
Projected benefit obligation	628	496
Fair value of plan assets	<u>(206)</u>	<u>(227)</u>
Funded position	422	269
Unrecognized net transition obligation	(3)	(1)
Unrecognized net gain (loss)	<u>(13)</u>	<u>37</u>
Accrued pension cost liability	<u><b>406</b></u>	<u><b>305</b></u>

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.

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.

### 14 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\$14 and US\$5 in the years ended December 31, 1998 and 1999, respectively. Based on current operating plans, management does not expect that amounts of future severance indemnities will be material.

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### 15 Commitments and contingencies

#### (a) Provisions and deposits

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

	As of December 31, 1998		As of December 31, 1999	
	Deposits	Provision	Deposits	Provision
Civil				
Environmental		13		7
Others	3	20	2	12
Labor	14	23	13	25
Fiscal				
Social contribution	84	82	57	44
Value-added tax	8		5	
Others	9		7	
		138		88
Current		(12)		(10)
<b>Long-term</b>	<b>118</b>	<b>126</b>	<b>84</b>	<b>78</b>

#### (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.

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 (capex and expenses) to bring existing facilities in line with various environmental laws (1997 – US\$48; 1998 – US\$55; 1999 – US\$37).

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.

## Companhia Siderúrgica Nacional

### Notes to the Consolidated Financial Statements

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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.

Along 1999, a comprehensive third part-environmental site audit was carried out in order to verify how much of the 1994’ accord had been accomplished and what is the complete assemblage of environmental needs of Presidente Vargas steel mill. The audit pointed out that 61.25% had been expended and 130 new projects are to be implanted.

On January 27, 2000, the Company and the FEEMA amended the commitment to provide that CSN will 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 enhancement and modernization at the Presidente Vargas unit, which will be capitalized. To guarantee these projects, the Company provided six letters of bank guarantee in the total amount of R\$180 million (US\$100). Also, as part of this amendment, the Company agreed to spend the equivalent of US\$7 to build facilities to benefit the community of Volta Redonda. The Company has fully provided for this US\$7 commitment.

(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) 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\$55 at December 31, 1998 and to US\$25 at December 31, 1999. The amounts under dispute, plus accrued fines, were deposited in an escrow account.

## **Companhia Siderúrgica Nacional**

### Notes to the Consolidated Financial Statements

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(iv) **Value-added tax**

The Company was 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 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 decided to recognize 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.

(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 29.77% interest in the consortium that will operate the Itá Hydroelectric facility ("IHF") in southern Brazil for 30 years. CSN is investing in this project through its 24.41% interest (48.75% voting interest) in ITASA, which is responsible for the IHF construction.

The first of five turbines is expected to be operational by the year 2000, and the completion of the project is expected by the year 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\$900, of which the Company's commitment will be approximately US\$220 (24.41%).

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As of December 31, 1999, the project had absorbed US\$700, of which US\$75 had been invested by the Company. 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\$392.

### 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.

## 16 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 is 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, Steel Sector and the Energy and Infrastructure Sector. In addition, the Company created another sector – New Businesses. 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 Steel Sector Executive Officer is responsible for the manufacturing and marketing 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.

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

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	<b>1997</b>				
	<b>Steel and New Businesses</b>	<b>Corporate Center</b>	<b>Energy and Infrastructure</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Results</b>					
Domestic sales	2,397				2,397
Export sales	496	393		(373)	516
Sales taxes, discounts and allowances	(431)				(431)
Cost and operating expenses	(1,879)	(388)	(10)	373	( 1,904)
Financial income		362		(80)	282
Financial expenses		(370)		80	(290)
Other non-operating income (expenses)	(80)	(15)	2		(93)
Income taxes		(84)			(84)
Equity in results of affiliated companies		26	(2)		24
Net income (loss)	<b>503</b>	<b>(76)</b>	<b>(10)</b>		<b>417</b>
<b>Assets</b>					
Cash and cash equivalents		756			756
Property, plant and equipment, net	2,723	25	199		2,947
Capital expenditures	404	2	99		505
Investments in affiliated companies and other investments		936	387		1,323
<b>Sales by geographic area</b>					
Export sales					
Asia	172	136		(129)	179
North America	153	121		(115)	159
Latin America	84	66		(63)	87
Europe	60	47		(45)	62
Others	27	23		(21)	29
	496	393		(373)	516
Domestic sales	2,397				2,397
Total	<b>2,893</b>	<b>393</b>		<b>(373)</b>	<b>2,913</b>

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	<b>1998</b>				
	<b>Steel and New Businesses</b>	<b>Corporate Center</b>	<b>Energy and Infrastructure</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Results</b>					
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)	<b>583</b>	<b>(111)</b>	<b>(37)</b>	<b>(12)</b>	<b>423</b>
<b>Assets</b>					
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
<b>Sales by geographic area</b>					
<b>Export sales</b>					
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	<b>2,731</b>	<b>384</b>		<b>(542)</b>	<b>2,573</b>

# Companhia Siderúrgica Nacional

## Notes to the Consolidated Financial Statements

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	<b>1999</b>				
	<b>Steel and New Businesses</b>	<b>Corporate Center</b>	<b>Energy and Infrastructure</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Results</b>					
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)	<b>429</b>	<b>(400)</b>	<b>25</b>	<b>(6)</b>	<b>48</b>
<b>Assets</b>					
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
<b>Sales by geographic area</b>					
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	<b>2,026</b>	<b>388</b>		<b>(450)</b>	<b>1,964</b>

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### 17 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:

	1998		1999	
	Assets	Liabilities	Assets	Liabilities
<b>Current assets</b>				
Trade accounts receivable			1	
Others	35		40	
<b>Other assets</b>				
Others	8		1	
<b>Current liabilities</b>				
Suppliers				1
Current portion of long-term debt		10		10
Accrued finance charges		1		1
Others		17		14
<b>Long-term liabilities</b>				
Long-term debt		58		52
Others		24		6
<b>Total</b>	<b>43</b>	<b>110</b>	<b>42</b>	<b>84</b>

Balances at December 31 relate to the following related parties:

	1998		
	Assets	Liabilities	Expenses
Banco Bradesco S.A.		69	6
Valepar S.A.	30		
MRS Logística S.A.	4		47
Companhia Ferroviária do Nordeste	4		
Ferrovia Centro Atlântica S.A.			22
Light - Serviços de Eletricidade S.A.		41	156
CBS - CSN Employees' Pension Fund			30
Fundação CSN			11
Inepar-Fem Equip. Montagens S.A.	5		
Others			2
<b>Total</b>	<b>43</b>	<b>110</b>	<b>274</b>

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	<b>1999</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Expenses</b>
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
<b>Total</b>	<b>42</b>	<b>84</b>	<b>215</b>

### 18 Derivatives

Although the major part of the Company's revenues is denominated in Brazilian reais, as of December 31, 1999, US\$2,390 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 swap 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.

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.

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### a) Option agreements

The contracts outstanding at December 31, 1999 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>
Euro call	Long	Y-100	6.0	11/24/98	11/13/00	50.0
Euro call	Long	Y-125	6.6	11/24/98	11/13/00	40.0
Euro put	Short	Y-100	(2.0)	11/24/98	11/13/00	50.0
Euro put	Short	Y-125	(2.1)	11/24/98	11/13/00	40.0
Yen put	Short	US\$-100	(5.4)	09/27/99	09/26/00	100.0
Yen call	Long	US\$-85	1.5	09/27/99	09/26/00	117.6

The net loss related to these contracts amounted to US\$5.2 as of December 31, 1999.

### b) Swap agreements

The contracts outstanding at December 31, 1999 were as follows:

<u>Factor A</u>	<u>Factor B</u>	<u>Expiration date</u>	<u>Notional amount</u>	<u>Unrealized loss recognized through December 31, 1999</u>
Interbank deposit certificate rate	Change in US\$ exchange rate plus 11.50 to 11.85%	08/01/00	80.0	5.4
Interbank deposit certificate rate	Change in US\$ exchange rate plus 11.55%	07/31/00	20.0	1.2
Interbank deposit certificate rate	Change in US\$ exchange rate plus 11.70 to 13.39%	01/26/00	70.0	6.9
Interbank deposit certificate rate	Change in US\$ exchange rate plus 11.00%	04/26/00	50.0	6.5
Interbank deposit certificate rate	Change in US\$ exchange rate plus 11.42 to 11.73%	01/27/00	70.0	6.0
Fixed interest rate of 20.6%	Interbank deposit certificate rate	03/14/00	39.2	
				<b>26.0</b>

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At the expiration date of the contract, if the amount calculated based on factor (A) is greater than the amount calculated based on factor (B), the Company must pay the Banks the difference in the two calculations. If the amount calculated based on factor (B) is greater than the amount calculated based on factor (A), the Banks must pay the Company the difference.

### c) Other derivative instruments

During the second half of 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 30, 1999 and they will expire at December 30, 2003.

The interest-rate cap agreements 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. The interest-rate floor agreements have a strike rate at 5% and knock in at 4.50%. The Company received a premium of US\$2.3 for these agreements, which have a notional amount of US\$500.

## 19 Fair value of financial instruments

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, 1998		As of December 31, 1999	
	Fair market value	Carrying value	Fair market value	Carrying value
Cash and cash equivalents	986	986	815	815
Short and long-term debts, including accrued finance charges	3,077	2,874	2,518	2,518

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.

## 20 Subsequent event

On May 31, 2000, CSN Steel Corp., a subsidiary through which the Company holds its 31.2% participation in Valepar, agreed to sell CSN's interest in Valepar to certain Valepar shareholders. As part of this transaction, the buyers will assume CSN's obligation under the put option to purchase the interest in Valepar owned by NationsBank N.A., mentioned in Note 8. This sale and assumption are subject to the satisfaction of a number of conditions precedent and must be concluded prior to August 30, 2000.

\* \* \*