

NATIONAL STEEL CO
Form 20-F
July 03, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT
OF 1934

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)

Av. Brigadeiro Faria Lima, 3.400 - 20º andar

04538-132 - São Paulo, SP, Brazil

Tel.: (55 11) 3049 7100

(Address of principal executive offices)

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

Name of Each Exchange on Which

Title of Each Class

Registered

Common shares, with no par value

New York Stock Exchange*

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

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

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

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer
Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 Item 18

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

Yes No

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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.

INTRODUCTION

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

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

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

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

- changes in international trade;
-

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

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

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

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

Unless the context otherwise indicates:

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

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

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

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

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

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

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

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

PART I**Item 3: Key Information****A. Selected Financial Data**

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

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

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

Year Ended December 31,
2001 2002 2003 2004 2005
(In millions of US\$, except per share data)

Balance Sheet Data (end of period):

Current assets	1,313	1,590	2,310	2,907	3,330
Property, plant and equipment, net	2,062	1,527	1,874	2,143	2,547
Investments in affiliated companies and other investments	79	8	85	233	312
Other assets	600	530	748	874	968
Total assets	4,054	3,655	5,017	6,157	7,157
Current liabilities	1,445	1,732	1,228	1,216	1,398
Long-term liabilities ⁽⁶⁾	1,863	1,448	2,982	3,615	4,750
Stockholders' equity	746	475	807	1,326	1,009
Total liabilities and stockholders' equity	4,054	3,655	5,017	6,157	7,157

As As As As
Restated Restated Restated Restated
(see FS (see FS
note 26) note 26)

Other Data:

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

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- (1) Net operating revenues consist of operating revenues minus sales taxes, discounts, returns and allowances.
- (2) During 2000, we contracted for the sale of our interests in *Light Serviços de Eletricidade S.A.* Light and Valepar S.A. Valepar through which we held an interest in *Companhia Vale do Rio Doce - CVRD*. The financial closings of these transactions occurred in 2001, and accordingly, results for 2001 include the gains from these sales. See note (7) below.
- (3) The extraordinary items in 2001 represent gains on the repurchase of Eurodollar notes.
- (4) Effect of the adoption of SFAS no. 133.
- (5) Effective May 31, 2004, we reverse split our common shares, so that each 1,000 former shares is now represented by four shares. Effective June 10, 2004, our ADSs were split four-for-one, and each ADS represents one share after giving effect to the split. All share data contained in this Annual Report have been adjusted retroactively to reflect the split and regrouping of our shares and the split of our ADSs.
- (6) Excluding the current portion of long-term debt.

- (7) In 2001, cash flows from investing activities include US\$1,293 million of proceeds from the sale of our investments in Light and CVRD (see note (2) above), and cash flows from financing activities reflects the payment of US\$1,227 million of dividends and interest on stockholders' equity with a portion of the proceeds from the sale of those investments. The difference between the proceeds from the sales of our investments in Light and CVRD reflected in our cash flows from investing activities and the aggregate sale price of what we received is a translation adjustment resulting from the depreciation of the *real* against the U.S. dollar between December 31, 2000 and the respective financial closings, which is reflected in translation adjustments for the year in our statement of changes in stockholders' equity for 2001.
- (8) Amounts consist of dividends declared and interest on stockholders' equity accrued, during the year. Generally, dividends are they are declared, and interest on stockholders' equity . For a discussion of our dividend policy and dividend and interest payments made in 2005, see "Dividend Policy" under "Item 8.A. Consolidated Statements and Other Financial Information".
- (9) The Statements of Income for the years ended December 31, 2003 and 2002 have been restated. See Note 26 to the consolidated financial statements.
- (10) The Statements of Cash Flows for the years ended December 31, 2004, 2003, 2002 and 2001 have been restated. See Note 26 to the consolidated financial statements.

D. Risk Factors

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

1. Risk Factors Relating to the Steel Industry and CSN

Cyclicality of Steel Industry; Importance of Export Markets

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

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

Competition

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

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

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

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

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

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

Anti-dumping, Countervailing Duties, Safeguards and Government Protectionism

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

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

Raw Material Costs

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

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

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

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

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

Potential Costs of Environmental Compliance; Mining Regulation

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

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

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

Reliance on energy supply

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

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

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

2. Risk Factors Relating to Brazil

Brazilian Government Economic and Political Factors

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

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

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

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

rates.

Fluctuation of the Real

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

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

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

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

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

Inflation and Interest Rate Risks

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

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

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

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

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

	<u>Inflation</u>	
	<u>Target</u>	<u>IPCA</u>
2002	4.0% \pm 2.5%	12.5%
2003	4.0% \pm 2.5%*	9.3%
2004	5.5% \pm 2.5%	7.6%
2005	4.5% \pm 2.5%	5.7%
2006	4.5% \pm 2.0%	
2007	4.5% \pm 2.0%	

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

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

Controls and Restrictions on U.S. Dollar Remittances

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

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

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

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

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

Risks Associated with Emerging Markets

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

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

3. Risk Factors Relating to a Routine SEC Review

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

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

Item 4. Information on CSN

A. History and Development of CSN

1. General

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

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

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

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

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

2. History

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

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

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

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

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

Specific projects completed under the capital improvement program include:

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

The principal components of our capital improvement program were:

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

A. Business Overview

1. Business Strategy

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

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

Steel

- Implement a carefully crafted globalization strategy. This may include the acquisition or construction of steel operations, steel-related businesses or distribution or service centers outside Brazil, as well as the association with other companies engaged in such ventures.
- Emphasize a wide range of value-added products, mostly galvanized, pre-painted and tin-coated.
- Introduce new technologies and systems to enhance our understanding of customers, competitors and industry trends.
- Provide customer solutions supported by quality products and services.

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

Mining

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

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

- The expansion of the annual production of the Casa de Pedra iron ore mine from approximately 16 million tons to 53 million tons in 2011.
- The expansion of the coal terminal adjacent to our Sepetiba Port facilities to enable annual exports of up to 30 million tons of iron ore.
- The construction of two pellet plants, with capacity of 3 million tons year each.

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

Logistics

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

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

Cement

- Achieve greater usage of by-products.

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

2. Major Products

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

The following chart reflects our production cycle in general terms.

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

Slabs

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

Hot-rolled Products

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

Cold-rolled Products

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

Galvanized Products

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

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

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

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

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

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

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

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

Tin Mill Products

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

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

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

3. Sales and Marketing

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

Marketing Organization and Strategy

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

- The Operations unit is responsible for steel production operations, repair shops, in-plant railroad, and process development at Volta Redonda.
- The Support unit is responsible for production planning, management of product stockyards, energy and utility facilities and work force safety assistance at the Presidente Vargas Steelworks.

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

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

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

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

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

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

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

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

Steel Sales by Geographic Region

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

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

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

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

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

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

Sales by Steel Product

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

DOMESTIC MARKET SHARE

(As a percentage of the market for each product)

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

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

Sales by Industrial Segment

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

SALES BY INDUSTRIAL SEGMENT IN BRAZIL

(In percentages of total domestic volume shipped)

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

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

4. Production***Production Process***

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

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

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

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

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

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

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

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

Quality Management Program

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

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

Production Output

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

CRUDE STEEL PRODUCTION

(In millions of metric tons)

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

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

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

CERTAIN OPERATING STATISTICS

(In millions of metric tons)

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

(1) Pulverized coal injection

5. Raw Materials and Transportation

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

Raw Materials and Energy Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transportation

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

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

6. Investment Programs

Current Investment Program

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

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

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

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

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

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

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

Investments in Downstream Opportunities, New Products and Market Niches

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

Infrastructure Investments

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

7. Facilities

Steel Mill

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

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

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

EFFECTIVE CAPACITY

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

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

Downstream Facilities

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

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

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

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

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

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

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

Mines and Mineral Reserves

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

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

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

MINERAL RESOURCES

Mine Name and Location	Ore Tonnage ⁽³⁾ (millions of tons)		Grade ⁽⁴⁾	Rock Type	Recoverable Product ⁽⁵⁾ (millions of tons)	Mineral Deposits Resources ⁽²⁾ (Hematite and Itabirite)
	Proven ⁽⁶⁾	Probable ⁽⁷⁾				Tonnage (millions of tons)
Iron:						
Casa de Pedra (Congonhas, Minas Gerais)	139	212	60.4% Fe	Hematite (70%) Itabirite (30%)	275	Approximately 4,000
	Proven+Probable					
Limestone:						
Bocaina (Arcos, Minas Gerais)	84.4		52%CaO ⁽⁸⁾ 2%MgO ⁽⁹⁾		84.4	N/A
Dolomite:						
Bocaina (Arcos, Minas Gerais)	28.3		35%CaO ⁽⁹⁾ 17%MgO ⁽⁸⁾		28.3	N/A
	Proven+Probable (Mm³)				(tons)	Resources (Mm³)
Tin (Itapoã do Oeste, Rondônia)	43.16			Paleo valley and shallow	25,739	97.7

(1) Reserves means that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

(2) Mineral Deposits Resources includes inferred tonnages.

(3) Ore Tonnage represents run-of-mine material.

(4) Grade is the proportion of metal or mineral present in ore or any other host material.

(5) Recoverable Product represents total product tonnage after mining and processing losses.

(6) Proven (measured) reserves means reserves for which: (i) quantity is computed from dimensions revealed in outcrops trenches, workings or drill holes; grade and/or quality are estimated from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established.

(7) Probable (indicated) reserves means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume between points of observation.

(8) Minimum.

(9) Maximum.

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

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

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

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

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

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

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

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

Electricity Distribution and Generation

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

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

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

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

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

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

Railways

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

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

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

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

Port Facilities

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

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

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

8. Competition

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

Competition in the Brazilian Steel Industry

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

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

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

Source: Brazilian Steel Institute

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

(2) In 2005, Arcelor S.A. accomplished a shareholder restructuring of its companies in Brazil, resulting in a consolidation of its stakes on CST, Belgo and Vega do Sul in a new company called Arcelor Brasil.

(3) Since 1999, Usiminas has had a majority stake in Cosipa, and the companies acted as a group. In 2005, Cosipa was incorporated into Usiminas.

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

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

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

Competitive Position Global

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

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

Competitive Advantages

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

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

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

9. Research and Development

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

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

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

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

10. Government Regulation and Other Legal Matters

Environmental Regulation

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

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

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

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

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

We signed an accord relating to environmental matters at the Presidente Vargas Steelworks in September 1994 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, December 1998 and January 2000 (the FEEMA Accord), respectively. Under the last amendment of the FEEMA Accord we have been obligated to make expenditures aggregating US\$101 million over three years, on 130 items which included environmental technology and construction of new equipment to control soil, air and water pollution. We have also agreed to spend US\$7.9 million to build sanitation facilities to benefit the Volta Redonda community (the Compensatory Measures).

The FEEMA Accord was considered completed by the Rio de Janeiro State Environmental Authority in May 2003. Between July and October 2003 all operation permits of Presidente Vargas Steelworks were recovered and remain valid for 5 years. By then we had invested under the FEEMA Accord an aggregate of US\$125.4 million, completing all 130 items, and spent US\$6.2 million on new infrastructure and community services.

As a result of these expenditures and our continuing compliance with the FEEMA Accord, one third, or approximately US\$4.9 million, of the environmental fines on the Presidente Vargas Steelworks have been dismissed as of December 2003. During 2004, the procedure to dismiss the remaining two thirds of these environmental fines was suspended, but the procedure recommenced in 2005. We believe that these remaining fines will eventually be dismissed.

From 2002 to 2004, as a consequence of the FEEMA Accord, soil investigations were made in the neighboring areas of Presidente Vargas Steelworks. These areas had received landfills of solid waste from operations. The survey identified two areas of land that require environmental remediation. The clean-up activities are expected to be concluded through the end of 2010. Current survey activities costs have been included in our operational costs. Nevertheless the total costs for the complete remediation cannot be reasonably estimated at this point.

We 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). The program s main objective is to compensate the City of Volta Redonda for environmental damages allegedly caused by the Presidente Vargas Steelworks. This program, requiring total expenditures of US\$5.6 million (figures as of 1995), has been suspended since 2000 as a result of an appeal by the state public attorney s office requesting for the reconsideration of the US\$5.6 million amount originally agreed upon by the parties at the January 1995 Accord. Due to the current inability of establishing the specific amount actually due, we have not made any provisions in connection with the January 1995 Accord, and it is still awaiting a court s final decision.

On November 30, 2001, we entered into a commitment, which is similar to the January 2000 amendment to the FEEMA Accord, with SEMADS - Rio de Janeiro State, Secretariat for Environment and Sustainable Development (the SEMADS Accord), in which we undertook to bring the TECAR into compliance with applicable environmental laws and regulations by May 31, 2004. We have been unable to meet the deadline due to, among other things, a storm-related accident, and we have requested an extension of the deadline. An amendment to this SEMADS Accord was signed on May 28, 2004, and extends the deadline for completion up to December 2006. In agreement to the SEMADS Accord, we have already installed equipment and systems to control and monitor air emissions, as well as sea pollution from port activities and handling imported coal. The total amount involved in the original SEMADS Accord was approximately US\$1.6 million and the additional obligations amounted to approximately US\$1.8 million. Remaining expenditures of US\$ 0.8 million have been accounted in our investment budgeting.

Prior to 1990, we operated coal mining facilities in the Santa Catarina State. As a part of these operations, we and other companies used waste ponds as well as landfills for sulfur containing solid wastes. The state environmental authority has been requiring 11 mining companies ourselves among them and the Federal Government to take environmental corrective actions to restore the waste ponds and landfill areas. We have developed and begun to

implement a restoration plan, set forth in 13 consent orders (*Termo de Ajustamento de Conduta*) signed with the Santa Catarina State Environmental Authority, with a total projected remaining cost, for

the next 15 years, of US\$9.4 million, which have been fully provided for. The aggregate expenditures on this remediation plan, in the last three years, have amounted to US\$ 0.8 million in 2003, US\$1.4 million in 2004 and US\$ 1.9 million in 2005.

In April 2005, we purchased ERSA, the assets of a tin mine and smelter located in the Rondonia State. An environmental due diligence was conducted at the ERSA sites. Environmental liabilities were found and quantified at those sites. CESBRA/BRASCAN, the former owner of ERSA, has agreed, under the Contract on Environmental Obligations, signed by us and CESBRA/BRASCAN in April 2005, to reimburse CSN for all environmental liabilities resulting from events occurred before the acquisition date. In addition, CESBRA/BRASCAN has the option to run the remediation program at the decommissioned mine quarries, that account for more than 70% of the identified liabilities, by themselves. We understand that we need not make provisions against these liabilities since the actual costs are to be incurred exclusively by the former owner.

Tax Matters

In October 2003, the Brazilian tax authorities assessed R\$242 million in taxes against us for capital gains from the sale of our interest in Light in 2001. The assessment is currently being discussed with the administrative authorities. We have received an opinion from our external counsel that we have a strong chance of reaching a favorable decision, being classified as a remote loss probability and, accordingly, we have not made any provisions with respect to this assessment.

Mining Concessions

Our mining operations are governed by the Brazilian Constitution and the Mining Code and are subject to the laws, rules and regulations promulgated pursuant to the Constitution and the Code. Under the Brazilian Constitution, all mineral resources belong to Brazil. Our mining activities at the Casa de Pedra mine are based on our holding of a *Manifesto de Mina*, which gives us full ownership over the mineral deposits existing within our property limits. Our mining activities at the Bocaina mine are based on a concession which gives us the right to mine for as long as ore reserves exist.

The Mining Code and the Brazilian Constitution impose on mining companies, such as us, 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

We are 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 Econômico* of Brazil's Ministry of Justice has broad authority to promote economic competition among companies in Brazil, including the ability to suspend price increases and investigate collusive behavior between companies. In addition, if the *Conselho Administrativo de Defesa Econômica* CADE determines companies have acted collusively to raise prices, CADE has the authority to impose fines on the offending 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 Secretaria de Direito Econômico, acting under its authority described above, indicated that there are grounds to believe that we, 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. We have challenged CADE's decision in a judicial proceeding, and payment of the fine has been stayed pending the outcome of this proceeding. According to our external counsel, we do not expect any losses arising from this dispute and, accordingly, we have not made any provision therefor.

Anti-Dumping Proceedings

Over the past several years, exports of steel products from various countries and companies, including Brazil and us, have been the subject of anti-dumping, countervailing duty and other trade-related investigations in importing countries. Most of these investigations resulted in duties limiting the investigated companies' abilities to access these markets. To date, however, the investigations have not had a significant impact on our export volume, either because the quantities that we exported were small or we were able to re-direct our exports from affected markets to others.

Following are summaries of the protectionist measures to which our exports are subjected. The widespread adoption of protectionist measures, even if by countries that have not been important markets for us, might nevertheless adversely impact the international markets for our products.

United States

Anti-dumping (AD) and Countervailing Duties (CVD). In September 1998, U.S. authorities initiated AD and CVD investigations on hot-rolled steel sheet and coils imported from Brazil and other countries. In February 1999, the U.S. Department of Commerce (DOC) reached a preliminary determination on the AD and CDV margins. Our preliminary margins were determined as follows: AD, 50.7%, and CVD, 6.6% . In July 1999, Brazil and the United States signed a five-year suspension agreement, suspending the AD investigation and establishing a minimum price of US\$327 per ton (delivery duty paid), subjected to quarterly review by the DOC. In February 2002, the U.S. government terminated the AD suspension agreement, reinstating the AD margin of 41.27% . Also in July 1999, the Brazilian and U.S. governments signed a suspension agreement related to the CVD investigation which fixed a limit to the export of hot-rolled sheets and coils from Brazil of 295,000 tons per year. At the request of the Brazilian government, the agreement was terminated in September 2004. Upon the termination of this agreement, the CVD of 6.35% became effective in September 2004, to be applied to the imports of hot-rolled products. In April 2004, we requested the DOC to conduct an administrative review of the AD investigation. Through this review, in April 2005, we obtained a favorable preliminary determination of "zero" margin of dumping from the DOC. In October 2005 the final determination was issued and the "zero" margin of dumping from the DOC was confirmed as final, which was rescinded in February 15, 2006, by the DOC as a result of Petitioner's withdrawal of its requests.

Simultaneously to the administrative review, we participated in an anti-dumping and CVD expiry review which involved the exports of hot-rolled sheet and coils to the U.S. The expiry review was jointly developed by the International Trade Commission and the DOC, through the Import Administration-I.A. It was initiated in May 2004 and in April 2005 the determination was to retain the AD and CVD orders in effect.

Canada

Hot-Rolled. In January 2001, the Canadian government initiated an anti-dumping investigation process involving hot-rolled sheets and coils exported from Brazil. The investigation was concluded in August 2001, with the imposition of an anti-dumping tax of 26.3% with minimum prices to be observed. In August 2002 the Canada Border and Services Agency (CBSA) initiated a revision of the values previously established and, in March 2003, the revised values were issued. These values were adjusted whenever there was an adjustment of the domestic prices. In February 2005, the CBSA initiated a reinvestigation of hot-rolled sheets and coils. We are not participating in this investigation, which means that its we will not have minimum prices determined specifically for us, and we will be subjected to the anti-dumping duty imposed on Brazil in general.

In December 2005, the Canadian International Trade Tribunal CITT initiated an expiry review of hot-rolled products, in which we are participating. The final determination is expected by August 2006.

Argentina

Hot-Rolled. In October 1998, Argentina commenced an anti-dumping investigation of hot-rolled products from Brazil, Russia and Ukraine. In April 1999, the Argentinean government applied a provisional anti-dumping order on Brazilian imports fixing a minimum price of US\$410 per ton FOB (free on board), for four months ending in August 1999.

In December 1999, the Argentine government accepted a suspension agreement of the AD measures providing for quotas of 36,000 tons for the first year, 38,000 tons for the second and 39,000 tons for the third, fourth and fifth years, and minimum prices from US\$325 to US\$365 per ton CFR FO (cost, insurance and freight, free out) subject to quarterly adjustments based on the publication of the National Institute of Statistics and Census (INDEC).

In December 2004, exporters were notified of the revision of Resolution no. 1420/1999 from the Economic, Work and Public Services Ministry of Argentina relating to the export of Brazilian hot-rolled products. In January 2005, an expiry review of the AD process was initiated to analyze the maintenance, modification and/or derogation of the action of the administrative authority of the Argentinean government, which is under negotiation.

Cold-Rolled. A cold-rolled AD investigation was initiated against Brazil in September 1999. In January 2000, a suspension agreement established quotas of 36,000 tons for the first year, 38,000 tons for the second year and 39,000 tons for the third, fourth and fifth years and a minimum price of US\$457 per ton CIF (cost, insurance and freight), subject to quarterly adjustments based on the publications of the INDEC.

In January 2001, the government of Argentina accepted the suspension agreement, maintaining the quotas and renegotiating the minimum price to US\$420 per ton CIF (cost, insurance and freight) for five years subject to quarterly updates.

This agreement expired in January 2006 and, in March 2006, the Economy and Production Ministry of Argentina initiated the expiry review of the investigation.

11. Employees and Labor Matters

As of December 31, 2005, we had 10,652 employees, of whom approximately 3,300 were members of the steelworkers' union of Volta Redonda and region, which is affiliated with the *Central Única dos Trabalhadores, or CUT*, national union. The CUT national union has been a long-time political ally of the *Partido dos Trabalhadores*. We have collective bargaining agreements, renewable annually each May 1.

We are the principal sponsor of *Caixa Beneficente dos Empregados da CSN*, or CBS, our employee pension plan. As a result of a general pay increase that we granted at the time of our privatization and a decline in the value of CBS's assets, CBS has substantial unfunded projected benefit obligations. Our unfunded pension benefits obligations totaled US\$234 million as of December 31, 2005. The amount of the unfunded pension benefits obligations is affected by, among other things, fluctuations in the value of CBS's assets, which aggregated US\$639 million as of December 31, 2005, 39% of which was attributable to our common shares held by CBS. See Note 16 to our consolidated financial statements contained in Item 18. Financial Statements.

In August 2002, the *Secretaria de Previdência Complementar*, or SPC, the Brazilian government's Secretary for Supplementary Social Security, approved a proposal for the payment of the unfunded projected benefit obligations,

replacing and supplementing an agreement in place since January 1996. Under the new agreement,

we, as the plan's sponsor, pay the unfunded projected defined benefit obligations in monthly installments over 20 years, beginning in June 2002. Under the new agreement, we are also obligated to make additional payments in the event CBS does not have adequate cash to meet the defined benefit plan's obligations and will be entitled to a refund of any surplus not required to meet such obligations. The new agreement does not affect our pension obligations or periodic pension cost.

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

In June 2000, we increased the average workshift at our Volta Redonda steel plant from six to eight hours. This increase was implemented in our iron ore, limestone and dolomite mines during 1999. We have signed a collective bargaining agreement with our employees' unions pursuant to which we have agreed not to dismiss employees in connection with this workshift increase. This eight-hour workshift improved productivity, quality and job safety as a result of fewer interruptions in the production process, which is continuous.

12. Overview of World Steel Industry

The worldwide steel industry comprises hundreds of steelmaking facilities divided into two major categories, integrated steelworks and non-integrated steelworks, characterized by the method used for producing steel. Integrated plants, which accounted for approximately 65% of worldwide crude steel production in 2005, 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 35% of worldwide crude steel production in 2005, produce steel by melting scrap metal, occasionally complemented with other metallic materials, such as direct reduction iron or hot-briquetted iron, in electric arc furnaces. Industry experts expect that 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.

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. From 1990 through 2003, total global crude steel production ranged between approximately 770 million and 969 million tons per year. In 2004, it reached 1.07 billion tons, a 10.1% increase compared to 2003. In 2005, it reached 1.13 billion tons, a 6.1% increase compared to 2004. According to the International Iron and Steel Institute (IISI), global steel demand is expected to reach 1.05 billion tons in 2006, a 5.2% increase from 2005.

Developing economies, such as China, while increasing their own production capacity, have been major steel importers over the past decade. Although South East Asia's and Japan's apparent steel consumption (which is a country's domestic sales plus imports) was reduced by the economic crisis begun in late 1997, this region has shown a recovery since 2000, especially in China, which showed a 13.2% increase in 2003 a 10.3% increase in 2004 and a 10.3% increase in 2005.

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 29.3 million tons in 2004 and 28.0 million tons in 2005, which exceeded domestic demand of 17.8 million tons and 16.1 million tons by 11.5 million and 11.9 million tons, respectively.

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. Brazil's exports of semi-finished steel products aggregated 6.3 million tons in 2004 and 6.0 million tons in 2005, which represented 53% and 48% of total steel exports for both periods, respectively.

13. 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.

A Privatized Industry

During 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* and were each individually privatized over the period from 1991 to 1993. We believe that the privatization of the steel sector in Brazil has resulted in improved financial performance 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 gross domestic product, or GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Per capita crude steel consumption in Brazil has increased from 95 kilograms per capita in 1999 to 101 kilograms in 2005, which is low when compared to developed country levels such as the United States, which was 344 kilograms, and the European Union, which was 305 kilograms in 2005.

In 2004, mainly driven by the export market, GDP grew 4.9%, its largest increase in ten years. In 2005, despite a good global conjuncture, the Brazilian economy exhibited a modest growth of 2.3%. From 2004 to 2005, total domestic steel sales decreased 9.6%, from 17.8 to 16.1 million tons. Sales of flat steel products decreased 9.3% in 2005, from 10.8 to 9.8 million tons.

In 2004, supported by the export market and also a strong domestic demand, industrial production grew 8.3%, the biggest annual increase in 18 years. In 2005, domestic demand was not so strong as in 2004, therefore industrial production slowed its growth to a rate of 3.6%.

The Brazilian flat steel sector is shifting production to the higher value-added consumer durables 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 increased by 20.5% in 2000, as the economy improved, but as a result of the energy crisis in Brazil, the consumer durable goods sector showed some recovery only in 2002 with an increase of 2.7% but contracted by 0.5% in 2003. In 2004 the consumer durable goods sector increased 21.8% after three years of showing quite modest growth rates. In 2005, despite an easing of overall economy growth, the consumer durable goods sector exhibited a 12.2% growth.

Over the past years, significant investments were made by General Motors, Ford and Volkswagen, automobile manufacturers already in Brazil. In addition, Renault, Honda, Daimler-Chrysler, Audi and Peugeot/Citroen built new facilities in Brazil. In 2004, 2.3 million vehicles were produced. During 2005, a total of 2.5 million vehicles were

produced in Brazil, a 9.1% increase compared to 2004.

Market Participants

According to IBS associated companies, Brazilian steel industry is composed of 13 producers, with an installed annual capacity of approximately 36 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 88% of nominal crude steel capacity during 2005. Total Brazilian nominal capacity in 2005 was estimated at 36 million tons.

Exports/Imports

In 2005, Brazilian steel exports were 12.5 million tons, representing 44% of total Brazilian steel sales (domestic plus exports), accounting for US\$6.5 billion in export earnings for Brazil in 2005. In 2005, 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 756,000 tons, or 4.5% of apparent domestic consumption in 2005. According to the Brazilian Steel Institute, domestic apparent consumption equals domestic sales plus imports. In 2005, Brazil had a steel trade surplus of US\$5.6 billion and an overall trade surplus of US\$28.1 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, cyclicity 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 2005, supply totaled 28.5 million tons, compared to apparent consumption of 16.8 million tons.

Brazil enjoys a diversified steel export market. In 2005, export sales were made to over 120 countries. North America and Asia were Brazil's main export markets, accounting for 23% and 31%, respectively, of all Brazilian steel exports in such year. United States was the main destination representing 19% of the total exports. The European Union was responsible for 12% of the Brazilian steel exports. The next nine largest markets, taken together, accounted for 30% of Brazil's 2005 steel exports. "See also "Item 4.B.8 Competition".

C. Organizational Structure

We do business directly and through subsidiaries. None of our subsidiaries is significant as defined under Regulation S-X.

D. Property, Plant and Equipment

Our principal executive offices are located in the city of São Paulo, São Paulo State at Avenida Faria Lima, 3400, 20º andar (telephone number 5511-3049-7100), and our main 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, our 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. Our 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.

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We own undeveloped plots of land in Rio de Janeiro, Santa Catarina and Minas Gerais States. We hold title to 1,045 hectares of land in Santa Catarina, and 4,745 hectares of land in Minas Gerais. The steel plant area in Volta Redonda is 302 hectares.

The following map shows the locations of the Presidente Vargas Steelworks, the CSN Paraná, INAL, INAL Nordeste, GalvaSud, Metalic, Lusosider, ERSA and CSN LLC facilities, our iron ore, limestone and dolomite mines, the power generating facilities in which we have an interest, and the main port used by us to export steel products and import coal and coke, as well as the main railway connections.

Item 4A. Unresolved Staff Comments

The SEC has advised us that it has reviewed our amended Annual Report on Form 20-F/A for the fiscal year ended December 31, 2004 (the "2004 Form 20-F") and our consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 included therein, filed with the SEC on April 27, 2006. Based on its review of this document, the SEC provided us with comments and questions. The unresolved staff comments are related to the accounting treatment of (i) our accruals for disputed taxes payable that relates to certain tax liabilities for which we are disputing payment and the using certain tax credits to offset such tax liabilities; and (ii) the proposed dividends. Discussions regarding the 2004 Form 20-F are ongoing and could result in modifications to that document or this Form 20-F with respect to those or other issues. The company will continue to work with the SEC to reach resolution of any outstanding issues and will provide updates if any material developments occur.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our consolidated financial statements included in "Item 18. Financial Statements". Our consolidated financial statements were prepared in accordance with U.S. GAAP and are presented in U.S. dollars, as explained in their Note 2(a).

Critical Accounting Policies

In preparing our financial statements, we make estimates concerning a variety of matters. Some of these matters are highly uncertain, and our estimates involve judgments we make based on the information available to us. In the discussion below, we have identified several of these matters for which our financial presentation would be materially affected if either (a) we used different estimates that we could reasonably have used or (b) in the future we change our estimates in response to changes that are reasonably likely to occur.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

Valuation of long-lived assets

Under U.S. GAAP, in accordance with SFAS n°144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

A determination of the fair value of an asset requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic and industry trends, interest rates and changes in the marketplace. A change in the assumptions and estimates that we use could change our estimate of the expected future net cash flows and lead to the recognition of an impairment charge in results of operations relating to our property, plant and equipment.

Depreciation and Amortization

Adopted depreciation rates are based on estimated useful lives of the underlying assets, derived from historical information available to us, as well as known industry trends. We describe the depreciation rates we apply to our property, plant and equipment in Note 12 to our audited consolidated financial statements. The sensitivity of an impact in changes in the useful lives of property, plant and equipment was assessed by applying a hypothetical 10% increase in depreciation rate existing at December 31, 2005. This hypothetical change would result in an incremental increase in the annual depreciation expense of US\$23 million in the year of the change.

Financial instruments

With respect to financial instruments, we must make assumptions as to future foreign currency exchange and interest rates. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see Item 11 - Quantitative and Qualitative Disclosures About Market Risk.

Pension plans

For our defined-benefit plans we calculate our funding obligations based on calculations performed by independent actuaries using assumptions that we provide about interest rates, investment returns, levels of inflation, mortality rates and future employment levels. These assumptions directly affect our liability for accrued pension costs and the amounts we record as pension costs in results of operations.

Deferred taxes

We compute and pay income taxes based on results of operations determined under Brazilian GAAP. Under Brazilian GAAP and U.S. GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance if, under U.S. GAAP, it is more likely than not that the deferred tax assets will not be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. A change in the assumptions and estimates with respect to our expected future taxable income could result in the recognition of a valuation allowance being charged to income. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or discount rates, the time period over which the underlying temporary differences become taxable or deductible, or any change in its future projections, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets, resulting in a substantial increase of our effective tax rate and a material adverse impact on operating results.

Contingencies and disputed taxes

We record accruals provisions for contingencies relating to legal proceedings with respect to which we deem the likelihood of an unfavorable outcome to be probable and the loss can be reasonably estimated. This determination is made based on the legal opinion of our internal and external legal counsel. We believe that these contingencies are properly recognized in our financial statements. We are also involved in judicial and administrative proceedings that are aimed at obtaining or defending our legal rights with respect to taxes that we believe to be unconstitutional or otherwise not required to be paid by us. We believe that these proceedings will ultimately result in the realization of contingent tax credits or benefits, which we do not recognize in our financial statements until the gain contingency has been resolved. When we use contingent tax credits or benefits based on favorable court decisions that are still subject to appeal to offset current tax obligations, we establish an accrual equal to the amount used and maintain the accrual until a final decision on those contingent tax credits or benefits is rendered. Our accruals include interest on the tax obligations that we may offset with contingent tax credits or benefits at the interest rate defined in the relevant tax law. The recorded accruals for these disputed taxes and other contingencies may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

A. Operating Results

1. Overview

The primary factors affecting our 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 us (between domestic and export sales and between lower value-added and higher value-added products);

- our production costs; and
- Brazilian economic conditions generally, including changes in the *real* exchange rate against other currencies, particularly the U.S. dollar.

Markets and Product Mix

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 or Euros, depending on the export destination) 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 size, chemical composition, quality and specifications, all of which impact prices. Many companies (including us) discount their list prices for regular customers, making actual transaction prices difficult to determine.

Historically, export prices and margins have been lower than domestic prices and margins, because of the logistics costs, taxes and tariffs. The portion of production that is exported is affected by domestic demand, exchange rate fluctuations and the prices that can be charged in the international markets.

The following table shows Brazilian steel production and apparent consumption (domestic sales plus imports) and global production and demand for the periods indicated:

	Year ended December 31,		
	2003	2004	2005
Brazilian Market (in thousands of tons)			
<i>Total Flat and Long Steel</i>			
Production	21,090	23,368	22,579
Apparent Consumption	15,955	18,316	16,806
<i>Hot-Rolled Coils and Sheets</i>			
Production	4,176	4,230	4,249
Apparent Consumption	2,926	2,971	2,600
<i>Cold-Rolled Coils and Sheets</i>			
Production	2,812	3,208	3,206
Apparent Consumption	2,202	2,610	2,253
<i>Galvanized Sheets</i>			
Production	1,751	2,193	1,883
Apparent Consumption	1,457	1,706	1,540
<i>Tin Mill</i>			
Production	1,046	973	741
Apparent Consumption	665	677	504
Global Market (in millions of tons)			
Crude Steel Production	951	1,035	1,132
Demand	864	957	1,013

(1) Does not include heavy and coiled plates.

Source: *Brazilian Steel Institute and IISI*

Product Mix and Prices. We have a strategy of maintaining production at full capacity in order to spread fixed costs over a higher volume of products and to maintain flexibility. This allows us to change our product mix 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 export sales to increase and the percentage attributable to domestic sales to decrease. As discussed below, the percentage of sales made in domestic and export markets will impact revenues expressed in U.S. dollars. See Item 5.A - Impact of variations in Real-Dollar Exchange Rate and Inflation

We also have a strategy of increasing the portion of our sales attributable to higher value-added coated products, particularly galvanized products. Galvanized products are directed at the automotive, construction and home appliance industries. Similar to its impact on the percentage of domestic sales, the full production strategy could, therefore, in any particular period, cause the percentage of sales attributable to coated products to decrease. In addition, the increased production capacity coming on stream could have a similar impact, because increased capacity results in an increase in slabs and hot-rolled products production before the production of downstream coated products increases.

Sales Volume and Net Revenues by Steel Products and Markets

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

	Sales Volume								
	Metric Tons			% of Sales Volume					
				In Market			Total		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	<i>(In thousands of metric tons)</i>			<i>(In percentages)</i>					
<u>Domestic Sales</u>									
Slabs	68	57	46	2	2	2	1	1	1
Hot-rolled	1,081	1,142	1,037	35	34	36	21	24	22
Cold-rolled	696	648	399	23	20	14	13	14	8
Galvanized	559	783	726	18	24	25	11	17	15
Tin Mill	662	668	667	22	20	23	13	14	14
Sub-total	3,066	3,298	2,875	100	100	100	59	70	60
<u>Export sales</u>									
Slabs	382	44	86	18	3	4	7	1	2
Hot-rolled	801	512	717	37	37	37	15	11	15
Cold-rolled	130	96	237	6	7	12	2	2	5
Galvanized	472	455	593	22	33	30	9	10	12
Tin Mill	364	276	312	17	20	16	7	6	6
Sub-total	2,149	1,383	1,945	100	100	100	41	30	40
Total	5,215	4,681	4,820				100	100	100
<u>Total Sales</u>									
Slabs	450	101	132				9	2	3
Hot-rolled	1,882	1,654	1,754				36	35	36
Cold-rolled	826	744	636				16	16	13
Galvanized	1,031	1,238	1,319				20	26	27
Tin Mill	1,026	944	979				20	20	20

Total	5,215	4,681	4,820	100	100	100
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Net Operating Revenues⁽¹⁾

	U.S. dollars			% of Net Operating Revenues					
				In Market			Total		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	<i>(In millions of US\$)</i>			<i>(In percentages)</i>					
<u>Domestic Sales</u>									
Slabs	12	15	14	1	1	1	1	1	-
Hot-rolled	378	543	693	28	28	29	16	19	19
Cold-rolled	273	372	313	20	19	13	11	13	9
Galvanized	311	535	661	23	27	28	13	19	19
Tin Mill	376	482	669	28	25	28	16	17	19
Sub-total	1,350	1,947	2,350	100	100	100	56	68	66
<u>Export sales</u>									
Slabs	126	22	18	12	2	1	5	1	1
Hot-rolled	286	272	327	27	29	27	12	9	9
Cold-rolled	64	72	125	6	8	10	3	3	4
Galvanized	276	362	463	26	39	38	12	13	13
Tin Mill	290	202	275	28	22	23	12	7	8
Sub-total	1,042	930	1,208	100	100	100	44	32	34
Total	2,392	2,877	3,558				100	100	100
<u>Total Sales</u>									
Slabs	138	37	32				6	1	1
Hot-rolled	664	815	1,020				28	28	29
Cold-rolled	337	444	438				14	15	12
Galvanized	587	897	1,124				25	31	32
Tin Mill	666	684	944				28	24	27
Total	2,392	2,877	3,558				100	100	100

(1) Net operating revenues do not include revenues from non-steel products, principally by-products, services and electric energy (2003 US\$156 million; 2004 US\$207 million; 2005 US\$247 million). The net operating revenues attributed to each product class were obtained by multiplying the average price per ton of each class of product by the sales volume of such class.

Impact of Variations in Real-Dollar Exchange Rate and Inflation

Our Financial Statements in this annual report are expressed in U.S. dollars. Our export revenues are denominated in U.S. dollars. Our domestic revenues are denominated in *reais* (although domestic sales prices reflect international prices with a time lag of several months).

A significant portion of our cost of products sold are commoditized raw materials, the prices for which are denominated in U.S. dollars. The balance of our cost of products sold and our cash operating expenses (i.e., operating expenses other than depreciation and amortization) are denominated in *reais*.

Appreciation of the U.S. dollar against the *real* has the following effects on our results of operations expressed in U.S. dollars:

- Domestic revenues (unless increased by inflation, as discussed below) tend to be lower (in comparison with prior years) and to the extent we sell more products than usual in the domestic as opposed to the export markets, this effect is magnified.
- The impact of *reais*-denominated costs of products sold and operating costs tend to be lower.
- Non-operating expenses are increased to the extent the exposure to dollar-denominated debt is not protected.

Appreciation of the *real* against the U.S. dollar has the following effects on our results of operations expressed in dollars:

- Domestic revenues tend to be higher (in comparison with prior years) and this effect is magnified to the extent that we have sold more products than usual in the domestic markets.
- The impact of *reais*-denominated costs of products sold and operating costs tends to be higher.
- Non-operating income is higher to the extent the exposure to dollar-denominated debt has not been protected.

Inflation also affects our results of operations. Our *real*-denominated costs of products sold and operating costs tend to increase with inflation in Brazil because suppliers and service providers generally increase prices to reflect inflation. As expressed in U.S. dollars, however, these increases historically have been offset at least in part by the effect of devaluation of the *real* against the U.S. dollar. If the rate of inflation increases more rapidly than the rate of devaluation, then, as expressed in U.S. dollars, operating expenses increase. If the rate of devaluation exceeds the rate of inflation, then, as expressed in U.S. dollars, our operating expenses decrease. Inflation also affects our monetary assets and liabilities denominated in *reais*. Some financial instruments denominated in *reais* are indexed for inflation. For the three years ending December 31, 2005, inflation has not had a material impact on our results of operations.

The impact during the three years ending December 31, 2005 of fluctuations in the *real* exchange rate against other currencies on our results of operations can be seen in the "foreign exchange and monetary gain (loss), net" line in our income statement, although that amount is partially offset by the net financial income (or expense) attributable to the profit (or loss) on our derivative transaction of our foreign currency-denominated debt. In order to minimize the effects of the exchange rate fluctuations, we engage, from time to time, in derivative transactions, including currency swap and foreign currency option agreements. The appreciation of the *real* against the U.S. dollar during 2004 and 2005 affected our net results because the positive effects of such appreciation were not entirely offset by losses on derivative transactions.

2. Results of Operations

For purposes of comparison, the following table presents the items indicated as percentages of net operating revenues for each of the three years in the period ended December 31, 2005 and the percentage change in each of these items from 2003 to 2004 and from 2004 to 2005:

	Year Ended December 31,			Increase (Decrease)	
	2003 ⁽¹⁾	2004	2005	2004/2003	2005/2004
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Operating revenues					
Domestic sales	72.3	93.9	90.6	57.1	19.1
Export sales	<u>42.3</u>	<u>32.7</u>	<u>32.2</u>	<u>(6.4)</u>	<u>21.4</u>
	114.6	126.6	122.8	33.7	19.7
Sales Taxes	<u>(12.6)</u>	<u>(23.8)</u>	<u>(21.8)</u>	<u>128.3</u>	<u>12.8</u>
Discounts, returns and allowances	<u>(2.0)</u>	<u>(2.7)</u>	<u>(1.0)</u>	<u>68.0</u>	<u>(53.6)</u>
Net operating revenues	100.0	100.0	100.0	21.0	23.4
Cost of products sold	<u>57.2</u>	<u>45.6</u>	<u>48.3</u>	<u>(3.4)</u>	<u>30.6</u>
Gross profit	42.8	54.4	51.7	53.7	17.4
Operating expenses					
Selling	6.9	5.1	4.9	(11.4)	19.2
General and administrative	3.8	3.5	2.8	13.5	(0.9)
Others	<u>2.9</u>	<u>1.6</u>	<u>0.7</u>	<u>(32.4)</u>	<u>(44.0)</u>
Operating income	29.2	44.2	43.3	82.8	20.9
Non-operating income (expenses), net					
Financial income (expenses), net	(22.1)	(16.5)	(14.5)	(9.6)	7.8
Foreign exchange and monetary gain (loss), net	12.8	5.0	4.8	(52.9)	19.6
Others, net	0.5	(0.2)	0.1	(142.9)	(150.0)
Income before income taxes and equity in results of affiliated companies	20.4	32.4	33.7	92.1	28.3
Income taxes expense (benefit)	2.5	9.4	11.2	354.7	46.7
Current	6.0	9.4	12.2	90.1	58.5
Deferred	(3.5)	0.1	(0.8)	(102.3)	(1,650.0)
Equity in results of affiliated companies	<u>0.4</u>	<u>1.7</u>	<u>1.2</u>	466.7	(7.8)
Net income	18.2	24.6	23.7	63.2	18.8

⁽¹⁾ As Restated (see Financial Statements note 26)

2005 Compared to 2004*Operating Revenues*

The performance of the global steel market in 2005 was determined by two main factors: high inventories, which had been building up since the second half of 2004, and weaker-than-normal demand.

Given less buoyant final demand and overstocked service centers, demand for flat steel suffered, triggering a slide in international prices during the first half of 2005. In an unprecedented reaction, steel companies decided to cut back production to align output with the new scenario, thereby avoiding a further price slump. Prices only began to recover at the end of the third quarter, when inventories had fallen back to normal levels and final demand was beginning to pick up again, particularly in the United States steel markets.

On the domestic front, annual flat-steel demand fell 9% over the year before, mainly due to dwindling demand from the distribution and civil construction industries, which fell by 20% and 9% respectively. Although demand from the auto and packaging industrial segments edged up by 3% and 1% respectively, this was insufficient to offset the decline in the other two sectors. On the other hand, Brazilian steel market prices increased in 2005, compared on an average basis to 2004. The domestic market improvement was chiefly due to the fact that prices in 2004 took

some time to react to the international upturn, only doing so at the end of the third quarter. This low comparative base, together with relative domestic price stability throughout 2005, explains the increase.

Regarding our results, total sales volume increased 3.0% from 4.68 million tons in 2004 to 4.82 million in 2005. The decline of 423,000 tons in domestic sales, compared to 2004, was more than offset by the 562,000 tons increase in export sales. Thus, in 2005 a greater proportion of sales was made into the export market (40% of total sales volume) than in 2004 (30%). This increase resulted from weaker than expected flat steel demand in Brazil, reflecting unimpressive overall growth in the economy, as discussed above.

In contrast, steel prices, when measured in U.S. dollars, increased significantly. Domestic steel prices increased 38% on average, more than offsetting an 8% decline in export prices, with the result that average steel prices charged in 2005 were 20% higher than in 2004. Measured in *reais*, steel prices charged to domestic customers increased 15%, while steel prices charged to international customers decreased 23%. The net effect was that total average prices remained flat.

As a result of the combined effect of price and volume increases and exchange rate appreciation, we recorded operating revenue of US\$4,673 million in 2005, 20% (or US\$770 million) higher than previous year operating revenue of US\$3,903 million. In the domestic market, operating revenues increased by 19% to US\$3,449 million in 2005, from US\$2,895 million in 2004, as higher local average prices and the strengthening of the *real* more than offset the decrease in volume. In the export market, operating revenues increased 21% to US\$1,224 million in 2005, from US\$1,008 million in 2004, with higher volumes more than compensating for the decline in prices.

Net Operating Revenues

Net operating revenues increased by 23% to US\$3,805 in 2005, from US\$3,084 million in 2004, mainly due to the 20% increase in operating revenues, whereas sales deductions experienced an increase of 6.0%. Sales deductions, as a percentage of operating revenues, were 21.0% in 2004 and 18.6% in 2005, because revenues derived from exports, which are exempted from value added taxes such as IPI and ICMS, as well as PIS and COFINS contributions, increased its share to 26.2% in 2005 from 25.8% in 2004.

Cost of Goods Sold and Production Costs

Cost of goods sold increased by 31% to US\$1,837 million in 2005, from US\$1,407 million in 2004, as a result of the higher sales volume, the strengthening of the *real* and changes in production cost which are further explained below. Measured in *reais*, the cost of goods sold increased only 9%.

Production cost totaled US\$1,831 million in 2005, which means an increase of US\$369 million, or 25%, over the 2004 result. Expressed in *reais*, this increase is only 3%. As parent company production cost is a *proxy* to the cost of goods sold, we can analyze the changes in cost of goods sold going through the variations occurred in the production cost.

The following table sets forth for the parent company the production cost, the production cost per ton of crude steel and the portion of production costs attributable to the primary components of our costs of production. With the exception of coal and some coke, which we import, and some metals (such as zinc, aluminum and tin), whose domestic prices are linked to international prices, our costs of production, as well as our other operating expenses, are mostly 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. Conversely, appreciation of the *real* causes *real*-denominated production costs to increase as a percentage of total production costs.

Year Ended December, 31

	2003			2004			2005		
	US\$ 000	US\$/ton	%	US\$ 000	US\$/ton	%	US\$ 000	US\$/ton	%
Raw Materials									
Iron Ore	45,665	8.68	4.4	52,533	9.58	3.6	72,551	14.03	4.0
Coal	180,566	34.30	17.3	258,879	47.23	17.7	387,514	74.92	21.2
Coke	82,667	15.70	7.9	259,318	47.31	17.7	224,530	43.41	12.3
Metals	60,658	11.52	5.8	28,215	5.15	1.9	4,501	0.87	0.2
Outsourced									
Hot Coils	75,242	14.29	7.2	111,923	20.42	7.7	119,177	23.04	6.5
Other ⁽¹⁾	77,391	14.70	7.4	113,213	20.66	7.7	148,418	28.70	8.1
	522,188	99.20	49.9	824,081	150.35	56.4	956,690	184.97	52.3
Energy/Fuel	118,707	22.55	11.3	159,631	29.12	10.9	191,568	37.04	10.5
Labor	124,732	23.70	11.9	106,566	19.44	7.3	157,899	30.53	8.6
Services and Maintenance	115,389	21.92	11.0	166,993	30.47	11.4	256,965	49.68	14.0
Tools and Supplies	62,627	11.90	6.0	77,683	14.17	5.3	105,272	20.35	5.7
Depreciation	87,992	16.72	8.4	111,765	20.39	7.6	142,219	27.50	7.8
Others	14,374	2.73	1.4	15,674	2.86	1.1	20,313	3.93	1.1
	1,046,010	198.71	100.0	1,462,392	266.81	100.0	1,830,925	354.00	100.0

As shown in the table above, all cost items showed an increase in 2005, with emphasis on raw materials, which increased by US\$133 million, and services and maintenance, which increased by US\$90 million. Under raw materials, the increases were a) US\$20 million in iron ore cost, reflecting the approximately 70% price increase in 2005, b) US\$129 million in coking coal, explained by the 50% price increase, c) US\$7 million in metals (zinc, aluminum and tin) as a result of higher international prices for each of these materials, and d) US\$35 million in other raw materials. On other hand, these increased costs were partially offset by reductions of e) US\$35 million of purchased coke, due to both lower prices of coke and lower usage as we adapted our blast furnaces to use natural gas; and f) US\$24 million of outsourced hot coils, given that we almost ceased to use hot coils from third parties in 2005.

Regarding the other items, there is a huge difference on variations measured in *reais* and U.S. dollars, because a large proportion of these costs are *reais*-denominated. Thus a) labor costs increased by 48% measured in U.S. dollars and 8% expressed in *reais*, reflecting the wage increases in May (see Selling, General and Administrative Expenses below), b) services and maintenance showed changes of 54% and 26%, measured in both currencies respectively, mainly due to more maintenance activities accomplished during the year, c) tools and supplies increased 36% and 12%, respectively, reflecting increases on several miscellaneous items, and finally d) depreciation showed a positive change of US\$17 million.

Gross Profit

Gross profit increased by 17% to US\$1,968 million in 2005, from US\$1,677 million in 2004, due to an increase of US\$721 million of net operating revenues which was only partially offset by an increase of US\$430 million in cost of goods sold. Even though we had a higher gross profit in 2005 as compared to 2004, our gross margin decreased from 54.4% to 51.7% as the percentage increase in net operating revenues was smaller than the percentage increase in cost of goods sold.

Selling, General, and Administrative Expenses

In 2005, we recorded selling, general and administrative expenses of US\$294 million, a 11% increase over the US\$265 million reported in 2004. Expressed in *reais*, these expenses showed an 8% decline.

Selling expenses increased by US\$30 million, or 19%, due to appreciation of the *real* and the increase in export volumes and related freight costs. However, as a percentage of net operating revenues, it remained stable: 5.1% in

2004 and 4.9% in 2005. Additionally, when measured in *reais*, these expenses remained virtually flat, showing a slight decrease of 0.8% .

General and administrative expenses remained stable in 2005 as compared to 2004, recording a 0.9% or US\$1 million decrease. When expressed in *reais*, these expenses showed a decrease of 18%, despite wage increases reflecting annual negotiations under our collective bargaining agreement.

Other Income (Expenses)

Other expenses was US\$28 million in 2005 as compared to US\$50 million in 2004, a US\$22 million decrease mainly due to a reversal of provisions, motivated by the revision of the likelihood of success in many judicial disputes made by our internal and external legal advisors, as well as due to recent favorable track record on related disputes, for labor and civil contingencies in the amount of US\$61 million which had been accrued in 2004, partially offset by a US\$13 million accrual of tax contingencies and US\$10 million of environmental remediation costs in Santa Catarina. (See Note 18 to the Company's Financial Statements Commitments and Contingencies). While the decline in dollars was 44%, measured in *reais*, other income (expenses) declined by 53%.

Operating Income

Our operating income increased by US\$284 million, or 21%, to US\$1,646 million in 2005, from US\$1,362 million in 2004. This increase was essentially related to the increase of US\$291 million in gross profit, which was partially offset by the US\$7 million higher selling, general and administrative expenses and other income (expenses).

Non-operating Expenses (Income), Net

In 2005, our non-operating expenses, net were stable as compared to 2004 with a decrease of US\$1 million (or 0.3%) to US\$364 million, from US\$363 million in 2004.

The foreign exchange and monetary gain (loss), net line-item is mainly impacted by the variation in the value of the *real* against the U.S. dollar and its impact on our U.S. dollar denominated gross debt, on denominated cash, cash equivalents and short term investments, on equity investments in offshore subsidiaries and on trade accounts receivable. The US\$30 million increase in foreign exchange and monetary gains in 2005 was mainly due to the further appreciation of the *real* (12% in 2005 versus 8% in 2004) and to our higher US dollar denominated gross debt, which increased to US\$ 2,886 million from US\$ 2,362 million. As a percentage of total debt, the debt denominated in foreign currencies was 88% in 2005 against 85% in 2004. The financial income (expenses), net line comprises following sub-items: a) derivatives; b) interest income; c) interest expense, and d) other financial income (expenses). In the following paragraphs, we provide detailed explanation on each of them.

We use currency derivatives instruments to offset the impact of foreign exchange variation on the foreign exchange and monetary gain (loss), net accounting line. The net result of currency derivative transactions was a expense of US\$296 million in 2005, a marginally poorer result (US\$5 million) compared to the expenses of US\$291 million in 2004. Our equity swap transactions yielded US\$51 million in 2005 and US\$57 million in 2004. Therefore, the total loss on derivatives was US\$245 million in 2005 and US\$234 million in 2004. Our equity swap transactions mainly are intended to enhance the return of our financial assets by adding exposure to equity securities that historically yield higher long-term returns than fixed-income assets.

We reported interest income of US\$153 million in 2005, versus US\$78 million in 2004, mainly due to higher cash, cash equivalents and short-term investments, from US\$1,113 million in 2004 to US\$1,582 million in 2005, and higher short-term interest rates in the United States.

We had interest expenses of US\$407 million in 2005, compared to US\$280 million in 2004, as a result of the increase in our gross debt from US\$2,844 million in 2004 to US\$3,365 million in 2005. As most of our foreign (non-Brazilian *real*-denominated) debt carries fixed interest rates, interest rate increases generally do not impact our interest expenses.

Other financial income (expenses) improved by US\$51 million to expense of US\$27 million in 2005 versus expenses of US\$74 million in 2004, mainly due to approximately US\$30 million of financial expenses incurred during Galvadás's acquisition in 2004, related to the repayment of its debt, including breakup costs, and higher financial income related to interest on accounts receivable and other minor income items in the amount of US\$37 million in 2005 as compared to US\$30 million in 2004.

Income Taxes

We recorded a provision for income tax and social contribution of US\$427 million in 2005, compared to US\$291 million in 2004. The difference is due to higher income before taxes and equity in results of affiliated companies in 2005 (US\$1,282 million against US\$999 million in 2004). Expressed as a percentage of pre-tax income, the income tax expense increased to 33.3% in 2005, from 29.1% in 2004.

Income tax expense in Brazil refers to the collection of two taxes, federal income tax and social contribution (which is an additional income tax). The statutory rates for these taxes applicable for 2004 and 2005 were 25% for federal income tax and 9% for the social contribution. Therefore, the balance owed according to the statute for these years amounts to US\$340 million in 2004 and US\$455 million in 2005 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates, in order to arrive at the actual tax expense for the years.

In 2004, these adjustments totaled US\$49 million and comprised:

- a US\$31 million benefit from interest on stockholders' equity, a deductible expense for tax purposes;
- a US\$61 million benefit due to non-taxable income from operations outside Brazil;
- certain permanent differences amounting to US\$43 million which partially offset the benefits mentioned above. This amount refers principally to the foreign exchange loss on the net equity of our subsidiaries offshore and to minor expenses such as fines, gifts and donations as these are non-deductible expenses.

In 2005, adjustments totaled an additional benefit of US\$15 million, mainly due to:

- a US\$38 million benefit from interest on stockholders' equity;
- certain permanent differences amounting to US\$23 million which partially offset the benefit of interest on stockholders' equity mentioned above. This amount refers principally to the foreign exchange loss on the net equity of our subsidiaries offshore and to minor expenses such as fines, gifts and donations as these are non-deductible expenses.

We generate taxable income from our operations in Brazil and abroad, which are composed as follows:

Year Ended December 31,		
2004	2005	Changes

	<i>(In million of U.S. dollars)</i>		
Taxable income in Brazil	753	1,234	481
Foreign taxable income	-	51	51

Our taxable income in Brazil was impacted by lesser compensation of tax loss carryforwards in 2005 of approximately US\$190 million, by an increase of US\$140 million in non-deductible expenses and by the effect of the appreciation of the *real* against U.S. dollar of approximately US\$150 million.

In December 2004, we transferred part of our foreign operations to Luxembourg and, as from that date those results became taxable in that country due to an agreement between Brazil and Luxembourg to avoid double taxation. Accordingly, the results generated in 2004 until the date of the transfer of our foreign operations were exempt of taxation in Luxembourg in conformity with the tax legislation of that country. In 2005 those foreign operations were fully taxable and amounted to US\$51 million.

In 2005, we utilized US\$33 million of income tax credits (or 2% of the income before taxes), compared to US\$131 million for 2004 (13%).

It is impossible to predict the adjustments to the federal income tax and social contribution at statutory rates, as they depend on interest on stockholder's equity, non-taxable factors including income from offshore operations, and tax losses from offshore operations, especially when expressed as a percentage of income. Therefore, management cannot foresee the effective income tax rate in future periods.

Accruals for Disputed Taxes Payable

Our accruals for contingencies were estimated by our management and were substantially based on (i) known facts and circumstances, (ii) management's experience, and (iii) the opinions of its tax and legal advisors. We record accruals for contingencies for lawsuits classified as probable losses. Additionally, we have accrued amounts for (i) certain tax liabilities for which we are disputing payment with the applicable taxing authorities and (ii) certain tax liabilities for which we are asserting a right to use certain tax credits to offset such tax liabilities. These items are referred to as disputed taxes payable. We maintain full provisions for such tax liabilities since statutory obligations and tax legislation in force require us to pay the related taxes. Therefore, we do not believe that it is exposed to any significant losses above the amounts currently accrued for disputed taxes payable. We do not recognize unused credits. Accruals for contingencies, disputed taxes payable and the related legal deposits are updated at the interest rate charged by the Brazilian government (the SELIC rate) and inflation, when applicable.

We classify an accrual as short-term when we expect the liability to be settled in 360 days or less. This usually occurs when a final and unappealable and irrevocable judgment has been rendered and the legal processes are in the execution phase. However, given the complexity of the Brazilian legal system and the intricacies of some claims, it is impracticable for Brazilian companies to predict the time period in which final decisions will be reached for such claims. Consequently, these claims are classified as long-term liabilities.

A brief description of the major recent developments regarding our accruals for disputed taxes payable follows.

IPI Excise Tax Credit Accrual

We have accrued a liability for certain tax liabilities that were offset by IPI excise tax credits. The accrual is necessary to offset the contingent gain resulting from the use of IPI excise tax credits. The IPI excise tax credits are similar to value added tax credits related to the acquisition of goods used in the production process. Brazilian legislation prohibits companies from recognizing IPI excise tax credits on the acquisition of certain goods. We believe that this prohibition is unconstitutional since it is not consistent with general value added tax principles: We are challenging this prohibition in the Brazilian courts. In May 2003, we sought and obtained a favorable preliminary order from a Brazilian court authorizing us to compensate tax liabilities with IPI excise tax credits under dispute. We are awaiting the decision of a Brazilian court of first instance. After such a decision is rendered, we expect the decision will be subject to several stages of appellate review before a final unappealable judgment is obtained. The IPI excise tax credits. We have noted that several other Brazilian companies have challenged the same prohibition and these companies have received both favorable and unfavorable judgments at different stages of the judicial process. We have a reasonable expectation of success in the final resolution of this matter, though a final and unappealable decision may not be delivered for many years, due to the nature of the Brazilian legal system. It is unlikely that a final and unappealable decision would be delivered within the following year.

The US\$72 million increase in the IPI excise tax credit accrual (from US\$231 million in 2004 to US\$303 million in 2005) is due to the effects of the appreciation of the Brazilian *real* against the U.S. dollar in the amount of US\$31 million and the effects of the update at the SELIC interest rate in the amount of US\$41 million. This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

IPI Premium Tax Credit Accrual

We have accrued a liability for certain tax liabilities that were offset by IPI premium tax credits. The accrual is necessary to offset the contingent gain resulting from the use of IPI premium tax credits and represents the statutory obligation to pay taxes that were offset by these credits. The IPI premium tax credits relate to export sales made during 1992 to 2002. Tax legislation allowed Brazilian companies to recognize IPI premium tax credits until 1983, when an act of the executive branch of the Brazilian government cancelled such benefits and prohibited companies from recognizing these credits. We are challenging the constitutionality of the executive branch's action since only a law enacted by the Brazilian legislature can cancel or repeal benefits duly enacted by prior legislation. In March 2003, we sought and obtained a favorable decision from a Brazilian lower court that authorized the use of IPI premium tax credits. The Brazilian tax authorities appealed such decision, which appeal was denied by a Brazilian court of appeals. We expect that the Brazilian tax authorities will appeal such decision to a higher court, which would then render a final and unappealable judgment on the matter. The IPI premium tax credit accrual recorded by us represents the statutory obligation to pay taxes that were offset by these credits. We have noted that several other Brazilian companies have challenged the same prohibition. Recent decisions issued by higher courts indicate that companies may be entitled to utilize these credits. However, the Brazilian Supreme Court has not resolved this issue. We have a reasonable expectation of success in the final resolution of this matter, though a final and unappealable decision may not be delivered for many years, due to the nature of the Brazilian legal system. It is unlikely that a final and

unappealable decision would be delivered within the following year.

In 2005, the Company compensated federal taxes due with the IPI premium credit resulting in an increase of US\$313 million; accordingly, as of December 31, 2005, the IPI premium credit accrual representing the accumulated IPI tax credits used increased to US\$350 million (US\$37 million as of December 31, 2004), as updated at the SELIC interest rate. This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

PIS/COFINS Accrual

PIS and COFINS taxes are assessed on revenues. In 1998, new tax legislation was enacted that required Brazilian companies to pay PIS and COFINS taxes on revenues generated by financial investments. Prior to 1998, the Brazilian constitution dictated that Brazilian companies were only required to pay PIS and COFINS taxes on revenues generated by operating activities. We are challenging the constitutionality of the assessment of PIS and COFINS taxes on revenues generated by financial investments because, in order to expand the PIS and COFINS tax computation basis, the Brazilian legislature was required to observe a constitutionally mandated waiting period prior to enacting the legislation. In addition, at the time the new tax legislation was enacted, the Brazilian constitution did not allow such taxes to be assessed on revenues generated by financial investments. In February, 1999, we sought and obtained a favorable preliminary order that was confirmed by a lower court in March, 2000. In April, 2000, the Brazilian tax authorities appealed to a Brazilian court of appeals. On March 6, 2006, a Brazilian court of appeals issued a decision unfavorable to us. On March 10, 2006, we appealed such decision to both the Superior Court of Justice and the Supreme Court. Until these appeals are judged, our rights under the initial favorable decision are in effect. The PIS/COFINS accrual represents our statutory obligation to pay PIS/COFINS taxes due. In reviewing this matter, the Supreme Court has already positioned itself, by six votes against four, in favor of the Brazilian companies. We have a reasonable expectation of success in the final resolution of this matter, though a final and unappealable decision may not be delivered for many years, due to the nature of the Brazilian legal system.

The US\$27 million increase in the PIS/COFINS accrual (from US\$98 million in 2004 to US\$125 million in 2005) is mainly due to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the U.S. dollar. This provision, as well as a reversal of this provision, would affect the financial income (expense), net line-item of our income statement.

Income Tax and Social Contribution (Plano Verão) Accrual

Until 1995, Brazilian companies accounted for the effects of inflation in their financial statements and for fiscal purposes during periods of hyperinflation. During the period from January 1989 to February 1989, the Brazilian government required Brazilian companies to use an official inflation index that was lower than the actual inflation index measured by consumer price indexes. We brought an action in the Brazilian courts asserting the right to record inflation adjustments for fiscal purposes based on the difference between the rate imposed by the Brazilian government during this period and the actual inflation index measured by consumer price indexes. In February 2003, we obtained a favorable, final and unappealable court ruling to use an inflation index of 42%. We continued to challenge the remaining difference between the 42% and the actual inflation index measured by consumer price indexes. In September 2004, we received a favorable final and unappealable decision by which the right was granted to record a portion of the incremental inflation adjustments claimed. However, for the remaining portion of the incremental inflation adjustments, we received an unfavorable final and unappealable decision. The income tax and social contribution (Plano Verão) accrual represents our statutory obligation to pay income taxes on the taxable income relating to the incremental inflation adjustments that were not granted to us. The proceeding is currently under review by court-appointed accountants and we are waiting for the legal process to enter the execution phase in order to pay the remainder of the provision. It is unlikely that this matter will be concluded (which would require actual payment of the taxes represented by the accrual) within the following year.

The US\$3 million increase in the income tax and social contribution (*Plano Verão*) accrual (from US\$23 million in 2004 to US\$26 million in 2005) is mainly due to the appreciation of the Brazilian *real* against the U.S. dollar (this provision is not updated by the SELIC interest rate). This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

Income Tax and Social Contribution (Tax Loss Carryforwards) Accrual

Until 1994, Brazilian companies were entitled to offset 100% of taxable income against available tax loss carryforwards. In 1995, Brazilian tax law was changed to limit the offset to 30% of current year taxable income in any given year. In February 2003, the Brazilian tax authorities assessed us for the offsetting of tax loss carryforwards in excess of the 30% limit. In August 2003, the Brazilian courts rendered a decision that cancelled such tax assessment. In November 2003, the Brazilian tax authorities re-assessed us for the same claim. In March 2005, an administrative court issued a decision unfavorable to us. In March 2005, we appealed this decision to a higher administrative court and a favorable final and unappealable decision was received in April 2006 in relation to the credit used in 1999 and 2000. This accrual is recorded based on the statutory taxes that we would be required to pay had it only utilized tax loss carryforwards up to the 30% limit. Based on the above mentioned decision, we will reverse such accrual during 2006.

The US\$32 million increase in the income tax and social contribution (tax loss carryforwards) accrual (from US\$144 million in 2004 to US\$176 million in 2005) refers mainly to the appreciation of the Brazilian *reais* against the U.S. dollar and to the effects of the SELIC interest rate. This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

Social Contribution Tax on Export Revenues Accrual

Social contribution tax is similar to an income tax because it is assessed on net profits. In 2001, an amendment to the Brazilian constitution exempted Brazilian companies from the requirement to pay PIS and COFINS on revenues generated by exports. Since PIS and COFINS are considered to be social contribution taxes, certain Brazilian companies have asserted that social contribution tax on profits should also exclude export revenues from the calculation base. The Brazilian tax authorities, however, issued a ruling that mandates payment by Brazilian companies of social contribution taxes on profits, including revenues generated from exports. We are challenging the constitutionality of the assessment of social contribution taxes on profits generated by exports because the aforementioned ruling conflicts with the 2001 amendment to the Brazilian constitution. In March 2004, we sought and obtained a favorable preliminary decision which was ratified in May 2004 by a Brazilian lower court. In June 2004, the Brazilian tax authorities appealed this decision to a Brazilian court of appeals, but no trial date has yet been scheduled. Upon the appeal's conclusion, both parties will have an opportunity to appeal to either the Superior Court of Justice or the Supreme Court of Brazil. The social contribution tax on export revenues accrual represents the additional social contribution taxes owed on export revenues that were excluded from the calculation base. We have noted that other Brazilian companies with export revenues have received favorable preliminary decisions regarding similar legal challenges. We have a reasonable expectation of success in the final resolution of this matter, though a final and unappealable decision may not be delivered for many years, due to the nature of the Brazilian legal system. It is unlikely that a final and unappealable decision would be delivered within the following year.

The US\$119 million increase in the social contribution accrual (from US\$115 million in 2004 to US\$234 million in 2005) is related to the social contribution tax due on our income from export revenues and to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the U.S. dollar. This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

CPMF Accrual

CPMF tax is assessed on cash transactions, including movements of cash between bank accounts. CPMF taxes were created by a constitutional amendment enacted in 1999. We have challenged the legality of the constitutional amendment that created the CPMF tax and in spite of the fact that we obtained a favorable decision from a Brazilian lower court in August 1999, an unfavorable final and unappealable decision was rendered by the appropriate Brazilian court of appeals on June 1, 2006 and, according to it, the payment will occur until June 30, 2006. Our management is currently in the process of determining whether to pay the full amount due in one single installment or whether we will take advantage of the fact that Brazilian tax legislation allows us to pay the amount due in sixty monthly installments. If we decide to pay in installments, the remaining amounts will be adjusted overtime by the SELIC interest rate. In any event, the first or full payment must occur until June 30, 2006.

The US\$53 million increase in the CPMF accrual (from US\$105 million in 2004 to US\$158 million in 2005) is mainly due to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the US dollar. This provision, as well as a reversal of this provision, would affect the financial income (expense), net line-item of our income statement.

Equity in Results of Affiliated Companies

Equity results of affiliated companies were US\$47 million in 2005, compared to US\$51 million in 2004. MRS improved its performance, yielding US\$61 million in 2005 as compared to US\$46 million in 2004. This MRS's result was totally offset by deterioration of Lusosider's results, moving from a gain of US\$1 million in 2004 to a US\$10 million loss in 2005, by CFN's activities which in 2004 resulted in a US\$10 million loss and in 2005 this loss worsened to US\$12 million and by Ita's results, which recorded a US\$8 million gain in 2005, less than the US\$14 million gain reached in 2004.

2004 Compared to 2003

Operating Revenues

In 2004, sales volume decreased 10% to 4.7 million tons of finished products and slabs. This decrease was due to lower sales in the fourth quarter. High levels of inventories and weakness in demand in the U.S. and Europe adversely affected our exports. On the domestic front, sales were adversely affected by shipment difficulties in December caused by protracted negotiations over freight prices with our customers coinciding with their unavailability during the December holidays. Operating revenues were US\$3,903 million in 2004, a US\$983 million (or 34%) increase from operating revenues of US\$2,920 million in 2003. This increase was primarily due to higher prices (on average, steel prices charged by CSN increased 34% in 2004 compared to 2003) and to higher value added product mix (slabs represented 2% of sales volume in 2004 versus 8% in 2003, and galvanized products represented 26% of sales volume in 2004 versus 20% in 2003). Higher prices and value-added product mix more than offset the decline in volume.

In the domestic market, sales revenues increased 57% to US\$2,895 million in 2004, up from US\$1,843 million in 2003, reflecting an 8% increase in domestic steel sales volume and higher average steel prices (34% above 2003 average).

In the export market, sales revenues decreased 6% to US\$1,008 million in 2004, down from US\$1,077 million in 2003. The 39% increase in average prices contributed to keeping operating revenues from exports relatively stable in comparison to 2003, even though export volumes declined 36%. In addition to the adverse fourth quarter sales performance described above, exports declined due to a favorable domestic market in 2004, which caused us to direct a higher proportion of our product sales to the domestic market.

Net Operating Revenues

Net operating revenues were US\$3,084 million in the year ended 2004, a 21% increase from net operating revenues of US\$2,548 million in the year ended 2003. This increase was mainly due to higher average domestic and export prices, a higher value-added mix of products sold and a more favorable domestic market, factors that taken together more than offset the decline in total sales volume. Domestic sales volume as a percentage of total sales volume increased in 2004 to 70%, from 59% in 2003. During 2004, the percentage of sales revenues attributable to the domestic market increased because of higher prices, strong demand in the Brazilian market and the appreciation of the *real* against the U.S. dollar in the same period.

Sales taxes increased US\$413 million, from US\$322 million in 2003 to US\$735 million in 2004, due to higher domestic operating revenues (US\$1,843 million in 2003 and US\$2,895 million in 2004), and partly due to a change in the COFINS tax rate (from 3.0% to 7.6%) applicable to our revenues from sales of certain domestic products. As a percentage of domestic revenues, sales taxes increased from 18% to 25%. Discounts, returns and allowances increased US\$34 million, from US\$50 million in 2003 to US\$84 million in 2004, mainly due to higher operating revenues.

Gross Profit

Our cost of goods sold decreased US\$50 million to US\$1,407 million in 2004 from US\$1,457 million in 2003. The decrease in sales volume was the main reason behind the decline in the cost of products sold. It more than offset the higher production costs, which were driven by higher raw material prices. Our gross profit increased 54% to US\$1,677 million in the year ended 2004 from US\$1,091 million in the year ended 2003. The higher gross profit was primarily due to higher net operating revenues and lower cost of goods sold. As gross profit increased 54% and net operating revenues increased by 21%, our gross margin increased 26% (from 43% to 54%).

For further information on production costs, please see table in the 2004/2005 discussion.

Operating Income

In 2004, our operating income increased US\$676 million, or 99%, to US\$1,362 million from US\$686 million in 2003, reflecting mostly the increase in gross profit and lower selling and other operating expenses.

Selling expenses decreased by US\$20 million in 2004, mainly due to a US\$7 million reversal of the allowance for doubtful accounts and a negative US\$3 million translation adjustment, compared to a US\$15 million increase in the allowance for doubtful accounts and a negative US\$5 million translation adjustment in 2003. Freight costs increased slightly (from US\$101 million in 2003 to US\$104 million in 2004) as the increase in freight prices was offset by the decrease in sales volume. General and administrative expenses increased US\$13 million to US\$109 million in 2004 (from US\$96 million in 2003), mainly due to a US\$10 million increase in depreciation and amortization allocated to general costs (from US\$5 million in 2003 to US\$15 million in 2004).

Other operating expenses decreased by US\$83 million, from US\$133 million in 2003 to US\$50 million in 2004. In 2003, US\$59 million was provisioned for tax contingencies (related to claims about the effect on net income of understated inflation in the income tax and social contribution), but no reversals of accruals affected our operating

income in 2004. In 2003, US\$23 million was provisioned for losses (most of it related to compulsory loans to Eletrobras), versus a US\$2 million provision in 2004.

Non-operating Expenses (Income), Net As Restated (See Financial Statements note 26)

In 2004, our net non-operating expenses increased US\$138 million (or 61%) to US\$363 million, from US\$225 million in 2003, mainly due to decreased foreign exchange and monetary gain, which decreased from US\$325 million in 2003 to US\$153 million in 2004. Financial income (expenses), net increased by US\$54 million, from a loss of US\$564 million in 2003 to a loss of US\$510 million in 2004, and other non-financial, non-operating income (expenses), net decreased US\$20 million, from income of US\$14 million in 2003 to expenses of US\$6 million in 2004.

The decrease in foreign exchange and monetary gain between 2003 and 2004 was mainly due to the 8% appreciation of the *real* against the U.S. dollar in 2004, which was much less than the 18% appreciation of the *real* against the U.S. dollar in 2003. The foreign exchange and monetary gain (loss), net line-item is mainly impacted by the variation in the value of the *real* against the U.S. dollar and its effect on our dollar-indexed debt, on certain assets abroad and on trade accounts receivable.

We had interest expenses of US\$280 million in 2004 versus US\$246 million in 2003 as a result of higher average gross debt. As most of our foreign (non-Brazilian *real*-denominated) debt carries fixed interest rates, interest rate increases generally do not impact our interest expenses. In 2004, we pursued our strategy to increase the average maturity of our debt by accessing capital markets (issuing US\$562 million in new debt) and by borrowing directly from banks. Despite the increase in the average maturity of our debt, which can often increase the interest rates payable on debt (as the credit premium curve is quite steep for Brazilian companies), the average interest rate we obtained on our new debt was not significantly higher than the average interest rate on our old debt, mainly because the decrease in credit spreads and the relatively flat U.S. Treasury curve offset the effect of the increased average maturity of our debt.

We received US\$78 million of interest from our investments in 2004, versus US\$67 million in 2003, mainly due to our increased cash position and increased short-term interest rates in the U.S., as most of our offshore cash is invested in U.S. short-term securities.

The net results of our currency derivative transactions was a loss of US\$291 million in 2004 versus a loss of US\$408 million in 2003, mainly due to the 8% appreciation of the *real* against the U.S. dollar in 2004, which was much less than the 18% appreciation of the *real* in against the U.S. dollar in 2003. Our equity swap transactions yielded US\$88 million in 2003 and US\$57 million in 2004. Our total losses on derivative instruments in 2003 and 2004 were US\$320 million and US\$234 million, respectively, based on the results of our currency derivative transactions and our equity swap transactions.

Our equity swap transactions mainly are intended to enhance the return of our financial assets by adding exposure to equity securities that historically yield higher long-term returns than fixed-income assets, thereby reducing the impact of the cost of our long-term debt on our financial income and expenses.

Other financial income and expenses related to financial instruments and operations decreased from expenses of US\$65 million in 2003 to expenses of US\$74 million in 2004, mainly due to approximately US\$30 million of financial expenses incurred during Galvasud's acquisition, related to the repayment of its debt, including breakup costs. Taxes related to financial operations (including CPMF) are also recorded under this line-item.

Income Taxes

We recorded an income tax expense of US\$291 million in 2004, compared to an income tax expense of US\$64 million in 2003. The US\$227 million increase in income tax expense is mainly due to the following:

- A US\$183 million increase in our income tax expense due to higher taxable income in 2004;
- US\$61 million of nontaxable income in 2004 from operations outside of Brazil. We transferred part of our operations abroad to a country with an international agreement to avoid double-taxation and with local taxation rates that were lower than Brazilian taxation rates;
- No further reversals of our Plano Verão accrual for disputed taxes payable (down from US\$56 million of such reversals in 2003); and
- A US\$61 million decrease in tax credits, (from US\$72 million in 2003 to US\$11 million in 2004) related to our Plano Verão legal dispute.

We generate taxable income from our operations in Brazil and abroad, which are composed as follows:

	Year Ended December 31,		
	2003	2004	Changes
	<i>(In million of U.S. dollars)</i>		
Taxable income in Brazil	289	753	464
Foreign taxable income	108	-	(108)

Our taxable income in Brazil was mainly impacted by higher income from continuous operations in 2004 in the amount of US\$670 million as compared to 2003 and offset by approximately US\$154 million of higher compensation of tax loss carryforwards in 2004 as compared to 2003.

In December 2004, we transferred part of our foreign operations to Luxembourg and, as from that date those results became taxable in that country due to an agreement between Brazil and Luxembourg to avoid double taxation. Accordingly, the results generated in 2004 until the date of the transfer of our foreign operations were exempt of taxation in Luxembourg in conformity with the tax legislation of that country. In 2003 those foreign operations were located in tax haven but were fully taxable in Brazil.

In 2004, the Brazilian courts reached a final and unappealable ruling on our application of inflation indices to our figures, which is contingent upon execution by the Brazilian tax authorities.

Income taxes in Brazil comprise federal income tax and social contribution (which is an additional federal income tax). The statutory rates applicable for each of 2002, 2003 and 2004 are 25% for federal income tax and 9% for social contribution. The amounts reported as income tax expense in the financial statements are reconciled to the statutory rates as follows:

	Year Ended December 31,		
	2003	2004	Changes
	As Restated, see FS Note 26		
	520	999	479

Income (loss) before income taxes and equity in results of affiliated companies

Federal income tax and social contribution at statutory rates	(177)	(340)	(163)
Adjustments to derive effective tax rate			
Interest on stockholders' equity	29	31	2
Nontaxable income from operations outside Brazil	-	61	61
Reversal of disputed taxes payable, net	56	-	(56)
Tax Credit	72	11	(61)
Other permanent differences ⁽¹⁾	(44)	(54)	(10)
	(64)	(291)	(207)

Tax benefit (expense) per statements of income

⁽¹⁾ Other permanent differences refer to the foreign exchange variation over the net worth of our offshore subsidiaries, as this non-taxable item impacts our result in Brazilian GAAP.

It is impossible to predict the adjustments to the federal income tax and social contribution at statutory rates, as they depend on interest on stockholder's equity, non-taxable factors including income from offshore operations, and tax losses from offshore operations, especially when expressed as a percentage of income. Therefore, management cannot foresee the effective income tax rate in future periods.

Accruals for Disputed Taxes Payable

A brief description of the major recent developments regarding our accruals for disputed taxes payable follows:

IPI Excise Tax Credit Accrual

The US\$175 million increase in the IPI excise tax credit accrual (from US\$56 million in 2003 to US\$231 million in 2004) is mainly due to our continued use of IPI excise tax credits that are related to our purchases of certain goods during 2004. This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

IPI Premium Tax Credit Accrual

The US\$37 million increase in the IPI premium tax credit accrual is mainly due to our use of IPI premium tax credits that are related to our exports during previous years. This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

PIS/COFINS Accrual

The US\$20 million increase in the PIS/COFINS accrual (from US\$78 million in 2003 to US\$98 million in 2004) is mainly due to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the U.S. dollar. This provision, as well as a reversal of this provision, would affect the financial income (expense), net line-item of our income statement.

Income Tax and Social Contribution (Plano Verão) Accrual

The Company reversed \$56 million of this accrual in 2003 upon receipt of a favorable judicial decision received in February 2003. In addition, the Company recognized a \$72 million income tax credit in 2003 resulting from the impact of the favorable decision on the Company's net operating loss carryforwards. In sum, the total decrease in income tax expenses related to the favorable decision was \$128 million, of which \$32 million is reflected in 2002 and \$96 million is reflected in 2003.

The US\$2 million increase in the income tax and social contribution (*Plano Verão*) accrual (from US\$21 million in 2003 to US\$23 million in 2004) is mainly due to the appreciation of the Brazilian *real* against the U.S. dollar (this provision is not updated by the SELIC interest rate). This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

Income Tax and Social Contribution (Tax Loss Carryforwards) Accrual

The US\$1 million increase in the income tax and social contribution (tax loss carryforwards) accrual (from US\$143 million in 2003 to US\$144 million in 2004) is due to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the U.S. dollar, as offset by the reversal of US\$19 million related to the revision of the best estimate of this contingency in December 2004. This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

Social Contribution Tax on Export Revenues Accrual

The US\$115 million increase in the Social contribution accrual is related to the social contribution tax due on our income from export revenues. This provision affects the income tax expense line-item of our income statement, and a reversal of this provision would affect the income tax benefit and the financial income (expense), net line-items of our income statement.

CPMF Accrual

The US\$40 million increase in the CPMF accrual (from US\$65 million in 2003 to US\$105 million in 2004) is mainly due to the effects of the SELIC interest rate and the appreciation of the Brazilian *real* against the US dollar. This provision, as well as a reversal of this provision, would affect the financial income (expense), net line-item of our

income statement.

Equity in Results of Affiliated Companies

Our equity in results of affiliated companies was US\$51 million in 2004, up from US\$9 million in 2003. This increase is explained by improved equity results from MRS, whose contribution increased to US\$46 million in 2004, up from US\$13 million in 2003, reflecting substantially higher transport volumes (heavy haul and general cargo), and higher margins and improved equity results from ITASA, whose contribution increased from a loss of US\$1 million in 2003 to a gain of US\$14 million in 2004, reflecting adjusted energy prices.

B. Liquidity and Capital Resources

Overview

Our main uses of funds are for capital expenditures, repayment of debt and dividend payments. We have historically met these requirements by using cash generated from operating activities and through the issuance of short-term and long-term debt instruments. We expect to meet our cash needs for 2006 primarily through a combination of operating cash flow, cash and cash equivalents on hand and newly issued long-term debt instruments.

In addition, from time to time, we review acquisition and investment opportunities and will, if a suitable opportunity arises, make selected acquisitions and investments to implement our business strategy. We generally make investments directly or through subsidiaries, joint ventures or affiliated companies, and fund these investments through internally generated funds, the issuance of debt, or a combination of such methods.

Sources of Funds and Working Capital

Cash Flows

Cash and cash equivalents as of the end of 2003, 2004 and 2005 totaled US\$1,251 million, US\$970 million and US\$1,241 million respectively. Following is a summary of the principal changes in cash flows during the past three years:

- Cash flows generated from operations, which aggregated US\$580 million in 2003, US\$354 million in 2004 and US\$1,757 million in 2005, provides us with a significant source of liquidity. Cash flow from operating activities in 2005 was US\$1,403 million higher than in 2004, driven mainly by an unrealized loss on derivatives of US\$272 million in 2005 as opposed to an unrealized gain of US\$223 million in 2004, a decrease in inventories of US\$177 million in 2005 as compared to an increase of US\$493 million in 2004 and a decrease of US\$202 million in recoverable taxes in 2005 as compared to an increase of US\$129 million, which were partially offset by a decrease in taxes payable of US\$146 million in 2005 as opposed to an increase of US\$45 million in 2004. Cash flow from operating activities in 2004 was US\$226 million lower than in 2003 mainly due to an increase in inventories during 2004.
- Cash flows from investing activities was negative in 2003, 2004 and 2005. The negative cash flows from investing activities reflects our use of our cash to make capital expenditures and to make long-term investments in downstream opportunities (including acquisitions), new products and market niches, and infrastructure investments.
- Cash flow from financing activities decreased by US\$616 million to US\$996 million in 2005, mainly driven by higher distribution of dividends and interest on stockholders' equity of US\$961 million in 2005 as compared to US\$242 million in 2004, higher share buy back of US\$365 million in 2005 as opposed to US\$153 million in 2004 and higher repayment of debt of US\$870 million in 2005 as compared to US\$730

million in 200, which were offset by higher new debt issuance of US\$1,200 million in 2005 against US\$745 million in 2004.

Trade Accounts Receivable

The receivable turnover ratio (the ratio between trade accounts receivable and net operating revenues), expressed in days of sales, increased from 45 on December 31, 2004, to 53 on December 31, 2005, because international customers have a longer term to pay for the purchases of steel products and net operating revenues derived from exports increased its share from 32% in 2004 to 35% in 2005.

Inventory

The inventory turnover ratio (obtained by dividing inventories by annualized cost of goods sold), expressed in days of cost of goods sold, decreased from 212 on December 31, 2004, to 150 on December 31, 2005. This change mainly reflected decreasing inventories and prices of coke. In 2004, to protect ourselves from the upward trend of coke prices, we raised our inventories to a higher level. The decrease is explained by the reversal in this trend and consumption of the excess inventories throughout 2005.

Trade Accounts Payable

The accounts payable turnover ratio (obtained by dividing trade accounts payable by annualized cost of goods sold), expressed in days of cost of goods sold, increased to 85 on December 31, 2005 from 63 on December 31, 2004 as a consequence of CSN's strategy, adopted in September 2004, to finance its coal and coke purchases with suppliers. Our objective was to reclaim working capital invested in inventories.

Short-Term Debt and Short-Term Investments

Given the capital intensive and cyclical nature of our industrial segment, and the generally volatile economic environment in certain relevant emerging markets, we have retained a substantial amount of cash on hand to run our operations, to satisfy our financial obligations, and to be prepared for potential investment opportunities. As of December 31, 2005, cash and cash equivalent instruments equaled \$1,241 million.

We were also taking advantage of the then current liquidity conditions to extend the maturity profile of gross debt. Such activities are unrelated to the management of any interest rate, inflation and/or foreign exchange risk exposure. Given the lack of a liquid secondary market for our short-term debt instruments, we have accumulated cash instead of prepaying our debt prior to final maturity. As of December 31, 2005, short-term and long-term indebtedness accounted for 11% and 89%, respectively, of our total debt, and the average life of our existing debt was equivalent to 13 years, considering 40 years-term for the perpetual bonds issued in July 2005.

In 2005, we had capital expenditures of US\$290 million, primarily consisting of US\$86 million for projects relating to the Sepetiba Port expansion, US\$32 million for maintenance, US\$64 million for Casa de Pedra mine expansion, US\$7 million for ERSA's mine and US\$101 million to other several investments related to maintenance, spare parts and technological updates, among others.

In 2006, we plan to make capital expenditures of approximately US\$440 million, compared to US\$290 million in 2005, US\$178 million in 2004 and US\$210 million in 2003.

We expect to meet our liquidity requirements from cash generated from operations, and, if needed, the issuance of debt securities.

Company Debt

At December 31, 2004 and 2005, total debt (composed of current portion of long-term debt, accrued finance charges and long-term debt and debentures) aggregated US\$2,844 million and US\$3,365 million, respectively, equal to 214.5% and 313.3% of the stockholders' equity at December 31, 2004 and 2005,

respectively. At December 31, 2005, short-term debt (composed of current portion of long-term debt and accrued finance charges) totaled US\$423 million and long-term debt (composed of long-term debt and debentures) totaled US\$2,942 million. The foregoing amounts do not include debt of others for which we are contingently liable. See "Item 5.E. Off-balance Sheet Arrangements".

At December 31, 2005, approximately 12% of our debt was denominated in *reais* and substantially all of the remaining balance was denominated in U.S. dollars. Our current policy is to protect ourselves against foreign exchange losses on our foreign currency-denominated debt and currently approximately 100% of our exposure is protected through foreign exchange derivative products, U.S. dollar-denominated fixed income investments and equity investments in offshore subsidiaries. We continue to review our foreign exchange exposure policy and there are no assurances that we will maintain our current level of protection against such exposure. For a description of our derivative instruments, see Note 22 of our consolidated financial statements contained in "Item 18. Financial Statements". Also see "Non-operating Expenses (Income), Net" under "Item 5.A.2. Results of Operations 2005 Compared to 2004 and 2004 Compared to 2003".

The major components of US\$423 million of consolidated short-term loans and financing outstanding at December 31, 2005 were (amounts are reflected in current portion of long-term debt):

- US\$278 million in local debentures;
- US\$37 million of export pre-payments (out of which US\$29 million is part of export receivables securitization program that was refinanced in June 2005 through new senior notes);
- US\$17 million of raw materials and import financing;
- US\$19 million of loans from export credit agencies; and
- US\$69 million of accrued finance charges.

The major components of US\$2,942 million of consolidated long-term loans and financing outstanding at December 31, 2005 were (amounts are reflected in long-term debt):

- US\$122 million in local debentures;
- US\$611 million of export pre-payments (out of which US\$519 million is part of our export receivables securitization program);
- US\$98 million of raw materials and import financing;
- US\$1,303 million of Eurodollar notes; and
- US\$750 million in perpetual bonds.

The debentures are *real*-denominated debentures that were issued in December 2003: a US\$85.5 million tranche with a three-year maturity and bearing interest at 106.5% of *Certificado de Depósito Interbancário* CDI, the Brazilian interbank reference interest rate, a US\$136 million tranche with a three-year maturity and bearing interest at 107% of CDI, and a US\$85.5 million tranche with a five-year maturity, indexed to the *Índice Geral de Preços e Mercado* IGPM, a Brazilian price index, and bearing interest a 10% per annum coupon. In April 2006, we issued R\$600 million (approximately US\$284 million) of 6-year debentures bearing interest of 103.6% of CDI.

Eurodollar and Euro notes issued in accordance with Rule 144A and Regulation S under the Securities Act reflect senior unsecured debt instruments issued by the parent company and its offshore subsidiaries overtime, including the issuance in 2005 of US\$750 million, 9.5% per annum coupon perpetual notes, and the US\$200 million, 10% per annum coupon 2015 notes reopening. They also include a) the remaining US\$79 million outstanding amount of notes from an initial US\$600 million offering in June 1997, which mature in 2007 and bear interest at 9.125% per annum; b) the US\$275 million notes, 10.75% per annum coupon, issued in September and December 2003 with final maturity in 2008; c) the US\$550 million notes, 9.75% per annum coupon, issued in December 2003 and January 2004 with final maturity in 2013; and d) the US\$400 million notes, 10% per annum coupon, issued in September 2004 and January 2005 with final maturity in 2015.

Pre-export agreements include the four series of the export receivables securitization program launched in June 2003 as well as other trade related transactions outside of the program. The first series, issued in June 2003 in the amount of US\$142 million, has a seven-year maturity and bears interest at 7.28% per annum, with a two-year grace period for the principal. The second series, issued in August 2003 in the amount of US\$125 million, has a three-years maturity and bears interest at Libor plus 1.55% per annum. The third series, issued in June 2004 in the amount of US\$162 million, has an eight-year maturity and bears interest at 7.427% per annum with a three-year grace period. In May 2005, a fourth series was issued in the amount of US\$250 million having a 10-years maturity and bearing interest at 6.148% per annum with a three-year grace period. A portion of the proceeds of the fourth series was used to repay the second series.

The table below sets forth funds raised by the our subsidiaries in the year ended on December 31, 2005.

Subsidiary	Description	Principal Amount (in US\$ millions)	Interest Rate (p.a)	Issue Date	Maturity
CSN Islands IX	Notes	200	10%	Jan 2005	Jan 2015
CSN Export	Securitization	250	6.148%	Jun 2005	May 2015
CSN Islands X	Perpetual securities	750	9.5%	Jul 2005	Indeterminate
Total		\$1,200			

Maturity Profile

The following table sets forth the maturity profile of our long-term debt at December 31, 2005:

<u>Maturity in</u>	<u>Principal Amount</u> (In millions of US\$)
2007	172
2008	502
2009	138
2010	112
2011	91
2012 and thereafter	1,177
Perpetual securities	750
Total	2,942

The foregoing amounts do not include debt of others which we have guaranteed. See "Item 5.E. Off-balance Sheet Arrangements".

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

See "Item 4.B.9. Research and Development".

D. Trend Information

Other than discussed below, there are no recent significant developments that were not fully reflected in our results of operations for 2005 or in our financial position as of December 31, 2005 and that could impact our future results of operations and financial position. No significant and unexpected changes in the currency rate, in interest rates and/or in inflation rates have happened.

On January 22, 2006 an accident occurred in one of our blast furnaces, and as a result operations of the blast furnace were interrupted. This affected our production and required that we purchase an inventory of steel slabs. The accident adversely affected our first quarter results of operations and is likely to have an impact on our results of operations for the year ending December 31, 2006. We hold an insurance policy for business interruption and damages to equipment in the amount of US\$750 million and, although the final size of the claim is not yet settled, we believe it will be sufficient to cover the losses arising from this event. Additionally, our insurance and reinsurance companies have confirmed coverage with respect to the incident. See note 25 to our Financial Statements.

There have been press reports discussing the possibility of some form of spin-off or IPO of our interests in our *Casa de Pedra* mine. As of the date of this annual report, we have made no decision as to whether to take any such actions.

E. Off-balance Sheet Arrangements

In addition to the debt that is reflected on our balance sheet, we are contingently liable for the off-balance lease payments related to activities of MRS, CFN and TECON. The following table summarizes all of the off-balance obligations for which we are contingently liable and which are not reflected in the liabilities in our consolidated financial statements:

CONTINGENT LIABILITY WITH RESPECT TO NON-CONSOLIDATED ENTITIES AS OF DECEMBER 31, 2005

	Aggregate Amount	Maturity
	<i>(In millions of US\$)</i>	
Guarantees of Debt:		
TECON	17	2012
CFN	10	2009
CFN	56	Undetermined
TOTAL	83	
Contingent Liability for Concession Payments:⁽¹⁾		
MRS	1,336	2026
CFN	26	2026
TECON	61	2026
TOTAL	1,423	

(1) Other consortia members are also jointly and several liable for these payments.

CFN

We guarantee, together with Taquari (which also owns 50% of CFN), the loans BNDES has granted to CFN. The total outstanding amount of the debt is US\$48.6 million.

MRS's Concession Obligations

We assigned as negligible the likelihood of being responsible for the concession obligations of MRS because (i) MRS currently transports approximately 108 million tons of products (mainly steel, iron ore, coal and coke), and the average annual growth rate of the cargo transported by MRS over the last five years was approximately 10%, (ii) MRS is expected to continue to report operating revenues, EBITDA and EBITDA margin above approximately \$500, \$200 million and 40%, respectively, in the following years, and (iii) MRS will benefit from recently

announced mining projects which are expected to support a 10% annual increase of cargo transported over the next five years.

In addition to the very positive business outlook, MRS has a tariff model which aids MRS's financial sustainability by determining ideal tariffs to be practiced for its transportation services of captive cargo (which is cargo that cannot be transported in any way other than through MRS's rail). This tariff model provides that costs incurred by MRS with respect to captive cargo, including operational, fixed and variable costs, costs of remunerating MRS's own and third-party capital, concession costs, and leasing and investment costs aimed at maintaining the productive capacity of leased assets, are duly covered by the calculated tariffs. Clients that transport captive cargo account for roughly 69% of MRS's overall volume.

The tariff model also aids MRS's financial sustainability by defending MRS's margin as costs rise. Tariffs are fixed annually for clients that transport captive cargo based on MRS's budget for the relevant year. Tariffs are fixed for clients that transport cargo that is not captive through negotiated agreements with MRS.

F. Tabular Disclosure of Contractual Obligations

The following table represents our long-term contractual obligations as of December 31, 2005:

Contractual obligations	Total	Payment due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
		<i>(In millions of US\$)</i>			
Long-term accrued finance charges ⁽¹⁾	1,616	314	515	371	416
Pension plan	595	52	108	116	319
Long-term debt	2,942		812	203	1,927
Purchases:	1,754	783	268	170	534
Raw materials ⁽²⁾	524	524	0	0	0
Maintenance ⁽³⁾	84	72	13	0	0
Utilities/Fuel ⁽⁴⁾	1,145	186	255	170	534
Total	6,907	1,149	1,703	860	3,196

- (1) These accrued finance charges refer to the cash outflow related to the contractual interest expense of our long-term debt and were calculated using the contractual interest rates taken forward to the maturity dates of each contract.
- (2) Refer mainly to purchases of coal, tin, aluminum and zinc, which comprise part of the raw materials for steel manufacturing. The use of these raw materials has a fast turnover and, consequently, the purchases fall within the short-term.
- (3) We have outstanding contracts with several expert contractors in order to maintain our plants in good operation conditions; due to the strong demand for specialized maintenance service, we engage hold certain contracts for more than one year.
- (4) Refer mainly to natural gas, power supply and cryogenics, which are provided by limited suppliers; with some of these suppliers we maintain long-term contracts.

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management**

We are managed by our Board of Directors (*Conselho de Administração*), which consists of seven to eleven members, and our Board of Executive Officers (*Diretoria Executiva*), which consists of two to nine executive officers with no specific designation (one of which is the Chief Executive Officer). In accordance with our *Estatuto Social* (the "By-laws"), each Director is elected for a term of one year by our stockholders at a stockholders' meeting. Our By-laws require our 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.

Our Board of Executive Officers is responsible for the formulation of business plans and policies and for the implementation of specific operating decisions. Currently, our Board of Executive Officers has consisted of our Chief Executive Officer and the Executive Officers of Production and Infrastructure/Energy sectors.

Our Directors and Executive Officers are as follows.

Name	Position
<i>Board of Directors</i>	
Benjamin Steinbruch	Chairman
Jacks Rabinovich	Vice Chairman
Mauro Molchansky	Member
Fernando Perrone	Member
Dionísio Dias Carneiro Netto	Member
Antonio Francisco dos Santos	Member
Darc Antonio da Luz Costa	Member
Yoshiaki Nakano	Member
<i>Board of Executive Officers</i>	
Benjamin Steinbruch	Chief Executive Officer and Acting Chief Financial Officer
Enéas Garcia Diniz	Executive Officer
Marcos Marinho Lutz	Executive Officer
Pedro Felipe Borges Neto	Executive Officer
Isaac Popoutchi	Executive Officer
Juliano de Oliveira	Executive Officer

1. Board of Directors

Benjamin Steinbruch. Mr. Steinbruch was born on June 28, 1953 and has been Chairman of our Board of Directors since April 28, 1995, Chief Executive Officer since April 30, 2002, and acting Chief Financial Officer since April, 30, 2003. Mr. Steinbruch is also Superintendent Officer of Vicunha Siderurgia.

Jacks Rabinovich. Mr. Rabinovich was born on September 20, 1929 and has been a Member of our Board of Directors since April 23, 1993 and Vice Chairman since April 24, 2001. He is also Chief Executive Officer of Vicunha Siderurgia.

Mauro Molchansky. Mr. Molchansky was born on September 11, 1950 and has been a Member of our Board of Directors since April 24, 2001. He was Executive Officer of *Globo Comunicações e Participações S.A.* Globopar from August 1994 to March 2002. Before joining *Globo Comunicações e Participações S.A.* -Globopar in 1994, he was Financial Officer and Investor Relations Officer of *Aracruz Celulose S.A.*

Fernando Perrone. Mr. Perrone was born on May 6, 1947 and elected a Member of our Board of Directors on September 26, 2002. He was our Infrastructure and Energy Executive Officer from July 10, 2002 to October 2, 2002.

Previously, Mr. Perrone occupied the position of Chief Executive Officer of *Empresa Brasileira de Infra-Estrutura Aeroportuária* INFRAERO and was an officer of BNDES.

Dionísio Dias Carneiro Netto. Mr. Carneiro Netto was born on September 23, 1945 and elected a Member of our Board of Directors on April 30, 2002. He is a Professor at Pontifícia Universidade Católica do Rio de Janeiro.

Antonio Francisco dos Santos. Mr. Santos was born on December 6, 1950 and has been a Member of our Board of Directors since November 25, 1997. Since 1972, Mr. Santos has served internally in various positions of responsibility, including Coordinator of Industrial Engineering, Chief of Industrial Engineering, and Chief of Production Planning. He is currently Chairman and Chief Executive Officer of the Board of the *Clube de Investimento CSN* ("CSN Employee Investment Club") and a member of the Board of Directors of CBS.

Darc Antonio da Luz Costa. Mr. Costa was born on March 22, 1948 and has been a Member of our Board of Directors since April 29, 2004. Since 1975, Mr. Costa has worked for the *Banco Nacional de Desenvolvimento Econômico e Social* BNDES. He was Vice-President of BNDES until November 2004.

Yoshiaki Nakano. Mr. Nakano was born on August 30, 1944 and has been a Member of our Board of Directors since April 29, 2004. From 1995 to 2001 Mr. Nakano was Treasury Secretary of the State of São Paulo. Since 2001, he has been Chief of the Economics Department at *Fundação Getúlio Vargas* FGV/SP.

2. Board of Executive Officers

In addition to Mr. Steinbruch, the Board of Executive Officers consists of the following:

Marcos Marinho Lutz. Mr. Lutz was born on December 30, 1969 and originally elected Infrastructure & Energy Executive Officer in June 24, 2003. Prior to joining CSN, Mr. Lutz served as Superintendent Officer at *Ultracargo S.A.*, a logistics arm of *Grupo Ultra*.

Enéas Garcia Diniz. Mr. Diniz was born on January 1, 1960 and originally elected Production Executive Office in June 21, 2005. He has been serving the company since 1985, acting as General Manager of Hot Rolling, General Manager of Maintenance, Metallurgy Director and General Director of Usina Presidente Vargas.

Pedro Felipe Borges Neto. Mr. Borges Neto was born on September 27, 1951, and originally elected Institutional Executive Officer in September 20, 2005. Prior to joining CSN, Mr. Borges Neto served as Superintendent Officer, Vice-President and Chief Executive Officer at *Vicunha Têxtil*. He is currently a member of the Board of Directors of both *Companhias Gás do Ceará* e *Companhia Ferroviária do Nordeste-CFN*.

Isaac Popoutchi. Mr. Popoutchi was born on August 21, 1949, and elected Executive Officer in March 27, 2006. Prior to joining CSN, Mr. Popoutchi served as Chief Executive Officer of *Coimex Trading*, of *Rede Ferroviária Federal* and of *CBTU Companhia Brasileira de Trens Urbanos*.

Juliano de Oliveira. Mr. Oliveira was born on January 28, 1955, and elected Executive Officer in March 27, 2006. Prior to joining CSN, Mr. Oliveira served as Chief Executive Officer of *Loma Negra Cimentos C.I.A.S.A.*, in Argentina, Superintendent Officer of *Camargo Corrêa Cimentos S.A.*, officer of the business unit of *Aços Villares S.A.* - from Villares/Sidenor group.

The address for all of the directors and executive officers is Av. Brigadeiro Faria Lima, 3400, 20º Andar, Itaim Bibi, São Paulo, São Paulo State, Brasil (telephone number 55-11-3049-7591).

3. Fiscal Committee and Audit Committee

Under Brazilian Corporate Law, shareholders may request the appointment of a *Conselho Fiscal* (a "Fiscal Committee"), a corporate body independent of management and our external auditors. The primary responsibility

of the Fiscal Committee is to review management's activities and the financial statements, and report its findings to the shareholders. The shareholders did not install a Fiscal Committee at the General Shareholders Meeting held in April 2006.

In June 2005 a Comitê de Auditoria (an "Audit Committee") was appointed, in compliance with SEC's rules and, as required, it is composed of three independent members of our Board of Directors.

The Audit Committee is responsible for recommending the appointment of the independent auditors to the Board of Directors; reporting on the policies and our annual auditing plan submitted by the employee responsible for internal auditing and, on its execution, monitoring and evaluating the results and activities of the external auditors, and identifying, prioritizing, and submitting actions to be implemented by the executive officers; and analyzing the annual report, as well as our financial statements and making recommendations to the Board of Directors.

The Audit Committee is currently composed of Messrs. Perrone, Carneiro Netto and Nakano.

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 our By-laws. Officers are generally not individually liable for acts within the course of their duties. We either indemnify, or maintain directors and officers liability insurance insuring our Directors, our Chief Executive Officer, our Executive Officers and certain key employees against liabilities incurred in connection with their positions with us.

B. Compensation

For the year ended December 31, 2005, the aggregate compensation paid by the company to all members of our Board of Directors and the members of our Board of Executive Officers for services in all capacities was approximately US\$6 million. In addition, the members of the Board of Directors and of the Board of Executive Officers may receive certain additional company benefits generally provided to company employees and their families, such as medical assistance, pension fund and life insurance among others.

C. Board Practices

Comparison of New York Stock Exchange Corporate Governance Rules and Our Corporate Governance Practice

On November 3, 2004, the New York Stock Exchange ("NYSE") established new corporate governance rules for listed companies. Under the new rules, as a NYSE-listed foreign private issuer, we must disclose any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. As a Brazilian company listed on the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*

BOVESPA), we are obliged to comply with the corporate governance standards set forth in Corporate Law nº6,404 of December 15, 1976, as amended (Brazilian Corporate Law) and the rules of CVM. The following is a summary of those differences.

Independent Directors

Under NYSE standards, a listed U.S. company must have a majority of independent directors. We are not required to have a majority of independent directors under the NYSE standards. Both the Brazilian Corporate Law and CVM have established rules in relation to certain qualification requirements and restrictions, investiture,

compensation, duties and responsibilities applicable to our executives and directors. We believe these rules provide adequate assurance that our directors are independent; however, they do not require us to have a majority of independent directors as it is required by the NYSE. Notwithstanding these differences, we believe that four of

our eight directors are independent under the SEC's audit committee independence provisions, which are the provisions applicable to us under the NYSE list standards. Waiting Isabel-CC to send certificates to Piedade

Executive Sessions

Pursuant to NYSE listing standards, the non-management directors of a listed U.S. company must meet at regularly scheduled executive sessions without management present. According to the Brazilian Corporate Law, up to one third of the members of the Board of Directors are permitted to be directors who do not meet the NYSE's definition of non-management directors. Our non-management directors do not meet at regularly scheduled executive sessions without management.

Nominating/Corporate Governance Committee

U.S. companies listed on the NYSE are required to have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. We do not have a nominating/corporate governance committee. We are not required under the Brazilian Corporate Law to have, and currently we do not have, a nominating and a corporate governance committee.

Compensation Committee

NYSE listing standards require U.S. companies to have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. We do not have a compensation committee and, in our case, our directors, pursuant to our By-laws, are elected by our shareholders at a general shareholders meeting which also sets their global compensation, which is based on criteria established by our board of directors.

Audit Committee

Pursuant to NYSE listing standards, a listed company must have an audit committee composed of a minimum of three independent directors that satisfy the independence requirements of Rule 10A-3 under the Exchange Act, with a written charter that covers certain minimum specified duties. We believe our audit committee members to be independent. We installed the Audit Committee in June 2005. See "Item 6.A.3. Fiscal Committee and Audit Committee".

Ethics Committee

The Ethics Committee is responsible for recommending improvements to our Code of Ethics and our management in order to avoid conflicts of interests between us and our shareholders and managers. It is also responsible for making an evaluation of such non-compliance to the Code of Ethics, as well as to solve any doubts related to it.

Code of Business Conduct and Ethics

NYSE listing standards require U.S. companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers to the code for directors or executive officers. We have adopted such a code of ethics for all our employees, including our executive officers and directors. See "Item 16.B. Code of Ethics". Under the SEC's requirements, we are required to disclose any waivers to this code of conduct that we make for our principal executive officer, our principal financial officer or our principal accounting officer.

Shareholder Approval of Equity Compensation Plans

According to NYSE listing standards, shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules. We do not currently have such a plan, but pursuant to Brazilian Corporate Law, our Board of Directors could adopt one without the pre-approval of shareholders. However, shareholder pre-approval would be required to adopt an equity compensation plan where an increase in our authorized capital would be necessary to implement the plan.

Corporate Governance Guidelines

Under NYSE listing standards, a listed U.S. company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We have the following formal guidelines relating to corporate governance matters, either based on Brazilian legislation and/or set forth in our Code of Ethics and Institutional Handbook:

- trading policies for securities issued;
- disclosure of material facts;
- disclosure of annual Financial Reports;
- confidential and insider information policies and procedures;
- Sarbanes-Oxley Disclosure Committee's duties and activities; and
- code of business conduct and ethics.

Certification Requirements

Pursuant to NYSE listing standards, the Chief Executive Officer of a listed U.S. company must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. However, our Chief Executive Officer is required to promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any provisions of the NYSE corporate governance rules applicable to us.

Directors and Executive Officers Terms of Office

See "Item 6.A. Directors and Senior Management".

D. Employees

See "Item 4.B.11. Employees and Labor Matters".

E. Share Ownership

Other than the common shares that Messrs. Steinbruch may be deemed to own as a result of his interests in Vicunha Siderurgia and 495,416 shares (0.19% of the outstanding common shares) owned directly by Mr. Steinbruch as of May 31, 2006, our directors and officers as a group own less than 0.10% of our outstanding common shares.

Item 7. Major Shareholders and Related Party Transactions**A. Major Shareholders**

The following table sets forth, as of May 31, 2006, the number of our common shares owned by all persons known to us to own more than 5% of our outstanding common shares as of such date:

Name of Person or Group	Common Shares	
	Shares Owned	Percent of Total
	<i>(in thousands)</i>	
Vicunha Siderurgia S.A. ⁽¹⁾	116,286,665	42.74%
BNDESPAR ⁽²⁾	17,085,986	6.28%

(1) Owned indirectly by Benjamin Steinbruch, Chairman of the Board of Directors of the company, and members of his family. Does not include the outstanding shares that are described under "Item 6.E. Share Ownership", which are beneficially owned by Benjamin Steinbruch.

(2) In April, 2005, BNDESPAR increased the stake in our company from 1,023,597 to 18,085,295 shares (equivalent to 6.30% of total capital as of this date), as a result of the exchange of the debentures of Vicunha Siderurgia S.A. for shares which were owned by Vicunha Siderurgia S.A., according to the terms and conditions of Debentures of Vicunha Siderurgia S.A. After such transaction, Vicunha Siderurgia's stake of the company capital decreased from 46.48% to 40.53% (considering capital as of the date of transaction).

B. Related Party Transactions

From time to time we conduct transactions with companies directly or indirectly owned by our principal shareholders or members of our Board of Directors. 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". During 2004 and 2005, we used *Banco Fibra*, or Fibra, a bank controlled by the Steinbruch family, in connection with the management of our exclusive investment funds under circumstances where we are not exposed to Fibra's credit risk and where we pay investment fees not in excess of such fees we would expect to pay an unaffiliated bank for such services. As of December 31, 2005, we had roughly US\$187 million of our investments under our exclusive funds managed by Fibra. In addition, in 2003 and in 2004, Fibra was a counterpart in some of our foreign currency swap arrangements. The terms of the transactions with Fibra were substantially the same as the terms of similar transactions with unaffiliated parties. See also Note 21 to our consolidated financial statements contained in "Item 18. Financial Statements".

Item 8. Financial Information**A. Consolidated Statements and Other Financial Information**

See "Item 18. Financial Statements" for our consolidated financial statements.

Legal Proceedings

We are party to a number of legal actions arising from our normal business activities including tax, civil, and labor legal actions, none of which is required to be disclosed under this Item. For a discussion of certain other pending legal matters to which we are a party, see "Item 4.B.10. Government Regulation and Other Legal Matters". As of December 31, 2005, we had aggregate provisions of US\$1,464 million provision relating to certain tax and other civil lawsuits and claims (including labor matters), for which we had deposited US\$283 million in judicial escrow accounts. See Note 18 of our consolidated financial statements contained in Item 18 of this Annual Report.

Dividend Policy

Subject to certain exceptions set forth in the Brazilian Corporate Law, our By-laws require that we 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 our results of operations, financial condition, cash requirements for our business, future prospects and other factors deemed relevant by the Board of Directors. Until December 2000, it had been our policy to pay dividends on our outstanding common shares not less than the amount of our 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 our 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) our business strategy; (ii) the performance of our obligations; (iii) the accomplishment of our required investments, and (iv) the maintenance of our good financial status. See "Item 5.B. Liquidity and Capital Resources Vicunha Debt" for a discussion of financial ratios that Vicunha Siderurgia is required to cause us to maintain.

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 these payments as an expense for Brazilian income tax purposes. These payments may be counted in determining if the statutory minimum dividend requirement has been met, subject to shareholder approval.

For dividends declared during the past five years, see "Item 3.A. Selected Financial Data". On April 28, 2006, at our annual stockholders' meeting, we declared a dividend and interest on stockholders' equity for 2005 of US\$188 million, paid on May 08, 2006. This amount and the US\$430 million of dividends previously paid to stockholders on February 09, 2006, resulting in an aggregate payment of US\$618 million or US\$2.40 per share. Additionally, on June 23, 2006, our Board of Directors approved the payment of US\$185 million on dividends to be paid on June 30, 2006 (translated into U.S. dollars using Commercial Market Rate on the respective payment dates).

For a discussion of statutory provisions relating to our ability to pay dividends, see "Item 10.B Memorandum and Articles of Association Description of the Common Shares Calculation of Distributable Amount".

B. Significant Changes

See "Item 5.D - Operating and Financial Review and Prospects - Trend Information".

Item 9. The Offer and Listing**A.4. Price History**

and

C. Markets

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

Our capital stock is comprised of ações ordinárias, without par value (the "common shares"). The principal trading market for our common shares is the São Paulo Stock Exchange. Our American Depository Shares trade on the NYSE under the symbol "SID".

As of December 31, 2005, approximately 49.2 million, or approximately 18.1%, of our outstanding common shares were held through ADSs. Substantially all of these ADSs were held of record by The Depository Trust Company. In addition, our records indicate that on that date there were approximately 110 record holders (other than our ADR Depository) with addresses in the U.S. holding an aggregate of approximately 26.3 million common shares, which were equivalent to 10.2% of our outstanding common shares.

The following table sets forth information concerning the high and low closing sale prices and the average daily trading volume of our common shares on the São Paulo Stock Exchange (per Common Share) and the ADSs on the NYSE for the periods indicated.

	Common Shares ⁽¹⁾			American Depository Shares ⁽¹⁾		
	US\$ per Share ⁽²⁾		Volume	US\$ per ADS		Volume
	High	Low	(In thousands)	High	Low	(In thousands)
Previous Five Years:						
2001	5.32	2.30	422	9.30	2.28	177
2002	5.22	1.96	767	5.23	1.94	420
2003	13.80	3.66	919	13.80	3.62	554
2004	19.13	9.64	835	19.12	9.50	654
2005	26.31	15.01	959	26.30	15.15	852
Previous Six Months:						
December 2005	22.34	20.22	847	22.34	20.24	580
2006:						
January	29.35	20.96	1,050	29.00	21.58	1,145
February	31.40	26.11	955	30.80	26.08	1,141
March	31.32	28.21	718	31.55	28.30	955
April	36.17	31.75	740	35.80	31.67	958

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May	37.24	27.21	887	37.38	27.18	1,336
Previous Quarters:						
2004:						
First	18.18	13.39	890	18.04	13.43	798
Second	17.77	9.64	961	17.80	9.50	913
Third	15.84	12.21	687	15.65	12.17	397
Fourth	19.13	13.74	808	19.12	13.73	516
2005:						
First	26.31	16.79	971	26.30	16.95	910

Second	24.25	16.07	1,090	24.35	16.00	842
Third	23.42	15.01	883	23.46	15.15	848
Fourth	23.06	17.71	894	23.15	17.47	818
2006:						
First	31.40	20.96	899	31.55	21.58	1,073

(1) Common Share and ADS price and volume amounts have been adjusted to reflect the split and regrouping of our shares and the split of our ADSs.

(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. These U.S. dollar amounts may reflect exchange rate fluctuations and may not correspond to changes in nominal *reais* prices over time.

Source: Bloomberg.

On May 31, 2006, the closing sale price per (i) common share on the São Paulo Stock Exchange was US\$29.65 and (ii) ADS on the NYSE was US\$29.68.

Trading on the Brazilian Stock Exchanges

Since April 28, 2000, BOVESPA has been Brazil's only stock exchange.

The São Paulo Stock Exchange is 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*, or CATS. There are no specialists or market makers for our shares on the São Paulo Stock Exchange. The 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 this type of trading is very unusual.

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, *Companhia Brasileira de Liquidação e Custódia* - CBLC. 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, 2005, the aggregate market capitalization of the 428 companies listed on the São Paulo Stock Exchange was equivalent to approximately US\$482 billion, and the five largest companies represented approximately 40% 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, 2005, we accounted for approximately 1.2% 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, 2005, it is relatively small and illiquid compared to major world markets. In 2005, the average daily trading value on the São Paulo Stock Exchange was approximately US\$568 million. In 2005, the five most actively traded equity issues represented approximately 34% 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 our common shares and ADSs. For example, the Brazilian securities markets were adversely affected by the devaluation of the *real* at the beginning of 1999 and the Argentine and Turkish crises in 2001 and 2002.

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

	IBOVESPA Index		
	High	Low	Close
2002	14,471	8,370	11,268
2003	22,236	9,994	22,236
2004	26,196	17,604	26,196
2005	33,629	23,610	33,456
2006 (1st Quarter)	39,240	33,507	37,952

The IBOVESPA index closed at 36,530 on May 31, 2006.

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 us, 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 if the company requests and obtains the same suspension for trading on any international stock exchange. 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**

We are registered under number 15,910 in the Department of Trade Registration (Article 1 of our By-Laws). Our purpose is "the manufacture, transformation, marketing, including import and export of steel products and by-products derived from steel manufacturing, as well as exploring any other related or similar activities, which are directly or indirectly related to our purposes, such as: mining, cement and carbochemical businesses, manufacture and assembly of metallic structures, construction, transportation, navigation and port activities" (Article 2 of our By-Laws).

Directors' Powers

A description of the general duties and powers of our 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 our interests. Our stockholders must approve the total compensation of our management. The Board of Directors is responsible for allocating individual amounts of management compensation. There is no mandatory retirement age for our 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 our authorized and issued capital stock, together with a brief summary of certain significant provisions of our By-laws and Brazilian Corporate Law affecting us. For further information concerning our By-laws, please see our By-laws, an English translation of which has been filed as an exhibit to this Annual Report.

Capital Stock

Our share capital is comprised of common shares, all without par value. Our issued capital stock is comprised of 272,067,946 common shares, of which 13,885,900 were held in treasury on December 31, 2005. Our total authorized capital stock is limited to 400,000,000 shares. There are currently no classes or series of preferred shares issued or outstanding. The limit on our authorized capital stock may be increased only by an amendment of our By-laws, through the vote of the holders of our common shares at a stockholders' meeting. Our Board of Directors may authorize the issuance of shares within the limit on the authorized capital stock without the necessity of additional stockholder action. We may purchase our own shares for purposes of cancellation or maintenance in the treasury subject to certain limits and conditions established by the CVM and the Brazilian Corporate Law. See "Item 16. E Purchases of Equity Securities".

Calculation of Distributable Amount

At each annual stockholders' meeting, the Board of Directors is required to recommend how our 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 any one 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 that fiscal year. In accordance with the Brazilian Corporate Law, an amount equal to our "net profits", as further:

(i) increased by the amount of depreciation and amortization (net of income tax and social contribution) attributable to the revaluation of any assets,

(ii) reduced by amounts allocated to the legal reserve,

(iii) reduced by amounts allocated to other reserves established by us in compliance with applicable law (as hereinafter discussed), and

(iv) increased by reversal of reserves accrued in prior years,

will be available for distribution to stockholders in any particular year. We refer to this amount available for distribution to stockholders as the Distributable Amount.

Legal Reserve. Under the Brazilian Corporate Law, we are required to maintain a "legal reserve" to which we must allocate 5% of our "net profits" for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. The legal reserve might be used to increase our paid-in capital and 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. Our By-laws do not provide for a discretionary reserve.

Contingency Reserve. Under the Brazilian Corporate Law, a portion of our "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 reasons for its establishment cease to exist or (ii) charged off in the event that the anticipated loss occurs.

Reserve for Investment Projects. Under the Brazilian Corporate Law, a portion of our 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 investment projects, we must retain the appropriation until the stockholders, at a stockholders' meeting, vote on a new destination to the amount appropriated or on transferring all or a portion thereof to capital or retained earnings.

Unrealized Income Reserve. Under the Brazilian Corporate Law, the amount by which the Mandatory Dividend (defined below) exceeds the "realized portion" of net profits for any particular year may be allocated to the unrealized income reserve. The "realized portion" of net profits is the amount by which "net profits" exceeds the sum of (i) a company's positive net results considering its subsidiaries and certain affiliates, and (ii) the profits, gains or return recognized in respect of transactions maturing after the end of a 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 used to increase our capital stock, for the payment of dividends in subsequent years, charged off in the event of losses, or used to any other destination. 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 our allocations to reserves and dividends will be reflected in the financial statements, investors will not be able to calculate the allocations or required dividend amounts from the consolidated financial statements.

Mandatory Dividend

Under our By-laws, we are 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 that year). See "Additional Payments on Stockholders' Equity" below. In addition to the Mandatory Dividend, the Board of Directors may recommend that stockholders receive an additional 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 our financial condition, the Mandatory Dividend need not be paid. That type of determination must be reviewed by the Fiscal Council, if one exists, and reported, together with the appropriate explanations, to the stockholders and to the CVM.

Payment of Dividends

We are 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 the 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 we will have no liability for the payments.

Our payments of cash distributions on common shares underlying the ADSs will be made in Brazilian currency to our ADR Custodian on behalf of our ADR Depository, which will then convert the proceeds into U.S. dollars and will cause the U.S. dollars to be delivered to our ADR 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 those payments as deductible expense for Brazilian income tax purposes. The amount of interest payable on capital is calculated based on the Long-Term Interest Rate (TJLP), as determined by the Central Bank, applied to each shareholder's portion of net equity. Brazilian corporate law establishes that current earnings are not included as part of the net equity.

The TJLP is determined by the Central Bank on a quarterly basis. The TJLP is based on the annual profitability average of Brazilian public internal and external debt. The TJLP rate for the quarter ended in December 2005 was 9,75%.

Interest on stockholders' equity is deductible to the extent it does not exceed fifty percent (50%) of either of the following amounts: a) net income, as determined for accounting purposes, for the current period of interest payment before the provision for income tax and the deduction of the amount of interest; or b) accumulated earnings from prior years.

Liability for Further Capital Calls

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

Voting Rights

Each Common Share entitles the holder of that share to one vote at meetings of our stockholders.

According to a CVM ruling applicable to us, stockholders that represent at least 5% of our common shares may request cumulative voting in a Board of Directors' election.

Under the Brazilian Corporate Law, shareholders holding at least 15% of our common shares have the right to appoint a member to our Board of Directors.

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 the Brazilian Corporate Law and our Bylaws, which we call a General Meeting, are empowered to decide all matters relating to our purposes and to pass whatever resolutions they deem necessary for our protection and well-being.

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

General Meetings are called, convened and presided over by the Chairman or by the Vice-Chairman of our Board of Directors. A General Meeting is convened by publishing, no fewer than 15 days prior to the scheduled meeting date 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 we have our registered office, which is Rio de Janeiro. Our stockholders have previously designated *Jornal do Commercio* for this purpose. In addition, because our common shares trade on the São Paulo Stock Exchange, we are required to publish the same notice in a newspaper with national circulation. The *Gazeta Mercantil* has been designated for this purpose. Both notices must contain the agenda for the meeting and, in the case of an amendment to our 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 us, the attorney-in-fact may also be a financial institution. If no quorum is present, notice must again be given in the same manner as described above, except no fewer than eight days prior to the scheduled meeting date, 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 following (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) reducing the mandatory dividend; (c) changing the corporate purposes; (d) merging us with another company or consolidating or splitting us; (e) dissolving or liquidating us; (f) stopping with any liquidation procedure; (g) creating founders' shares 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 Fiscal

Council) 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 in general; (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 *recuperação judicial* or *recuperação extrajudicial* (a procedure involving protection from creditors similar in nature to reorganization under the U.S. Bankruptcy Code).

Redemption Rights

Our common shares 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 one half of the issued and outstanding 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 preferred shares (unless these 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 our corporate purposes; (v) to merge us with another company or consolidate us; (vi) to transfer all of our shares to another company in order to make us a wholly-owned subsidiary of that 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 our participation in a centralized group of companies as defined under the Brazilian Corporate Law; (ix) to conduct a spin-off that results in (a) a change of corporate purpose, (b) a reduction of the mandatory dividend or (c) any participation in a group of companies as defined under the Brazilian Corporate Law; or (x) in the event that the entity resulting from (a) a merger or consolidation, (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 the decision was taken. The right of redemption lapses 30 days after publication of the minutes of the relevant General Meeting. We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of those rights, if the redemption of shares of dissenting stockholders would jeopardize our financial stability. Law no. 9,457 dated May 5, 1997, which amended the Brazilian Corporate Law, contains provisions which, among others, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. According to our By-laws, the reimbursement value of the common shares shall be the quotient of the division of our economic value, ascertained by appraisal in accordance with the Brazilian Corporate Law, by the total number of shares issued by CSN, excluding treasury shares.

Preemptive Rights

Except for cases provided for in the Brazilian Corporate Law (e.g., mergers and public offerings), each of our stockholders 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 CSN. According to our By-laws, each of our stockholders has a general preemptive right to subscribe for shares in any capital increase, in proportion to his or her shareholding.

Form and Transfer

Our common shares are in registered form and their transfer 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 a 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.

The São Paulo Stock Exchange operates a central clearing system. A holder of our 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 a stockholder decides to deposit its common shares in the custody of the relevant stock exchange will be reflected in our registry of stockholders. Each participating stockholder will, in turn, be registered in the register of our beneficial stockholders 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 our 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 those 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".

Share Ownership Disclosure

There are no provisions in our By-laws governing the ownership threshold above which shareholders ownership must be disclosed. Regulations enacted by the CVM require the disclosure of the acquisition of (i) 5% of the voting stock of a listed company, (ii) additional acquisitions by a controlling stockholder and (iii) shares by members of the Board of Executive Officers, members of the Fiscal Council (if any) and certain relatives of those persons.

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 a 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 our capital are more stringent than required by the Brazilian Corporate Law.

C. Material Contracts

We have not entered into any material contracts other than contracts in the ordinary course of business in the last two years.

D. Exchange Controls

There are no restrictions on ownership or voting of our common shares by individuals or legal entities domiciled outside Brazil. See "Item 10.B. Memorandum and Articles of Association 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 those 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 no. 2,689 or its direct foreign investment regulations.

Resolution no. 2,689, 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 no. 2,689, 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. 2,689, as amended, are also generally entitled to favorable tax treatment. See "Item 10.E.1. Brazilian Tax Considerations".

A Certificate of Registration has been issued in the name of JPMorgan Chase Bank, as our ADR Depositary, and is maintained by the *Itaú Corretora de Valores S.A.*, our ADR Custodian, on behalf of our ADR Depositary. Pursuant to the Certificate, our ADR Custodian and our ADR 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 its ADSs for common shares, that holder will be entitled to continue to rely on our ADR Depositary's Certificate of Registration for only five business days after the surrender, following which the holder must obtain its own Certificate of Registration. Thereafter, unless the common shares are held pursuant to Resolution no. 2,689 or direct foreign investment regulations, the 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, those common shares, and the 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. This kind of 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.2. 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" in this Annual Report.

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 our 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 our common shares, 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 our ADR 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 own tax advisor concerning the Brazilian tax consequences of an investment in common shares or ADSs.

A non-Brazilian holder of ADSs may withdraw them in exchange for common shares in Brazil. Pursuant to Brazilian law, the non-Brazilian holder may invest in the common shares under Resolution 2,689, of January 26, 2000, of the National Monetary Council (2,689 holder).

Taxation of Dividends and Interest on Stockholders' Equity

Dividends, including dividends paid in kind, paid by us (i) to our ADR 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 those 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. 9,779, 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 those 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 currently subject to Brazilian tax. However, according to article 26 of Law n°10,833 of December 2003, or Law No. 10,833, the disposition of assets located in Brazil by a non-Brazilian holder, whether to other non-Brazilian holder or Brazilian holders, may become subject to taxation in Brazil. Although we believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, article 26, considering the general and unclear scope of it and the lack of judicial court ruling in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil.

Thus, the gain on disposition of ADSs by a non-Brazilian holder to a resident in Brazil (or even to a non-Brazilian resident in case the argument above does not prevail) may be subject to income tax in Brazil according to the rules described below for ADSs or the tax rules applicable to common shares, as applicable.

The withdrawal of ADSs in exchange for common shares is not subject to Brazilian income tax provided that the regulatory rules are appropriately observed in respect to the registration of the investment before the Central Bank of Brazil. The deposit of common shares in exchange for ADSs may be subject to Brazilian capital income tax at the rate of 15% or 25%, in case the non-Brazilian holder is located in a tax haven, i.e. considered to be places which do not impose any income tax at a maximum rate of less than 20% and those where the internal legislation imposes restrictions on disclosure of the shareholding composition or the ownership of the investment (tax haven holder), if the acquisition cost of the common shares is lower than (1) the average price per common share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of common shares were sold in the fifteen trading sessions immediately preceding such deposit. In this case, the difference between the acquisition cost and the average price of the common shares, calculated as above, shall be considered a capital gain.

Gains realized on disposition of common shares, are subject to income tax in Brazil, regardless of whether the sale or the disposition is made by the non-Brazilian holder to a resident or person domiciled in Brazil or not, based on the fact that the common shares could be considered as assets located in Brazil for purposes of Law n°10,833, article 26.

Thus, for purposes of taxation of gains earned in a sale or disposition of common shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

- are exempt from income tax when assessed by a 2,689 holder and is not a tax haven holder; and
- are subject to income tax at a rate of 15% in any other case, including gains assessed by a non-Brazilian holder that (i) is not a 2,689 holder, or (ii) is a 2,689 holder but is a tax haven holder. In these cases, a

withholding income tax of 25% shall be applicable and can be offset with the eventual income tax due on the capital gain.

Any other gains assessed on the disposition of the common shares that are not carried out on the Brazilian stock exchange are subject to income tax at a rate of 15%, except for tax haven holder which, in this case, is subject to income tax at a rate of 25%. In case these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0,005% shall also be applicable and can be offset with the eventual income tax due on the capital gain.

In the case of redemption of securities or capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount effectively received by the non-Brazilian holder and the corresponding acquisition cost is treated, for tax purposes, as capital gain derived from disposition of common shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rate of 15% or 25%, as the case may be.

Any exercise of preemptive rights relating to the common shares will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the common shares by a non-Brazilian holder of common shares or ADSs will be subject to Brazilian taxation at the same rate applicable to the sale or disposition of common shares.

There is no assurance that the current preferential treatment for holders of ADSs and non-Brazilian holders of common shares under Resolution 2,689 will continue in the future or that it will not be changed in the future. Reductions in the rate of tax provided for by Brazil's tax treaties do not apply to the tax on gains realized on sales or exchange of common shares.

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 that 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 2,689) 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 is up to 0.38%. Under current law the CPMF is scheduled to expire on December 31, 2007.

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 of the trust or a trust validly electing to be taxed as a United States person. A "Non-U.S. Holder" is any beneficial owner of common shares or ADSs that is not a partnership or 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 ADRs 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 U.S. federal income tax laws, and subject to the passive foreign investment company 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 us out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) as income when the dividend is actually or constructively received by the U.S. Holder, in the case of common shares, or by our ADR Depositary, in the case of ADSs. If you are a non corporate U.S. Holder, dividends paid to you before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15%, provided that you hold the common shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex dividend date and meet other holding period requirements. Dividends we pay with respect to the ADSs will be qualified dividend income, provided that, in the year that you receive the dividend, the ADSs are readily tradable on an established securities market in the United States. 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 and will not be eligible for the special tax rate applicable to qualified dividend income. The resulting gain or loss will generally be income or loss 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 U.S. 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. We do not intend to calculate our earnings and profits for U.S. federal income tax purposes and you should likely assume all distributions are made out of earnings and profits.

Subject to certain limitations, any Brazilian tax withheld will be creditable against the U.S. Holder's U.S. federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

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.

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 our stockholders generally will not be subject to United States federal income tax.

Non-U.S. 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 those dividends are effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for the 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 the dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax". You may be

subject to a branch profits tax at a reduced rate as may be specified by an applicable income tax treaty.

Taxation of Capital Gains

U.S. Holders. Subject to the passive foreign investment company rules discussed below, upon a sale or other disposition of common shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. 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 the common shares or ADSs. Generally, the holder's gain or loss will be capital gain or loss and any gain or loss will be income or loss from sources within the United States for foreign tax credit limitation purposes. Capital gain of a noncorporate U.S. Holder that is recognized before January 1, 2011 is generally taxed at a maximum rate of 15% where the property is held for more than one year.

Non-U.S. 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:

- 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 that Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for that Non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of gain from the sale or other disposition of the common shares or ADSs); or
- in the case of a Non-U.S. Holder who is an individual, that 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". You may be subject to a branch profits tax at a reduced rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

U.S. Holders. Dividends paid on, and proceeds from the sale or other disposition of, common shares or ADSs to a U.S. Holder generally will be subject to the information reporting and backup withholding, unless, in the case of backup withholding, the U.S. Holder provides an accurate taxpayer identification number or in either case otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that certain required information is furnished to the IRS.

Non-U.S. Holders. If common shares are held by a Non-U.S. Holder through the non-U.S. office of a non-U.S. related broker or financial institution, backup withholding and information reporting generally would not be required. Information reporting, and possibly backup withholding, may apply if the common shares are held by a Non-U.S. Holder through a U.S., or U.S.-related, broker or financial institution, or the U.S. office of a non-U.S. broker or financial institution and the Non-U.S. Holder fails to provide appropriate information. Information reporting and backup withholding generally will apply with respect to ADSs if the Non-U.S. Holder fails to provide appropriate information. Non-U.S. Holders should consult their tax advisors regarding the application of these rules.

Additional U.S. Federal Income Tax Considerations

PFIC Rules. We believe that common shares and ADSs should not be treated as stock of a passive foreign investment company (often referred to as a PFIC) for U.S. federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change.

In general, we will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held our ADSs or common shares, either (i) at least 75% of our gross income for the taxable year is passive income or (ii)

at least 50% of the value (determined on the basis of a quarterly average) of our 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 we are 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 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 or ADSs (a "mark-to-market election") or (ii) to have us treated as a "qualified electing fund" (a "QEF election") and we provide 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 or ADSs are treated as stock of a PFIC. Our ADR Depository has agreed to distribute the necessary 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 or ADSs 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 or ADSs at the close of the taxable year over the U.S. Holder's adjusted basis in the common shares or ADSs, and is allowed an ordinary loss for the excess, if any, of the adjusted basis over the fair market value of the common shares or ADSs at the close of the taxable year, but only to the extent of the net amount of previously included mark-to-market inclusions. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. Your basis in the common shares or ADSs will be adjusted to reflect any such income or loss amounts.

A U.S. Holder that makes a QEF election will be currently taxable on its pro rata share of our ordinary earnings and net capital gain (at ordinary income and capital gain rates, respectively) for each of our taxable years, regardless of whether we distributed the income and gain. 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.

In addition, notwithstanding any election you make with regard to the common shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for U.S. federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

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 we are a PFIC must file Internal Revenue Service Form 8621.

H. Documents on Display

Any documents that we filed with the SEC, including this Annual Report and its exhibits, may be inspected and copied at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website that contains registration statements, reports and other information regarding registrants, such as CSN, that file electronically with the SEC at <http://www.sec.gov>.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

In addition to the usual market exposures that arise in our ordinary course of business, we had synthetically invested in equities via derivatives.

Market Risk Exposures and Market Risk Management

Our Treasury Department is responsible for managing our market risk exposures. We use a "Risk Management System" in order to:

- help us understand market risks;
- reduce the likelihood of financial losses; and
- diminish the volatility of financial results.

The principal tools used by our Treasury Department are:

- "Sensitivity Analysis", which measures the impact that movements in the price of different market variables such as interest rates and exchange rates will have in our earning and cash flows.
- "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 interest and currency exchange rates.

Following is a discussion of the primary market risk exposures that we face together with analysis of the exposure to each one of them.

Interest Rate Risk

We are exposed to interest rate risk on short- and long-term instruments and as a result of refinancing of fixed-rate instruments included in our consolidated debt. Consequently, as well as managing the currency and maturity of debt, we manage 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. We can use swaps, options and other derivatives to achieve the desired ratio between floating rate debt and fixed rate debt. The desired ratio vary according to market conditions: if interest rates are relatively low, the Company will shift towards fixed rate debt.

We are basically exposed to the following floating interest rates:

(i) U.S. dollar LIBOR, due to our floating rate dollar-denominated debt (usually trade-finance related), to our cash position held offshore in U.S. dollars, which is invested in short-term instruments, and to the cost of protecting U.S. dollar liabilities in the short-term,

(ii) TJLP (Long Term Interest Rate), due to real-denominated debt indexed to this interest rate,

(iii) IGP-M (Brazilian inflation index), due to real-denominated debt indexed to this inflation index, and

(iv) CDI (benchmark Brazilian real overnight rate), due to our cash held in Brazil (onshore cash) and to our CDI indexed debt.

Exposure as of Dec 2005 *	Notional	2006	2007	2008	2009	2010	2011	Thereafter
U.S. dollar LIBOR								
(amortization)	198	19	31	25	41	21	22	39
Interest (fixed part)		6	5	4	4	2	1	3
U.S. dollar fixed rate								
(amortization)	2.678	38	146	356	96	90	70	1.882
Interest		242	235	226	191	184	178	1.620
Euro fixed rate								
(amortization)	7	3	3	1	0	0	0	0
Interest		0	0	0	0	0	0	0
Euro floating rate								
(amortization)	12	12	0	0	0	0	0	0
Interest (fixed part)		0	0	0	0	0	0	0
Yen fixed rate								
(amortization)	18	18	0	0	0	0	0	0
Interest		1	0	0	0	0	0	0
UMBNDDES								
(amortization)	0	0	0	0	0	0	0	0
Interest (fixed part)		0	0	0	0	0	0	0
CDI								
(amortization)	294	283	5	5	0	1	0	0
Interest (fixed part)		0	0	0	0	0	0	0
IGPM								
(amortization)	191	20	20	126	4	4	4	13
Interest (fixed part)		19	17	14	2	1	1	1
TJLP								
(amortization)	135	16	16	17	16	15	14	41
Interest (fixed part)		4	4	3	2	2	1	2
BRL fixed rates								
		0	0	0	0	0	0	0

Exposure as of Dec 2004 *	Notional	2005	2006	2007	2008	2009	2010	Thereafter
U.S. dollar LIBOR								
(amortization)	490	111	117	46	45	65	45	61

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Interest (fixed part)		11	7	6	5	4	2	5
U.S. dollar fixed rate								
(amortization)	1.682	237	33	142	338	63	55	814
Interest		147	134	127	119	85	80	262
Euro fixed rate								
(amortization)	10	3	3	3	1			
Interest		1	0	0	0			
Euro floating rate								
(amortization)	4	2	2					
Interest (fixed part)		0	0					
Yen fixed rate (amortization)	38	18	20					
Interest		2	1					
UMBNDDES (amortization)	60	12	12	12	11	6	4	3
Interest (fixed part)		3	2	2	1	1	0	0
CDI (amortization)	245	0	245					
Interest (fixed part)								
IGPM (amortization)	94	0	0	0	94			
Interest (fixed part)		11	11	11	11			
TJLP (amortization)	75	18	18	18	16	5		
Interest (fixed part)		7	5	3	1	0		

* All figures in U.S. dollars. As we did not control the financial positions of some entities partially owned by us (ITASA, Lusosider and MRS), their debt and the consequent exposure are not included in the 2004 table. Because of the already mentioned reasons and because we primarily use Brazilian GAAP controls, the numbers shown in the table do not add up to 100% of our debt and might differ, within some margin, from the numbers shown in this report.

Our cash and cash equivalent instruments were as follows:

	Dec 2004	Dec 2005	Exposure
Cash in <i>reais</i> :	653	152	CDI
Cash in U.S. dollars:	317	1,099	U.S. dollar LIBOR

The table below shows the average interest rate and the average life of our debt.

	Dec 2004		Dec 2005	
	Avg rate%	Avg life	Avg rate%	Avg life
U.S. dollar LIBOR	2.13	3.75	3.24	4.33 11.28 (with perpetual bond)
U.S. dollar fixed rate	9.10	6.24	9.11	1.29
Euro fixed rate	4.92	2.16	5.96	0.51
Euro floating rate	6.03	1.53	0.95	0.75
Yen fixed rate	5.46	1.53	6.63	2.60
UMBNDDES	4.13	3.19	2.40	
	106.8 of		106.8 of	
CDI	CDI	2.00	CDI	0.95
IGPM	11.18	4.00	10.21	3.03
TJLP	7.82	2.64	3.39	4.57

During 2005, we maintained our decision to not hedge our U.S. dollar fixed-rate exposure due to the low level of U.S. interest rates and to the flat shape of the U.S. dollar yield curve. We shifted part of our position from listed futures to both OTC swaps maturing on the end of the year, just to diminish margin requirements and rollover transaction costs at BM&F (Brazilian derivatives exchange), and to plain vanilla currency options (to diminish a little the cost of protecting). As a consequence, the duration of our U.S. dollar fixed-rate derivatives increased a little from a little less than 1 month in December 2004 to 89 days in December 2005 (see tables below).

In addition, we have protected (starting in March 2005) the CDI exposure arising from our cash position using DI futures at BM&F: the rationale behind it was to lock-in higher fixed rates in our investment, due to our expectations of an easing cycle in local interest rates.

As of Dec 2005	Notional (in U.S. dollar million)	Average interest rate (U.S. dollar)	Average maturity (days)
Swaps (U.S. dollar fixed-rate versus CDI and equity swaps)	1,083	4.22%	95
Futures (U.S. dollar- <i>real</i>)*	618	2.2127	31

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Options (long 2.80/3.10 USD call spread)	300	2.95% (net premium paid)	365
Futures (DI works like a fixed floating (CDI) swap)*	2,450 (million <i>reais</i>)	17.63% (fixed rate)	365

* daily reset

As of Dec 2004	Notional (in U.S. dollar million)	Average interest rate (U.S. dollar)	Average maturity (days)
Swaps (U.S. dollar fixed-rate versus CDI)	15	4.55%	13
Futures (U.S. dollar fixed-rate versus CDI)*	10	2.36%	138
Futures (U.S. dollar- <i>real</i>)*	1,191	2.6864	33
Non-deliverable forwards (U.S. dollar- <i>real</i>)	150	2.7523	33

* daily reset

Foreign Currency Exchange Rate Risk

Fluctuations in exchange rates can have significant effects on our operating results, which in filings with the SEC are presented in U.S. dollars. Therefore, exchange rate fluctuations affect the values of our *real*-denominated assets, the carrying and repayment costs of our *real*-denominated financial liabilities, our *real*-denominated production costs, the cost of *real*-denominated capital items and the prices we receive in the Brazilian market for our finished steel products. We attempt to manage our net foreign exchange rate exposures, trying to balance our non-*real* denominated assets with our non-*real* denominated liabilities. We use derivative instruments to match our non-*real* denominated assets to our non-*real* denominated liabilities, but at any given time we may still have significant foreign currency exchange rate risk exposure.

Our exposure to U.S. dollar is due to the following contract categories:

- (i) U.S. dollar-denominated debt;
- (ii) offshore cash;
- (iii) currency derivatives (in the case of options, we use the delta as a measure of exposure);
- (iv) U.S. dollar indexed accounts payable and receivable (usually related to international trade, i.e., imports and exports); and
- (v) offshore investments: assets that we bought offshore and that are denominated in U.S. dollars on our balance sheet.

	Dec.2004	Dec.2005
U.S. dollar Liabilities	2,510	3,381
fixed rate	1,682	2,678
floating rate	490	198
UMBNDDES*	60	0
trade accounts payable	148	406
other**	130	99
U.S. dollar Assets	2,907	3,581
offshore cash and cash		
equivalents	317	1,099
derivatives (futures contracts)	1,201	618
derivatives (swaps and NDFs)	165	1,083
derivatives (options)	-	55
trade accounts receivables	128	238
Offshore investments (net of		
cash)	1,096	243
Total U.S. dollar Exposure	397	(45)

* UMBNDDES is an index calculated and published by BNDES (Brazilian development bank), which reflects the movement of a currency basket against the Brazilian real. We consider UMBNDDES debt as U.S. dollar indexed exposure because of the correlation between them: 0.995575 in 2003, 0.996330 in 2004 and 0.992096 in 2005.

** other includes (i) debt in foreign currencies that we do not have majority control (such as GalvaSud's, MRS', Tecon's) and that comprise our total exposure in foreign currency debt; (ii) a long Euro exposure of 15 million Euros is included - 24 million Euro of trade receivables which is partially offset by 9 million of Euro indexed debt - and (iii) a US\$38 million Yen exposure. The company is not hedging its Yen and Euro exposures against the U.S. dollar but, due to some correlation between those currencies against the Brazilian *real*, it covers the U.S. dollar component of such exposures.

Offshore investments

We have capitalized our offshore subsidiaries domiciled in U.S. dollar-based countries with equity investments, and those investments are accounted as U.S. dollar investments. The result is that they work as assets indexed to U.S. dollar from an earnings perspective. The income (or loss) from these investments' currency variation (not the operational income) appears in the Brazilian GAAP income statement as *Equivalência Patrimonial* (close to equity revaluation or equity in results of affiliated companies), after taxes and before net income. Therefore offshore equity has a hedging effect from an earnings perspective; however it does not necessarily hedge from a cash flow perspective as there is no guarantee that, if the offshore subsidiary were to be sold, the value of the investment would be recovered. As the cash held by these companies in U.S. dollars affects hedging from a cash flow perspective, we view that separately.

Commodity Price Risk

Fluctuations in the price of steel and some of the commodities used in producing steel, such as zinc, aluminum, tin, coal, coke and energy, can have an impact on our earnings. Currently, we are not hedging our exposure to commodity prices. Our biggest commodity price exposure is the price of steel and coal, but there are no liquid

instruments that provide an effective hedge against their price fluctuations.

Equity Risk

In order to enhance the return of our offshore cash position, which is invested basically in short -term money market instruments, we entered into a few equity swap agreements. The rationale for these transactions is that equities historically yield higher long -term returns than fixed -income securities.

These transactions were entered in 2003, and we have maintained them ever since: the original swaps were rolled over for an extra year on July 2004 they were supposed to mature on mid-2005 and we rolled them over to July 2006. The purpose is not to trade equities but to increase long -term returns on our cash, without compromising liquidity.

Market Value

Date	Maturity	Notional Value	Dec 2004	Dec 2005
04/07/2003	07/28/2006	35.8	93.6	108.5
04/09/2003	07/28/2006	5.6	14.5	16.8
04/10/2003	07/28/2006	2.0	5.3	6.1
04/11/2003	07/28/2006	1.0	2.7	3.1
04/28/2003	07/28/2006	1.1	2.5	2.9
04/30/2003	07/28/2006	0.1	0.2	0.2
04/14/2003	07/28/2006	0.2	0.5	0.5
05/15/2003	07/28/2006	0.4	1.1	1.2
05/19/2003	07/28/2006	1.0	2.8	3.2
05/20/2003	07/28/2006	0.3	0.7	0.8
05/21/2003	07/28/2006	0.4	1.2	1.4
05/22/2003	07/28/2006	0.3	1.0	1.1
05/28/2003	07/28/2006	0.4	1.2	1.4
05/29/2003	07/28/2006	0.4	1.2	1.4
06/05/2003	07/28/2006	0.1	0.3	0.3
	Total	49.1	128.8	148.9

PART II**Item 15. Disclosure Controls and Procedures**

An evaluation as of December 31, 2005 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and acting Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to management, including the Chief Executive Officer and acting Chief Financial Officer, to allow timely decisions regarding required disclosure as of the end of our most recent fiscal year. No changes in our internal controls over financial reporting occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

During this evaluation and the process of preparing our 2005 Annual Report, certain items were identified on which a disclosure restatement was needed. This restatement affected our statements of cash flows for the years ended December 31, 2004, 2003, 2002 and 2001, all presented herein, and related to the misclassification of the restricted deposits for legal proceedings as operating activities rather than investing activities. As these deposits are restricted cash and bear interest and are subject to monetary variation, they are considered as investing activities for US GAAP purposes. Consistently, we see this event as a conceptual misunderstanding rather than a failure in our internal controls structure. See note 26(c) to our Consolidated Financial Statements for further details.

Also, as part of the process of reviewing our registration statement on Form F-4, certain matters have been subject to inquiries by the SEC. As a result, we are restating our consolidated statements of income for the years ended December 31, 2003 and 2002 and our statement of changes in the stockholders' equity as of December 31, 2002 due to an anticipated recognition of a contingent gain, which have now been carried forward to the proper fiscal year of 2003. Additionally, our consolidated statement of income for the year ended December 31, 2003 contained a misclassification of an income tax expense which had been improperly classified as an other operating expense and, as a result, affected our income before income taxes and equity in results of affiliated companies. Once again, consistently we see this event as a conceptual misunderstanding rather than a failure in our internal controls structure. See note 26(c) to our Consolidated Financial Statements for further details.

During the process of preparing our 2004 Annual Report we discovered a foreign exchange translation error in our US GAAP financial statements, on which we promptly took remedial action by restating our financial results and filing an amendment to our 2004 Annual Report to reflect such changes. The foreign exchange translation error resulted from the misclassification of the foreign currency exchange effects related to the translation of some of our off-shore affiliates in the accumulated other comprehensive loss line-item of our consolidated statements of changes in stockholders' equity instead of in our consolidated results of operations. The foreign exchange translation error had no impact on total stockholders' equity or cash flows as of and for the years ended December 31, 2004, 2003 and 2002 and all other years not presented herein.

The misclassifications and the error discussed above have not changed the conclusion of our Chief Executive Officer and acting Chief Financial Officer regarding the effectiveness of the design and operation of our disclosure controls and procedures, specially if we consider that the same disclosure controls and procedures allowed us to identify and hence take appropriate measures to address the misclassifications and error mentioned above. The misclassification and error that lead to the restatement were, respectively, conceptual misunderstanding and a discrete foreign currency translation error embedded in a software application which effected our US GAAP financial

statements. Having evaluated the cause of these misclassifications and the discrete translation error, our Chief Executive Officer and acting Chief Financial Officer have not changed their view regarding the effectiveness of the design and operation of our disclosure controls and procedures as stated above. Nonetheless, we continue to evaluate and update our disclosure controls and procedures, and our internal controls over financial reporting, which we feel will be effective to prevent future misstatements or error of a similar nature.

Item 16.**A. Audit Committee Financial Expert**

Although our Board of Directors has determined the members of our Audit Committee, neither of them meets the requirements of an "audit committee financial expert", as defined by the SEC and, therefore, as it is permitted by SEC regulation, we will not have an audit committee financial expert. While the members of our audit committee have financial skills and experience, they primarily have experience with Brazilian generally accepted accounting principles, and thus would not qualify as audit committee financial experts under the SEC's definition.

B. Code of Ethics

We have adopted a Code of Ethics, since 1998, reinforcing our ethical standards and values, that applies to all of our employees, including executive officers and directors.

Given its importance, copies of the Code of Ethics were distributed to each employee of the organization, to the Board of Directors and the Audit Committee members, who have signed a Commitment Letter, which reinforces the compromise with the established values.

Our Code of Ethics is in compliance with the SEC requirements for codes of ethics for senior financial officers. A copy of our Code of Ethics is also available on our website (www.csn.com.br).

C. Principal Accountant Fees and Services

Our interaction with our independent auditors with respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditors and are otherwise permissible under applicable rules and regulations. For the fiscal years ending December 31, 2004 and 2005, Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte") acted as our independent auditors. During fiscal year 2004, we hired Deloitte to carry out other work not directly related to the auditing of our financial statements, largely consisting of compliance review on tax matters; those services do not infringe Deloitte's independence. The following table describes the services rendered and the remuneration paid.

	Year ending December 31,	
	2003	2004
	<i>(In thousands of US\$)</i>	
Audit Fees	508	797
Audit-Related Fees	579	322
Tax Fees	125	186
All Other Fees	25	57
Total	1,237	1,362

"Audit Fees" are the aggregate fees billed by Deloitte for the audit of our consolidated financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and

regulatory filings or engagements. "Audit-Related Fees" are fees charged by Deloitte for services that are reasonably related to the performance of the audit or review of our financial statements. "Tax Fees" are fees for professional services rendered by Deloitte for tax compliance services. Fees disclosed under the category "All Other Fees" refers mainly to out of pocket expenses.

Pre-approval Policies and Procedures

Board approval is required before engaging independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, our Board of Directors pre-approves all audit and non-audit services provided by Deloitte.

E. Purchases of Equity Securities

Since the beginning of 2004, in accordance with the limits and provisions of CVM's Instruction #10/80, our Board of Directors approved a number of share buyback programs. The first program was announced on April 29, 2004, and the amount approved was up to 4.7 million shares. The expiration date of the first program was July 27, 2004. The second program was announced on July 28, 2004, and the amount approved was up to 7.2 million shares. The expiration date of the second program was November 1, 2004. The third program was announced on October 27, 2004, and the amount approved was up to 6.4 million shares. The expiration date of the third program was February 11, 2005. The fourth program was announced on December 22, 2004, and the amount approved was up to 5.0 million shares. The fifth program was announced on May 26, 2005, and superseded the fourth program. The amount approved was up to 15.0 million shares. The expiration date of the fifth program was May 26, 2006. As of December 31, 2005, 13,885,900 shares were held in treasury, after several purchases made during 2005.

The following table sets forth our purchases of our equity securities during each month in 2005 to date⁽¹⁾:

Periods	(a) Total number of shares purchased⁽²⁾	(b) Average price paid per share⁽³⁾	(c) Total number of shares purchased as part of publicly announced program	(d) Maximum number of shares that may be yet purchased under the programs
Mar 05 (from March 24 until March 27)	950,000	23.499	950,000	4,050,000
May 05 (from May 5 until May 27)	4,202,500	17.458	4,202,500	14,843,000
Jun 05 (from June 1 until June 30)	1,882,600	16.753	1,882,600	12,960,400
Jul 05 (from July 7 until July 29)	327,300	16.865	327,300	12,633,100
Aug 05 (from Aug 10 until Aug 31)	2,823,300	19.751	2,823,300	9,809,800
Sep 05 (from Sep 1 until Sep 14)	2,276,700	20.947	2,276,700	7,533,100
Oct 05 (from Oct 20 until Oct 24)	893,000	17.803	893,000	6,640,100
Nov 05 (from Nov 11 until Nov 29)	834,000	20.613	834,000	5,806,100
Dec 05 (from Dec 1 until Dec 29)	4,897,600	21.337	4,897,600	908,500
Jan 06 (from Jan 2 until Jan 24)	393,000	22.753	393,000	515,500

- (1) There were no purchases from February until June 2006.
- (2) These number of shares purchased may differ from the quantities disclosed in our consolidated financial statements since the table above considers the dates when the purchases occurred whereas in our consolidated statements the shares buyback are recorded at the liquidation dates.
- (3) Translated from *reais* into U.S. dollars based on the average exchange rate during the applicable month.

PART III**Item 18. Financial Statements**

The following consolidated financial statements of the Registrant, together with the report of Deloitte Touche Tohmatsu thereon, are filed as part of this Annual Report.

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-R
Consolidated financial statements - Restated:	
Balance sheets as of December 31, 2004 and 2005	FS-1
Statements of Operations for the years ended December 31, 2003, 2004 and 2005	FS-3
Statements of cash flows for the years ended December 31, 2003, 2004 and 2005	FS-4
Statements of changes in stockholders' equity for the years ended December 31, 2003, 2004 and 2005	FS-7
Notes to consolidated financial statements - Restated	FS-9

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 and as of June 10, 2004, among CSN, JPMorgan Chase Bank, as depository, and the registered holders from time to time of the American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs (File n° 333-115078) filed with the SEC on April 30, 2004).
4.1	Casa de Pedra Mine Agreement, dated March 15, 2001, by and between CSN and Companhia Vale do Rio Doce.
<u>12.1</u>	<u>Section 302 Certification of Chief Executive Officer and Acting Chief Financial Officer.</u>
<u>13.1</u>	<u>Section 906 Certification of Chief Executive Officer and Acting Chief Financial Officer.</u>

Items 1.1 and 4.1 have already been filed with the SEC along with out 2004 Annual Report.

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 30, 2006

Companhia Siderúrgica Nacional

By: /s/ Benjamin Steinbruch

Name: Benjamin Steinbruch
Title: Chief Executive Officer and
Acting Chief Financial Officer

By: /s/ Otávio de Garcia Lazcano

Name: Otávio de Garcia Lazcano
Title: Financial Director

Companhia Siderúrgica Nacional
Consolidated Financial Statements
For the Years Ended December 31, 2003 (Restated) , 2004 (Restated) and 2005
And Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
COMPANHIA SIDERÚRGICA NACIONAL - CSN
Rio de Janeiro, Brazil

We have audited the accompanying consolidated balance sheets of Companhia Siderúrgica Nacional and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Companhia Siderurgica Nacional and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 26, the Company has restated its consolidated financial statements for the years ended December 31, 2004 and 2003.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
Rio de Janeiro, Brazil,

June 27, 2006.

Companhia Siderúrgica Nacional

Consolidated Balance Sheets

Expressed in millions of United States dollars

Assets	As of December 31,	
	2004	2005
Current assets		
Cash and cash equivalents	970	1,241
Short-term investments	143	187
Derivative assets	-	154
Trade accounts receivable, net	382	551
Inventories	769	687
Recoverable taxes	284	112
Deferred income taxes	204	226
Others	155	172
	2,907	3,330
Property, plant and equipment, net	2,143	2,547
Investments in affiliated companies	188	230
Goodwill	45	82
Other assets		
Derivative assets	129	-
Restricted investments	30	27
Restricted deposits for legal proceedings	219	283
Intercompany accounts	23	77
Deferred income taxes	257	328
Others	216	253
	874	968
	6,157	7,157

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

Companhia Siderúrgica Nacional

Consolidated Balance Sheets

Expressed in millions of United States dollars

(continued)

Liabilities and stockholders equity	As of December 31,	
	2004	2005
Current liabilities		
Trade accounts payable	242	430
Payroll and related charges	42	31
Taxes payable	261	144
Interest on stockholders equity	90	111
Current portion of long-term debt	430	354
Accrued finance charges	57	69
Derivative liabilities	27	152
Others	67	107
	1,216	1,398
Long-term liabilities		
Accrued pension cost	226	234
Long-term debt and debentures	2,357	2,942
Accrual for contingencies and disputed taxes payable	968	1,538
Others	64	36
	3,615	4,750
Stockholders equity		
Common stock 400,000,000 shares (no par value) authorized 272,067,946 shares issued at December 31, 2005 and 286,917,045 at December 31, 2004 outstanding shares: 258,182,046 at December 31, 2005 and 276,893,446 at December 31, 2004	2,447	2,447
Capital surplus	53	53
Treasury stock 13,885,900 shares at December 31, 2005 and 10,023,599 shares at December 31, 2004	(153)	(239)
Retained earnings		
Appropriated	310	416
Unappropriated	529	77
Accumulated other comprehensive loss	(1,860)	(1,745)
	1,326	1,009

6,157

7,157

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

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Companhia Siderúrgica Nacional

Consolidated Statements of Income

Expressed in millions of United States dollars, except share data

	Years ended December 31,		
	2003	2004	2005
	As Restated, see Note 26		
Operating revenues			
Domestic sales	1,843	2,895	3,449
Export sales	1,077	1,008	1,224
	2,920	3,903	4,673
Sales taxes	322	735	829
Discounts, returns and allowances	50	84	39
Net operating revenues	2,548	3,084	3,805
Cost of products sold	1,457	1,407	1,837
Gross profit	1,091	1,677	1,968
Operating expenses			
Selling	176	156	186
General and administrative	96	109	108
Other expenses, net	74	50	28
	346	315	322
Operating income	745	1,362	1,646
Non-operating income (expenses), net			
Financial income (expenses), net	(564)	(510)	(550)
Foreign exchange and monetary gain (loss), net	325	153	183
Others, net	14	(6)	3
	(225)	(363)	(364)
Income before income taxes and equity in results of affiliated companies	520	999	1,282
Income taxes			
Current	(152)	(289)	(458)
Deferred	88	(2)	31
	(64)	(291)	(427)

Equity in results of affiliated companies	9	51	47
Net income	465	759	902
Basic and diluted earnings per common share	1.62	2.68	3.34
Weighted average number of common shares outstanding (in thousands)	286,917	283,476	270,275

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

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Companhia Siderúrgica Nacional

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

	Years ended December 31,		
	2003	2004	2005
	As Restated, see Note 26	As Restated, see Note 26	
Cash flows from operating activities			
Net income	465	759	902
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	119	139	166
Foreign exchange and monetary loss (gain), net	(325)	(153)	(183)
Interest accrued	159	286	231
Accrual for contingencies and disputed taxes payable	194	433	424
Accrual for derivatives	176	(223)	272
Deferred income taxes	(88)	2	(31)
Equity in results of affiliated companies	(9)	(51)	(47)
Others	(10)	97	(12)
Decrease (increase) in operating assets			
Trade accounts receivable	112	30	(95)
Short-term investments	-	(143)	134
Inventories	(24)	(493)	177
Recoverable taxes	(52)	(129)	202
Others	(19)	34	17
Increase (decrease) in operating liabilities			
Trade accounts payable	(41)	65	149
Payroll and related charges	(14)	(11)	(16)
Taxes payable	158	45	(146)
Accrued pension cost	(9)	(33)	(22)
Others	(232)	(300)	(365)
Net cash provided by operating activities	580	354	1,757

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

	Years ended December 31,		
	2003	2004	2005
	As Restated, see Note 26	As Restated, see Note 26	
Cash flows from investing activities			
Additions to property, plant and equipment	(210)	(178)	(290)
Short-term investments and debt securities	-	-	(231)
Restricted deposits for legal proceedings	(11)	(30)	(34)
Acquisition of investments	(34)	(137)	-
Business acquisitions, net of cash acquired	-	(19)	(38)
Loans to related parties	(4)	(1)	-
Net cash used in investing activities	(259)	(365)	(593)
Cash flows from financing activities			
Short-term debt, net	(709)	(722)	(529)
Long-term debt			
Proceeds	1,517	745	1,200
Repayments	(35)	(8)	(341)
Treasury stock	-	(153)	(365)
Dividends and interest on stockholders' equity paid	(278)	(242)	(961)
Net cash provided by (used in) financing activities	495	(380)	(996)
Effects of changes in exchange rates on cash and cash equivalents	79	110	103
Increase (decrease) in cash and cash equivalents	895	(281)	271
Cash and cash equivalents, beginning of year	356	1,251	970
Cash and cash equivalents, end of year	1,251	970	1,241

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION**Cash paid during the year for:**

Interest	166	305	347
Income tax and social contribution, including withholding income taxes	51	112	147

Business acquisitions:

Fair value of assets acquired, including goodwill	-	109	39
Fair value of liabilities assumed	-	(80)	(1)

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

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Companhia Siderúrgica Nacional

Purchase price	-	29	38
Cash acquired	-	(10)	-
Purchase price, net of cash acquired	-	19	38
Supplemental noncash financing and investment activities			
Interest on stockholders equity unpaid in the year	85	90	111

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

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Companhia Siderúrgica Nacional

Consolidated Statements of Changes in Stockholders' Equity
Expressed in millions of United States dollars, except for share data

Movement of Common Shares (quantities):	Years ended December 31,		
	2003	2004	2005
Balance, beginning of year (*)	286,917,045	286,917,045	276,893,446
Treasury stock acquisition	-	(10,023,599)	(18,711,400)
Balance, end of year	286,917,045	276,893,446	258,182,046
(*) Adjusted for the effect of reverse stock split See Note 15a			
Common stock			
Balance, beginning and end of year	2,447	2,447	2,447
Capital surplus			
Balance, beginning and end of year	53	53	53
Treasury stock			
Balance, beginning of year			(153)
Stock acquisition		(153)	(365)
Stock cancellation			279
Balance, end of year		(153)	(239)
Accumulated other comprehensive loss			
Cumulative translation adjustments			
Balance, beginning of year	(2,151)	(2,026)	(1,860)
Change in the year	125	166	115
Balance, end of year	(2,026)	(1,860)	(1,745)

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, except for share data
(continued)

	Years ended December 31,		
	2003	2004	2005
Retained earnings			
Appropriated			
Investment reserve			
Balance, beginning of year	226	169	184
Addition to reserve	169		64
Transfer from (to) unappropriated retained earnings	(226)	15	24
Balance, end of year	169	184	272
Legal reserve			
Balance, beginning of year	56	86	126
Addition to reserve	18	33	
Transfer from (to) unappropriated retained earnings	12	7	18
Balance, end of year	86	126	144
Total balance, end of year	255	310	416
Unappropriated retained earnings			
Balance, beginning of year	(124)	78	529
Effect on restatement (See Note 26)	(32)	-	-
Balance, beginning of year (Restated)	(156)	78	529
Net income (Restated)	465	759	902
Dividends and interest on stockholders' equity	(258)	(253)	(969)
Stock cancellation	-	-	(279)
Appropriation from (to) reserves	27	(55)	(106)
Balance, end of year	78	529	77
Total retained earnings	333	839	493

Total stockholders equity	807	1,326	1,009
Comprehensive income			
Net income (Restated)	465	759	902
Translation adjustments for the year	125	166	115
Total comprehensive income (Restated)	590	925	1,017

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 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 subsidiaries are:

	Ownership (%)				Main Activities
	2004		2005		
	Direct	Indirect	Direct	Indirect	
CSN Overseas	100.00		100.00		Financial Operations
Cinnabar				100.00	Participation in other companies through equity stakes
INAL – Indústria Nacional de Aços Laminados	99.99		99.99		Steel Products Service Center
CSN Energia	99.90		99.90		Trading of Electric Power
CSN Export	100.00		100.00		Trading company
CSN Islands (1)	100.00				Financial Operations
CSN Islands II (1)	100.00				Financial Operations
CSN Islands III (1)	100.00				Financial Operations
CSN Islands IV (1)	100.00				Financial Operations
CSN Islands V (1)	100.00				Financial Operations
CSN Islands VII	100.00		100.00		Financial Operations
CSN Islands VIII	100.00		100.00		Financial Operations
CSN Islands IX	100.00		100.00		Financial Operations
CSN Islands X			100.00		Financial Operations
CSN Participações Energéticas (1)	99.70				Participation in other companies through equity stakes
CSN I	100.00		99.99		Participation in other companies through equity stakes
GalvaSud (2)	15.29	84.71	15.29	84.71	Steel Products Service Center
Inal Nordeste	99.99		99.99		Steel Products Service Center
CSN Cimentos	99.99		99.99		Cement manufactory
ERSA – Estanho de Rondônia S.A. (4)			99.99		Mining

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Cia. Metalic Nordeste	99.99		99.99		Metallurgy
CSN Steel	100.00		100.00		Participation in other companies through equity stakes
Tangua (5)		100.00		100.00	Participation in other companies through equity stakes
CSN Aceros		100.00		100.00	Participation in other companies through equity stakes
Sepetiba Tecon	20.00	80.00	20.00	80.00	Maritime port services
CSN Iron (3)	100.00		100.00		Financial Operations
CSN Energy	100.00		100.00		Participation in other companies through equity stakes
Energy I		100.00		100.00	Participation in other companies through equity stakes
CSN Cayman Management Services (1)	0.01	99.99	0.01	99.99	Trading company
CSN Panama	100.00		100.00		Participation in other companies through equity stakes
Jaycee				100.00	Participation in other companies through equity stakes
CSN Holding LLC (5)		100.00		100.00	Participation in other companies through equity stakes

	2004		Ownership (%) 2005		Main Activities
	Direct	Indirect	Direct	Indirect	
CSN Partner LLC		100.00		100.00	Participation in other companies through equity stakes
Companhia Siderúrgica Nacional LLC		100.00		100.00	Steel Products

1) These companies were liquidated in December 2005.

2) GalvaSud: Until June 2004, the Company jointly-controlled GalvaSud with another shareholder, Thyssen-Krupp Stahl (TKS). In June 2004, the Company increased its equity participation from 51% to 100% by acquiring the shares owned by TKS, and as of that date the Company started consolidating GalvaSud. See note 10.

3) CSN Iron: In October 2004, CSN Panama transferred the total of its investment in CSN Iron to CSN Steel.

4) ERSA: In April 2005, the Company acquired 100% of ERSA s capital, which has been consolidated since that date.

5) During 2005 the investments in Tangua and CSN Holding LLC were transferred to CSN Steel and CSN Panama, respectively.

2 Summary of significant accounting policies

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. The Company s consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment, impairment of goodwill, allowance for doubtful accounts receivable, contingent liabilities, employee post-retirement benefits and other similar evaluations. Although these estimates are based on the Company s knowledge of current events and actions that the Company may undertake in the future, actual results may vary from these estimates.

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with 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 accounting practices adopted in Brazil and rules and regulations of the *Comissão de Valores Mobiliários* the Brazilian Securities Commission or CVM.

The U.S. dollar amounts for the periods presented have been translated from the Brazilian *real*, the Company's functional currency, into U.S. dollars; the Company s reporting currency, in accordance with the criteria set forth in Statement of Financial Accounting Standards (SFAS) No. 52 Foreign Currency Translation (SFAS 52). Accordingly, the Company has translated all assets and liabilities into U.S. dollars at the exchange rate of R\$2.6544 and R\$2.3407 to US\$1.00 at December 31, 2004 and 2005, respectively, and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the applicable period. The translation gain or loss resulting from this translation process is included as a component of accumulated other comprehensive loss in stockholders equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the Brazilian *real* are included in the results of operations as incurred.

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, until June 30, 1997, when Brazil was considered to have a highly inflationary economy, for indexation of the statutory financial statements and adjustments made to reflect the requirements of US GAAP.

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(b) Basis of consolidation

The financial statements of all majority-owned subsidiaries that CSN controls have been consolidated. All significant intercompany accounts and transactions have been eliminated. The financial statements of all subsidiaries have been prepared in accordance with US GAAP.

(c) Inventories

Inventories are stated at the lower of average cost or estimated market value. Losses for slow-moving or obsolete inventories are recorded when considered appropriate.

The Company holds spare parts that will be used within its operating cycle which are classified as other current assets rather than in inventories.

(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. Joint ventures in which the Company has a majority interest, but, through stockholders agreements, does not have effective management control are also accounted for under the equity method, such as GalvaSud until June 2004. 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 and interest from stockholders' equity. Losses are recorded on equity investments with negative stockholders' equity when applicable. The stockholders' equity of the affiliated companies are adjusted to comply with US GAAP for equity method purposes.

The Company accounts for its investment securities in accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115).

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; hardware 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.

Maintenance expenses, including those related to programmed maintenance of the Company's blast furnaces, are charged to the cost of production as incurred.

(f) Recoverability of long lived assets

In accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS 144), management reviews long lived assets, primarily property, plant and equipment to be used in the business, 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. SFAS 144 requires the recognition of an impairment loss when the estimate of undiscounted future operating 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, as determined based on quoted market prices, discounted cash flows or appraisals.

(g) Revenues and expenses

Revenues are recognized when persuasive evidence of the basis of the sale exists, the products have been delivered to the customer or shipped and the risk of ownership has passed to the customer, the price is fixed or determinable and collectibility is reasonably assured. Expenses and costs are recognized on the accrual basis. Shipping and handling costs, classified as selling expenses and expensed as incurred, amounted to US\$102.0, US\$105.6 and US\$141.9 for the years ended December 31, 2003, 2004 and 2005, respectively.

The Company reflects value-added taxes as a reduction of gross operating revenues.

Revenues from the sale of electricity through the *Mercado Atacadista de Energia* (the MAE) now denominated *Câmara de Comercialização de Energia Elétrica* (the CCEE) are recorded on an accrual basis in accordance with information registered on the CCEE and communicated to the Company by the CCEE.

(h) 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 accrual 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 pollution control and/or prevention. These ongoing programs are designed to minimize the environmental impact of the Company's operations and are also expected to reduce costs that might otherwise be incurred on cessation of mining activities.

(i) Research and development costs

Expenditures for research and development of new products for the years ended December 31, 2005 were US\$10 (US\$8 in 2004 and 2003). All such costs are expensed as incurred.

(j) Accrued pension cost

Accrued pension costs are determined in accordance with SFAS No. 87 *Employers Accounting for Pensions* (SFAS 87). 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 were established on January 1, 1989, which is the date that SFAS 87 first became applicable for non-U.S. pension funds.

The Company provides disclosures related to its employee pension and post-retirement benefits in accordance with SFAS No. 132 *Employers Disclosure About Pensions and Other Post-retirement Benefits* and SFAS No. 132 (revised 2003) *Employers Disclosure About Pensions and Other Post-retirement Benefits*, an amendment of FASB Statements No. 87, 88 and 106 (SFAS 132R).

(k) Accrual for contingencies and disputed taxes payable

The Company accounts for contingencies in accordance with SFAS 5 Accounting for Contingencies . The Company's contingencies were estimated by management and were substantially based upon known facts and circumstances, management's experience and the opinions of the Company's tax and legal advisors. The Company records accruals for contingencies for lawsuits which the Company classifies as probable losses. Additionally, the Company has (i) certain tax liabilities for which the Company is disputing payment with the applicable taxing authorities, and (ii) certain tax liabilities for which the Company is asserting a right to use certain tax credits to offset such tax liabilities. These items are referred to as disputed taxes payable. The Company maintains full provisions for such tax liabilities because statutory obligations and tax legislation in effect require the Company to pay the related taxes, and such provisions are only reversed in the event that a final, unappealable judgment is issued in the Company's favor. Accruals for contingencies, disputed taxes payable and the related legal deposits requested by the courts for those disputes are updated by the interest rate charged by the Brazilian government (the SELIC rate) and inflation, when applicable.

(l) Employee profit participation plan

The parent company sponsors an employee profit participation plan for all parent company employees, which is based on annual EBITDA (earnings before interest, income taxes, depreciation and amortization) determined on the basis of the Company's statutory financial statements. The plan establishes the distribution of up to a maximum of twice the normal payroll paid in the month of December, provided the EBITDA margin (EBITDA as a percentage of revenues) is equal to or greater than 40%, limited to one month's salary per employee plus a specified amount (US\$812.51 in 2005). Expenses related to the employee profit participation plan are recorded in general and administrative expenses and amounted to US\$21 in 2005 (US\$16 in 2003 and 2004).

(m) Compensated absences

A liability for employee compensation of vacation benefits is recognized on the accrual basis.

(n) Income taxes

SFAS No. 109 Accounting for Income Taxes has been applied for all years presented. The effects of US GAAP adjustments, as well as differences between the tax basis of 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. 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.

(o) Statements of cash flows

Short-term investments that have a ready market and original maturity, when purchased, of 90 days or less are considered to be cash equivalents.

(p) Earnings per share

The Company presents its earnings per share in accordance with SFAS No. 128 Earnings Per Share . Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common

shares that were outstanding during the year. The Company does not have any potentially dilutive common shares outstanding and, accordingly, diluted earnings per share is equal to basic earnings per share. The effects of stock splits are reflected retroactively in the calculation of earnings per share for all periods presented.

(q) Concentration of credit risk

Financial instruments that potentially subject CSN to concentrations of credit risk are cash and cash equivalents, trade accounts receivable and derivatives. CSN limits its credit risk associated with cash and cash equivalents and derivatives by placing its investments with (1) highly-rated financial institutions in short-term investments and (2) Brazilian government notes. 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 credit risk with respect to any one industry exists.

(r) Comprehensive income

SFAS No. 130 Reporting Comprehensive Income (SFAS 130) requires that companies report changes in the equity of a business enterprise during a period resulting from transactions and other events and circumstances from non-owner sources. The Company has adopted SFAS 130 for all years presented and has included a comprehensive income (loss) statement as part of the consolidated statements of changes in stockholders' equity.

(s) Interest attributed to stockholders

As of January 1, 1996, Brazilian corporations are allowed to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank (approximately 11% for the year 2003, and 9.75% for the years 2004 and 2005). Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves, determined in each case on the basis of the statutory financial statements. The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to the Company, as opposed to making a dividend payment, is a reduction in income tax charge equivalent to the statutory rate applied to such amount. Income tax is imposed on interest payments at the rate of 15%. The Company opted to pay such tax-deductible interest to its stockholders, and has therefore accrued the amounts due as of December 31, 2005 and 2004 with a direct charge to stockholders' equity.

(t) Treasury stock

Treasury stock consists of the Company's own stock which has been issued and subsequently reacquired by the Company and has not been reissued or cancelled. Such treasury stock is carried at cost of acquisition.

(u) 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 about its various and distinct operating activities. Such information is to be presented 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 20.

(v) Derivative financial instruments

As of January 1, 2001, the Company adopted SFAS No. 133 Accounting for Derivative Financial Instruments and Hedging Activities, as amended by SFAS Nos. 137, 138 and 149. Those standards require that the Company recognize all derivative financial instruments as either assets or liabilities on the Company's balance sheet and measure such investments at fair value. Changes in fair value are recognized each period in current results. Refer to Note 22 for additional information on derivatives.

3 Recently issued accounting pronouncements

In November 2004, the FASB issued SFAS 151 Inventory Costs an Amendment of ARB No.43, Chapter 4. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company will apply this statement, if applicable, from fiscal periods beginning after June 15, 2005.

In December 2004, the FASB issued SFAS 153 Exchange of Nonmonetary Assets an Amendment of APB Opinion No.29. This statement addresses the measurement of exchanges of nonmonetary assets by eliminating the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replacing it with an exception for exchanges that do not have commercial substance. The Company will apply this statement, if applicable, from fiscal periods beginning after June 15, 2005.

In March 2005, the FASB issued FASB Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations, which refers to legal obligations to perform an asset retirement activities. The Company does not expect FASB Interpretation No. 47 to have a significant impact on the financial position, results of operations or cash flows.

In July 2005, the FASB issued FSP No. APB 18-1 Accounting by an Investor for its Proportionate Share of Accumulated other Comprehensive Income of an Investee Accounted for under the Equity Method in accordance with APB Opinion No. 18 Upon a Loss of Significant Influence, which sets reporting on how an investor should account for its proportionate share of an investee's equity adjustments for other comprehensive income upon a loss of significant influence. The Company will apply this statement, if applicable, from fiscal periods beginning after July 2005.

In October 2005, the FASB issued FAS No. 13-1 Accounting for Rental Costs Incurred During a Construction Period , which addresses the accounting for rental costs associated with operating leases that are incurred during a construction period. The Company will apply this statement, if applicable, from fiscal periods beginning after December 15, 2005.

In November 2005, the FASB issued PSP Nos. FAS 115-1 and FAS 124-1 The Meaning of Other Than-Temporary Impairment and its Application to Certain Investments , which sets the determination as to when an investment is considered impaired, whether that impairment is temporary, and the measurement of an impairment loss. The Company will apply this statement, if applicable, from fiscal periods beginning after December 15, 2005.

In February 2006, the FASB issued SFAS 155 Accounting for Certain Hybrid Financial Instruments , which amends FASB Statements No. 133 Accounting for Derivative Instruments and Hedging Activities and No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1 Application of Statement 133 to Beneficial Interests in Securitized Financial Assets . The Company will apply this statement in the event it occurs in fiscal periods beginning after September 15, 2006.

4 Business acquisitions

CSN Aceros

In November 2003, the Company and CVRD entered into a share purchase and sale contract. The Company increased its interest from 37.5% to 100% in CSN Aceros, and thereby became, through its subsidiary CSN Panama, the majority shareholder of Sepetiba Tecon. The Company initially recognized goodwill in the amount of US\$25 and classified the goodwill under other assets in the balance sheet for the year ended December 31, 2003 pending finalization. The Company applied SFAS 141 Business Combinations and, accordingly, the purchase price allocation was finalized in 2004 and the amount of US\$25 previously recognized as goodwill was reallocated to Other Assets as intangible assets, concession agreement.

GalvaSud

Incorporated in May 1998 through a joint venture between CSN (51.0%) and TKS (49.0%), GalvaSud began its operational activities in December 2000. GalvaSud operates a galvanizing line for hot immersion and laser lines. On June 22, 2004, the subsidiary CSN I acquired 8,262,865,920 common shares of GalvaSud in exchange for the full payment of all GalvaSud financial debts and also acquired for US\$26.8 the shares held by TKS. After the acquisition, CSN became the holder of a 15.29% stake on a direct basis and 84.71% stake on an indirect basis of GalvaSud s capital stock, by means of its wholly-owned subsidiary CSN I. The Company applied SFAS 141 for the 49% acquisition and, accordingly, the purchase accounting method resulted in the following figures:

Acquisition of business:

**GalvaSud
June 30, 2004**

Fair value of assets acquired, including goodwill	68
Fair value of liabilities assumed	(80)
Net equity at fair value	(12)

Cash paid for the acquisition	29
Goodwill	41

The pro forma effects of the Galvasud acquisition on the Company's consolidated financial statements were not material.

ERSA

On April 7, 2005, the Company acquired 100% of ERSA's capital, the Brazilian second major stain producer for R\$100 million (US\$38). The Company aims to improve synergy of its production process, since stain is an important raw material. The Company applied the purchase accounting method in accordance with SFAS 141 and the figures were as follows:

Acquisition of business:

**ERSA
March 31,
2005**

Fair value of assets acquired	11
Fair value of liabilities assumed	(1)
Net equity at fair value	10
Cash paid for the acquisition	38
Goodwill	28

The pro forma effects of the ERSA acquisition on the Company's consolidated financial statements were not material.

The goodwill of US\$41 and US\$28 shown in the tables above are subject to impairment testing at least annually as determined by SFAS 142.

5 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 each of the three years presented herein are: 25% for federal income tax and 9% for social contribution. The amounts reported as income tax expense in the financial statements are reconciled to the statutory rates as follows:

	Years ended December 31,		
	2003	2004	2005
As Restated,			
see			
Note 26			

Income before income taxes and equity in results of affiliated companies	520	999	1,282
Federal income tax and social contribution at statutory rates	(177)	(340)	(436)

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Adjustments to derive effective tax rate			
Interest on stockholders' equity	29	31	38
Nontaxable income from operations outside Brazil (Restated)	-	61	-
Reversal of disputed taxes payable, net	56	-	-
Tax benefit related to net operating loss carryforwards	72	11	-
Other permanent differences	(44)	(54)	(29)
Tax expense per statements of income	(64)	(291)	(427)

The Company generates taxable income from operations in Brazil and abroad, which are composed as follows (as per tax books);

	For the years ended December, 31		
	2003	2004	2005
Taxable income in Brazil	289	753	1,234
Foreign taxable income	108	-	51

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

	As of December 31,	
	2004	2005
Current assets		
Tax loss carryforwards	86	77
Deductible temporary differences	118	149
Current deferred tax assets	204	226
Non-current assets		
Deductible temporary differences	209	265
Accrued pension cost	77	79
Property, plant and equipment basis difference	(29)	(16)
Non-current deferred tax assets	257	328

The Company's management believes that the deferred tax assets are fully realizable and, therefore, no valuation allowance has been recognized.

The deferred tax assets related to income tax loss carryforwards and social contribution negative basis carryforwards, in the amounts of US\$86 and US\$57 as of December 31, 2004 and 2005, respectively, were recognized based on the history of CSN's profitability and on the expectation of future profitability. These benefits are expected to be completely realized in 2006, except for the tax credit related to the accrued pension cost which will be realized in

accordance with the amortization of such accrual. Tax loss carryforwards do not expire under Brazilian tax law.

6 Cash and cash equivalents

	As of December 31,	
	2004	2005
Cash in hand and bank deposits		
Local currency	31	56
Time deposits		
U.S. dollars	317	1,099
Investment Funds		
Local currency	622	86
Total	970	1,241

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Management has been investing surplus cash in time deposits and investment funds. Investments funds are comprised, mainly, of short-term Brazilian Government bonds with maturity of three months or less when purchased.

7 Short-term investments

Short-term investments are comprised as follows:

	As of December 31,	
	2004	2005
Brazilian Government Bonds	141	174
Debentures	2	13
Total	143	187

Brazilian Government Bonds were classified as trading in 2004 and sold at the beginning of 2005. The Company acquired Brazilian Government Bonds during 2005 and has classified them as held-to-maturity securities in accordance with SFAS 115 recognized at cost plus interest in the results of operations.

8 Trade accounts receivable

	As of December 31,	
	2004	2005
Domestic	285	354
Export - Denominated in U.S. dollars	128	238
	413	592
Allowance for doubtful accounts	(31)	(41)
Total	382	551

Supplementary information valuation and qualifying accounts for accounts receivable:

	Allowance for Doubtful Accounts
Balance as of December 31, 2002	(28)
Additions charged against Selling expenses	(15)
Translation adjustment	(5)
	228

Balance as of December 31, 2003	(48)
Reversal of previous charges credited to Selling expenses	7
Additions charged against Selling expenses	13

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Translation adjustment (3)

Balance as of December 31, 2004 (31)