NATIONAL STEEL CO
Form 20-F
June 17, 2003

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, 2002
OR
TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to _____
Commission file number: **1-14732**

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

National Steel Company
(Translation of reguistrant s name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Av. Presidente Juscelino Kubitschek 1830 - Torre 1
13º andar
Itaim Bibi
04543-900 São Paulo, SP, Brazil
(Adress of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Common Shares, with no par value	**The New York Stock Exchange***

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

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

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

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

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

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

Yes No

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

Item 17 Item 18

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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. Forward-looking statements include:

- the projected completion dates of, and the projected total investments in, projects under construction;
- the completion of satisfactory financing arrangements for projects and other transactions;
- efforts to expand production capacity for galvanized, pre-painted, tin-coated and other high value-added products and projected demand for those products;
- plans to expand iron ore production at our Casa de Pedra mine;
- international expansion, including the acquisition of 50% of Lusosider Projectos Siderúrgicos S.A.;
- increased concentration on our core steel business, including the divestment of some non-steel investments, such as our proposed sale of

our thermoelectric co-generation power plant and our interest in the Itá hydroelectric facility;
- increased sales to the automotive industry;
- increased annual crude steel capacity;
- generation, supply and sales of energy and the collection of receivables from those sales;
- increased opportunities in the packaging industry;
- impact of U.S. protectionist measures;
- maintenance of our competitive advantages;
- decrease in our reliance on brokers and establishment of longer term relationships with end users;
- construction or acquisition of a hot strip mill, or entering into a long-term tolling agreement, in the United States;
- meeting requirements of environmental agreements and cancellation of fines; and
- decreased exposure to base metal prices.

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

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of December 31, 2001 and 2002 and for each of the three years in the period ended December 31, 2002 contained in Item 18 of this document have been presented in U.S. dollars and prepared in accordance with generally accepted accounting principles in the United States, 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 (Brazilian GAAP), specifically, Law No. 6,404 dated December 15, 1976, as amended, which differ in certain significant respects from U.S. GAAP.

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, which most people refer to as the 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 remeasured (translated) from the Brazilian real amounts in accordance with the criteria set forth in the U.S. Financial Accounting Standards Board s Statement of Financial Accounting 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 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 May 30, 2003 Commercial Market rate of R$2.9635 = US$1.00, except that estimated future capital expenditures are based on 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.

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

in the future. See Item 3.D.2. Risk Factors Relating to Brazil Devaluation of the Real.

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:				
1998	1.2087	1.1165	1.1611	1.2087
1999	2.1647	1.2078	1.8272	1.7890
2000	1.9847	1.7234	1.8348	1.9554
2001	2.8007	1.9353	2.3519	2.3204
2002	3.9552	2.2709	2.9983	3.5333
Months in 2003:				
January	3.6623	3.2758		3.5258
February	3.6580	3.4930		3.5632
March	3.5637	3.3531		3.3531
April	3.3359	2.8898		2.8898
May	3.0277	2.8653		2.9635

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

The Commercial Market rate published by the Central Bank on May 30, 2003 was R$2.9635 per US$1.00.

PART I

Item 3. Key Information

A. Selected Financial Data

The following table sets forth selected consolidated financial data for CSN, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2002 and for each of the three years in the period ended December 31, 2002 have been derived from our audited consolidated financial statements, which appear in Item 18 of this document. 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, 1998, 1999 and 2000, and for each of the two years in the period ended December 31, 2000, 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 consolidated financial statements.

Year Ended December 31,

	1998	1999	2000	2001	2002
	(In millions of US$, except share data)				
Income Statement Data:					
Operating revenues					
Domestic sales	2,118	1,539	2,029	1,860	1,570
Export sales	455	425	354	218	599
Operating revenues	2,573	1,964	2,383	2,078	2,169
Net operating revenues[1]	2,145	1,631	1,946	1,716	1,842
Cost of products sold	1,193	915	1,115	958	994
Gross profit	952	716	831	758	848
Operating expenses					
Selling	186	128	127	82	127
General and administrative	159	102	117	109	110
Others	83	42	74	73	47
Operating expenses	428	272	318	264	284
Operating income	524	444	513	494	564
Non-operating income (expenses), net					
Financial income (expenses), net	85	109	(157)	(289)	247
Foreign exchange and monetary loss, net	(147)	(593)	(127)	(396)	(1,087)
Gain on sales of long-term investments[2]		27		643	
Others	(5)	(26)	(19)	36	(30)
Non-operating income (expenses), net	(67)	(483)	(303)	(6)	(870)
Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle	457	(39)	210	488	(306)
Income taxes					
Current	(30)	(21)	(104)	2	25
Deferred	(28)	39	87	48	190
Income taxes	(58)	18	(17)	50	215
Equity in results of affiliated companies	12	3	80	(30)	(71)
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	411	(18)	273	508	(162)
Extraordinary item, net of income taxes[3]		66		13	
Cumulative effect of a change in accounting principle, net of income taxes(4)				6	

Net income (loss)	411	48	273	527	(162)
Dividends declared[5]	243	137	470	831	143
Per 1,000 common shares:					
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	5.71	(0.25)	3.81	7.09	(2.26)
Extraordinary item, net of income taxes[3]		0.92		0.18	
Cumulative effect of a change in accounting principle, net of income taxes[4]				0.08	
Net income (loss)	5.71	0.67	3.81	7.35	(2.26)
Dividends declared[5]	3.37	1.91	6.55	11.59	1.99
Weighted average number of common shares outstanding (in millions)	72,028	71,729	71,729	71,729	71,729

(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., 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 notes (6) and (8) below.

(3) The extraordinary items in 1999 and 2001 represent gains on the repurchase of Eurodollar notes. See Item 5.B. Liquidity and Capital Resources.

(4) Effect of the adoption of SFAS No. 133. See Note 20 of our consolidated financial statements.

(5) Except for 2001 and 2002, dividends declared consist of interest on stockholders equity.

	Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
			(In millions of US$)		
Balance Sheet Data (end of period):					
Current assets(6)	1,892	1,536	2,443	1,313	1,590
Property, plant and equipment, net	2,886	1,973	2,025	2,062	1,527
Investments in affiliated companies and other investments(6)	1,054	1,008	245	79	8
Other assets	483	325	391	600	530
Total assets	6,315	4,842	5,104	4,054	3,655
Minority interest	26	5			
Current liabilities	1,226	1,807	1,898	1,445	1,732

	Year Ended December 31,				
Long-term liabilities(7)	2,515	1,455	2,029	1,863	1,416
Stockholders equity	2,548	1,575	1,177	746	507
Total liabilities and stockholders equity	6,315	4,842	5,104	4,054	3,655
Other Data:					
Cash flows from operating activities	705	640	535	210	806
Cash flows from investing activities(8)	320	(304)	(547)	792	(319)
Cash flows from financing activities(8)	(731)	(211)	(45)	(1,251)	(348)
EBITDA(9)	757	604	713	684	733

(6) Upon contracting for the sales of our investments in Light and Valepar in 2000, we moved the investments, aggregating US$849 million, from investments in affiliated companies and other investments to investments for sale in current assets. See note (2) above and note (8) below.

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

(8) 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 Notes (2) and (6) 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.

(9) EBITDA consists of operating income plus depreciation and other operating expenses. The following table reconciles operating income and EBITDA:

	Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
	(In millions of US$)				
EBITDA	757	604	713	684	733
Less:					
Depreciation and amortization	150	118	126	117	122
Other expenses	83	42	74	73	47
Operating income	524	444	513	494	564

For a discussion of why we use EBITDA, see Item 5.A.2. Results of Operations. EBITDA is not presented herein as an alternative measure of operating results or cash flow. EBITDA does not represent net income or cash flows from

operations, as these terms are defined by generally accepted accounting principles. EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

D. Risk Factors

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

Overcapacity in the steel industry or lack of access to export markets can cause the price we can obtain for our steel to decline, which adversely affects our earnings.

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

Competition

We have a lot of competitors, and if they do a better job than we do with respect to price, product quality or customer service, or they develop technological advancements that allow them to lower their cost of production, we could lose business.

Despite significant reductions in steel production capacity by major producers in developed nations over the last decade, the world steel industry continues to be adversely affected by excess worldwide production capacity. This overcapacity reflects generally the decreasing demand for steel in Western industrial countries, as well as a significant increase in steel production capacity in developing countries. Steel-producing countries have been meeting in the OECD (Organization for Economic Cooperation and Development) to try to reach an agreement on world crude steel capacity reduction.

Continuous advances in materials sciences and resulting technologies have given rise to new products, such as plastics, aluminum, ceramics, glass and new steel products, that pose competition for traditional steel products. In addition, the economics of operating a steel mill continuously due to high start-up costs may encourage mill operators to maintain high levels of output, even in times

of low demand, which exacerbates the pressures on industry profit margins.

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

Antidumping 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, antidumping and countervailing duties and other protectionist measures have been imposed by countries which represent some of the main markets for our exports. These measures could provoke an unbalance in the international steel market, which could adversely affect our exports. See Item 4.B.11. Government Regulation and Other Legal Matters Antidumping Proceedings.

Raw Materials Costs and Availability

When the prices of raw materials which we need in our production of steel, particularly coal, increase, this could cause our cost of products sold to increase.

Our principal raw materials include iron ore, coal (from which we make coke), limestone, dolomite, manganese, zinc, tin and aluminum. While we obtain all of our iron ore, limestone and dolomite requirements from our mines in Minas Gerais state, and we produce most of our coke requirements from our own coke batteries, we are dependent on third parties for the other raw materials required in our operations. All of the coal that we use to produce coke and approximately 15% of our coke requirements in 2002 were imported. Because of the cyclical nature of the coal industry, the price and quantity terms contained in our coal contracts are renegotiated annually. Thus, our coal costs can vary from year to year. For example, our coal contracts for the year ended June 30, 2002 resulted in a 38.5% average price increase (in U.S. dollars) for coking coal compared to the year ended June 30, 2001, while our contracts for the year ending June 30, 2003 resulted in an average price reduction in U.S. dollars of 8%. There can be no assurance that coal prices will not increase in the future. See Item 4.B.5. Raw Materials and Transportation.

If we were to increase our steel production to our 5.8 million ton capacity without increasing our coke production capacity or adjusting or expanding our pulverized coal injection (PCI) system, we would need to increase our imports of coke. Increased production of steel worldwide has increased demand for coke. No assurance can be given that we will be able to obtain adequate supplies of coke to increase our steel production.

In addition to importing coal and coke, we purchase zinc, tin, manganese and aluminum from third-party domestic suppliers. In 2002, raw materials accounted for approximately 35.5% of our total production costs. Although we believe we will be able to obtain raw materials at reasonable prices, there can be no assurance that increases in prices (particularly those for products and services obtained from third parties) will not occur in the future, resulting in a decrease in our profitability.

Collectibility and Timing of Payment of Receivables from Sales of Electric Energy

If we cannot collect all of the receivables from our sales of electric energy in 2001, we will have to make an additional charge to our earnings.

A severe drought in Brazil s northeastern and southeastern regions in 2000 and 2001 reduced hydroelectric generation. The drought and an energy rationing program imposed by the Brazilian Government caused electric energy prices in the Mercado Atacadista de Energia MAE, the Brazilian wholesale energy market, to increase substantially in 2001. As a result, our sales of excess electric energy in the MAE generated operating revenues of over US$200 million in 2001. With the ending of the drought and the rationing program, electric energy prices decreased, with the result that our sales of excess energy generated approximately US$30 million of operating revenues in 2002. See Operating Revenues under 2002 Compared to 2001 and 2001 Compared to 2000 in Item 5.A.2. Operating Results.

During 2000, 2001 and 2002, we recorded receivables aggregating R$484 million (US$137 million translated at the December 31, 2002 exchange rate) in respect of our MAE electric energy sales, based on prices furnished by the MAE. In May 2002, the Agência Nacional de Energia Elétrica ANEEL issued Order No. 288, which retroactively imposed additional transmission costs, resulting in changes in the electric energy prices which we relied on. Therefore, in 2002, we made an R$86 million (US$24 million) provision to reflect these changes in electric energy prices. As a result of a partial settlement of the receivables related to these MAE sales, we received payment of R$91 million (US$26 million) in December 2002 and R$80 million (US$22 million) in January and February 2003. At March 31, 2003, R$227 million (US$68 million) of our MAE receivables remained outstanding. The settlement of our remaining MAE receivables is expected to occur after the completion of an independent audit by ANEEL to validate the accuracy of the amounts determined by the MAE and communicated to the electric power companies. We expect that this audit will be completed by the end of June 2003 and that payment will commence shortly thereafter. Due to uncertainty regarding the outcome of ANEEL s audit, we can give no assurance as to the ultimate collectibility or the timing of payment of our outstanding MAE receivables.

Potential Costs of Environmental Compliance

If new environmental standards are imposed on us, we may be required to make capital expenditures that do not increase our productivity.

Our steelmaking facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating to the protection of human health and the environment. While the Government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations and can, in some instances, suspend plant operations. Compliance with environmental regulations can be costly, requiring capital expenditures without a concomitant increase in productivity. For a discussion of environment-related legal proceedings involving us, see Item 4.B.11. Government Regulation and Other Legal Matters Environmental Regulation.

2. Risk Factors Relating to Brazil

Brazilian Government Economic and Political Factors

If economic or political conditions deteriorate, the Brazilian Government may adopt measures that adversely affect our business. The results of the Presidential election in Brazil in October 2002 could lead to changes in economic policies.

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 in response to the current Brazilian economic situation or how Brazilian Government intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

On January 1, 2003, Luis Inácio Lula da Silva, the Labor Party s candidate, took office as the new President of Brazil. There can be no certainty whether the economic reforms and free market policies of former President Cardoso will be continued by President da Silva s administration or what policies it will adopt. The uncertainty over what policies President da Silva s 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.

Devaluation of the Real

The devaluation of the real can adversely affect our earnings, and the risk of devaluation causes us to adopt measures that are costly.

Following devaluations of less than 10% in 1998, the real depreciated against the U.S. dollar approximately 48% in 1999, 9.3% in 2000, 18.7% in 2001 and 52.3% in 2002. Prior to the 1999 devaluation, the Government s monetary policy focused on financing the current account deficit of Brazil s balance of payments. Following the 1999 devaluation, the Government changed its monetary policy to focus on the inflation rate and permitted the real to float. Devaluation of the Brazilian currency, in relation to the U.S. dollar or other currencies, may have an adverse effect on our financial condition and results of operations, increasing the cost in reais of our foreign currency-denominated

borrowings and imports of raw materials, particularly coal, coke and base metals. To the extent that we do not succeed in promptly reinvesting the funds received from our foreign currency-denominated borrowings in foreign currency-denominated assets, it creates a mismatch between our foreign currency-denominated expenses and expenditures and our revenues. See Item 5. Operating and Financial Review and Prospects. The devaluation of the real also adversely affects the value of our American Depositary Shares (ADSs).

Extreme Inflation

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

At the beginning of 1994, the Government introduced the Real Plan, an economic stabilization plan designed to reduce inflation by reducing certain public expenditures, collecting liabilities owed to the Government, increasing tax revenues, continuing the privatization program and introducing a new currency. On July 1, 1994, as part of the Real Plan, the Government introduced the real, which replaced the cruzeiro real as the official currency of Brazil. As a result of the Real Plan, Brazil s inflation rate declined in the 1990s from a high of 2,708.6% in 1993 to a low of 1.8% in 1998, as measured by the Índice Geral de Preços-Disponibilidade Interna IGP-DI.

As discussed under Devaluation of the Real in this discussion of risk factors relating to Brazil, the Government changed the conduct of monetary policy after the devaluation of the real in 1999 and introduced an inflation targeting policy. Recent rates of inflation have been 26.4% in 2002, 10.4% in 2001, 9.8% in 2000 and 20.0% in 1999. The inflation target set by the Brazilian Central Bank for 2002 was 3.5%, with a tolerance interval of 2.0%. For 2003, the Brazilian Government and the International Monetary Fund agreed to indicative annual inflation rates of 15% for the first quarter, 16.5% for the second quarter and 15% for the third quarter, with tolerance intervals of 2.5%. The Brazilian Government established self-imposed inflation targets of 8.5% for 2003 and 5.5% for 2004, with no tolerance intervals. The Brazilian Government indicated that it expected to achieve the 2003 level over the medium term. Through April 30, 2003, inflation for 2003 has been 6.15%. The inflation index adopted by the Brazilian Central Bank is the Índice de Preços ao Consumidor Amplo IPCA, measured by the Instituto Brasileiro de Geografia e Estatística IBGE.

There can be no assurance that inflation will be within the Central Bank s tolerance interval, that the lower levels of inflation will continue, that future Brazilian governmental actions (including additional actions to adjust the value of the real) will not trigger the renewal of hyperinflation or that any of these actions 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 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 Government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1990, as well as on the conversion of the Brazilian currency into foreign currencies. These types of restrictions could hinder or prevent Itaú Corretora de Valores S.A., our ADR Custodian under our American Depositary Receipt program, or holders who have surrendered ADSs for the underlying Common Shares of CSN, from converting dividends, distributions or the proceeds from any sale of Common Shares into U.S. dollars and remitting 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.

Risks Associated with Emerging Markets

When other emerging markets encounter difficult times, there is often an adverse impact on Brazil s markets.

Brazil is generally considered by international investors to be an emerging market. As a result, political, economic, social and other developments in other emerging markets may have an adverse effect on the market value and liquidity of our Common Shares and ADSs. For example, the Brazilian securities markets were adversely affected by the Mexican liquidity crisis at the end of 1994, the Asian financial crisis at the end of 1997, the Russian financial crisis in 1998 and the Turkish and Argentine crises in 2001 and 2002. The adverse impact can result in higher costs of raising funds, both domestically and in international markets, and exclusion from international capital markets.

Item 4. Information on CSN

A. History and Development of CSN

1. General

We are the largest fully-integrated steel producer in Brazil and one of the largest in Latin America. See Item 4.B.14. Brazilian Steel Industry. As a result of revampings of one of our blast furnaces and our hot strip mill during 2001, we expect that by the end of 2003 our annual crude steel capacity and rolled product capacity will increase to approximately 5.8 and 5.4 million tons, respectively, from approximately 5.0 million tons in each case at the beginning of 2001. Production of crude steel and rolled steel products increased in 2002 to 5.1 and 4.7 million tons, respectively, from 4.0 and 4.1 million tons, respectively, in 2001. Production in 2001 was down from the 4.8 and 4.6 million tons, respectively, produced in 2000 as a result of the production stoppage required by the revampings.

Our fully-integrated manufacturing facilities produce a broad line of steel products, including slabs, hot and cold-rolled coils and sheets for the distribution, packaging, automotive, home appliance and construction industries. In 2002, we accounted for 59% 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 2002, we accounted for 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 sintering machines to produce sinter.
- The sinter and lump ore direct charges are smelted with coke and injected powered coal in blast furnaces to produce pig iron.
- The pig iron is then refined into steel in basic oxygen converters.

In addition to owning our own source of iron ore, we also currently produce from our own mines our requirements of limestone and dolomite. Using imported coal, we produce approximately 85% 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 production process. Tin, zinc, manganese ore and aluminum are purchased in local markets. Our steel production and distribution also require water, gases, electricity, rail and road transportation, and port facilities.

2. History

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

Three major expansions were undertaken at the Presidente Vargas Steelworks during the 1970s and 1980s. 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 CSN.

In 1993, we adopted a capital improvement program, which was revised and extended in 1995. The 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. Since 1997, we have spent the equivalent of US$2.0 billion under the capital improvement program and for operational capacity maintenance, culminating with the revampings in 2001 of Blast Furnace #3 and Hot Strip Mill #2 that, by the end of 2003, will have increased our annual capacity to approximately 5.8 million tons of crude steel and 5.4 million tons of rolled products from approximately 5.0 million tons in each case at the beginning of 2001.

B. Business Overview

1. Business Strategy

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

- Emphasize a wide range of value-added products, mostly galvanized, pre-painted and tin-coated.
- Focus the Presidente Vargas Steelworks on both the domestic and international markets.
- Implement a carefully crafted globalization strategy. This may include an association with steel operations outside Brazil or the acquisition or creation of distribution or service centers outside Brazil.
- Take advantage of our capabilities, including expansion of our Casa de Pedra iron ore output.
- Introduce new technologies and systems to enhance our understanding of customers, competitors and industry trends.
- Provide customer solutions supported by quality products and services.

In pursuing these strategies, we are:

- Optimizing and increasing our steel producing capabilities.
- Increasing our production of higher margin steel products and the diversification of our product applications.
- Achieving greater usage of by-products.
- Exploring both Brazilian and international steel markets for potential expansion.
- Positioning ourselves as a customer-oriented company.

We have implemented our strategy of optimizing and increasing our steel production capabilities through our capital improvement program for our Volta Redonda facility. Completed projects under the capital improvement program include:

- The conversion to 100% continuous casting production (finalized in February 1996).
- The installation of a 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 the 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 electric 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 revampings in 2001 of Blast Furnace #3 and Hot Strip Mill #2.

We are exploring the possibility of constructing additional steel-producing capacity and increasing the output of our Casa de Pedra mine.

Key features of implementation of our strategy of increasing the production of high value-added products and diversification of product applications include:

- The formation in May 1998 of GalvaSud S.A. (GalvaSud), a 51% joint venture to produce Galvanew®, galvanized steel sheets and laser-welded and pre-stamped parts for the automotive industry. The galvanizing line, which will ultimately have an annual production capacity of 350 thousand tons, started up in December 2000. See Item 4.B.6. Investment Programs Investments in Downstream Opportunities, New Products and Market Niches.
- The construction in Paraná state of a plant (CSN Paraná) to produce plain and formed galvanized, galvalume and pre-painted steel products, as well as other related finished steel products, for the construction and home appliance industries in Brazil. CSN Paraná is expected to be completed in the second half of 2003. CSN Paraná is designed to have an annual capacity of 330 thousand mt of galvanized and galvalume materials, 100 thousand mt of pre-painted product (which can use cold-rolled or galvanized coils as raw materials) and 220 thousand mt of pickled coils in excess of the coils required for the galvanized and galvalume products. See Item 4.B.6. Investment Programs Investments in Downstream Opportunities, New Products and Market Niches.
- The expansion into tin-coated products with the acquisition of 100% of the shares of Cia. Metalic Nordeste (Metalic) in November 2002. Metalic is the only two-piece steel can producer in Brazil, and it has approximately 40% of the packaging market for carbonated drinks in the North and Northeastern regions of Brazil. The development of drawn and

wall ironed (DWI) steel for the production of two-piece cans is an important achievement in the production process at the Presidente Vargas Steelworks. See Section 4.B.6 Investment Programs Investments in Downstream Opportunities, New Products and Market Niches and Item 7.B Major Shareholders and Related Party Transactions Related Party Transactions.

In connection with our strategy to become a customer-oriented company, in November 2000 we created a Commercial sector, which is divided into separate market units devoted to specific industries. These units, which carry out our specific strategy for each industry, interact with our clients to provide customized solutions and develop new products according to our customers needs. In addition, part of our commercial strategy is to (i) aim to capture higher margins through distribution or service centers outside Brazil, directly or in association with other steel producers and (ii) prioritize direct sales and maintain a close relationship with our international customers.

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

As part of our globalization strategy:

- In July 2001, Companhia Siderúrgica Nacional, LLC (CSN LLC) purchased the assets of Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana. We expect to exercise our option to acquire all of the membership interests in CSN LLC in July 2003.
- We have agreed to acquire, for approximately 10.8 million, a 50% stake in Lusosider Projectos Siderúrgicos S.A. (Lusosider). Lusosider, located in Seixal, near Lisbon, Portugal, produces annually approximately 200 thousand tons of galvanized products and 70 thousand tons of tin plate. Corus Group plc (Corus) owns the other 50% of Lusosider. We expect to complete the acquisition by the end of June 2003.

See Item 4.B.6. Investment Programs Investments in Downstream Opportunities, New Products and Market Niches.

We have sold investments not related to our core steel business, including our interest in Light and CVRD. Having succeeded in our goal of establishing stable and adequate sources of electric energy, we have announced that we are considering selling our 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks and our interest in the Itá hydroelectric energy generating facility and entering into long-term power purchase agreements with the purchasers of these assets. See Item 4.B.6. Investment Programs Infrastructure Investments Electricity Distribution and Generation.

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

The following diagram illustrates our steel production process in general terms.

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

SALES VOLUME AND NET REVENUES BY STEEL PRODUCTS AND MARKETS

	Sales Volume								
	Metric Tons			**% of Sales Volume**					
				In Market			**Total**		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**	**2000**	**2001**	**2002**
	(In thousands of metric tons)			***(In percentages)***					
Domestic Sales									
Slabs		12	44						1
Hot-rolled	1,213	1,218	1,212	36	37	36	27	30	23
Cold-rolled	657	735	808	19	22	25	15	18	16
Galvanized	830	714	645	25	21	19	19	17	12
Tin Mill	687	683	670	20	20	20	15	17	13
Sub-total	3,387	3,362	3,379	100	100	100	76	82	65
Export sales									
Slabs	108	212	345	10	28	19	2	5	7
Hot-rolled	517	152	482	48	20	26	12	4	9
Cold-rolled	74	29	157	7	4	9	2	1	3
Galvanized	11	59	461	1	8	26		1	9
Tin Mill	366	293	363	34	40	20	8	7	7
Sub-total	1,076	745	1,808	100	100	100	24	18	35
Total	4,463	4,107	5,187				100	100	100
Total Sales									
Slabs	108	224	389				2	5	8
Hot-rolled	1,730	1,370	1,694				39	34	32
Cold-rolled	731	764	965				17	19	19

	Sales Volume					
Galvanized	841	773	1,106	19	18	21
Tin Mill	1,053	976	1,033	23	24	20
Total	4,463	4,107	5,187	100	100	100

	Net Operating Revenues (U.S. GAAP)[1]								
	U.S. Dollars			% of Net Operating Revenues					
				In Market			Total		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
	(In millions of US$)			*(In percentages)*					
Domestic Sales									
Slabs		1	4						
Hot-rolled	361	311	285	24	26	25	20	22	17
Cold-rolled	254	227	242	17	19	23	14	16	14
Galvanized	481	333	252	33	28	22	25	23	15
Tin Mill	390	332	338	26	27	30	21	23	19
Sub-total	1,486	1,204	1,121	100	100	100	80	84	65
Export sales									
Slabs	15	27	78	4	13	13	1	2	5
Hot-rolled	144	35	123	42	16	21	8	2	7
Cold-rolled	29	8	41	8	4	7	2	2	2
Galvanized	5	20	191	1	9	32		1	12
Tin Mill	159	126	163	45	58	27	9	9	9
Sub-total	352	216	596	100	100	100	20	16	35
Total	1,838	1,420	1,717				100	100	100
Total Sales									
Slabs	15	28	82				1	2	5
Hot-rolled	505	346	408				28	24	24
Cold-rolled	283	235	283				16	18	16
Galvanized	486	353	443				25	24	27
Tin Mill	549	458	501				30	32	28

	Net Operating Revenues (U.S. GAAP)[1]					
Total	1,838	1,420	1,717	100	100	100

(1) Net operating revenues do not include revenues from non-steel products, principally by-products and services, plus in 2001, electric energy (2000 US$108 million; 2001 US$296 million; 2002 US$125 million). The net operating revenues attributed to each product class was obtained by multiplying the average price per ton of each class of product by the sales volume of such class.

Slabs

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

Hot-rolled Products

Hot-rolled products are comprised of heavy-gauge hot-rolled coils and 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, and cold-formed light shapes, channels and profiles for the construction industry.

Cold-rolled Products

Cold-rolled products are comprised of cold-rolled coils and sheets. A cold-rolled product, as defined by Brazilian standards, is a flat cold-rolled steel coil or sheet with thickness between 0.30 millimeters and 3.00 millimeters. Compared to hot-rolled products, cold-rolled products have more uniform and better surface quality and are used in applications such as automotive bodies and home appliances. In addition, cold-rolled products serve as a base steel for 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 are comprised of flat-rolled steel that, according to Brazilian standards, is coated on one or both sides with zinc applied by either a hot-dip or an electrolytic process. We use the hot-dip process, which is

approximately 20% less expensive than the electrolytic process. Galvanization is one of the most effective and low-cost processes used to protect steel against corrosion caused by exposure to water and the atmosphere. Galvanized products are highly versatile and can be used to manufacture a broad range of products:

- bodies for automobiles, trucks and buses;
- air ducts and parts for hot air, ventilation and cooling systems;
- culverts, garbage cans and other receptacles;
- storage tanks, grain bins and agricultural equipment;
- panels and sign panels; and
- pre-painted parts.

Galvanized sheets, both painted and bare, are frequently used for roofing and siding for industrial buildings, gutters and down spouts, interior cabinets, appliances and similar applications. 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 zinc coatings capable of being processed in nearly all kinds of bending and deep drawing forming machines.

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

At our new CSN Paraná facility, we will produce galvalume, a cold-rolled material coated with a zinc-55% aluminum alloy. The production process is similar to hot-dip galvanized coating, and galvalume has at least twice the corrosion resistance of standard galvanized steel. Galvalume is primarily used in construction in more severe corrosion environments.

The added value from the galvanizing process permits 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 demand in Brazil for such high margin products.

Tin Mill Products

Tin mill products are comprised of flat-rolled low-carbon steel coils or sheets with, as defined by Brazilian standards, a maximum thickness of 0.38 millimeters, coated or uncoated. Coatings of tin and chromium can be applied by various electrolytic and hot-dip processes. Coating costs place tin mill products among the highest priced products that we sell. The added value from the coating process permits us to price our tin mill products with a higher profit margin. We produce four types of tin mill products 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. Our sales of tin mill products totaled almost one million tons in 2002. With six electrolytic coating lines, we are one of the major producers of tin mill products in the world and the sole producer of coated tin mill products in Brazil.

3. Sales and Marketing

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. To facilitate sales and customer service, we have a sales office in the city of São Paulo, in São Paulo state, and a regional office in the city of Porto Alegre, Rio Grande do Sul state.

Marketing Organization and Strategy

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. In September 1999, we reorganized our steel division into five units: Ironmaking & Steelmaking, Rolling, Materials, Technical and Commercial. The Ironmaking & Steelmaking unit is responsible for the production of sinter, coke, pig iron, liquid steel and slabs. The Rolling unit is responsible for production of rolled and coated products, including hot-rolled, cold-rolled, galvanized and tin mill products. The Materials unit is responsible for the management of all stockyards and stock materials. The Technical unit is responsible for analyzing and implementing capital investments in the steel division. In April 2000, the Materials unit was renamed the Energy and Production Engineering Department, increasing its scope to include responsibility for all the energy and utility facilities of the Presidente Vargas Steelworks and for most maintenance facilities and all in-plant rail operations. In November 2000, the Ironmaking & Steelmaking, Rolling, Energy and Production Engineering, and Technical units became the Operations sector.

Reflecting the importance of attention to the specific needs of our customers, in November 2000 the Commercial unit, which was responsible for sales of all of our products, became the newly created Commercial sector. This sector is divided into five market units: distribution, packaging, automotive, home appliances and OEM (original equipment manufacturers), and construction. Each one of these market units has a specific strategic goal to provide tailor-made

steel solutions that meet the specific needs of each of the segments they service.

The distribution unit is responsible for supplying large steel processors and distributors, including Indústria Nacional de Aços Laminados INAL S.A. INAL, as well as some industries that produce small diameter pipe and light profiles. 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 complements GalvaSud. The home appliance/OEM and construction units, in addition to being responsible for these segments, will market the steel produced at CSN Paraná. See Item 4.B.1. Business Strategy.

In 2002, approximately 68% 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. In 1998, we acquired two distributors and steel service centers in order to better serve small- and medium-sized clients, as well as customers that need cut-to-size steel parts. These two distributors were merged into one. See Item 4.B.6. Investment Programs Investments in Downstream Opportunities, New Products and Market Niches. 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. In 2002, the majority of our export sales were made directly.

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 situation. 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, we believe 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 there are wide differences 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. Sales are made primarily on cost-and-freight (CFR) terms.

Steel Sales by Geographic Region

In 2002, we sold steel products to customers in Brazil and 64 other countries. Our domestic steel sales were 76% of total sales volume and 80% of operating revenues from steel sales in 2000, 82% and 84%, respectively, in 2001, and 65% and 65%, respectively, in 2002. The fluctuations in the portion of total sales attributable to domestic sales reflect our ability to adjust sales in light of variations in the domestic economy. Beginning in the fourth quarter of 1998, we began exporting slabs in order to keep our production facilities operating at capacity during an anticipated recession in Brazil. Given the recovery of the domestic market, in 2000 slabs sales represented only 2% of total sales volume, compared to 9% in 1999. With the increase in crude capacity from the revamping in 2001 of Blast Furnace #3, we resumed slab exports, which accounted for 5% of total sales volume in 2001. The increase in our crude steel capacity to 5.8 million mt per year by the end of 2003 will result in approximately 400,000 mt of additional excess slab capacity over the increased rolling capacity of 5.4 million mt per year, adding to the importance of the export markets for slabs, which accounted for 8% of total sales volume in 2002.

The three principal export markets for our products have historically been Latin America, North America and Asia. North America and Latin America were our most important export markets in 2000. In 2001, notwithstanding the decrease in exports resulting mainly from the renovation of Blast Furnace #3, exports to North America increased and exports to Europe decreased at a lower rate than other regions, reflecting the continuation of our exports of tin mill products to these regions and making them our most important export regions. In 2002, the increase in steel consumption in China led to increased imports there, with the result that Asia joined North America as our most important export markets. Protectionist measures did not limit our ability to increase our exports of finished products. While we have historically focused on the domestic market, during 2002 we shifted our focus more towards the export market in order to hedge against the depreciation of the real and to establish a significant presence in the export market.

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

OUR SALES OF STEEL PRODUCTS BY DESTINATION

(In thousands of metric tons and millions of US$)

	2000				2001				2002			
	Tons	**%**	**Operating Revenues[1]**	**%**	**Tons**	**%**	**Operating Revenues[1]**	**%**	**Tons**	**%**	**Operating Revenues[1]**	**%**
Brazil	3,312	75.5	1,897	84.3	3,362	81.9	1,537	87.8	3,379	65.1	1,430	70.5
Export	1,076	24.5	352	15.7	745	18.1	216	12.2	1,808	34.9	597	29.5
Total	4,388	100.0	2,249	100.0	4,107	100.0	1,753	100.0	5,187	100	2,027	100
Exports by Region												
Asia	192	4.4	47	2.1	133	3.2	25	1.4	435	8.4	69	3.4
North America[2]	259	5.9	90	4.0	304	7.4	78	4.4	761	14.7	215	10.6

Latin America	295	6.7	89	4.0	110	2.7	37	2.1	313	6.0	103	5.1
Europe	215	4.9	84	3.7	143	3.5	56	3.2	250	4.8	155	7.7
All Others	115	2.6	42	1.9	55	1.3	20	1.1	49	1.0	55	2.7
Total Exports	1,076	24.5	352	15.7	745	18.1	216	12.2	1,808	34.9	597	29.5

(1) Total operating revenues presented above differ from such amounts in our U.S. GAAP financial statements because they do not include revenues from non-steel products (2000 US$134 million, 2001 US$325 million and 2002 US$142 million).
(2) Sales to Mexico are included in North America.

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 (Brazilian Steel Institute):

	DOMESTIC MARKET SHARE *(as a percentage of the market share for each product)*		
	2000	**2001**	**2002**
Hot-rolled Products	37.0%	37.0%	36.0%
Cold-rolled Products	28.0	29.0	30.0
Galvanized Products	73.0	61.0	59.0
Tin Mill Products	98.0	99.0	99.0

The decline in our share of the galvanized product market reflects the startup of a new galvanizing line by Usinas Siderúrgicas de Minas Gerais S.A. Usiminas, as well as the startup of GalvaSud and another new galvanizing project in Brazil.

Sales by Market Unit

We sell our products to manufacturers in several industries through our Commercial sector. Following is a breakdown of our domestic shipments by volume for the last three years among the five units of our Commercial sector:

	OUR SALES BY MARKET UNIT IN BRAZIL *(In percentages of total domestic volume shipped)*		
	2000	**2001**	**2002**
Distribution	40.4%	36.9%	32.5%
Packaging	18.6	19.4	19.2
Automotive	12.6	16.7	17.5
Home Appliances/OEM	16.7	15.6	18.3
Construction	11.7	11.4	12.5

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

Because Brazil lacks quality coking coals, we import all the coal required for coke production. The coal is then charged in coke ovens to produce coke through a distillation process. See Item 4.B.5. Raw Materials and Transportation Raw Materials and Energy Requirements. This coal distillation process also produces gas as a by-product, which we use as a main source of fuel for our thermoelectric co-generation power plant. After being screened, the coke is transported to blast furnaces, where it is used as a combustion source, as well as a source for reducing the iron ore. In 2002, we produced about 85% of our coke needs, importing the balance. Iron ore and coke fines or other solid fuel are mixed with fluxes (limestone and dolomite) to produce sinter. The sinter, iron ore, fluxing materials and coke are then loaded into our two operational blast furnaces for smelting. In 1997, we began operating a PCI facility, which injects low-cost pulverized coal into the blast furnaces as a substitute for a portion of the coke required (approximately one-third).

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

The molten pig iron is then transported to the steelmaking shop by 350-ton capacity torpedo cars and charged in basic oxygen furnaces together with scrap and fluxes. In the basic oxygen furnaces, oxygen is blown onto the liquid burden to oxidize its impurities and to lower its carbon content, thus producing liquid steel. The molten steel is conveyed from the basic oxygen furnaces into the continuous casting machines from which crude steel (i.e., rectangular shaped slabs) is produced. A portion of the slab products may be sold directly in the export market. See Item 5.A.1. Overview Product Mix and Prices. In February 1996, we discontinued our use of ingot casting, an

alternative method, which results in higher energy use and metal loss compared to continuous casting.

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

The steel plant regularly undergoes scheduled maintenance. Typically the rolling mills and coating lines are maintained on a weekly or bi-monthly basis whereas the blast furnaces and other major operating equipment are maintained on a monthly, semi-annual or annual basis. 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. We purchased 630 thousand mt of slabs to offset the production loss from the revamping of Blast Furnace #3, and the stoppage for the modernization of Hot Strip Mill #2 caused a 300 thousand-ton reduction in rolled material production, which negatively impacted export sales volume in 2001. One month after the completion of the revampings, production levels were back to the levels before the shut downs. These revampings significantly improved quality and productivity, reducing production costs. As a result of the revamping of Blast Furnace #3, annual crude steel capacity is expected to increase to approximately 5.8 million mt by the end of 2003, from approximately 5.0 million mt at the beginning of 2001. Likewise, the modernization of Hot Strip Mill #2 is expected to increase annual rolled product capacity to 5.4 million mt, from approximately 5.0 million mt.

Quality Management Program

We practice Total Quality Management, a set of techniques that have been adopted by many leading multinational 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 ISO. We were awarded the ISO 9002 Certificate of Compliance in March 1993. We were awarded the ISO 9001 Certificate in December 1994 for the design and manufacture of hot-rolled flat and pickled and oiled products, cold-rolled and galvanized products, and tin mill products. The maintenance of the ISO 9001 Certificate requires satisfactory semi-annual audits by an ISO-accredited organization. In 1997, we were awarded the automotive industry s QS 9000

Compliance Certificate for the design and manufacture of hot-rolled flat, pickled and oiled products, and cold-rolled and galvanized products. The main automotive companies, like Volkswagen, General Motors and Ford, require their suppliers to satisfy the QS 9000 standards. Our ISO 9001 and QS 9000 Certificates were renewed in February 2002.

Production Output

In 2002, we produced 5.1 million tons of crude steel. 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
2002	29.6	5.1	17.2
2001	26.7	4.0	15.2
2000	27.8	4.8	17.2

Source: Brazilian Steel Institute.

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

CERTAIN OPERATING STATISTICS OF CSN
(In millions of metric tons)

	2000	2001	2002
Production of:			
Iron Ore	10.1	10.7	12.3
Molten Steel	4.9	4.1	5.2
Crude Steel (Slabs)	4.8	4.0	5.1
Hot-rolled Coils and Sheets	4.6	4.1	4.7
Cold-rolled Coils and Sheets	2.7	2.6	2.7
Galvanized Products	0.8	0.7	0.7
Tin Mill Products	1.0	1.0	1.0
Consumption of Coal for Coke Batteries	2.3	2.3	2.3
Consumption of Coal for PCI[(1)]	0.8	0.6	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, manganese ore, 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. For a breakdown of recent production costs, see Item 5.A.1. Overview Production Costs.

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 capacity of 18.3 million tons of iron ore

annually (run-of-mine or ROM) with a production ratio of 78.0%, resulting in a processing capacity of 14.3 million tons of processed iron ore. In 2002, the run-of-mine was 15.9 million tons, resulting in a final quantity of 12.3 million tons of processed iron ore. Of this total, approximately 7.5 million tons were utilized at the Presidente Vargas Steelworks and approximately 4.8 million tons were sold to third parties, consisting of approximately 2.2 million tons of sinter-feed material, 2.0 million tons of pellet feed materials and 0.6 million tons of lump ore. In addition, approximately 0.6 million tons of sinter-feed material in inventory was sold to third parties.

Based on data available as of December 31, 2002, we estimate that the Casa de Pedra mine has proven and probable reserves of 409 million tons and other mineral deposits (hematite and itabirite) of 4,078 million tons. See Item 4.B.7. Facilities Mines and Mineral Reserves. Assuming current levels of production, the estimated proven and probable reserves will meet our needs for at least 26 years.

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, Plants and Equipment for the location of the Casa de Pedra mine in relation to the Presidente Vargas Steelworks.

In 2002, coal purchases amounted to 3.1 million tons and accounted for approximately 18.8% of our production costs. 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. However, we negotiate price and quantity terms through a consortium of Brazilian steel producers (including our main competitors) to obtain the best price for coal. Coal contracts for the year ended June 30, 2002 resulted in a 38.5% average price increase (in U.S. dollars) for coking coal compared to the year ended June 30, 2001. The main drivers for this above-average price increase were the steel production volume increase in 2000, the energy crisis in the State of California and the reduction in supply caused by the closing of unprofitable coking coal mines around the world. Negotiations for the year ended June 30, 2003 were concluded in the beginning of July 2002. We renewed our annual coal supply contracts with an average price reduction in U.S. dollars of 8%. This reduction reflects a 4% drop in average coking coal prices and a 15% drop in average PCI coal prices. For coking coal, the reduction reflects strategic changes in the blend of coal utilized in terms of source and quality, and gains from negotiations, partially offset by an 8-13% increase in international prices for coking coal. For PCI coal, the reduction is a result of a 10% drop in international prices, favorable climatic conditions, stabilization of the California energy crisis and the incorporation of new technologies in our blast furnaces. Negotiations are currently underway for the year ending June 30, 2004.

In 2002, in addition to the approximately 1.7 million metric tons we produced, we also bought approximately 280 thousand tons of coke. Since 1997, we have been using a PCI system for our blast furnace operations that allows us to use less coke in our blast furnaces and a lower grade coal. The PCI system has

reduced the cost of imported coal and our need for imported coke, thereby reducing our production costs. In 2002, we used 755 thousand tons of imported PCI coal.

If we were to increase our steel production to our 5.8 million ton capacity without increasing our coke production capacity or expanding or adjusting our PCI system, we would need to increase our imports of coke. Increased production of steel worldwide has increased demand for coke.

We obtain limestone and dolomite from our Bocaina mine at Arcos in Minas Gerais state, which produces 1.5 million tons of limestone and 0.6 million tons of dolomite on an annual basis, all of which is used in the steelmaking process. According to our internal studies, the Bocaina mine has proven and probable reserves of 90 million tons of limestone and 31 million tons of dolomite, respectively, as of December 31, 2002, which, assuming current levels of production, will meet our limestone needs for 59 years and dolomite needs for 51 years. See Item 4.B.7. Facilities Mines and Mineral Reserves. See the map under Item 4.D. Property, Plants and Equipment for the location of the Bocaina mine in relation to the Presidente Vargas Steelworks.

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

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 White Martins Gases Industriais S.A. under long-term contracts from gas production facilities located on the grounds of the Presidente Vargas Steelworks.

Large amounts of water are also required in the production of steel. Water serves as a solvent, a catalyst and a cleaning agent. It is also used to cool, to carry away waste, to help produce and distribute heat and power, and to dilute liquids. 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 R$1.9 million (US$0.6 million).

Steelmaking requires significant amounts of electricity to power rolling mills and energy to convert coal to coke. In 2002, the Presidente Vargas Steelworks consumed approximately 2.4 million MW hours of electric energy or 468 kilowatt

hours per ton of steel. This consumption made us one of the largest consumers of electricity in Brazil, accounting for approximately 10% of the overall consumption of electricity in Rio de Janeiro state. Until 2000, we purchased over 95% of our electric energy needs from Light. In order to reduce our reliance on Light and to improve the reliability and price stability of our electric energy supply, we 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 sell the electric energy generated by the thermoelectric co-generation power plant or taken from Itá or Igarapava that is in excess of our needs in the MAE. A severe drought in Brazil s northeastern and southeastern regions in 2000 and 2001 reduced hydroelectric generation. The drought and an energy rationing program imposed by the Brazilian Government caused electric energy prices to increase substantially in 2001. As a result, our sales of excess electric energy generated operating revenues of over US$200 million in 2001. With the ending of the drought and the rationing program, electric energy prices declined substantially. In addition, with increased steel production, we consumed more of the electric energy we generated or took from Itá. As a result, operating revenues from our sales of excess electric energy decreased US$200 million to US$30 million in 2002 from US$230 million in 2001, and we are currently not selling any significant amounts of electric energy. See Item 3.D.1. Risk Factors Relating to the Steel Industry and CSN Collectibility and Timing of Payment of Receivables from Sales of Electric Energy and Operating Revenues under 2002 Compared to 2001 and 2001 Compared to 2000 in Item 5.A.2. Operating Results.

As discussed under Item 4.B.6. Investment Programs Infrastructure Investments Electricity Distribution and Generation, we have announced that we are considering selling the thermoelectric co-generation power plant at the Presidente Vargas Steelworks and our interest in the Itá hydroelectric facility. In connection with any such transactions, we would attempt to include arrangements to guarantee our supply, such as entering into long-term power purchase agreements with the purchasers of these assets.

In addition to electricity, we consume natural gas, principally in our hot-stripping lines. 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 Petróleo Brasileiro S.A. 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. Rail 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 principally from the ports of Sepetiba and Rio de Janeiro, and import coal and coke through the port of Sepetiba, all in Rio de Janeiro state. The coal terminal of the port of Sepetiba has been operated by us since August 1997. See Item 4.B.6. Investment Programs Infrastructure Investments Port Facilities.

6. Investment Programs

Capital Improvement Program

Under our capital improvement program, we aim to increase productivity, improve quality, and move our product mix towards higher margin items, while reducing costs and making environmental improvements.

We spent approximately US$250 million in 2000, US$275 million in 2001 and US$174 million in 2002, and expect to spend approximately US$40 million in 2003, for our capital improvement program. In addition to this program, we invested US$127 million in 2000, US$155 million in 2001 and US$90 million in 2002 to maintain our operational capacity (e.g., equipment revamping, spare parts, building repairs, equipment automation and information technology).

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

Specific projects already completed under the capital improvement program include the installation of sub-lance and combined-blowing in the basic oxygen

furnace, the conversion to 100% continuous casting production of slabs, the installation of electrostatic precipitators for the Nos. 2, 3 and 4 sinter plants, the installation of PCI technology and the installation of hydrogen high-convection batch annealing furnaces.

The principal components of our capital improvement program in 2001 and 2002 were:

- the revamping of Blast Furnace #3, reflecting an investment of R$412 million (US$213 million), of which R$219 million (US$112 million) was invested in 2001 and R$17 million (US$6 million) in 2002. This revamping included various structural alterations based on new cooling technologies and the use of thinner refractory bricks. With the increase in volume, the revamping will result in an expansion of annual crude steel production capacity from 5.0 million tons at the beginning of 2001 to 5.8 million tons by the end of 2003.
- the modernization of Hot Strip Mill #2, reflecting an investment of R$366 million (US$180 million), of which R$257 million (US$131 million) was invested in 2001 and R$45 million (US$15 million) in 2002. The new technologies installed allow the improvement of product dimensions and shapes in order to comply with the most demanding of client specifications. In addition, the entire production control was automated, thus increasing the effective rolled product capacity from 5.0 to 5.4 million tons.
- an investment of US$38 million in 2001 and US$18 million in 2002 in environmental projects to fulfill an accord with the environmental protection agency of Rio de Janeiro state, Fundação Estadual de Engenharia do Meio Ambiente FEEMA.

The principal component of the capital improvement program in 2003 will be the completion of CSN Paraná. For a discussion of our obligation to make environmental expenditures, see Item 4.B.11. Government Regulation and Other Legal Matters Environmental Regulation.

In addition to the capital improvement program, we continue to consider possible acquisitions, joint ventures or greenfield projects to increase our steel producing capabilities.

Investments in Downstream Opportunities, New Products and Market Niches

We are implementing our strategy of developing downstream opportunities, new products and market niches by creating or expanding capacity for products for sale to the automotive sector and by investing in a pickling line, cold-rolling mill, annealing facilities and galvanizing line for production of steel for the construction and home appliance industry sectors.

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

ninth largest flat steel distributors. INAL is now Brazil s second largest flat steel distributor.

In May 1998, we and Thyssen-Krupp formed a joint venture company, GalvaSud, to produce and sell galvanized steel Galvanew®, laserweld and pre-stamped parts for the automotive industry sector described above. The galvanizing line began producing in December 2000, and the service center, which produces pre-cut, pre-stamped and pre-painted galvanized material, started in March 2001. Currently, production capacity is approximately 300 thousand mt, and full capacity of 350 thousand mt should be reached by the end of 2003. Total investment in GalvaSud is approximately US$236 million.

We are constructing CSN Paraná to produce and supply plain and formed galvanized products, galvalume and pre-painted steel products for the construction and home appliance industries. It is estimated that our total investment in this project will be approximately US$237 million. The first part of this project the galvanizing line is expected to be completed by the end of June 2003. The second phase the pickling line is expected to be running by the end of 2003. The plant has an annual design capacity of 330 thousand mt of galvanized products and galvalume, 100 thousand mt of pre-painted product (which can use cold rolled or galvanized steel as raw material) and 220 thousand mt of pickled coils in excess of the coil required for the galvanized products and galvalume.

In December 2000, we inaugurated a service center at CSN Paraná (in which we invested US$17 million). In April 2003, this service center was combined with INAL s operations.

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$50 million and the assumption of US$19 million of debt. Construction of the facility, which cost approximately US$250 million, was completed in January 2000, but because of production and marketing difficulties, the facility never operated at more than a fraction of its designed capacity. As a result, Heartland Steel filed for bankruptcy protection in January 2001. CSN LLC s parent borrowed US$175 million to finance the acquisition and provide anticipated working capital and interest payments for two years. We expect to exercise our option to acquire all of the membership interests in CSN LLC in July 2003 for a price equal to such borrowings. In the future, we will integrate this facility with a new or to be acquired hot strip mill or secure long-term tolling arrangements. A new hot-rolling facility could require an investment of approximately US$150 million. Currently, CSN LLC is obtaining hot coils by buying slabs from us and then having them tolled into hot coils by American steel producers.

Under the protectionist measures issued by the President of the United States on March 5, 2002 under Section 201 of the U.S. Trade Act of 1974 and described under Item 4.B.11. Government Regulation and Other Legal Matters Antidumping Proceedings United States, Brazil is entitled to an initial annual quota of 2.5 million mt of slabs. The quota increases by approximately 235 thousand mt annually and is scheduled to terminate in 2005. Our share of the Brazilian

quota is enough to supply CSN LLC with its needs to run its galvanizing line at full capacity.

As part of our strategy to expand into the tin-coated products market, we acquired 100% of the shares of Metalic for R$108.5 million, indexed as of July 1, 2002 by the General Market Price Index announced by Fundação Getúlio Vargas (US$30 million), plus interest of 12% per year, to be paid in 12 monthly and successive installments, commencing November 2002. Metalic was purchased from the Steinbruch family in a transaction at arm s length. Metalic is the only two-piece steel can producer in Brazil. It has approximately 40% of the packaging market for carbonated drinks in the North and Northeastern regions of Brazil. Currently, we are the main DWI steel supplier to Metalic.

We have agreed to acquire, for approximately 10.8 million, a 50% stake in Lusosider, a producer of dipped galvanized products and tin plate located in Seixal, near Lisbon, Portugal. Lusosider produces annually approximately 200 thousand tons of galvanized products and 70 thousand tons of tin plate. Its main customers include service centers and the food and beverage can making and steel packaging industries. Around 86% of its sales are made on the Iberian Peninsula. Corus owns the other 50% of Lusosider. We expect to complete the acquisition of Lusosider by the end of June 2003.

Infrastructure Investments

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

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 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.

In line with our strategy to sell investments that are not directly related to our core steel business, we have announced that we are considering the sale of the assets comprising our thermoelectric co-generation power plant. In connection with any such sale, we would attempt to include arrangements to guarantee our supply, such as entering into long-term power purchase agreements

with the purchasers of these assets.

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 R$168 million (US$78 million) of debentures issued by ITASA, a R$300 million (US$144 million) loan from private banks and R$242 million (US$116 million) of direct financing from BNDES. The sponsors have invested approximately R$340 million (US$306 million) in the project.

Itá has an installed capacity of 1450 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 to 15-year power purchase agreements, often referred to as a PPA, at a fixed price per MW 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 sold the excess. Since October 2002, we have used all of our Itá take internally.

In line with our strategy to sell investments that are not directly related to our core steel business, on August 31, 2001, we announced that we are considering the sale of our stake in ITASA. In connection with any such sale, we would attempt to include arrangements to guarantee our supply, such as entering into long-term power purchase agreements with the purchasers of these assets.

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 used 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 in the MAE.

Light. Pursuant to an agreement entered into on December 11, 2000, we sold our interest in Light to AES Corporation and EDF International S.A., controlling

shareholders of Light, for US$362 million. Light supplies electric energy in 30 municipalities of Rio de Janeiro state and was, until the 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks came fully on stream in October 2000, our principal source of electricity. The financial closing occurred in January 2001. In accordance with SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets, the sale was recorded in 2001. Our results for 2001 include a gain, net of income taxes, of US$150 million from the sale.

Railways

Central-Eastern Railway System. We own 11.9% of Ferrovia Centro-Atlântica S.A. FCA, which has the lease to operate, through the year 2026, the assets of the central-eastern railway system. The central-eastern railway system covers 7,080 km of track extending into Sergipe, Bahia, Espírito Santo, Minas Gerais, Goiás and Rio de Janeiro states and Brasília. In addition to serving other customers, the line transports limestone and dolomite from our mines at Arcos in Minas Gerais state to the Presidente Vargas Steelworks and transports our exports to the port of Angra dos Reis. Our transport volumes represent approximately 11% of the central-eastern railway system s total volume. As of December 31, 2002, R$253.5 million (US$71.7 million) remained payable over the remaining 24-year life of the lease. The present value of the lease, on December 31, 2002, was R$73.7 million (US$20.9 million). While we have joint and several liability with the other principal FCA shareholders for the full payment amount, we expect that FCA will make the lease payments through internally generated funds and proceeds from borrowings. In August 1998, FCA successfully bid for the concession to operate, for a term of 25 years, the Port of Angra dos Reis. CVRD is also a shareholder of FCA.

In April 2003, we announced our intention to sell our stake in FCA to CVRD for R$1 million (US$0.3 million) and enter into a 10-year contract with FCA to transport limestone and dolomite from our mines to the Presidente Vargas Steelworks.

Southeastern Railway System. We own 32.2% (18.6% of the voting capital) of MRS Logística S.A. MRS, which has a lease to operate, through the year 2026, the assets of 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 should handle most of our steel exports in the near future. Our transport volumes represent approximately 19% of the southeastern railway system s total volume. As of December 31, 2002, R$2,952 million (US$835 million) remained payable over the remaining 24-year life of the lease. The present value of the lease, on December 31, 2002, was R$1,154.5 million (US$326.7 million). 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. We have a 32.4% interest in Companhia Ferroviária do Nordeste CFN, which has a lease to operate for a period of 30 years the assets of Brazil s northeastern railway system. The northeastern railway system covers 4,535 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. As of December 31, 2002, R$49.0 million (US$13.9 million) remained payable over the remaining 25-year life of the lease. The net present value of the lease on December 31, 2002 was R$26.1 million (US$7.4 million). We have joint and several liability with the other principal CFN shareholders for the full payment amount. CVRD and the Steinbruch family are also shareholders of CFN. See Item 7.A. Major Shareholders and Item 6.A. Directors and Senior Management.

In connection with the announcement of our proposed sale of our interest in FCA to CVRD, we also announced our intention to acquire, together with the Steinbruch family, CVRD s stake in CFN. The transaction would involve a disbursement by CVRD of R$100 million (US$33 million). Upon completion of the transaction, we will own 49% of CFN.

Port Facilities

Coal Terminal. In April 1997, we successfully bid for the concession to operate, for a 25-year term that is renewable for another 25 years, the coal terminal at the port of Sepetiba at a final cost to us of R$37 million (US$34 million). Since then, we have invested an additional R$58 million (US$36 million) in modernizing the terminal and bringing it into compliance with environmental regulations. We import all of our coal requirements through the Sepetiba coal terminal, which is located in Rio de Janeiro state. Under the terms of the concession, we undertook to transport at least 3.4 million metric tons of coal and coke through the terminal annually, as well as to transport shipments of third parties.

Container Terminal. In September 1998, we and CVRD each acquired a 50% interest in Sepetiba Tecon S.A. TECON, which has a concession to operate, for a 25-year term that is renewable for another 25 years, the container terminal at Sepetiba. The container terminal is one of four terminals, including the Sepetiba coal terminal, which form Sepetiba Port. Sepetiba Port, in turn, is connected to the Presidente Vargas Steelworks by the southeastern railway system. We and CVRD each contributed R$19.5 million (US$16.6 million) to the acquisition of the concession. As of December 31, 2002, R$161.8 million (US$45.8 million) remained payable over the next 23 years. The present value of the concession, on December 31, 2002, was R$65.3 million (US$18.5 million). TECON invested R$48.2 million (US$26.3 million), R$45 million (US$19.1 million) and R$1.4 million (US$0.5 million) in the container terminal in 2000, 2001 and 2002, respectively. TECON began operations in September 1999 and is expected to reach a nominal capacity of 600 thousand containers per year by 2008. We intend to concentrate on the export of our steel products through the port. Approximately 65% of the total steel products that we exported in 2002 were

shipped through TECON.

In connection with the announcement of our proposed sale of our interest in FCA to CVRD and our proposed purchase of CVRD s interest in CFN, we also announced our intention to acquire CVRD s stake at TECON for R$81 million (US$26 million).

Investment in CVRD

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. The financial closing occurred in March 2001. In accordance with SFAS No. 125, the sale was recorded in 2001. Our results for 2001 include a gain, net of income taxes, of US$436 million from the sale.

7. Facilities

Steel Mill

The Presidente Vargas Steelworks, located in the city of Volta Redonda, Rio de Janeiro state, began operating in 1946. It is an integrated facility covering approximately 3.8 square km and containing five coke batteries (three of which are currently in operation), four sinter plants (three of which are currently in operation), three blast furnaces (two of which are currently in operation), a basic oxygen furnace steel shop, which is also referred to as a BOF shop, with three converters (all in operation), four continuous casting production lines (three of which are currently in operation), two hot strip mills (one of which is in operation), three cold strip mills, two continuous pickling lines, a continuous annealing line for sheet steel, three continuous galvanizing lines, four continuous annealing lines for tin mill products and six electrolytic tinning lines. As a result of the revamping of Blast Furnace #3 and the modernization of Hot Strip Mill #2 during 2001, by the end of 2003 our annual crude steel capacity is expected to increase to approximately 5.8 million mt, from approximately 5.0 million mt at the beginning of 2001, and our annual rolled product capacity is expected to increase to approximately 5.4 million mt, from approximately 5.0 million mt.

Our major operational units and corresponding production capacities as of May 2003 are set forth in the following chart:

	EFFECTIVE CAPACITY	
	Metric tons per year	**Equipment in operation**
Process		
Coking plant	1,650,000	3 batteries

Sintering plant	5,950,000	3 machines
Blast furnace	5,200,000	2 furnaces
BOF shop	5,500,000	3 converters
Continuous casting	5,400,000	3 casters
Finished Products		
Hot strip mill	5,100,000	1 mill
Cold strip mill	2,800,000	3 mills
Galvanizing line	800,000	3 lines
Electrolytic tinning line	1,060,000	6 lines

In addition, White Martins Gases Industriais S.A., one of the largest industrial chemicals manufacturers in Brazil, completed in 1996 the construction of a captive gas production facility, with a daily capacity of 2,100 tons, on the premises of the Presidente Vargas Steelworks. The facility is designed to supply oxygen, nitrogen and argon to our steelmaking shop. In 2002, we used 887 thousand tons of oxygen to produce 5.1 million tons of crude steel.

Mines and Mineral Reserves

We have concessions to mine iron ore, limestone, dolomite and manganese. 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 are currently engaged in an extensive, multi-year study of our iron ore reserves at our Casa de Pedra mine in Congonhas, Minas Gerais state. The study consists of two phases. Phase one, which was completed during 1999, covered the ore bodies that are currently being mined or are close to the current operating open pits. Phase two, which was completed in early 2003, covered the other iron ore deposits at the Casa de Pedra site.

The following table sets forth our estimates of proven and probable reserves and other mineral deposits at our mines as of December 31, 2002, reflecting the results of the phase two reserve study. 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

	Proven and Probable Reserves[1]					**Other Mineral Deposits[2] (Hematite and Itabirite)**
Mine Name and Location	**Ore Tonnage[3] (millions of tons)**		**Grade[4]**	**Rock Type**	**Recoverable Product[5] (millions of tons)**	**Tonnage (millions of tons)**
	Proven[6]	**Probable[7]**				

Iron:						
Casa de Pedra Congonhas, Minas Gerais	178	231	60.4% Fe	Hematite (70%) Itabirite (30%)	319	4,078
	Proven+Probable					
Limestone:						
Bocaina Arcos, Minas Gerais	90		52% CaO[8] 2% MgO[9]		90	N/A
Dolomite:						
Bocaina Arcos, Minas Gerais	31		35% CaO[9] 17% MgO[8]		31	N/A

(1) Reserves means that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
(2) Other Mineral Deposits includes inferred tonnages.
(3) 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, Plants 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 mining facility located at Congonhas, Minas Gerais state. This mining facility has an installed annual run-of-mine capacity of approximately 18.3 million tons. Assuming current levels of production, the estimated proven and probable reserves will meet our needs for at least 26 years. The Casa de Pedra mining facility is located 328 km from the Presidente Vargas Steelworks.

In connection with the sale of its 10.3% interest in us, CVRD obtained a 30-year right of first refusal to purchase any production of iron ore from our Casa de Pedra mine in excess of our and our affiliates needs. CVRD also has a

right of first refusal to buy the Casa de Pedra mine if we decide to sell it. For a description of the agreement, see Item 10.C. Material Contracts.

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 four million tons. We believe that the mining facility has sufficient limestone and dolomite reserves to supply adequately our steel production, at current levels, for more than 59 and 51 years, respectively. The mining facility is located 455 km from the Presidente Vargas Steelworks.

8. Competition

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

Competition in the Brazilian Steel Industry

The 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:

	2000		**2001**		**2002**	
	Ranking	**Production**	**Ranking**	**Production**	**Ranking**	**Production**
		(in million tons)		*(in million tons)*		*(in million tons)*
CSN*	1	4.8	3	4.0	1	5.1
Companhia Siderúrgica de Tubarão CST*	2	4.8	1	4.8	2	4.9
Usinas Siderúrgicas de Minas Gerais S.A. Usiminas*	3	4.4	2	4.6	3	4.6
Companhia Siderúrgica Paulista Cosipa*	5	2.7	6	2.5	4	3.9
Gerdau S.A.*(1)	4	3.4	4	3.5	5	3.6
Companhia Siderúrgica Belgo Mineira*	7	2.6	5	2.7	6	2.8
Aços Minas Gerais S.A. Açominas*	6	2.6	7	2.4	7	2.4
Others		2.5		2.2		2.3

	2000	2001	2002
TOTAL	27.8	26.7	29.6

Source: Brazilian Steel Institute
* Indicates integrated producer
(1) Gerdau is partly integrated, but the bulk of Gerdau s steel production comes from non-integrated plants.

Only CSN, Usiminas and Cosipa produce flat-rolled carbon steel products in sizeable quantities. We believe that we have the following competitive advantages over our Brazilian competitors:

- Our focus on selling high margin products, such as tin plate and galvanized products, in our product mix;
- Our ownership of iron ore reserves compared to our domestic competitors purchase of their iron ore requirements from CVRD;
- Our thoroughly developed logistics infrastructure; from our iron ore mine to our steel mill to, finally, our ports; and
- Our start up of GalvaSud will provide material for exposed auto parts, using hot-dip galvanized steel, 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. Usiminas also has a new hot-drip galvanizing line.

Our Brazilian competitors have recently completed construction of additional steel processing capacity in Brazil. These include Usiminas completion in 2000 of a 400 thousand mt galvanizing line and a 600 thousand mt continuous annealing line for sheets, and CST s completion at the end of 2002 of a 2.0 million mt hot-strip mill. In addition, a joint venture between CST and Arcelor SA, the world s largest steel producer, expects to complete a 400 thousand mt galvanizing facility by the second half of 2004.

Competitive Position Global

During 2002, Brazil was the eighth largest producer of crude steel in the world with a production output of 29.6 million tons and a 3.3% share of total world production. Brazil accounts for more than 50% of total steel production in Latin America, with 2002 production more than twice that of Mexico and approximately 32% the size of U.S. production. In 2000, the last year for which comparative data are available, Brazil was the tenth largest steel exporter in the world, behind Japan, Russia, Germany, Ukraine, Belgium-Luxembourg, France, Korea, Italy and China, and the fourth largest net exporter after Russia, Japan and Ukraine. In 2002, Brazil s 11 million tons of exports of finished and semi-finished steel products accounted for approximately 5% of total global steel exports.

We, Brazil s largest steel manufacturer, 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 steel, although lower value-added,

lower margin hot-rolled products and slabs constitute a higher percentage of our export sales than of our domestic sales. We have relatively low-cost labor available 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.11. Government Regulation and Other Legal Matters Antidumping 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 and low-cost labor and energy resources. Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports that allow the operation of large ships, which facilitates access to export markets. As a result of these advantages, Brazil has some of the lowest steel production costs in the world.

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

9. Research and Development

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

Expenditures for research and development for the years ended December 31, 2000, 2001 and 2002 were US$9.0 million, US$8.0 million and US$8.0 million, respectively. 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) and tin mill products for two-piece 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. Insurance

We maintain all risk insurance, including business interruption insurance, at the Presidente Vargas Steelworks. For our mining facilities and port operations, we maintain insurance that we believe adequately covers the principal risks of operating these facilities. In addition, we maintain transportation risk insurance, as well as general third party liability insurance. We also insure our hydroelectric, electricity distribution, railways, coal and container terminal investments.

11. Government Regulation and Other Legal Matters

Environmental Regulation

We are subject to Brazilian federal, state and municipal laws and regulations governing environmental obligations and liabilities. We are committed to controlling the substantial environmental impact caused by steelmaking, mining and port operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. 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.

We provide 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 provided for, will have a material adverse effect on our consolidated financial position. The

actual provision for environmental contingencies relates mainly to penalties and lawsuits imposed on our coal mines, which have been decommissioned since 1989, and fines related to consent orders issued between 1986 and 1998 on the Presidente Vargas Steelworks.

We operate an environmental department managed under an EMS Environmental Management System, compliant with ISO 14001 requirements. We received the ISO 14001 Certificate for our iron ore mining operations in December 2000 (with certification renewed in 2001 and 2002) and for our steelmaking units and limestone mining operations in December 2002.

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 as follows: 2000 R$172.5 million (US$94.3 million); 2001 R$150.9 million (US$64.2 million); and 2002 R$123.0 million (US$42.1 million). Of the R$123.0 million (US$42.1 million) spent in 2002, capital expenditures constituted R$52.6 million (US$18.0 million) and environmental maintenance and operating costs constituted R$70.4 million (US$24.1 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). Under the last amendment of this accord, we were obligated to make over the next three years expenditures aggregating R$181 million (US$101 million) on 130 items, which include environmental technology and construction of new equipment to control soil, air and water pollution. We also agreed in the amendment to spend R$14 million (US$5 million) to build sanitation facilities to benefit the Volta Redonda community (the Compensatory Measures).

As of December 31, 2002, we had invested under the FEEMA Accord an aggregate of R$250 million (US$121 million based on the average exchange rate of cash disbursement), completing all 130 items, and spent R$13 million (US$6.2 million) on new infrastructure and community services. Some residual expenditures required under the FEEMA Accord are expected to be made through 2003. Total expenditures related to the FEEMA Accord stated in reais are increased due to the impact of real devaluation on investments indexed in foreign currency.

As a result of these expenditures and our continuing compliance with the FEEMA Accord, environmental fines on the Presidente Vargas Steelworks of R$36 million (US$20 million) are currently suspended. These fines will be dismissed if FEEMA can verify that we have completed the 130 actions and expenditures required by the FEEMA Accord and the agreed Compensatory Measures: doubling the local water treatment plant facility (completed in May 2001), building a sanitary landfill (completed in March 2003) and donating land for the construction of a wastewater plant for the city of Volta Redonda (concluded in December 2000). The final audit was carried out in January and February 2003, and on May 6, 2003, FEEMA declared that we have completed all of our obligations.

Accordingly, we expect FEEMA to cancel the fines in the coming months, when it completes its administrative procedures.

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). Under the January 1995 Accord, we invested R$1.4 million (US$0.8 million) in an environmental quality program designed to preserve the environment and provide assistance to the Volta Redonda community. The program s priority is to compensate the city of Volta Redonda for environmental damage allegedly caused by the Presidente Vargas Steelworks. This program has been suspended since 2000 as a result of an appeal by the state public attorney s office. The January 1995 Accord also requires funds to be allocated to protect one of the last Atlantic rainforest reserves in the city of Volta Redonda and the several endangered species inhabiting it.

On November 30, 2001, we entered into a term of commitment, which is similar to the January 2000 amendment of the FEEMA Accord, with SEMADS - Rio de Janeiro State Secretariat for Environment and Sustainable Development (the SEMADS Accord), establishing a two and a half-year period to bring the Sepetiba coal terminal into compliance with applicable environmental laws and regulations. Pursuant to the SEMADS Accord, we have 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 SEMADS Accord is R$5 million (US$2 million), of which approximately R$2 million (US$0.6 million) remains to be spent in 2003.

Prior to 1990, we operated coal mining facilities in Santa Catarina state. As a part of these operations, we and other companies used waste ponds for mine tailings. The state environmental authority has required us and the other companies to take environmentally corrective action to restore the ponds. We have developed and have begun to implement a restoration plan with a total projected cost of approximately R$10 million (US$6 million). In 2001, this effort remedied the first areas with good results. The aggregate amount of expenditures on this remediation in 2001 was R$0.8 million (US$0.3 million). Other sites were remedied during 2002, with a total expenditure of R$0.7 million (US$0.2 million).

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

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

Antidumping Proceedings

Over the past several years, exports of steel products from various countries and companies, including Brazil and CSN, have been the subject of anti-dumping, counter-vailing 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 because we have found new markets to replace the ones affected by the protectionist activities of the governments of importers. In fact, our total export volume increased 68% from 2000 to 2002, reflecting our shift in focus more towards the export market in order to hedge against the depreciation of the real and to establish a significant presence in the export market.

Following are summaries of the investigations and other protectionist actions taken by those jurisdictions in which our sales accounted for more than 1% of our total sales volume in 2002. In addition, protectionist measures have been taken in Argentina, Canada, Chile, Venezuela, Malaysia and Hungary. The widespread adoption of protectionist measures, even if by countries that have

not been important markets for us, could nevertheless adversely impact the international markets for our products.

United States

Safeguard Measures. Under Section 201 of the U.S. Trade Act of 1974, the U.S. Trade Representative, known as USTR, may request that the U.S. International Trade Commission, known as the ITC, investigate the impact of imports on an industry in the United States. If the ITC determines that imports are a substantial cause of serious injury to U.S. producers, the ITC may recommend that the President of the United States implement safeguard measures, such as increased tariffs on the imported products at issue. Unlike antidumping (AD) or countervailing duty (CVD) cases, remedies under Section 201 apply to targeted imports regardless of country of origin. Section 201 relief is generally granted for three or four years, during which the domestic industry is expected to restructure itself so as to compete internationally. The President may, however, extend relief for an additional period of four years.

On March 5, 2002, following USTR s request that the ITC conduct an investigation into steel imports and the ITC s recommendations, the President imposed relief measures on 14 steel product categories, covering most products imported into the U.S. and most exporting sources, including Brazil. The measures, which will be in force for three years, were applied to all of our product categories except tin mill products. Tariffs of 30% for the first year, decreasing to 24% and 18% in the second and third years, were imposed on hot-rolled, cold-rolled and galvanized flats. A quota for slabs of 4.9 million metric tons for the first year, increasing to 5.4 million metric tons in the second and 5.8 million metric tons in the third year was established, with tariffs of 30% for the first year, 24% for the second and 18% for the third year to be applied to volumes over the quota.

Approximately 2.5 million tons of the initial slab quota was allocated to Brazil, reflecting the level of Brazilian exports prior to the imposition of the relief. Our share of the Brazilian quota is enough to supply CSN LLC with the slabs it needs to run its galvanizing line at full capacity. Since the quota increases by approximately 200 thousand mt annually and is scheduled to terminate in 2005, we do not believe that the quota will impede any future expansion of CSN LLC s capacity, since any contemplated expansion would take two to three years to complete.

Several countries lodged complaints against the U.S. safeguard measures with the World Trade Organization, known as the WTO. In March 2003, the WTO ruled in their favor. We are unable to predict what the U.S. response will be to the WTO ruling.

Antidumping and Countervailing Duties. In September 1998, U.S. authorities initiated AD and CVD investigations on hot-rolled steel sheet and coils imported from Brazil and other countries. On February 19, 1999, the U.S. Department of Commerce reached a preliminary determination on the AD and CVD margins, on which AD and CVD duties are based, with respect to hot rolled steel sheets. Our preliminary margins were determined as follows: AD 50.7% and CVD

6.6%. On July 6, 1999, Brazil and the United States signed a five-year suspension agreement that became effective as of October 1, 1999. Under this suspension agreement, a ceiling on Brazilian hot-rolled exports to the United States was fixed at 295 thousand tons per year. A minimum price of US$327 per ton (DDP-delivery duty paid) was also fixed, subject to quarterly review by the Department of Commerce. As a result of the suspension agreement, we have not exported any hot-rolled products to the United States in recent years. On February 11, 2002, the Commerce Department terminated the suspension agreement, reinstating AD and CVD margins of 41.27% and 6.35%. While the resulting duties are in effect, we do not expect to export any substantial amount of hot-rolled products to the United States.

On July 19, 1999, the ITC determined preliminarily that Brazilian cold-rolled exports were the cause of injury to the U.S. producers. On January 19, 2000, the Department of Commerce reached a final determination on AD and CVD margins applicable to our cold-rolled exports to the United States as follows: AD 63.32% and CVD 7.14%. On March 3, 2000, the ITC made its final determination, finding that there was no injury to the U.S. market from Brazilian cold-rolled exports, and therefore, no AD nor CVD duties were imposed on Brazilian cold-rolled flat products.

In October 2001, the U.S. steel industry initiated AD and CVD proceedings against 20 exporting countries of cold-rolled flat products, including Brazil. In September 2002, final CVD margins ranging from 7.9% to 13.94% and final AD margins of 33% have been determined by the Department of Commerce. In October 2002, the ITC, however, determined that Brazilian exports of the subject product were not the cause of the injury alleged by the U.S. petitioners. Therefore, no AD or CVD will be imposed on Brazilian cold-rolled flat products exported to the United States.

European Union. In March 2002, the European Commission, in an attempt to avoid an increase in imports as a result of diversions of products from the United States as a result of its safeguard measures, imposed provisional safeguard measures in the form of tariffs and quotas covering 15 groups of products. In September 2002, the European Commission imposed definitive safeguards on seven of the original 15 groups of products. Brazil has been exempted, as have many other developing countries with low import penetration in the European market.

Mexico. In December 1995, the Mexican authorities imposed AD and CVD margins on imported hot-rolled sheets and coils and on cold-rolled sheets and coils from Brazil and other countries. These measures were withdrawn in February 2001. In March 2002, the Mexican government increased import duties from 25% to 35% on steel products, including hot- and cold-rolled flats, as well as galvanized coils and sheets. Slabs and tin mill products were not affected by the increase.

China. In November 2002, China adopted definitive safeguard measures on five groups of products, but Brazil, as a developing country, has not been included in the Chinese measures.

12. Employees and Labor Matters

As of December 31, 2002, we had approximately 10,150 employees, of whom approximately 8,468 were employed by the parent company. This reflects a significant reduction from over 24,500 employees that we had as of December 31, 1989. As of December 31, 1997, we had approximately 13,570 employees.

Approximately 7,400 of our employees, who are employed at the Presidente Vargas Steelworks, are members of the steelworkers union of Volta Redonda and region, which is affiliated with the Força Sindical national union. An additional 504 employees are members of the iron ore miners union of Congonhas, which is affiliated with the Central Única dos Trabalhadores CUT, national union. The CUT national union has been a long-time political ally of the Partido dos Trabalhadores, the workers party that advocates socialism and social democracy.

We have collective bargaining agreements, renewable annually each May 1, with the two unions.

We are the principal sponsor of Caixa Beneficente dos Empregados da CSN 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$179 million as of December 31, 2002. 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$187 million as of December 31, 2002, approximately 24.6% of which was attributable to our Common Shares held by CBS. See Note 14 to our consolidated financial statements contained in Item 18 of this report.

In August 2002, the Secretaria de Previdência Complementar 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, will 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 reflected in our consolidated financial statements contained in Item 18 of this document.

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 company profitability target as well as goals based on measures including sales, cost control, productivity and inventory levels, appropriate to the nature of the different sectors.

Consistent with worldwide industry trends, 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.

13. Overview of World Steel Industry

The worldwide steel industry is comprised of hundreds of steelmaking facilities divided into two major categories, integrated steelworks and non-integrated steelworks, characterized by the method used for producing steel. Integrated plants, which accounted for approximately 65% of worldwide crude steel production in 2001, 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 2001, 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.

From 1991-2000, total global crude steel production ranged between approximately 720 million and 847 million tons per year. In 2001, global steel production was 832 million tons, representing a decrease of 1.8% when compared to steel production of 847 million tons in 2000. In 2002, it reached 886 million tons, a 6.4% increase compared to 2001 figures. Steel continues to be the material of choice in the automotive, construction, machinery and other industries. Notwithstanding potential threats from substitute materials such as plastics, aluminum, glass and ceramics, especially for the automotive industry, steel continues to demonstrate its economic advantage. Although South East Asia s and Japan s apparent steel consumption (which is a country s production less exports plus imports) was reduced by the economic crisis begun in late 1997, this region has shown a recovery since 2000, especially in China, which showed a 15% increase in 2001 and a 10% increase in 2002. The International Iron and Steel Institute has reported that world demand for finished steel products, after dropping from 694.8 million tons in 1997 to 691.6 million tons in 1998, has increased each year since. It is estimated that demand increased 4% in 2002, with a further 5% increase expected in 2003.

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. The exports of finished products from Brazil have continuously decreased in the last few years as a response to an increasing domestic demand for finished products. Brazil s exports of semi-finished steel products aggregated 6.4 million tons in 2001 and 7.8 million tons in 2002, which represented 69% and 67% of total steel exports for both periods, respectively.

Developing economies, such as China, while increasing their own production capacity, have been major steel importers over the past decade. Brazil, with

its large steel production capacity and tradition as a global exporter, has consistently exported a substantial portion of its production. Brazil s sales of steel products aggregated 25.0 million tons in 2001 and 27.5 million tons in 2002, which exceeded domestic demand of 15.7 million tons and 15.8 million tons by 9.3 and 11.7 million tons, respectively.

14. Brazilian Steel Industry

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

In 2002, Brazil was the eighth largest crude steel producer in the world with a production output of 29.6 million tons and a 3.3% share of global crude steel production. Brazil accounted for more than 50% of total steel production in Latin America in 2002, with production more than twice the size of Mexico s and approximately 32% the size of U.S. steel production.

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 semiautonomous companies under the control of Siderbrás, which 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 of the eight operating companies as a result of increased efficiencies, higher levels of productivity, lower operating costs, a decline in the labor force and a resumption of investment.

Domestic Demand

Historically, the Brazilian steel industry has been affected by substantial fluctuations in domestic demand for steel. Although national per capita consumption varies with gross domestic product, or GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Over the past several years, per capita crude steel consumption in Brazil fluctuated from between 96 kilograms in 1989 to 68 kilograms in 1992. In the last four years, it has increased from 99.4 kilograms per capita in 1998 to 105.0 kilograms in 2002, which is low by world standards.

While Brazil s real GDP grew at a rate of 3.0% in 1997, the world economic crisis caused Brazil s real GDP to grow only 0.15% in 1998 and 0.83% in 1999. The fluctuations in growth rates reflect inflation control and other measures taken by the Brazilian Government, such as increases in domestic interest rates, to counter economic pressures in 1998 and early 1999. In 2000, Brazil

showed a real recovery and GDP grew 4.2%. In 2001 and 2002, due to international crisis in Latin and North America and the electric energy rationing in Brazil, GDP grew only 1.5% in each year. From 2001 to 2002, total domestic steel sales increased approximately 0.9%, from 15.7 million tons to 15.8 million tons. Sales of flat steel products increased 0.5%.

The manufacturing industry, which accounts for the vast majority of Brazil s industrial production, grew 5.5% in real terms in 1997, but decreased 2.2% and 0.7% in real terms in 1998 and 1999, respectively, in the wake of the world economic slowdown. In 2000, industrial production led the Brazilian GDP growth, increasing 6.5%, but in 2001 it only increased 1.4%. In 2002, Brazil s industrial production recovered and increased 11%. The Brazilian flat steel sector is shifting production to the higher value-added consumer durables sector, a sector which is dependent on domestic consumer confidence, which, in turn, is linked to the economic and political record of the current Government administration. The consumer durable goods sector grew by 2.9% in 1997, decreased by 20.5% in 1998 as a result of the economic problems in Brazil, and increased by 7.7% in 1999 and 20.5% in 2000, as the economy improved. As a result of the energy crisis in Brazil, the consumer durable goods sector contracted 0.6% in 2001 but showed some recovery in 2002 with an increase of 7.7%.

Over the past years, significant investments were announced by the principal automobile manufacturers already in Brazil: General Motors, Ford, Fiat and Volkswagen. In addition, Renault, Honda, Daimler-Chrysler, Audi and Peugeot/Citroen are investing in new facilities in Brazil. During 2000, a total of 1.6 million vehicles were produced in Brazil, compared to 1.3 million and 1.6 million vehicles produced in 1999 and 1998, respectively. During each of 2001 and 2002, a total of 1.8 million vehicles were produced in Brazil.

Prevailing Production Processes

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

The Brazilian steel industry produced approximately 92.6% of its total output in 2002 using continuous casting technology, which is slightly higher than the world average of approximately 84.7% and less than the 96.2% and 97.3% rates in the U.S. and Japan, respectively, in 2001. As Brazil s flat steel producers invest in new technologies, including continuous casting, this percentage should increase. We have produced 100% of our total output using continuous casting since February 1996. See Item 4.B.4. Production Production Process.

Market Participants

Today the Brazilian steel industry is composed of 12 companies, with an installed annual capacity of approximately 34 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 87% of nominal crude steel capacity during 2002. The flat steel sector operated at a higher percentage of nominal capacity. Total Brazilian nominal capacity in 2002 was estimated at 34 million tons.

Exports/Imports

Brazilian steel exports were 9.3 million tons in 2001 and 11.7 million tons in 2002. In 2001 and 2002, export sales were 37% and 43%, respectively, of total Brazilian sales (domestic plus exports). Export sales accounted for US$2.9 billion in export earnings for Brazil in 2002, with steel representing the fourth largest dollar export of Brazil. In 2000, the last year for which such data is available, Brazil was the tenth 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 1.1 million tons, or 6.4% of domestic apparent consumption, in 2001 and 672 thousand tons, or 4.1%, in 2002. According to the Brazilian Steel Institute, domestic apparent consumption equals domestic sales plus imports. In 2002, Brazil had a steel trade surplus of US$2.5 billion and an overall trade surplus of US$13.1 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, cyclicality 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 2002, supply totaled 30.3 million tons, compared to domestic demand of 16.8 million tons.

Brazil enjoys a diversified export market. In 2002, export sales were made to over 120 countries. The United States is Brazil s major export market, accounting for 28.4% of all Brazilian steel exports, by value, in 2002. The next nine largest markets, taken together, accounted for 51.9% of Brazil s 2002 steel exports. See Item 4.B.11. Government Regulation and Other Legal Matters Antidumping Proceedings.

Raw Materials

One of Brazil s primary competitive advantages is low-cost raw materials. Brazil has an abundance of high-grade iron ore. Many of the integrated producers are based in Minas Gerais state, the site of some of the world s largest iron ore mines. Brazil s costs of iron ore are approximately one-third of those of Japan, Western Europe, the United States and South Korea. All coking coal is imported because domestic supplies are considered to be of low quality. While charcoal is readily available, environmental concerns are causing many charcoal integrated mills to consider abandoning charcoal for imported coke. The Brazilian steel industry has a low dependence on steel scrap due to the high percentage of integrated producers.

Electricity

Brazil benefits from vast hydroelectric resources, which greatly reduce costs of electrical power to industrial users.

C. Organizational Structure

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

D. Property, Plants and Equipment

Our principal executive offices are located in the city of São Paulo, São Paulo state at Av. Presidente Juscelino Kubitschek 1830 Torre 1, 13º andar, Itaim Bibi (telephone number (11) 3049-7100), and our 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 main steel mill, is an integrated facility covering approximately 3.8 square km and located in the city of Volta Redonda in Rio de Janeiro state. 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.

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, GalvaSud, Metalic and CSN LLC facilities, our iron ore, limestone and dolomite mines, the electric 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.

*We have recently announced our intention to acquire a 50% stake in Lusosider.

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 of this document. 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

The significant accounting policies which we believe are critical to aid in fully understanding and evaluating our reported financial position and results of operations are described in Note 2 of our consolidated financial statements. The accounting policies require us to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. The most

important estimates include the useful lives of our facilities, the iron ore reserves at Casa de Pedra and the future rates of production of the mine, the creditworthiness of our customers, the fair value of our financial instruments and the future liability of our pension fund.

- With the exception of the last item, we do not believe that we are required to make any estimates having a significant impact on the preparation of our financial statements with respect to our historical financial position, results of operations and cash flows that would require us to make assumptions about matters that are highly uncertain. Instead, our assumptions are based on our experience in matters such as operating our facilities and dealing with our customers. Furthermore, our core business the manufacture and sale of steel products is not substantially dependent on long-term contracts or other commitments.
- With respect to pension liabilities, we must make assumptions as to interest rates, investment returns, levels of inflation, mortality rates and future employment levels. These assumptions affect our liability for accrued pension costs and the amount we are required to provide each year as our pension cost. In the actuarial assumptions in our 2002 financial statements, we used an annual discount rate of 8% for the purpose of calculating our projected pension obligations and assumed a long-term annual rate of return on pension assets of 8%, in each case in excess of an annual inflation rate of 5%. We also assumed that compensation levels would increase each year by the inflation rate plus 1%. The discount and return rates, which are different from the rates we assumed in 2001 (10% in each case) and 2000 (6% in each case), are based on CBS s recent experience and our projection of Brazil s future economic performance. Our pension cost reflected in our 2002 operating results was US$6 million, compared to US$24 million and US$29 million in 2001 and 2000, respectively. The principal cause of the decreases in the last two years was the devaluation of the real.

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 steel products;
- the mix of products that we sell (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, and the inflation rate.

Supply and Demand for Steel

Prices of steel are sensitive to changes in worldwide and local demand, which in turn are affected by worldwide and country-specific economic cycles, and to

available production capacity. While the export price of steel (which is denominated in U.S. dollars 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, as there are 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 higher transportation costs and tariffs. The portion of production that is exported is affected by domestic demand, exchange rate fluctuations and the prices that can be obtained in the international markets. As a result of the significant depreciation of the real and an increase in export prices, with a simultaneous decrease in domestic demand, especially in the third quarter of 2002, margins for export sales have increased and currently exceed those for domestic sales.

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.

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 in the domestic market. 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, increased production capacity coming on stream could have a similar impact, because increased capacity results in an increase in hot-rolled product production before the production of downstream coated products increases. See Item 4.B.2. Major Products for the amounts and percentages of our sales volume and operating revenues attributable to each class of products.

Production Costs

The following table sets forth the production cost per ton (based on U.S. GAAP) of crude steel and the portion of production costs attributable to the primary components of our costs of production:

PRODUCTION COSTS(1)
(U.S. GAAP Basis)

	Year Ended December 31,					
	2000		2001		2002	
	US$/ton	%	US$/ton	%	US$/ton	%
Raw Materials						
Iron ore	5.76	2.7%	4.90	2.6%	5.08	3.4%
Coal	21.51	10.1	26.06	13.8	28.18	18.8
Coke	3.84	1.8	2.71	1.4	3.03	2.0
Outsourced Slabs	2.21	1.0	19.73	10.5	0.21	0.2
Other[2]	30.38	14.2	19.12	10.2	16.58	11.1
	63.70	29.8	72.52	38.5	53.08	35.5
Energy/Fuel	20.24	9.4	13.63	7.2	13.04	8.7
Transportation	14.72	6.9	12.76	6.8	11.38	7.6
Labor	35.08	16.4	26.94	14.3	19.78	13.2
Services and Maintenance	32.92	15.4	23.25	12.4	18.01	12.0
Depreciation	24.06	11.2	22.67	12.0	19.96	13.3
Tools and Supplies	21.17	9.9	14.52	7.7	12.80	8.6
Others	2.06	1.0	2.00	1.1	1.61	1.1
	213.95	100.0%	188.29	100.0%	149.66	100.0%

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

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

Our total number of employees has declined from approximately 13,570 as of December 31, 1997 to approximately 10,150 as of December 31, 2002. The average number of employees in operations declined from approximately 7,130 in 1999 to approximately 5,678 in 2002. Average operational productivity, measured in tons of crude steel produced per employee-year, increased from 701 in 2000 to 899 in 2002, reflecting the increase in production volumes and productivity as a result of the conclusion of our capital improvement program, including the revamping of Blast Furnace #3.

Brazilian Economic Conditions Impact of Real Devaluation

Our results of operations are affected by Brazilian economic conditions generally, in addition to factors that affect the supply and demand for steel, discussed above. In the three years covered by this Operating and Financial Review and Prospects, inflation has not had a material impact on our results of operations.

The impact during the three years of fluctuations in the real exchange rate against other currencies on our results of operations, particularly the volatile economic environment in 2002 and the 52.3% devaluation of the real against the U.S. dollar during 2002, can be seen in the foreign exchange and monetary loss, net line in our consolidated statements of income, although that amount is partially offset by the net financial income (or expense) attributable to the profit (or loss) on our hedging of our short- and medium-term foreign currency-denominated debt. The impact on our financial condition can be seen under translation adjustments for the year in our consolidated statements of changes in stockholders equity. In addition, the devaluation of the real results in the remeasurement of real amounts of revenues, costs and expenses into lower dollar amounts.

2. Results of Operations

For purposes of comparison, the following table presents the items indicated as percentages of net operating revenues for each of the three years in the period ended December 31, 2002 and the percentage change in each of these items from 2000 to 2001 and from 2001 to 2002:

	Year Ended December 31,			Increase (Decrease)	
	2000	2001	2002	2001/2000	2002/2001
Operating revenues	%	%	%	%	%
Domestic sales	104.3	108.4	85.2	(8.3)	(15.6)
Export sales	18.2	12.7	32.5	(38.4)	174.8
	122.5	121.1	117.7	(12.8)	4.4
Sales taxes, discounts, returns and allowances	(22.5)	(21.1)	(17.7)	(17.2)	(9.7)
Net operating revenues	100.0	100.0	100.0	(11.8)	7.3
Cost of products sold	57.3	55.8	54.0	(14.1)	3.8
Gross profit	42.7	44.2	46.0	(8.8)	11.9
Operating expenses					
Selling	6.5	4.8	6.9	(35.4)	54.9
General and administrative	6.0	6.4	6.0	(6.8)	0.9
Others	3.8	4.3	2.6	(1.4)	(35.6)
Operating income	26.4	28.7	30.6	(3.7)	14.2
Non-operating income (expenses), net					
Financial income	6.2	5.4	25.3	(24.0)	406.5
Financial expenses	(14.3)	(22.2)	(11.9)	37.1	(42.5)
Foreign exchange and monetary loss, net	(6.5)	(23.1)	(59.0)	211.8	174.5
Gain on sales of long-term investments		37.5			
Others	(1.0)	2.1	(1.6)		
Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle	10.8	28.4	(16.6)	132.4	
Income taxes					
Current	(5.3)	0.1	1.4		1,150.0
Deferred	4.5	2.8	10.3	(44.8)	295.8

	Year Ended December 31,			Increase (Decrease)	
	(0.8)	2.9	11.7		330.0
Equity in results of affiliated companies	4.1	(1.7)	(3.9)		136.7
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	14.1	29.6	(8.8)	86.1	
Extraordinary item, net of income taxes		0.8			
Cumulative effect of change in accounting principle, net of income taxes		0.3			
Net income (loss)	14.1	30.7	(8.8)	93.0	
Other Data:					
EBITDA[1]	36.6	40.0	39.8	(4.1)	7.2

(1) See Item 3.A. Selected Financial Data for a reconciliation of EBITDA to operating income.

2002 Compared to 2001

Operating Revenues

Our operating revenues were US$2,169 million in 2002, a US$91 million, or 4.4%, increase from operating revenues of US$2,078 million in 2001, reflecting a 26% increase in sales volume, which was partially offset by an 8% decrease in average net prices, as a consequence of the 52.3% real devaluation in 2002 (versus an 18.7% devaluation in 2001), and by the decrease in the sales of electric energy discussed below. The 26% increase in sales volume in 2002 reflects in part the decreased production in 2001 as a result of the revampings of Blast Furnace #3 and Hot Strip Mill #2.

Operating revenues from domestic sales decreased US$290 million, or 15.6%, to US$1,570 million in 2002 from US$1,860 million in 2001, reflecting the real devaluation and the decline in electric energy sales, which were partially offset by an average price increase in reais of approximately 48% during 2002. Domestic sales volume of steel products was unchanged from 2001, but because total sales volume in 2002 increased 26%, domestic sales volume as a percentage of total sales volume decreased in 2002 to 65.1% from 81.9% in 2001. Likewise, domestic sales of steel products constituted 70.4% of operating revenues from steel products in 2002 and 87.6% in 2001.

With the ending of the 2000-2001 drought and the termination of the Brazilian Government s electric energy rationing program in 2001, electric energy prices in the MAE declined substantially. In addition, with increased steel production, we consumed more of the electric energy we generated or took from Itá. As a result, operating revenues from our sales of excess electric energy decreased US$200 million to US$30 million in 2002 from US$230 million in 2001, and we are currently not selling any significant amounts of electric energy.

During 2000, 2001 and 2002, we recorded receivables aggregating R$484 million (US$137 million translated at the December 31, 2002 exchange rate) in respect

of our MAE electric energy sales, based on prices furnished by the MAE. In May 2002, the Agência Nacional de Energia Elétrica ANEEL issued Order No. 288, which retroactively imposed additional transmission costs, resulting in changes in the electric energy prices which we relied on. Therefore, in 2002, we made an R$86 million (US$24 million) provision to reflect these changes in electric energy prices. As a result of a partial settlement of the receivables related to these MAE sales, we received payment of R$91 million (US$26 million) in December 2002 and R$80 million (US$22 million) in January and February 2003. At March 31, 2003, R$227 million (US$68 million) of our MAE receivables remained outstanding. The settlement of our remaining MAE receivables is expected to occur after the completion of an independent audit by ANEEL to validate the accuracy of the amounts determined by the MAE and communicated to the electric power companies. We expect that this audit will be completed by the end of June 2003 and that the payment will commence shortly thereafter.

Operating revenues from export sales increased US$381 million, or 174.8%, to US$599 million in 2002 from US$218 million in 2001, reflecting a 142.7% increase in sales volume and a 13.7% increase in average prices received in the export market. This increase reflects the recovery of international steel markets in 2002. The increase in volume derives from our decision to shift a greater portion of sales to the export market in order to hedge against the depreciation of the real and to establish a significant presence in the export market. Export sales accounted for 29.5% of operating revenues from steel products and 34.9% of total sales volume in 2002, compared to 12.2% of operating revenues and 18.1% of total sales volume in 2001.

Net Operating Revenues

Net operating revenues were US$1,842 million in 2002, a US$126 million (or 7.3%) increase from net operating revenues of US$1,716 million in 2001, reflecting mainly the higher sales volume in the export market, which was partially offset by the decrease in average prices (in U.S. dollars) received in the domestic market.

Gross Profit

Our cost of products sold increased US$36 million (or 3.8%) to US$994 million in 2002 from US$958 million in 2001, reflecting a US$334 million increase attributable to higher sales volume, which was partially offset by a US$273 million decrease attributable to a 20.3% decrease in average unit cost of products sold per ton in 2002, compared to 2001. Costs per ton decreased in 2002 as a result of the depreciation of the real. Costs per ton in 2001 also reflect the cost of consuming outsourced slabs.

Notwithstanding the real depreciation, coal costs also declined as a result of the price negotiated in the contract for the year ending June 30, 2003. Our gross profit increased US$90 million (or 11.8%) to US$848 million in 2002 from US$758 million in 2001, as a result of the increase in operating revenues in 2002. Our gross profit margin increased to 39.4% in 2002 from 36.8% in 2001, primarily reflecting the reduced cost of products sold per ton.

Operating Income

In 2002, our operating income increased US$70 million (or 14.2%) to US$564 million from US$494 million in 2001, reflecting the US$90 million increase in gross profit, which was partly offset by a US$20 million (or 7.6%) increase in operating expenses. The increase in operating expenses was caused mainly by a US$32 million increase in freight and other expenses due to higher export volume.

Non-operating Expenses (Income), Net

In 2002, our net non-operating expenses increased US$233 million (or 36.6%) to US$870 million, compared to US$637 million in 2001 (after excluding the US$643 million of gains on our sales of our interests in CVRD and Light), primarily as a result of an increase in net foreign exchange and monetary loss, partially offset by a swing from net financial expenses in 2001 to net financial income in 2002. Net foreign exchange and monetary loss is, among other things, the impact of changes in exchange rates on our assets and liabilities denominated in foreign currencies (e.g., the loss incurred as U.S. dollar-denominated debt increases as the real depreciates against the U.S. dollar). Net financial income is the income earned on our financial assets, net of the interest and other expenses paid on our financing instruments.

In 2002, our net foreign exchange and monetary loss increased US$691 million to US$1,087 million from US$396 million in 2001, reflecting the 52.3% devaluation of the real against the U.S. dollar in 2002, compared to the 18.7% devaluation in 2001. Net financial income was US$247 million in 2002 (consisting of financial income of US$466 million and financial expenses of US$219 million) compared to net financial expenses of US$289 million in 2001, primarily reflecting lower interest rates and gains derived from our decision to hedge against losses on our short- and medium-term foreign currency-denominated debt. We view our export sales as a partial hedge against losses on our long-term foreign currency-denominated debt. Thus, our net foreign exchange and monetary loss in 2002 was partially offset by the gain on our hedging positions and our increase in export sales.

Income Taxes

We recorded a net tax benefit of US$215 million in 2002 compared to a net tax benefit of US$50 million in 2001. For the purpose of calculating the tax provision for 2001, a substantial portion of the gain on the sales of our interests in Light and CVRD was excluded from income (loss) before income taxes, resulting in a loss before income taxes, which generated a tax benefit in that year. The difference between the tax benefits recorded in 2002 as compared to 2001 reflects the tax effects of the larger loss before income taxes in 2002, as well as a US$32 million reversal in 2002 of approximately 50% of a provision for our tax liability to correct the distortion in the calculation of tax liability caused by the use of the Índice de Preços ao Consumidor IPC in 1989 (referred to as the Summer Plan) following a favorable ruling by the court hearing our claim that the correction had been done incorrectly.

Equity in Results of Affiliated Companies

Our equity in results of affiliated companies was a negative US$71 million in 2002 compared to a negative US$30 million in 2001, as our equity in the losses of MRS and GalvaSud increased to US$24 million and US$27 million from US$14 million and US$16 million, respectively, and our equity in ITASA s results went from a positive US$3 million in 2001 to a negative US$9 million in 2002. MRS s losses were primarily the result of its heavy dollar-denominated debt, GalvaSud s losses were primarily caused by its operating below capacity and ITASA s losses reflect the decline in electric energy prices.

EBITDA

In 2002, EBITDA increased US$49 million, or 7.2%, to US$733 million from US$684 million in 2001, reflecting higher gross profit, which was partially offset by higher selling expenses. We and many in the financial community use EBITDA as one criteria for evaluating our performance relative to that of our peers. We believe that EBITDA is useful for that purpose because comparisons based on other measures, such as net income or cash flows from operating activities, include elements that vary from company to company depending on where they are located or on their capital structure. We do not present EBITDA as an alternative measure of operating results or cash flow. EBITDA does not represent net income or cash flows from operating activities, as these terms are defined by generally accepted accounting principles. EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

2001 Compared to 2000

Operating Revenues

Our operating revenues were US$2,078 million in 2001, a US$305 million, or 12.8%, decrease from operating revenues of US$2,383 million in 2000, reflecting an 8% decrease in sales volume, primarily caused by the lost production caused by the stoppage during the revampings of Blast Furnace #3 and Hot Strip Mill #2, and a 16% decrease in average net prices, as a consequence of the 18.7% real devaluation in 2001 (versus a 9.3% devaluation in 2000). The decrease in operating revenues caused by the production loss and decrease in average net prices was partially offset by a US$213 million increase in operating revenues from sales of electric energy.

Operating revenues from domestic sales decreased US$169 million, or 8.3%, to US$1,860 million in 2001 from US$2,029 million in 2000, reflecting the real devaluation. Domestic sales volume of steel products was unchanged from 2000, and average prices received in reais increased only by 9%. This price increase is a reflection of readjustments implemented as of June 2001 in an attempt to readjust domestic prices, which were still very depressed because of the 48% real devaluation in 1999. Domestic sales of steel products constituted 87.6% of operating revenues from steel products in 2001 and 84.3% in 2000, while domestic sales volume as a percentage of total sales volume of steel products increased in 2001 to 81.9% from 75.9% in 2000. Although demand for flat steel products grew 3.8% in Brazil in 2001, our domestic sales volume was impacted by

the shortage in production caused by the revampings of Blast Furnace #3 and Hot Strip Mill #2.

Electric energy sales increased US$213 million to US$230 million in 2001 from US$17 million in 2000, as we realized the benefits of a full year of operation of the 238-MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks and nearly a full year of operation of the Itá hydroelectric facility, which permitted us to sell electric energy not required in our operations. The demand for this surplus energy was increased as a result of the electric energy shortage caused by the drought that began in 2000 and continued into 2001. For a discussion of factors that may affect the collectibility and timing of payment of the receivables arising from our sales of excess electric energy in 2001, see 2002 Compared to 2001 above.

Operating revenues from export sales decreased US$136 million, or 38.4%, to US$218 million in 2001 from US$354 million in 2000, reflecting a 30.8% decrease in sales volume and an 11.4% decrease in average prices received in the export market. This decrease reflects the depression of international steel markets in 2001 and the lower value-added product mix sold. Export sales accounted for 12.4% of operating revenues from steel products and 18.1% of total sales volume in 2001, compared to 15.7% of operating revenues and 24.1% of total sales volume in 2000. This decrease reflects the lower production as a consequence of the revampings in 2001 of Blast Furnace #3 and Hot Strip Mill #2, and the priority given to the domestic market in 2001.

Net Operating Revenues

Net operating revenues were US$1,716 million in 2001, a US$230 million (or 11.8%) decrease from net operating revenues of US$1,946 million in 2000, reflecting mainly the lower sales volume in the export market, which was partially offset by the increase in operating revenues from electric energy sales.

Gross Profit

Our cost of products sold decreased US$157 million (or 14.1%) to US$958 million in 2001 from US$1,115 million in 2000, reflecting a US$75 million decrease attributable to a 9.6% decrease in average unit costs of products sold in 2001, compared to 2000, and a US$85 million decrease attributable to lower sales volume. In spite of the increase in coal prices and the consumption of outsourced slabs in 2001, average unit costs decreased due to the 18.7% devaluation of the real. Despite the foregoing and a US$171 million contribution from electric energy sales, our gross profit decreased US$73 million (or 8.7%) to US$758 million in 2001 from US$831 million in 2000, as a result of the decrease in operating revenues in 2001. Our gross profit margin showed a slight increase, from 42.7% in 2000 to 44.2% in 2001, reflecting the electric energy sales 74.4% gross profit margin.

Operating Income

In 2001, our operating income decreased US$19 million (or 3.7%) to US$494 million from US$513 million in 2000, reflecting the US$73 million decrease in gross profit, which was partly offset by a US$54 million (or 17.0%) decrease in operating expenses. The decrease in operating expenses was caused mainly by a US$45 million decrease in sales expenses, due to lower freight and insurance expenses, related to the lower export volume in 2001.

Non-operating Expenses (Income), Net

In 2001, our net non-operating expenses decreased US$297 million to US$6 million, compared to US$303 million in 2000, primarily as a result of a US$643 million gain, before income taxes, from the sale of our interests in CVRD and Light. The sales of our interests in CVRD and Light were made pursuant to contracts entered into in 2000, but because the financial closings did not occur until 2001, under U.S. GAAP the gains on these transactions were recorded in 2001.

These gains were partially offset by an increase in net foreign exchange and monetary loss and an increase in net financial expenses. In 2001, our net foreign exchange and monetary loss increased by US$269 million to US$396 million from US$127 million in 2000, reflecting the 18.7% devaluation of the real against the U.S. dollar in 2001, compared to the 9.3% devaluation in 2000. Net financial expenses increased by US$132 million to US$289 million in 2001 compared to US$157 million in 2000, primarily reflecting higher interest rates and other costs arising as a result of our decision to protect against losses on our foreign currency-denominated debt. As the real declined against the U.S. dollar during most of 2001, we swapped an increasing portion of our U.S. dollar-denominated debt into real-denominated debt. With the prospect of a worsening financial situation in Argentina and the concern that it would further weaken the real, in September 2001, with the real/U.S. dollar exchange rate at approximately R$2.75=US$1.00, we swapped our remaining U.S. dollar-denominated debt, which bore interest at an average rate of approximately 7% per annum, into real-denominated debt bearing interest at an average interest rate of 19% per annum. The increased interest cost of the real-denominated debt, together with the cost of other derivative transactions used as part of this hedging strategy, was the primary factor in the increase in our net financial expenses in 2001, compared to 2000.

While our hedging transactions protected us from further exchange losses as the real declined against the U.S. dollar, as the real strengthened against the U.S. dollar in the fourth quarter of 2001, we lost an opportunity to recoup some of our previous exchange losses. See Cumulative Effect of Change in Accounting Principle below in this discussion of results of operations for 2001 compared to 2000.

Income Taxes

We recorded a net tax benefit of US$50 million in 2001 compared to a net tax expense of US$17 million in 2000. For the purpose of calculating the tax provision for 2001, a substantial portion of the gain on the sales of our interests in Light and CVRD was excluded from income (loss) before income

taxes, resulting in a loss before income taxes, which generated a tax benefit in that year.

Equity in Results of Affiliated Companies

Our equity in results of affiliated companies was a negative US$30 million in 2001 compared to a positive US$80 million in 2000. The largest factor in this negative swing was our equity in the losses of MRS and GalvaSud (US$14 million and US$16 million, respectively, compared to our equity in MRS s income of US$10 million and GalvaSud s losses of US$3 million in 2000). Our equity in results of affiliated companies in 2000 also included US$75 million of equity in the income of CVRD.

Extraordinary Item

The extraordinary item relates to a gain, net of taxes, on the repurchase of US$288 million principal amount of Eurodollar notes issued in 1997.

Cumulative Effect of Change in Accounting Principle

Effective January 1, 2001, we adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. As was the case previously under SFAS No. 80, Accounting for Futures Contracts, under SFAS No. 133 our derivative financial instruments do not meet the criteria to qualify as hedging instruments. Therefore, as of January 1, 2001, we recorded on our balance sheet an asset of US$9 million, reflecting the net fair value (i.e., the unrealized gains) on that date of our derivative financial instruments, and recorded, as the cumulative effect of change in accounting principle as required by Accounting Principles Board Opinion No. 20, Accounting Changes, a corresponding gain of US$6 million, net of income taxes, in our statement of operations. The net change in the fair value of our derivative financial instruments during 2001 is reflected under financial income. See Non-operating Expenses (Income), Net above in this discussion of results of operations for 2001 compared to 2000.

B. Liquidity and Capital Resources

Cash and cash equivalents as of the end of 2000, 2001 and 2002 totaled US$688 million, US$330 million and US$356 million, respectively. Following is a summary of the principal changes in cash flows during the past three years:

- Our cash flows generated from operations, which aggregated US$535 million in 2000, US$210 million in 2001 and US$806 million in 2002, provides us with a significant source of liquidity. Cash flows from operating activities in 2002 was US$596 million higher than in 2001, reflecting the US$70 million increase in operating income and the US$536 million improvement in net financial income. Cash flows from operating activities in 2001 was US$325 million less than in 2000, reflecting increased net financial expenses and increased working capital requirements, mainly an increase in trade accounts receivable related to electric energy sales. See Item 3.D.1. Risk Factors Relating to the Steel Industry and CSN

Collectibility and Timing of Payment of Receivables from Sales of Electric Energy and Non-operating Expenses (Income), Net under Item 5.A.2. Results of Operations 2001 Compared to 2000.

- Our cash flows from investing activities was negative in 2002 and 2000 and would have been negative in 2001 but for the inclusion of US$1,293 million of proceeds from the sales of Light and CVRD. The negative cash flows from investing activities reflects our use of our cash flows from operations to make capital expenditures under our capital improvement program and for operational capacity maintenance. In previous years, we have also used our cash flows from operations to make long-term investments in downstream opportunities, new products and market niches, and infrastructure investments. We had smaller negative cash flows from investing activities in 2002, because we had a lower level of capital expenditures.
- Our cash flows from financing activities was negative in each of the past three years, mainly reflecting the decrease in our long-term debt, which was partially offset by an increase in our short-term debt. Cash flows from financing activities in 2001 also reflects our payment of US$1,227 million of dividends and interest on stockholders equity with a portion of the proceeds from the sale of our investments in Light and CVRD. In 2002, the negative cash flows from financing activities was greater than in 2001 (excluding dividend payments and interest on shareholders equity) and 2000, because we paid down US$263 million of short-term trade-related debt.
- The difference between the US$1,293 million of proceeds from the sales of our investments in Light and CVRD reflected in our cash flows from investing activities in 2001 and the US$1,675 million aggregate cash payments received by us upon the sales of those investments 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 of the transactions, which is reflected in cumulative translation adjustments in the statement of stockholders equity for 2001.

During the three years ended December 31, 2002, our EBITDA (i.e., operating income plus depreciation and other operating expenses) has aggregated US$2,130 million. During the same period, our capital expenditures and long-term investments have aggregated US$1,329 million, consisting of capital expenditures of US$1,071 million and investments of US$258 million.

We plan to make capital expenditures of approximately US$100 million during 2003, compared to US$264 million in 2002 and US$430 million in 2001, reflecting the completion of several major projects described under Item 4.B.6 Investment Programs. We expect to meet our working capital and capital expenditure requirements from cash generated from operations, and, if needed, short-term and long-term secured and unsecured borrowings, including export credit agency facilities and issuances of debt securities.

As of December 31, 2002, our total debt (including pre-payments on export contracts) aggregated US$2,061 million, compared to US$2,504 million and US$2,571 million as of December 31, 2001 and 2000, respectively. The total debt

was equal to 406.5% of total stockholders equity as of December 31, 2002, compared to 335.7% and 218.4% as of December 31, 2001 and 2000, respectively. As of December 31, 2002, short-term debt (including current portion of long-term debt of US$30 million) was US$1,065 million, and total long-term debt (excluding current portion) was US$996 million.

Short-term debt included US$330 million of commercial paper backed by a letter of credit. The commercial paper as of December 31, 2002 had an average maturity of 453 days and in 2002 bore interest at an average rate of 5% per annum. The commercial paper was issued under a two-year program initiated in April 2001 with a US$250 million issue of two-year paper (repaid in April 2003), which was followed by issues of US$140 million (repaid in October 2002) of one-year paper and US$80 million of two-year paper in October 2001.

CSN LLC s short-term debt also included borrowings of US$175 million by CSN LLC s parent to finance CSN LLC s acquisition of the assets of Heartland Steel in July 2001 and its expected working capital and interest payments for two years. See Item 4.B.6 Investment Programs Investments in Downstream Opportunities, New Products and Market Niches. The loan bears interest at the London Interbank Offered Rate, which is often referred to as LIBOR, plus 1.875% per annum and is due on July 12, 2003.

The major components of our US$1,082 million principal amount of long-term debt (including current portion and accrued finance charges) outstanding as of December 31, 2002 were:

- US$327 million of loans from BNDES;
- US$79 million of Eurodollar/Rule 144A Notes described below;
- US$141 million of pre-payments on export contracts;
- US$189 million of debentures;
- US$100 million of raw materials and equipment import financing; and
- US$52 million of loans from export credit agencies.

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

The Eurodollar/Rule 144A Notes are the remaining Notes outstanding from a US$600 million offering in June 1997, plus accrued finance charges. The Notes were issued in a Rule 144A/Regulation S transaction in the North American and European markets. The Notes mature in 2007 and bear interest at 9.125% per annum. Pursuant to tender offers in February 1999 and May 2001 and open market purchases, we purchased US$521 million of the Notes, leaving US$79 million outstanding.

Pre-payments on export contracts are receivables-based financing made available by international financing institutions at fixed or floating rates and with maturities longer than one year.

The commercial paper programs, the pre-payments on export contracts and the import financing are trade-related financings.

The debentures are real-denominated debentures that we issued in March 2002 in the original principal amount of R$690 million (US$292 million) in two tranches: a three-year tranche of R$540 million (US$228 million) bearing interest at Certificado de Depósito Interbancário CDI, the Brazilian inter-bank interest rate, plus 2.75% per annum, and a four-year tranche of R$150 million (US$64 million), indexed to the Índice Geral de Preços ao Mercado IGPM, and bearing interest at 13.25% per annum. At the time of issue, we repurchased R$23 million (US$8 million) of the first tranche and R$21 million (US$7 million) of the second tranche. In September 2002, we resold the second tranche debentures that had been repurchased.

As of December 31, 2002, approximately 16.4% of our debt was denominated in reais and substantially all of the remaining balance was denominated in U.S. dollars. For a description of our derivative instruments, see Note 20 of our consolidated financial statements contained in Item 18 of this document. Also see Non-operating Expenses (Income), Net under Item 5.A.2. Results of Operations 2002 Compared to 2001 / 2001 Compared to 2000.

In March, April and May 2003, respectively, certain of our subsidiaries issued, and we guaranteed, one-year notes in an aggregate principal amount of US$85 million, bearing interest at 9.5% per annum, two-year notes in an aggregate principal amount of US$75 million, bearing interest at 9.75% per annum, and one-year notes in an aggregate principal amount of US$100 million, bearing interest at 6.95% per annum.

Maturity Profile

The following table sets forth the maturity profile of our long-term debt (excluding current portion) as of December 31, 2002:

Maturity in	**Millions of US$**
2004	241
2005	282
2006	132
2007	140
2008 and thereafter	201
Total	996

Vicunha Debt

Pursuant to an agreement entered into on December 31, 2000, Vicunha Siderurgia S.A. (Vicunha Siderurgia) financed the increase in its interest in CSN from 14.1% to 46.5% by issuing debentures in March 2001. Under the trust deed under which the debentures were issued and a shareholders agreement between Vicunha Siderurgia and BNDES Participações S.A. BNDESPAR, that will stay in effect as long as BNDESPAR holds the debentures, Vicunha Siderurgia will be in default if:

- Our net financial debt exceeds three times EBITDA as of December 31, 2002, our net financial debt was 2.2 times EBITDA;
- Our net financial expenses (including net monetary variations but excluding net exchange rate variations in excess of the Índice Nacional de Preços ao Consumidor INPC, plus 5%) exceed 50% of EBITDA in 2002, net financial expenses were 19.6% of EBITDA; or
- Our net financial expenses (including net monetary variations but excluding net exchange rate variations) exceed the lower of (a) 30% of EBITDA in 2002 or 40% thereafter and (b) EBITDA less income taxes, social contribution, dividends paid in an amount equal to the debt service on the debentures and our capital expenditures from cash generated by operations and increases in capital of unconsolidated subsidiaries (modified EBITDA) in 2002, 30% of EBITDA was R$683 million, modified EBITDA was R$2,041 million, and net financial expenses were R$543 million, or 23.9% of EBITDA, and R$1,498 million lower than modified EBITDA.

The foregoing amounts are determined in accordance with the accounting principles applied by us in our statutory financial statements prepared in accordance with the Brazilian Corporate Law.

Vicunha Siderurgia is a special purpose company with no assets other than our Common Shares. Accordingly, the only source of funds (other than an increase in capital) to meet the principal and interest payments on its debentures is dividends on our Common Shares owned by it. The following table sets forth the principal terms of each of the six outstanding series of Vicunha Siderurgia s debentures. The principal amounts of the series due in 2006 and 2007 are required to be adjusted to reflect inflation as measured by the IGPM. For the series due in 2011, interest attributable to the portion of the Taxa de Juros de Longo Prazo TJLP in excess of 6% per annum is capitalized and added to the principal amount. The principal amounts in the following table have been adjusted in accordance with the foregoing with respect to inflation and capitalized interest through 2002.

Principal Amount	**Maturity**	**Inflation Index**	**Interest Rate**	**Spread**
(in millions of R$)				*(%)*
117.4	2003	-	CDI	1.00
146.8	2007	IGPM	-	8.80
146.8	2006	IGPM	-	8.80
334.6	2011	-	TJLP	3.75
305.2	2011	-	TJLP	5.00
594.8	2011	-	TJLP	5.00

Following are the amounts of principal of Vicunha Siderurgia s debentures due in the periods indicated, adjusted as of December 31, 2002, for inflation and capitalized interest through 2002:

Maturity in	**Payment of Principal[(1)]** *(in millions of R$)*

2003	117
2004	119
2005	228
2006	253
2007	220
2008	186
2009	156
2010	161
2011	602

(1) These amounts do not include adjustments for inflation or capitalized interest that may be required in future years.

Because the principal amounts in the foregoing tables have not been adjusted for future inflation or interest that may be required to be capitalized in future years, the actual principal amounts in future years are expected to be substantially larger than the amounts shown.

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

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

D. Trend Information

Recent significant developments that were not fully reflected in our results of operations for 2002 or in our financial position as of December 31, 2002 and that could impact our future results of operations and financial position include recent changes in the real/dollar exchange rates (see Item 3.D.2. Risk Factors Relating to Brazil Devaluation of the Real).

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 from seven to nine members, and our Board of Executive Officers (Diretoria Executiva), which consists of from three to six executive officers (one of which is the Chief Executive Officer). In accordance with our Estatuto Social, or 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 Directors primarily establishes corporate strategy and reviews business plans and policies.

Our Board of Executive Officers is responsible for the formulation of business plans and policies and for the implementation of specific operating decisions. In April 1999, we changed our corporate structure by creating the position of a Chief Executive Officer of CSN, who reports to the Board of Directors, and consolidating the existing four sectors into three: Corporate Center, Steel and

Infrastructure/Energy. In addition, we created another sector New Businesses. In November 2000, we divided the Steel sector into two sectors Operations and Commercial. Each sector is headed by an Executive Officer, who reports to our Chief Executive Officer.

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

Our Directors and Executive Officers are as follows.

Name	**Position**
Board of Directors	
Benjamin Steinbruch	Chairman and Chief Executive Officer
Jacks Rabinovich	Vice Chairman
Edmar Lisboa Bacha	Member
Mauro Molchansky	Member
Fernando Perrone	Member
Dionísio Dias Carneiro Netto	Member
Antonio Francisco dos Santos	Member
Board of Executive Officers	
Benjamin Steinbruch	Chief Executive Officer and Executive Officer Infrastructure & Energy and Corporate Center (interim)
Albano Chagas Vieira	Executive Officer Operations
José Paulo de Oliveira Alves	E