NATIONAL STEEL CO
Form 20-F
June 01, 2010

As filed with the Securities and Exchange Commission on May 28, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

1	REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
R	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2009
	OR
1	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
1	SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-14732

COMPANHIA SIDERÚRGICA NACIONAL
(Exact Name of Registrant as Specified in its Charter)

NATIONAL STEEL COMPANY
(Translation of Registrant s name into English)

THE FEDERATIVE REPUBLIC OF BRAZIL
(Jurisdiction of incorporation or organization)

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Av. Brigadeiro Faria Lima, 3,400 20th floor
04538-132, São Paulo-SP, Brazil

(Address 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 without par value	New York Stock Exchange*
American Depositary Shares, (as evidenced by American Depositary Receipts), each representing one share of Common Stock	New York Stock Exchange

_____

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

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

Common Shares, without par value.	1,510,359,220, including 52,389,112 common shares held in treasury. This amount takes into account the two-for-one stock split that took place in March 2010. For further information, see Item 7A. Major Shareholders, Item 9A. Offer and Listing Details and Item 10B. Memorandum and Articles of Association.

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

R Yes 1 No

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

1 Yes R No

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

R Yes 1 No

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

1 Yes R No

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

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

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

U.S. GAAP R	International Financial Reporting Standards as issued by the International Accounting Standards Board 1	Other 1

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 1 Item 18 1

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

1 Yes R No

TABLE OF CONTENTS

Table of Contents

INTRODUCTION

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

- we, us, our or CSN are to Companhia Siderúrgica Nacional and its consolidated subsidiaries;
- parent company is to Companhia Siderúrgica Nacional.
- Brazilian government are to the federal government of the Federative Republic of Brazil;
- *real*, *reais* or R$ are to Brazilian *reais*, the official currency of Brazil;
- U.S. dollars, $, US$ or USD are to United States dollars;
- billions are to thousands of millions, km are to kilometers, m are to meters, mt or tons are to metric tons are to metric tons per year and MW are to megawatts;
- TEUs to twenty-foot equivalent units;
- consolidated financial statements are to the consolidated financial statements of Companhia Siderúrgica Nacional and its consolidated subsidiaries as of December 31, 2008 and 2009 and, for the years ended December 31, 2007, 2008 and 2009, together with the corresponding Report of Independent Registered Public Accounting Firms;
- ADSs are to CSN s American Depositary Shares and ADRs are to CSN s American Depositary Receipts; and
- Brazil is to the Federative Republic of Brazil.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

The words believe, may, will, aim, estimate, forecast, plan, continue, anticipate, intend, expe are intended to identify forward-looking statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not an indication of future performance. As a result of various factors, such as those risks described in Item 3D. Risk Factors, undue reliance should not be placed on these forward-looking statements.

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of December 31, 2008 and 2009 and for each of the years ended December 31, 2007, 2008 and 2009 contained in Item 18. Financial Statements have been presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. See Note 2(a) to our consolidated financial statements.

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

Changes on Regulatory Requirements for Presentation of Financial Statements Convergence to International Financial Reporting Standards (IFRS)

Presentation of financial statements in accordance with IFRS

On July 13, 2007, the CVM issued Rule No. 457 to require listed companies to publish their consolidated financial statements in accordance with IFRS starting with the year ending December 31, 2010. Those consolidated financial statements must be prepared based on IFRS as issued by the International Accounting Standards Board.

Convergence of Brazilian GAAP to IFRS

On December 28, 2007, Law No. 11,638 was enacted and amended numerous provisions of the Brazilian Corporate Law relating to accounting principles and authority to issue accounting standards. Law No. 11,638 sought to enable greater convergence between Brazilian GAAP and IFRS. To promote convergence, Law No. 11,638 modified certain accounting principles of the Brazilian Corporate Law and required the different applicable regulators (including CVM) to issue accounting rules conforming to the accounting standards adopted in international markets. Additionally, the statute acknowledged a role in the setting of accounting standards for the CPC, which is a committee of officials from the Brazilian Federal Accounting Board (*Conselho Federal de Contabilidade*), Brazilian Independent Auditors Institute (*Instituto dos Auditores Independentes do Brasil*), São Paulo Stock Exchange (*BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros*) or BM&FBOVESPA, industry representatives and academic bodies that has issued accounting guidance and pursued the improvement of accounting standards in Brazil. Law No. 11,638 permits the CVM to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

Subsequently on May 27, 2009, Law No. 11,941 was enacted and, among other issues, amended numerous provisions of the Brazilian Corporate Law and tax regulation, to enable greater convergence between Brazilian GAAP and IFRS.

As result of the issuance of Law No. 11,638, and Law No. 11,941, CPC has issued approximately 40 standards with the objective of making Brazilian GAAP similar to IFRS. CPC has issued several standards for application beginning with the year ended December 31, 2008 and during 2009 issued several additional standards. Our management is currently in the process of analyzing the potential impact of these new regulations and standards.

Reporting Currency

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 U.S. GAAP financial statements in U.S. dollars in our filings with the U.S. Securities and Exchange Commission, or SEC. Accordingly, as permitted by the rules of the SEC, we have adopted the U.S. dollar as our reporting currency for our U.S. GAAP financial statements contained in our annual reports that we file with the SEC.

Table of Contents

As described more fully in Note 2(a) to our consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our consolidated financial statements have been translated from the *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 year-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 that used in our consolidated financial statements for the same periods or as of the same dates, except investment amounts that have been translated at the exchange rate in effect on the date the investment was made.
- forward-looking statements have been translated from *reais* at the exchange rate in effect at the time of the most recently budgeted amounts. We may not have adjusted all of the budgeted amounts to reflect all factors that could affect them. In addition, exceptionally we may have translated budgeted amount based on the exchange rate in effect on the date of the action, operation or document.

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.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

3A. Selected Financial Data

The following table presents our selected financial data as of the dates and for each of the years indicated, prepared in accordance with U.S. GAAP. Our U.S. GAAP consolidated financial statements as of December 31, 2008 and 2009 and for each of the years in the three-year period ended December 31, 2009 appear elsewhere herein, together with the reports of our Independent Registered Public Accounting Firm, KPMG Auditores Independentes, for the periods noted in their reports. The selected financial information as of December 31, 2005, 2006 and 2007 and for each of the years in the two-year period ended December 31, 2006 have been derived from our U.S. GAAP consolidated financial statements in U.S. dollars, not included in this annual report. The selected financial data below should be read in conjunction with Item 5. Operating and Financial Review and Prospects.

Table of Contents

	Year Ended December 31,				
Income Statement Data:	**2005**	**2006**	**2007**	**2008**	**2009**
	(in millions of US$, except per share data)				
Operating revenues					
Domestic sales	3,449	3,550	5,283	7,377	5,204
Export sales	1,224	1,263	1,695	1,830	1,137
Total	**4,673**	**4,813**	**6,978**	**9,207**	**6,341**
Deductions from operating revenues					
Sales taxes	829	899	1,305	1,835	1,257
Discounts, returns and allowances	39	68	156	185	70
Net operating revenues	**3,805**	**3,846**	**5,517**	**7,187**	**5,014**
Cost of products sold	1,837	2,102	3,076	3,602	3,250
Gross profit	**1,968**	**1,744**	**2,**441	**3,585**	**1,764**
Operating expenses					
Selling	186	167	310	412	345
General and administrative	108	148	185	219	208
Other income (expense)	28	149	85	110	47
Total	**322**	**464**	**580**	**741**	**600**
Operating income	**1,646**	**1,280**	**1,861**	**2,844**	**1,164**
Non-operating income (expenses), net					
Financial income (expenses), net	(550)	(533)	(219)	(380)	(871)
Foreign exchange and monetary gain (loss), net	183	218	438	(1,265)	422
Other	3	22	81	1,742	(26)
Total	**(364)**	**(293)**	**300**	**97**	**(475)**

	Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(in millions of US$, except per share data)				
	1,282	**987**	**2,161**	**2,941**	**689**

Income before income taxes and equity in results of affiliated companies					
Income taxes					
Current	(458)	(198)	(619)	(615)	(167)
Deferred	31	(98)	85	201	(52)
Total	**(427)**	**(296)**	**(534)**	**(414)**	**(219)**
Equity in results of affiliated companies	47	58	76	127	809
Net income	**902**	**749**	**1,703**	**2,654**	**1,279**
Net loss attributable to noncontrolling interest	-	-	-	-	**2**
Net income attributable to Companhia Siderúrgica Nacional	**902**	**749**	**1,703**	**2,654**	**1,281**
Basic earnings per common share	0,56	0.48	1.11	1.73	0.86
Weighted average number of common shares outstanding (in thousands)[(1)]	1,621,650	1,544,604	1,539,489	1,534,067	1,492,453

Table of Contents

	As of December 31,				
Balance Sheet Data:	**2005**	**2006**	**2007**	**2008**	**2009**
	(In millions of US$)				
Current assets	3,330	3,962	4,665	7,307	6,841
Property, plant and equipment, net	2,547	3,211	4,824	3,543	5,616
Investments in affiliated companies and other investments (including goodwill)	312	375	565	2,715	4,384
Other assets	968	1,000	2,011	2,144	2,347
Total assets	**7,157**	**8,548**	**12,065**	**15,709**	**19,188**
Current liabilities	1,398	1,678	2,865	3,813	2,091
Long-term liabilities[2]	4,750	5,823	6,512	8,580	12,833
Stockholders equity	1,009	1,047	2,688	3,316	4,264
Total liabilities and stockholders equity	**7,157**	**8,548**	**12,065**	**15,709**	**19,188**

	As of and for the year ended December 31,				
Other Data:	**2005**	**2006**	**2007**	**2008**	**2009**
	(In millions of US$, except per share data and where otherwise stated)				
Cash flows from operating activities	1,757	919	1,264	2,067	40
Cash flows used in investing activities	(593)	(839)	(1,091)	(1,292)	(829)
Cash flows from (used in) financing activities	(996)	(263)	(122)	1,867	872
Common shares outstanding (in thousands)	1,549,092	1,544,480	1,538,940	1,517,339	1,457,970
Common stock	2,447	2,447	2,447	2,447	2,447
Dividends declared and interest on stockholders equity[1]	969	914	550	1,414	1,334
Dividends declared and interest on stockholders equity per common share[1][3]	0.63	0.59	0.36	0.93	0.81
Dividends declared and interest on stockholders equity (in millions of *reais*)[3]	2,268	1,954	1,039	2,755	2,571
Dividends declared and interest on stockholders equity per common share (in *reais*)[1][3]	1.47	1.27	0.68	1.82	1.76

(1) Takes into account the one-for-three stock split occurred in January 2008 whereby each common share of our capital stock on December 31, 2007 became represented by three common shares and the one-for-two stock split occurred in March 2010 whereby each common share of our capital stock on December 31, 2009 became represented by two common shares. See Item 10B. Memorandum and Articles of Association.

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

(3) Amounts consist of dividends declared and accrued interest on stockholders equity during the year. For a discussion of our dividend policy and dividend and interest payments made in 2009, see Item 8A. Consolidated Statements and Other Financial Information-Dividend Policy.

Exchange Rates

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

Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R$3.53 per US$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R$1.56 per US$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008, reaching R$2.34 per US$1.00 on December 31, 2008. During 2009, the *real* appreciated by approximately 25%, reaching R$1.74 per US$1.00 on December 31, 2009, mainly due to the strong economic recovery of Brazil. On May 26, 2010, the exchange rate was R$1.846 per US$1.00. The Central Bank has intervened occasionally to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

Table of Contents

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

	Low	High	Average (1)	Period-end
Year ended				
December 31, 2005	2.163	2.762	2.413	2.341
December 31, 2006	2.059	2.371	2.177	2.138
December 31, 2007	1.733	2.156	1.948	1.771
December 31, 2008	1.559	2.500	1.837	2.337
December 31, 2009	1.702	2.422	1.994	1.741

	Low	High	Average	Period-end
Month ended				
November 30, 2009	1.702	1.759	1.726	1.751
December 31, 2009	1.701	1.788	1.750	1.741
January 31, 2010	1.723	1.875	1.780	1.875
February 28, 2010	1.805	1.877	1.842	1.811
March 31, 2010	1.764	1.823	1.786	1.781
April 30, 2010	1.731	1.781	1.757	1.731
May 26, 2010	1.732	1.881	1.811	1.846

Source: Central Bank.

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

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as, Brazilian political and economic conditions, could adversely affect our business and the trading prices of our ADSs and common shares.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government s actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls (such as those imposed on the steel sector prior to privatization), currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting factors, such as:

- interest rates;
- exchange controls and restrictions on remittances abroad, such as those that were briefly imposed in 1989 and early 1990;
- currency fluctuations;
- inflation;
- lack of infrastructure in Brazil;
- energy shortages and rationing programs;
- liquidity of the domestic capital and lending markets;
- environmental policies and regulations;
- tax policies and regulations; and
- other political, social and economic developments in or affecting Brazil.

Table of Contents

Exchange rate instability may adversely affect our financial condition and results of operations and the market price of our common shares and ADSs.

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R$3.53 per US$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R$1.56 per US$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008 and reached R$2.34 per US$1.00 at year end. During 2009, the *real* appreciated by approximately 25%, reaching R$1.74 per US$1.00 on December 31, 2009, mainly due to the strong economic recovery of Brazil. On May 26, 2010, the exchange rate was R$1.846 per US$1.00.

Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and harm our financial condition and results of operations, may curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* against the U.S. dollar can also, as in the context of the global economic and financial crisis in 2008 and 2009, lead to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. On the other hand, appreciation of the *real* relative to the U.S. dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange current accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and our business, financial condition and results of operations.

In the event the *real* depreciates in relation to the U.S. dollar, the cost in *reais* of our foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke, will increase. To the extent that we do not succeed in promptly reinvesting the funds received from such borrowings in dollar-denominated assets, we are exposed to a mismatch between our foreign currency-denominated expenses and revenues. On the other hand, if the *real* appreciates in relation to the U.S. dollar, it will cause *real*-denominated production costs to increase as a percentage of total production costs and cause our exports to be less competitive. We had total U.S. dollar-denominated or linked indebtedness of US$4,590 million, or 59% of our total indebtedness, at December 31, 2009.

Depreciation of the *real* may also reduce the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our common shares and, as a result, the ADSs.

Table of Contents

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

Brazil has in the past experienced extremely high rates of inflation and has therefore followed monetary policies that have resulted in one of the highest real interest rates in the world. Between 2004 and 2008, the base interest rate, or SELIC rate, in Brazil varied between 19.25% and 11.25% per year. Inflation and the Brazilian government s measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil s growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our business. In addition, we may not be able to adjust the price of our products in the export markets to offset the effects of inflation in Brazil on our cost structure, given that most of our costs are incurred in *reais*.

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

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

The global financial crisis has had significant consequences in 2008 and 2009, including in Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general slowdown of the world economy, volatile exchange rates, and inflationary pressure, among others, which have and may continue to, directly or indirectly, materially and adversely affect our operating results, financial position and the price of our common shares and/or ADSs. Although the scenario has improved significantly since the second half of 2009, it is still not clear that the global economy has substantially recovered.

Risks Relating to Us and the Industries in Which We Operate

We are exposed to substantial changes in the demand for steel and iron ore, which has a substantial impact in the prices for our products.

The steel and mining industries are highly cyclical, both in Brazil and abroad. To the extent the Brazilian economy cannot absorb our entire steel production capacity, we are dependent on exporting our steel products, as in 2005 and 2006, for example. The demand for our steel and mining products (international commodities) and, thus, the financial condition and results of operations of companies in the steel and mining industries, including us, are generally affected by macroeconomic fluctuations in the world economy and the economies of steel-producing countries, including trends in the automotive, construction, home appliances, packaging and distribution industries. In recent years, the price of steel and iron ore in world markets has been at historically high levels, but in 2009 these prices decreased as a result of lower domestic demand and the effects of the 2008 worldwide financial crisis. In addition, reduced demand can lead to overcapacity and excessive downtime, lower utilization of our significant fixed assets and therefore

reduced operating profitability. Any material decrease in the demand for steel in domestic or export markets served by us could have a material adverse effect on us.

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

In 2008 and 2009, raw material costs accounted for 56.9% and 53.6%, respectively, of total production costs. Our principal raw materials include iron ore, coal, coke (a portion of which we produce from coal), limestone, dolomite, manganese, zinc, tin and aluminum. We depend on third parties for some of our raw material requirements. In addition, we import all of the coal required to produce coke and approximately 16.5% of our coke requirements.

Table of Contents

Global developments, for example the dramatic increase in 2008 in Chinese and Indian demand for raw materials used in steel manufacturing, may cause severe shortages and/or substantial price increases in key raw materials and ocean transportation capacity. Our inability to pass those cost increases on to our customers or to meet our customers demands because of non-availability of key raw materials may cause a material adverse effect on us.

In addition, any prolonged interruption in the supply of raw materials or energy, or substantial increases in their costs, could also materially and adversely affect us. These interruptions in the supply of raw materials or energy may be a result of changes in laws or trade regulations, the availability and cost of transportation, suppliers allocations to other purchasers, interruptions in production by suppliers or accidents or similar events on suppliers premises or along the supply chain.

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

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

The steel industry is also highly competitive with respect to product quality and customer service, as well as technological advances that enable the steel manufacturer to reduce its production costs. Steel makers in Brazil already face strong competition from imports and this may increase due to increase in foreign steel installed capacity, the appreciation of the *real* against the U.S. dollar and the reduction of domestic steel demand in other markets.

Over the past three years, China has become a major exporter of steel. If we are not able to remain competitive in relation to China or other steel-producing countries that are competitive, in the future we may be materially and adversely affected.

In response to the increase of steel imports to Brazil at very competitive or subsidized prices, in 2007 the Brazilian government reinstated the official agreed tariffs (External Common Tariff TEC) of the Mercosul agreement for certain steel products in order to defend the domestic steel industry. These tariffs had previously been reduced in 2005 to zero as part of a list of exceptions of the TEC allowed by the agreement. Until December 2011 the Brazilian government may reduce these tariffs again and if tariffs are reduced we will face more competition from imported steel products and our results of operation may be negatively affected.

In addition, other factors influence our competitiveness, including our efficiency and operating rates, and the availability, quality and cost of raw materials and labor.

Government measures could adversely affect us.

Our activities depend on authorizations from and concessions by governmental regulatory agencies of the countries in which we operate. If related laws and regulations change, modifications to our technologies and operations could be required, and we could be required to make unexpected capital expenditures. The loss of any such authorization or changes in the regulatory framework we operate in may materially and adversely affect us.

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

Table of Contents

Furthermore, in response to the increased production and export of steel by many countries, anti-dumping, countervailing duties and safeguard measures were imposed in the late 1990s and early 2000s by governments of the principal foreign markets for our steel exports in that period. Some of these restrictions are still in force, such as the restrictions on exports of hot-rolled products from Brazil to the United States, Canada and Argentina and the restrictions imposed by the European Union on exports of certain chemical substances contained either in products used to protect the steel products or in products used to pack them, effective as of January 2009. These and other restrictions could materially and adversely affect us, especially to the extent we rely on exporting our iron ore and steel production.

Malfunctioning equipment or accidents on our premises, railways or ports may decrease or interrupt production, internal logistics or distribution of our products. We do not have insurance policies to cover losses and liabilities in connection with operational risks, and may not have sufficient insurance coverage for certain other events.

The steel and iron ore production processes depend on certain critical equipment, such as blast furnaces, steel converters, continuous casting machines, drillers, crushing and screening equipments and shiploaders, internal logistics and distribution channels, such as railways and seaports. This equipment and infrastructure may be affected in the case of malfunction or damage. In 2006, there was an accident involving the gas cleaning system adjacent to Blast Furnace No. 3 at the Presidente Vargas steelworks, which prevented us from operating this blast furnace for approximately six months and resulted in losses of approximately US$520 million, all of which was reimbursed by our insurers. Similar or any other significant interruptions in our production process, internal logistics or distribution channels (including our ports and railways) could materially and adversely affect us.

Our insurance policies for losses in connection with operational risks, covering damage to our major facilities in connection with the Presidente Vargas steelworks (including damage to equipment and blockage of port facilities) and profit losses, expired on February 22, 2009 and we are currently renegotiating new insurance policies. Lack of insurance coverage for operational risks exposes us to potential significant liability in the event of an accident or business interruption, which may materially and adversely affect us.

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

We are investing to further increase our steel, mining and cement production capacity, as well as our logistics capabilities. Our expansion and projects are subject to a number of risks that may adversely affect our growth prospects and profitability, including the following:

- we may encounter delays or higher than expected costs in obtaining the necessary equipment or services to build and operate a project;
- our efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including a reliable power supply;
- we may fail to obtain, or experience delays or higher than expected costs in obtaining the required permits and/or regulatory approvals to build a project; and
- changes in market conditions or regulations may make a project less profitable than expected at the time we initiated work on it.

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

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

Our steel making, mining, cement and logistics facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating mainly to the protection of health and the environment. Brazilian pollution standards are expected to continue to change, including new effluent and air emission standards and solid waste-handling regulations. New or more stringent environmental (including measures seeking to address global warming) and health standards imposed on us can require us to make increased capital expenditures. We could be exposed to civil penalties, criminal sanctions and closure orders for non-compliance with these regulations. Waste disposal and emission practices may result in the need for us to clean up or retrofit our facilities at substantial costs and/or could result in substantial liabilities. Environmental legislation restrictions imposed by foreign markets to which we export our products, may also materially and adversely affect our export sales and us.

Table of Contents

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

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

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

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

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

Particularly with respect to our joint-venture at Namisa, we may be required to reacquire all ownership interest of our Asian partners in Namisa in the event of an unresolved dead-lock with respect to a material issue under our shareholders agreement.

Interruptions in the supply of natural gas and power transmission grid may adversely affect our business, financial condition and results of operations.

We require significant amounts of energy, both in the form of natural gas and electricity, to power our plant and equipment. We purchase our natural gas needs through distributors which purchase natural gas from Petróleo Brasileiro S.A. Petrobras, or Petrobras, (the sole producer and supplier of natural gas in Brazil). Petrobras, in turn, is significantly dependent upon the supply of natural gas from Bolivia. On May 1, 2006, the president of Bolivia announced the nationalization of the country s gas reserves. The long-term effects of this measure on the supply of natural gas in Brazil are still uncertain. The events in Bolivia could result in the disruption of the natural gas supply to Petrobras or an additional increase in the prices of natural gas. Any resulting interruption or reduction in the levels of supply of natural gas by Petrobras or a significant price increase, may negatively affect our production and production costs and consequently have a material adverse effect on us.

Table of Contents

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

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

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

Revenues from our mining business represented in 2009 10.9% of our consolidated revenues. Our ability to rapidly increase production capacity is limited, which could render us unable to fully satisfy demand for our products when demand is higher. When demand exceeds our production capacity, we may meet excess customer demand by purchasing iron ore from unrelated parties and reselling it, which would increase our costs and narrow our operating margins. If we are unable to satisfy excess customer demand in this way, we may lose customers. In addition, operating close to full capacity may expose us to higher costs, including demurrage fees due to capacity restraints in our logistics systems.

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

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

China has been the main driver of global demand for minerals and metals over the last few years. In 2009, Chinese demand represented 68% of global demand for seaborne iron ore. The percentage of our mining operating revenues attributable to sales to consumers in China was 46% in 2009. A contraction of China s economic growth could result in lower demand for our products, leading to lower revenues, cash flow and profitability. Poor performance in the Chinese real estate sector, one of the largest consumers of carbon steel in China, could also negatively impact our results.

Drilling and production risks could adversely affect the mining process.

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

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

Table of Contents

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

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

From time to time, we may evaluate acquisition opportunities that would strategically fit our business objectives. If we are unable to complete acquisitions, or integrate successfully and develop these businesses to realize revenue growth and cost savings, our financial results could be adversely affected. In addition, we may incur asset impairment charges related to acquisitions, which may reduce our profitability. Finally, our acquisition activities may present financial, managerial and operational risks, including diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these activities could affect our product sales, financial condition and results of operations.

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

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

A significant devaluation of our common shares may cause our pension funds to have a deficit of plan assets over pension benefit obligations.

We are the principal sponsor of Caixa Beneficente dos Empregados da CSN, or CBS, our employee pension plan. As of December 31, 2009, CBS had invested a significant portion of its portfolio in our common shares and held 4.70% of our capital stock. As a result, the ability of CBS to honor its pension obligations is subject to fluctuations in the fair value of CBS s assets, including fluctuations in the trading price of our common shares.

As of December 31, 2009, CBS had an excess of plan assets over pension benefit obligations of US$245 million. The funding status of CBS is affected by, among other things, fluctuations in the fair value of CBS s assets, which totaled US$1,245 million as of December 31, 2009, while CBS s accumulated obligations and projected benefit obligations were US$1,000 million in the same period.

In the event of a depreciation of our common shares, CBS may become unfunded and have an adverse impact on its ability to fulfill its obligations. In this event, we may have to make substantial contributions to the fund to meet its pension benefit obligations, which may have a material adverse effect on us. See Item 6D Employees and Note 15 to our consolidated financial statements contained in Item 18. Financial Statements.

Risks Relating to our Common Shares and ADSs

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

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

Table of Contents

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

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our common shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the common shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw common shares, you will be entitled to continue to rely on the custodian s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the common shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our common shares.

If you seek to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our common shares or the return of your capital in a timely manner. The depositary s electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

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

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

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented 52.5% of the aggregate market capitalization of the

BM&FBOVESPA as of December 31, 2009. The top ten stocks in terms of trading volume accounted for 41.5%, 53.2% and 49.7% of all shares traded on the BM&FBOVESPA in 2007, 2008 and 2009, respectively.

Table of Contents

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

We may not be able to offer our common shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our common shares in connection with any future issuance of our common shares unless a registration statement under the Securities Act is effective with respect to such common shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our common shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, JPMorgan Chase Bank, as depositary, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depositary does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights.

Substantial sales of our ADSs could cause the price of our ADSs to decrease significantly.

The sale of a substantial number of common shares, or the belief that this may occur, could decrease the trading price of our common shares and our ADSs. Holders of our common shares and/or ADSs may not be able to sell their securities at or above the price they paid for them.

Our pension fund CBS invests heavily in our common shares, holding as of December 31, 2009 4.70% of our capital stock. Brazilian governmental authorities are discussing with CBS and other pension funds regulatory limits on investments by pension funds in the shares of related parties. As a result, CBS may be required to diversify its portfolio, which, if not done in an organized manner, may cause a substantial amount of our common shares to be sold in the market, negatively affecting the trading price of our common shares.

Item 4. Information on the Company

4A. History and Development of the Company

History

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

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, increased annual production capacity to 2.4 million tons of crude steel. The third, completed in 1989, increased annual production 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% ownership interest in us.

From 1993 through 2002, we implemented a capital improvement program aimed at increasing our annual production of crude steel, improving the quality of our products and enhancing our environmental protection and cleanup programs. As part of the investments, since February 1996, all our production has been based on the continuous casting process, rather than ingot casting, an alternative method that results in higher energy use and metal loss. From 1996 through 2002, we spent the equivalent of US$2.4 billion under the capital improvement program and on maintaining our operational capacity, culminating with the renovation in 2001 of Blast Furnace No. 3 and Hot Strip

Mill No. 2 at the Presidente Vargas steelworks. These measures resulted in the increase of our annual production capacity to 5.6 million tons of crude steel and 5.1 million tons of rolled products.

General

We are one of the largest fully integrated steel producers in Brazil and in Latin America in terms of crude steel production. Our current annual crude steel capacity and rolled product capacity is 5.6 million and 5.1 million tons, respectively. Production of crude steel and rolled steel products decreased in 2009 by 12% to 4.4 million tons and finished steel production decreased in 2009 by 9% to 4.1 million tons, as compared to 2008, as an effect of the global economic and financial crisis in 2008 and 2009. In addition to our steel business, we operate in the mining and cement businesses, which have become increasingly important to our operations and growth.

Table of Contents

Steel

Our fully integrated manufacturing facilities produce a broad line of steel products, including slabs, hot- and cold-rolled, galvanized and tin mill products for the distribution, packaging, automotive, home appliance and construction industries. In 2009, we accounted for approximately 47% of the galvanized steel products market share in Brazil. We are also one of the world s leading producers of tin mill products for packaging containers. In 2009, we accounted for approximately 98% of the tin mill products market share in Brazil.

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

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

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

Mining

The first step to our entry into the international iron ore market was taken in February 2007, with the completion of the first phase of the expansion of our solid bulks seaport terminal in the city of Itaguaí, in the State of Rio de Janeiro, which enabled the terminal to also handle and export iron ore and to load from its facilities the first shipment of our iron ore products.

Our mining activities are one of the largest in Brazil and are mainly driven by exploration of one of the richest Brazilian iron ore reserves, Casa de Pedra, in the State of Minas Gerais.

Cement

Our cement business aims to increase utilization of by-products by constructing a greenfield grinding mill and a clinker facility. This project represented our entry into the cement market, taking advantage of the slag generated by our blast furnaces and of our limestone reserves, located in the city of Arcos, in the State of Minas Gerais. The limestone, which is transformed into clinker, and the slag, account for approximately 95% of the production cost to produce cement.

Acquisitions and Dispositions

Namisa

On July 20, 2007, Namisa, our then wholly-owned mining subsidiary, acquired 100.0% of the shares issued by *Companhia de Fomento Mineral e Participações*, or CFM. The final acquisition price amounted to US$400 million, which was fully paid by us. CFM explores various iron ore mines and owns ore processing facilities in the State of Minas Gerais. CFM is located in the State of Minas Gerais and has facilities close to Casa de Pedra, our most important mining asset.

Table of Contents

On December 30, 2008, our ownership interest in Namisa was reduced to 60% of the voting and total capital stock upon Namisa s issuance of new shares for the aggregate amount of approximately US$3.08 billion to Big Jump Energy Participações S.A., or Big Jump, an Asian consortium whose shareholders are Itochu Corporation, JFE Steel Corporation, Nippon Steel Corporation, Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd, Nisshin Steel Co, Ltd., and Posco. In connection with this sale, Namisa paid us approximately US$3 billion on December 30, 2008 as pre-payment for a portion of the purchase price agreed between the parties for future sales of crude iron ore (run-of-mine, or ROM) and the rendering of port services by us to Namisa. The ROM will be extracted by us from the Casa de Pedra mine and will be sold to Namisa, which will be required to beneficiate the product at its own industrial facilities. All pre-payment agreements were negotiated at arms-length basis. For further information on the effect of these pre-payments in our long-term obligations, see Item 5E. Off-Balance Sheet Arrangements.

We and Big Jump have entered into a shareholders agreement in order to govern our joint-control of Namisa. Under certain extreme situations provided for in the shareholders agreement, a dead-lock resolution process may be established. This procedure requires us to initiate mediation with our partners and, if no solution is reached, the matter is then submitted to be addressed directly by the senior executives of the companies in dispute. In the event the dead-lock remains, the shareholders agreement provides for call and put options, which entitles Big Jump to elect to sell all its ownership interest in Namisa to CSN and CSN to elect to buy all ownership interest of Big Jump in Namisa, in each case for the fair market value of the respective shares.

Riversdale

On November 24, 2009, we approved the acquisition of a 16.3% minority interest on Riversdale Mining Limited (Riversdale), a mining company listed on the Australian Stock Exchange. In November we acquired 28,750,598 shares issued by Riversdale, representing 14.99% of its capital stock. On January 13, 2010 we obtained authorization from Australian authorities to acquire additional 2,482,729 shares issued by Riversdale, representing 1.3% of its capital stock. As of the date of this annual report we indirectly hold an interest of 16.1% in Riversdale. Riversdale has an Anthracite operation and an Anthracite project in South Africa and coal projects in Moçambique.

Segregation of Mining Assets

On December 15, 2009, our board of directors authorized the adoption of internal measures in connection with the segregation of our iron ore business and correlated logistics activities into one of our subsidiaries. The segregation is expected to occur upon the transfer, by means of a capital increase, of assets, liabilities, rights and obligations comprising our mining and correlated logistic businesses as well as of investments in related operating companies. The implementation of the segregation depends on certain regulatory approvals and we expect to complete it by the second quarter of 2010.

Panatlântica

On January 8, 2010, we approved the acquisition of a minority interest in the capital stock of Panatlântica S.A., or Panatlântica, a small publicly-held company whose object is the industrialization, commercialization, import, export and processing of steel and metals. This interest is currently held by LP Aços Comércio e Participações Ltda. The acquisition comprises the acquisition of 802,069 common shares, representing 9.4% of Panatlântica s capital stock.

Cimpor

On December 18, 2009, we launched a tender offer for the acquisition of all outstanding shares of Portugal s largest cement company, Cimpor Cimentos de Portugal, SGPS, S.A., or Cimpor. Cimpor s shares are traded on Euronext

Lisboa. The tender offer was registered with the Portuguese securities authority and its corresponding launching announcement was disclosed on January 27, 2010, as amended on February 12, 2010.

Table of Contents

On February 23, 2010, at a special Euronext Lisboa session, the public offering expired without the fulfillment of a condition precedent requiring the acquisition of at least 1/3 of Cimpor s shares. Consequently, no shares were acquired.

Capital Expenditures

We invested US$980 million, US$886 million and US$930 million in 2007, 2008 and 2009, respectively in capital expenditures. Expenditures in 2009 were used mainly for the acquisitions of equipment, of which US$214 million was used in the Casa de Pedra mine expansion, US$23 million in projects relating to the Itaguaí port expansion and US$245 million in major overall projects that extend our fixed assets useful life. For further information, see Item 5B. Liquidity and Capital Resources-Short-Term Debt and Short-Term Investments.

In 2009, we continued to implement our strategy of developing downstream opportunities, new products and market niches by creating or expanding capacity of galvanized products for the automotive sector and by investing in a galvanizing and pre-painting plant in order to supply the construction and home appliance industries, as described in Item 4B. Business Overview Facilities.

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

Planned Investments

In light of an improvement in the worldwide economic scenario since the second half of 2009 and higher growth projection for Brazil, where we plan to sell the majority of our steel production, and also considering our comfortable debt level and cash position, our board of directors approved, on April, 13, 2010, an investment plan for the period between 2010 and 2016. Total planned investments amount to US$18.8 billion, of which: US$6.2 billion are planned for our mining business (Casa de Pedra capacity expansion to 50 mtpy; Namisa capacity expansion to 39 mtpy; TECAR capacity expansion to 84 mtpy); US$4.8 billion are planned for our steel business (increase in long steel capacity of 1.5 mtpy with 3 plants; expansion of flat steel of 1.5 mt; and other projects focused on improving our operational return, such as coke battery revamp); US$1 billion are planned for our cement business (3 plants of 1 mt each, Arcos Integrated Plant of 0.6 mt and Volta Redonda Expansion to 2.4 mt); US$3.4 billion are planned for logistics (Transnordestina Extension and Berth 301 in TECON); and US$3.4 billion for our maintenance and programs to improve our performance.

Certain projects that were previously announced, such as the greenfield slab mills in the city of Itaguaí, in the State of Rio de Janeiro, and the greenfield slab mill in the city of Congonhas, in the State of Minas Gerais and the Logistics Platform Project, in the city of Itaguaí, in the State of Rio de Janeiro (except for the ongoing improvements on its Container Terminal and for the expansion of its Solid Bulks Terminal) are being re-evaluated.

Our planned investments in iron ore, steelmaking, cement and logistic are described below.

Iron Ore

Our iron ore business comprises the expansion of our mining activities and our seaport facilities, the construction of pellet plants and, to a lesser extent, the trading of iron ore produced by other companies through our own logistics network. We expect to reach an annual sales level of 89 mtpy of iron ore products by 2014, of which 50 mtpy from Casa de Pedra and 39 mtpy through our 60% non-consolidated investee Namisa. We expect to finance these investments with the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento*

Econômico Social-BNDES), export credit agencies, the proceeds from offerings of securities and use part of our free cash flow from our current operations.

We are also investing in the expansion of the seaport Solid Bulks Terminal in Itaguaí, or TECAR, to enable annual exports of 84 million tons of iron ore. Our current annual export capacity is equivalent to 30 million tons.

Table of Contents

In addition to these projects, which are already being implemented, we are analyzing further expansions, such as Casa de Pedra reaching 70 mtpy and TECAR to reach 130 mtpy, other brownfield and greenfield opportunities and acquisitions options.

Steel

We initiated our long steel products brownfield project in the city of Volta Redonda, in the State of Rio de Janeiro, which will be developed inside its main steelmaking facility. In this plant we intend to produce 500,000 tons per year of long steel products, such as rod bar (400,000 tons per year) and wire rod. We expect to benefit from the existing infrastructure and utilities used to support a blast furnace and a former foundry. The total investment in long steel products production will be of approximately US$340 million in installations, including expanding and upgrading a 30-ton electric furnace. The facility will use surplus pig iron and low value added slabs as raw materials. In addition to this plant, we are developing in Brazil two greenfield long steel projects with 500,000 tons per year each. Our forecast is that these two plants will start production by the end of 2013. We are developing a flat steel project with an expected capacity of 1.5 mtpy in a location to be confirmed.

Cement

We are investing approximately US$410 million to build a greenfield grinding mill and clinker furnace, with capacity of 2.4 million tons of products and 830,000 tons, respectively. This project represented our entry into the cement market, taking advantage of the slag generated by our blast furnaces and of our limestone reserves, located in the city of Arcos, in the State of Minas Gerais. The limestone, which is transformed into clinker, and the slag, account for approximately 95% of the production cost to produce cement. In 2009 our cement sales reached 338,000 tons, all from the grinding mill, and we expect to reach full production capacity by 2011. These investments will be financed by BNDES, which has already approved a seven-year credit line of up to US$81 million indexed partially on the long-term interest rate (*Taxa de Juros de Longo*-Prazo), or TJLP, and partially on US dollars, as well as the use of free cash flow from our current operations. In addition to this plant, we are developing other projects, such as the installation of an integrated cement plant in the city of Arcos, in the State of Minas Gerais, taking advantage of our calcareous mine, with capacity of 600,000 tons per year. We intend to build three new integrated plants (cement and clinker) in Brazil until 2013, each with a projected capacity of 1 million tons per year. Taken together these projects are expected to have a production capacity of 6.4 million tons of cement.

Transnordestina

In August 2006, in order to enable the implementation of a major infrastructure project led by the Brazilian federal government, our Board of Directors approved a transaction to merge Transnordestina S.A., a company that at the time was state-owned, into and with Companhia Ferroviária do Nordeste CFN, an affiliate of CSN that holds a 30-year concession granted in 1998 to operate the Northeastern Railroad of the RFFSA with 4,238 km of railway track. The surviving entity was later renamed Transnordestina Logística S.A., or Nova Transnordestina. The Nova Transnordestina Project includes an additional 1,728 km of large gauge, state-of-the-art railway track. We expect the investments will allow the company to increase the transportation of various products, such as iron ore, limestone, soy beans, cotton, sugar cane, fertilizers, oil and fuels. The investments will be financed through several agencies, such as FINOR Northeastern Investment Fund, SUDENE - the Northeastern Development Federal Agency and BNDES. We have obtained certain of the required environmental permits, purchased parts of the equipments and services and implementation is advanced in certain regions.

Until 2008 Transnordestina was jointly controlled by us and Taquari Participações S.A., or Taquari, pursuant to a shareholders´ agreement dated November 27, 1997, as amended on May 6, 1999 and on November 7, 2003. During

2009, we increased the capital of Transnordestina upon disbursing certain advances for future capital increases. Taquari decided not to participate in such capital increases, being diluted and relinquishing control over Transnordestina. Transnordestina is currently a subsidiary fully controlled by us and has been consolidated in our financial statements since December 2009.

Table of Contents

Additional Investments

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

Other Information

CSN s legal and commercial name is Companhia Siderúrgica Nacional. CSN is organized for an unlimited period of time under the laws of the Federative Republic of Brazil. Our head offices are located at Rua São José, 20, 16th floor, 20010-020, Rio de Janeiro, RJ, Brazil and our telephone number is +55-21-2141-1800. CSN s agent for service of process in the United States is CT Corporation, with offices at 111 Eighth Avenue, New York, New York 10011.

4B. Business Overview

Competitive Strengths

We believe that we have the following competitive strengths:

Fully integrated business model. We believe we are one of the mostly fully integrated steelmakers in the world. We have captive iron ore reserves, which differentiate us from our main competitors in Brazil that purchase their iron ore from mining companies such as Vale S.A., or Vale. In 2006, we hired Golder Associates S.A., or Golder, to evaluate the Casa de Pedra iron ore reserves. The results confirmed proven and probable mineral resources of 1.6 billion tons with a grade of approximately 48.0%. In addition to our iron ore reserves, we have captive dolomite and limestone mines that supply our Presidente Vargas steelworks. Our steelworks are close to the main steel consumer centers in Brazil, with easy access to port facilities and railroads. Our operations are strongly integrated as a result of our captive sources of raw materials, such as iron ore, and our access to owned infrastructure, such as railroads and deep-sea water port facilities.

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

Self-sufficiency in energy generation. We are self-sufficient in energy, through our interests in the hydroelectric plants of Itá and Igarapava, and our own thermoelectric plant inside the Presidente Vargas steelworks. We also sell excess energy we generate into the energy market. Our 238 MW thermoelectric co-generation plant provides the Presidente Vargas steelworks with approximately 60% of its energy needs for its steel mills, using as its primary fuel the waste gases generated by our coke ovens, blast furnaces and steel processing facilities. We indirectly hold 29.5% of the Itá hydroelectric plant that has installed capacity of 1,450 MW, with a guaranteed output of 668 MW to us and to the other shareholders of Itá Energética S.A., or ITASA, proportionally to our interests in the project, pursuant to 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. In addition, we

hold 17.9% of the Igarapava hydroelectric, with 210 MW fully installed capacity. We have been using part of our 22 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines.

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

Table of Contents

Diverse product portfolio and product mix. We have a diversified product mix that includes: hot-rolled, cold-rolled, galvanized and steel tin mill products. We offer many kinds of steel packaging produced in Brazil, accounting for 98.0% of the steel tin mill products and 47.0% of the galvanized flat steel produced in Brazil. We also produce a diversified portfolio of products to meet a wide range of customer needs across all steel consuming industries. We focus on selling high margin products, such as tin plate, pre-painted, galvalume and galvanized products, in our product mix. Our GalvaSud product provides material for exposed auto parts, using hot-dip galvanized steel and laser-welded blanks. This, together with our hot-dip galvanizing process know-how, allows us to increase our sales to the automotive segment. In 2009, our market share in the automotive industry accounted for 24.0% of total domestic sales 3 p.p. higher than 2008, and we expect to further increase our sales to the automotive industry in 2010. Our branch CSN Paraná provides us additional capacity to produce high-quality galvanized, galvalume and pre-painted steel products for the construction and home appliance industries. In addition, our subsidiary, Prada, the largest flat steel distributor in Brazil, is a strong sales channel in the domestic market, enabling us to meet demands from smaller customer, and therefore to have a strong presence in this market.

Strong presence in domestic market and strategic international exposure. We have a strong presence in the domestic market for steel products, with a 98.0% market share of the steel tin mill product industry in Brazil and a large market share for galvanized flat steel. In addition, our subsidiaries CSN LLC and Lusosider constitute sales channels for our products, selling in the United States and in Europe kept stable in 5.0% and 5.0%, respectively, of our total sales in 2009 in comparison to 2008.

Strategies

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

Steel

Our strategy for our steel business involves:

- focus on domestic markets, in which we have historically recorded higher profit margins and better competitiveness, by expanding our market-share in flat steel and by entering in the long steel market as a relevant player;

- constant pursuit of operational excellence, by implementing cost reduction projects (eg. pellet plant, coque battery revamp, energy efficiency) and programs (eg, internal logistic optimization, inventories reduction, project development and implementation disciplines);

- emphasis on high value-added steel products, such as galvanized, pre-painted and tin-coated, in addition to enhancing service centers and finished goods offering (eg. expansion of Galvasud service center for automotive segment and expansion of pre-painted production);

- explore synergic markets and profitability, by employing flat steel distribution units and portfolio complementarily to accelerate entrance in longs market, capturing synergies with cement and others products; and

- gain market-share in services and distribution network, via new deposits and service centers regions, by importing products.

For information on our planned investments relating to our steel activities, see Item 4A. History and Development of the Company Planned Investments Steel.

Table of Contents

Mining

In order to strengthen our position as a player in the iron ore market, we plan to expand our mining assets, Casa de Pedra and Namisa, and search for investment opportunities, primarily in mining operations and advanced projects.

We plan to reach an annual sales level of 89 mtpy of iron ore products by 2014, which represents more than 3 times the volume of observed in 2009, by increasing capacity to 50 mtpy in Casa de Pedra and 39 mtpy in our 60% non-consolidated investee Namisa.

In order to maximize the profitability of our product portfolio and resources, we will also focus on pellet and pellet-feed, by using Itabiritos resources, investing with strategic partners and clients in pellet capacity and seeking strategic partnerships towards captive consumption of pellet feed.

Regarding our infrastructure to sustain this growth, we will increase capacity in TECAR (our private port in the State of Rio de Janeiro) from 30 mtpy to 84 mtpy until 2014, and we are analyzing other capacity additions. In addition to the port expansion, we are also studying seaborne shipping opportunities, focused on gaining competitiveness in the Asian market.

For information on our planned investments relating to our mining activities, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Iron Ore.

On December 15, 2009, our board of directors authorized the adoption of internal measures in connection with the segregation of our iron ore business and correlated logistics activities into one of our subsidiaries. For information on the segregation of our mining assets, see Item 4. Information on the Company A. History and Development of the Company Acquisitions and Dispositions Segregation of Mining Assets.

Logistics

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

We have substantially improved the infrastructure that supports the Presidente Vargas steelworks by investing in projects such as railways and port facilities in order to increase our ability to control production costs and delivery services.

In addition to investments in TECAR mentioned above (iron ore and coal), we will strengthen STSA (container terminal) in order to operate larger ships, increasing its capacity and competitiveness by aggregating services to facilitate client loyalty.

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

Cement

Our strategy for cement business includes greater utilization of by-products by continuing construction of our cement grinding and a clinker facility that we expect will produce 2.8 million tons of cement by 2011. We have an advanced project to build a new integrated cement plant in the State of Minas Gerais (grinding and clinker), taking advantage of

our calcareous reserves, with capacity to produce 0.6 million tons of cement. We are also developing 3 other new projects with projected capacity 1 mtpy each, in locations in Brazil yet to be defined. For information on our planned investments relating to our cement activities, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Cement.

Table of Contents

Additional Investments

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

Our Steel Segment

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

The following chart reflects our production cycle in general terms.

Our Presidente Vargas steelworks produces flat steel products slabs, hot-rolled, cold-rolled, galvanized and tin mill products. For further information on our production process, see Product Process.

Slabs

Slabs are semi-finished products used for processing hot-rolled, cold-rolled or coated coils and sheet products. We are able to produce continuously cast slabs with a standard thickness of 250 millimeters, widths ranging from 830 to 1,600 millimeters and lengths ranging from 5,250 to 10,500 millimeters. We produce high, medium and low carbon slabs, as well as micro-alloyed, ultra-low-carbon and interstitial free slabs.

Hot-Rolled Products

Hot-rolled products comprise heavy-gauge hot-rolled coils and sheets, and light-gauge hot-rolled coils and sheets. A heavy gauge hot-rolled product, as defined by Brazilian standards, is a flat-rolled steel coil or sheet with a minimum thickness of 5.01 millimeters. We are able to provide coils of heavy gauge hot-rolled sheet having a maximum thickness of 12.70 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 1.20 millimeters and are used for welded pipe and tubing, automobile parts, gas containers, compressor bodies and light cold-formed shapes, channels and profiles for the construction industry.

Table of Contents

Cold-Rolled Products

Cold-rolled products comprise cold-rolled coils and sheets. A cold-rolled product, as defined by Brazilian standards, is a flat cold-rolled steel coil or sheet with thickness ranging from 0.30 millimeters to 3.00 millimeters. Compared to hot-rolled products, cold-rolled products have more uniform thickness and better surface quality and are used in applications such as automotive bodies, home appliances and construction. In addition, cold-rolled products serve as the base steel for our galvanized and tin mill products. We supply cold-rolled coils in thicknesses of 0.30 millimeters to 2.99 millimeters.

Galvanized Products

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

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

Galvanized sheets, both painted and bare, are also frequently used for gutters and downspouts, outdoor and indoor cabinets, all kinds of home appliances and similar applications. We produce galvanized sheets and coils in continuous hot-dip processing lines, with thickness ranging from 0.30 millimeters to 3.00 millimeters. The continuous process results in products with highly adherent and uniform zinc coatings capable of being processed in nearly all kinds of bending and heavy machinery.

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

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

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

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

Table of Contents

Tin Mill Products

Tin mill products comprise flat-rolled low-carbon steel coils or sheets with, as defined by Brazilian standards, a maximum thickness of 0.45 millimeters, coated or uncoated. Coatings of tin or chromium are applied by electrolytic process. Coating costs place tin mill products among the highest priced products that we sell. The added value from the coating process permits us to price our tin mill products with a higher profit margin. There are four types of tin mill products, all produced by us in coil and sheet forms:

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

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

Production

Production Process

The principal raw materials for steel production in an integrated steelworks are iron ore, coal, coke, and fluxes like limestone and dolomite. The iron ore consumed at the Presidente Vargas steelworks is extracted, crushed, screened and transported by railway from our Casa de Pedra mine located in the city of Congonhas, in the State of Minas Gerais, 328 km from the Presidente Vargas steelworks. The high quality ores mined and sized at Casa de Pedra, with iron content of approximately 60%, and their low extraction costs are major contributors to our low steel production costs.

Because Brazil lacks quality coking coals, we import all the coal required for coke production. The coal is then charged in coke batteries to produce coke through a distillation process. See Raw Materials and Suppliers Raw Materials and Energy Requirements. This coal distillation process also produces coke oven gas as a byproduct, which we use as a main source of fuel for our thermoelectric co-generation power plant. After being screened, coke is transported to blast furnaces, where it is used as a combustion source and as a component for transforming iron ore into pig iron. In 2009, we produced approximately 75% of our coke needs and imported the balance. At sintering plants, fine-sized iron ore and coke or other fine-sized solid fuels are mixed with fluxes (limestone and dolomite) to produce sinter. The sinter, lump iron ore, fluxing materials and coke are then loaded into our two operational blast furnaces for smelting. We operate a pulverized coal injection, or PCI, facility, which injects low-cost pulverized coal directly into the blast furnaces as a substitute for approximately one-third of the coke otherwise required.

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

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

Table of Contents

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

Steel plant equipment regularly undergoes scheduled maintenance shutdowns. Typically the rolling mills and coating lines are maintained on a weekly or monthly basis whereas the blast furnaces and other special equipment are scheduled for routine maintenance on a semi-annual or annual basis.

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

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

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

Quality Management Program

We practice Total Quality Management, a set of techniques that have been adopted by many leading companies in our industry. We also maintain a Quality Management System that has been certified to be in compliance with the ISO 9001 standards set forth by the International Standardization Organization, or ISO. In October 2003, we were awarded the ISO 9000: 2000 certificate for the design and manufacture of hot-rolled, pickled and oiled products, cold-rolled, galvanized and tin mill products, which replaced the ISO 9001 Certificate that we were awarded in December 1994. In October 2003, we were also awarded the automotive industry s Technical Specification - 16949: 2002, for the design and manufacture of hot-rolled, pickled and oiled, cold-rolled and galvanized products, which replaced the QS 9000 standards that we were awarded in 1997. Some important automotive companies, like Volkswagen, General Motors and Ford, require their suppliers to satisfy the QS 9000 standards.

Table of Contents

Production Output

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

Crude Steel Production	Brazil	CSN	CSN% of Brazil
	(In millions of tons)		
2009	26.5	4.4	16.6%
2008	33.7	5.0	14.8%
2007	33.8	5.3	15.7%
2006	30.9	3.5 *	11.3%
2005	31.6	5.2	16.5%

Source: Brazilian Steel Institute (*Instituto Brasileiro de Siderurgia*), or IBS.
* Lower production due to accident at Blast Furnace No. 3 on January 22, 2006.

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

Certain Operating Statistics

	2007	2008	2009
		(In millions of tons)	
Production of:			
Iron Ore	15.0	17.0	17.1
Molten Steel	5.4	5.1	4.5
Crude Steel	5.3	5.0	4.4
Hot-Rolled Coils and Sheets	5.1	4.7	4.1
Cold-Rolled Coils and Sheets	3.1	2.6	2.4
Galvanized Products	2.2	1.1	0.7
Tin Mill Products	0.9	0.7	0.6
Consumption of Coal for Coke Batteries	2.3	2.3	2.1
Consumption of Coal for PCI	0.9	0.8	0.6

Raw Materials and Suppliers

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

Raw Materials and Energy Requirements

In light of the global economic and financial crisis, which resulted in lower economic activity in 2009 as compared to 2008 and decrease demand for various commodity type industrial segments, coal and iron ore miners, and coke producers charged customers lower prices. At the end of 2009 we noticed a recovery in the economy of certain countries, including Brazil. Consequently, there was a pressure for increase in prices of certain raw materials.

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

Iron Ore

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

Coal

In 2009, our coal consumption totaled 2.76 million tons and accounted for 22.1% of our production cost. Because of the cyclical nature of the coal industry, price and quantity terms contained in our coal supply contracts, which are denominated in U.S. dollars, are usually renegotiated annually. Thus, our coal costs can vary from year to year.

Table of Contents

Coke

In 2009, in addition to the approximately 1.52 million tons of coke we produced, we also consumed 299,141 tons of coke bought from third parties in China, India, Colombia and in the domestic market. This figure represents a decrease of 11% as compared to our consumption in 2008 and expresses CSN s historical level of consumption. The market for coke has been very competitive since 2002, because China, a major player in the sea-borne trade, has increased its internal consumption and adopted restrictive export quotas. In addition, India has become a major consumer of coke, considerably increasing its consumption in the past years. Due to logistical reasons, China supplies most of India s coke and this increase in consumption tightened even more the worldwide supply-demand balance of metallurgical coke. During 2009, the financial crisis hit the steel industry and coke consumption worldwide was drastically reduced, resulting in lower prices of this raw material. In the fourth quarter of 2009, in light of a recovery in the steel industry worldwide, prices started increasing.

We use a PCI system that allows us to use less coke in our blast furnaces, substituting a portion of the coke with lower grade coal. The PCI system has reduced our need for imported coal and imported coke, thereby reducing our production costs. In 2009, we used approximately 642,259 tons of imported PCI coal.

Limestone and Dolomite

We obtain limestone and dolomite from our Bocaína mine in the city of Arcos, in the State of Minas Gerais, which produces 1.7 million tons of limestone and 0.8 million tons of dolomite on an annual basis. See the map under Item 4D. Property, Plants and Equipment for the location of the Bocaína mine in relation to the Presidente Vargas steelworks.

Aluminum, Zinc and Tin

Aluminum is mostly used for steelmaking. Zinc and tin are important raw materials used in the production of certain higher-value steel products, such as galvanized and tin plate, respectively. We purchase aluminum, zinc and tin typically from third-party domestic suppliers under one or two-year contracts. We maintain approximately a 50-day reserve of such materials at the Presidente Vargas steelworks.

Other Raw Materials

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

We also consume significant amounts of oxygen, nitrogen, hydrogen, argon and other gases at the Presidente Vargas steelworks. These gases are supplied by a third-party under long-term contracts from its gas production facilities located on the Presidente Vargas steelworks site. In 2009 we used 689,256 tons of oxygen to produce 4.5 million tons of crude steel.

Water

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

from the Paraíba do Sul River, based on an annual fee of approximately US$1.6 million.

Electricity

Steelmaking also requires significant amounts of electricity to power rolling mills, production lines, hot metal processing, coking plants and auxiliary units. In 2009, the Presidente Vargas steelworks consumed approximately 2.7 million MWh of electric energy or 604 kilowatt hours per ton of crude steel. This consumption made us one of the largest consumers of electricity in Brazil, accounting for approximately 11% of the overall consumption of electricity in the State of Rio de Janeiro.

Table of Contents

Our main current source of electricity is our 238 MW thermoelectric co-generation power plant at the Presidente Vargas steelworks, besides the Itá and Igarapava hydroelectric facilities held by us, from which we have a take capacity available of 167 MW and 22 MW, respectively. In addition, we have approved the construction of a new turbine generator at the Presidente Vargas steelworks, which will increase 20 MW to our existing installed capacity. This turbine will be allocated near to our Blast Furnace No. 3, using the outlet gases from the iron making process to generate energy.

Natural Gas

In addition to electricity, we consume natural gas, mainly in our hot strip mill. Companhia Estadual de Gás do Rio de Janeiro S.A., or CEG Rio, which was privatized in 1997, is currently our major source of natural gas. Variations in the supply of gas can affect the level of steel production. We have not experienced any significant stoppages of production due to a shortage of natural gas. We also purchase fuel oil from Petrobras. See Item 3D. Risk Factors Risks Relating to the Steel Industry and CSN Interruptions in the supply of natural gas and power transmission over the government power grid may adversely affect our business, financial condition and results of operations.

Diesel Oil

In mid-October 2006 and July of 2008, we entered into an agreement to receive diesel oil from the Companhia Brasileira de Petróleo Ipiranga, or Ipiranga, in order to supply our equipment in Casa de Pedra, Arcos and Namisa in the State of Minas Gerais, which are the plants responsible for our mining activity. In 2008 and 2009, we had a consumption of 49,565 kiloliters and 57,177 kiloliters of diesel oil, respectively. This increase was mainly due to the growth of our mining activity to support our growing iron ore production, which required us to enlarge our mining equipment fleet. In 2008 and 2009, we paid US$45.0 million and US$60.4 million, respectively, for the diesel oil we consumed.

Clinker

In August 2009, we entered into an agreement to receive clinker from Votorantim Cimentos Brasil S.A., in order to supply our cement mill in the Presidente Vargas steelworks in Rio de Janeiro State, which is the plant responsible for our cement production.

Suppliers

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

Our main raw materials suppliers are set forth below:

Main Suppliers	**Raw Material**
BHP Billiton, Jim Walter Resources, Alpha Natural Resources, Rio Tinto, Marubeni and Jellinbah	Coal
Noble, Glencore and CI Milpa	Coke
Reciclagem Brasileira de Metais Ltda.	Aluminum
Votorantim Metais[(1)]	Zinc

White Solder and Melt	Tin
Sotreq, P & H Minepro and MTU do Brasil .	Spare parts
Magnesita, RHI and Saint Gobain	Refractory bricks
Petrobras,Ipiranga and Quaker	Lubricants

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(1) We depend on Votorantim Metais as they are the only suppliers of zinc in Brazil

Table of Contents

Our Mining Segment

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

Our Mines

Location, Access and Operation

Casa de Pedra

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

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

Ore is currently excavated by a fleet composed of Marion 191M electric shovels, P&H 1900AL electric shovels, PC 5500 Demag hydraulic shovels, wheel loaders (different brands) and then hauled by a fleet of Terex MT3300AC (150 tons), Komatsu Dresser 510E (150 tons), Caterpillar CAT793 (240 tons) and Terex Unit Rig MT4400 (240 tons).

Casa de Pedra mine is wholly-owned by us and accounts for all our iron ore supply, producing lump ore, sinter feed and pellet feed fines with high iron content.

The maps below illustrate the location of our Casa de Pedra mine:

31

Table of Contents

Namisa

We own additional iron ore assets through Namisa, our 60% non-consolidated investee, which acquired CFM in July, 2007. CFM was incorporated in 1996 with the purpose of utilizing and enhancing the ore treatment facilities of the Itacolomy mines, for the beneficiation of crude ore extracted from its deposit, the Engenho mine.

The Engenho mine is located at the Southwestern region of the Iron Ore Quadrangle, 60 km South of the city of Belo Horizonte.

Table of Contents

The maps below illustrate the location of our Engenho mine:

The Fernandinho mine is located in the city of Itabirito, in the State of Minas Gerais. This town is located in the Middle-East region of the State of Minas Gerais and approximately 43 km from the city of Belo Horizonte.

The maps below illustrate the location of our Fernandinho mine:

Table of Contents

Limestone and Dolomite Mine

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

Tin

We own a tin mine and a smelter located in the State of Rondônia. The inventory of the geological reserves has been prepared from a review of the major reports from the Santa Barbara Mine Document Center. The majority of the deposits and/or target areas are within Mining Leases that have been consolidated into Mining Group (Grupamento Mineiro No. 131/92). The reserves provided were recognized by the DNPM. The reserves and resources presented are in situ.

Mining Rights and Ownership

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

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

Casa de Pedra

Our mining rights for Casa de Pedra mine include the mine, beneficiation plant, roads, loading yard and railway branch and are duly registered with the Brazilian Department of Mineral Production (*Departamento Nacional de Produção Mineral*), or DNPM. We have also been granted by DNPM easements in 15 mine areas located in the surrounding region, which are not currently part of Casa de Pedra mine, and hold title to all our proved and probable reserves.

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

The exploitation in Casa de Pedra mine is subject to mining lease restrictions, which were duly addressed in our iron ore reserve calculations. Quality requirements (chemical and physical) are the key modifying factors in the definition of ore reserves at Casa de Pedra and were properly accounted for by the CSN mine planning department.

Mineral Reserves

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

Mine	Type	Operating Since	Projected exhaustion date	CSN % interest
Iron:				
Casa de Pedra (Congonhas, Minas Gerais)	Open pit	1913	2041	100
Engenho (Congonhas, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2041	60
Fernandinho (Itabirito, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2030	60
Limestone and Dolomite:				
Bocaina (Arcos, Minas Gerais)	Open pit	1946	2052	100
Tin:				
(Itapoã do Oeste, Rondônia)	Open pit	1950	-	100

Table of Contents

The following table sets forth our estimates of proven and probable reserves and other mineral deposits at our mines reflecting the results of 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 As of December 31, 2009

	Proven and Probable Reserves(1)					**Mineral Deposits Resources(2)**
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)	1,048	514	47.79% Fe	Hematite (21%) Itabirite (79%)	943	8,317
Engenho (Congonhas, Minas Gerais)			46.07%	Itabirite (100%)		857
Fernandinho (Itabirito, Minas Gerais)			40.21%	Itabirite (100%)		582
Total Iron:	**1,048**	**514**			**943**	**9,788**
Limestone and Dolomite:	**Proven(6)**	**Probable(7)**				
Bocaina (Arcos, Minas Gerais)	120.2	41.9	41.3%CaO 5.99%MgO	Limestone (86%) Dolomite (14%)	158.5	1,190
	Proven+Probable Reserves(Mm3)				Recoverable Product5 **(in tons)**	Resources (Mm^3) **(in million cubic meters)**
Tin						
(Itapoã do Oeste,				Paleo valley and		

Rondônia)	41.33	shallow	24,066	95.87

(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) Includes inferred tonnages.
(3) Represents ROM material.
(4) Grade is the proportion of metal or mineral present in ore or any other host material.
(5) Represents total product tonnage after mining and processing losses.
(6) Means reserves for which: (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well- established.
(7) Means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measure) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measure) reserves, is high enough to assume continuity between points of observation.

Casa de Pedra

We have concluded an extensive, multi-year study of our iron ore reserves at Casa de Pedra. The study consisted of three phases. Phase one, which was completed in 1999, covered the ore bodies that are currently being mined or are close to the current operating open pits. Phase two, which was completed in early 2003, covered the other iron ore deposits at Casa de Pedra site. Phase three started in 2005 and involved a complete revaluation of our mineral reserves at Casa de Pedra.

We conducted extensive work throughout 2006 to document and classify all information related to both the current and future operations of the Casa de Pedra mine.

In 2006, we hired Golder Associates S.A., or Golder, to undertake an independent analysis of the Casa de Pedra iron ore reserves. Golder carried out a full analysis of all available information and has independently validated our reported reserves.

Golder accepts as appropriate the estimates regarding proven and probable reserves made by us, totaling 1,631 million tons of iron ore (as of December 31, 2006) at a grade of 47.79% Fe and 26.63% SiO2. This new estimate of our iron ore reserves at Casa de Pedra is significantly larger than our estimate of 444 million tons, reported on an appraisal report prepared in 2003.

We are extending our drilling campaign with additional 24,000 meters to increase and improve our knowledge about the iron ore deposits at Casa de Pedra. When this drilling campaign is concluded, we intend to run a new program of ore reserve audit.

Table of Contents

Namisa

An initial study was conducted at Fernandinho and Engenho mines to define the geological resources and final pits. We are extending our drilling campaign with additional 10,000 meters at both mines this year to increase and improve our knowledge about the iron ore deposits at these mines. We expect that, as soon this drilling campaign is concluded and a new model and final pit is finished, this reserve could be audited and incorporated in our mineral deposits.

Production

Casa de Pedra

In 2009, the ROM was 27.0 million tons (with a total crusher feed of 21.5 million tons and a total classification and concentration feed of 21.1 million tons). The resulting product tonnage was 17.1 million tons of processed iron ore (mass recovery on wet basis of 80.5%). Of this total amount, 6.4 million tons were delivered to the Presidente Vargas steelworks and 7.5 million tons were sold to third parties, consisting of 3.8 million tons of sinter-feed material, 3.3 million tons of pellet feed materials, 0.3 million tons of lump ore and 0.2 million tons of small lump ore.

The Casa de Pedra facilities are located in the city of Congonhas, in the State of Minas Gerais. The Casa de Pedra mine is located 350 km from the Presidente Vargas steelworks and supplies iron ore products to our steel mill, as well as for export through the Itaguai Port. Casa de Pedra s equipment fleet and treatment facilities have an installed annual ROM capacity of approximately 60.0 million tons and 21.5 million tons, respectively.

Namisa

In 2009, Namisa sold 14.6 million tons through production from its two complexes and acquisition of iron ore from third parties and CSN, of which 14.4 million tons were exported. Trading iron ore is obtained from small mining companies in the region. In 2009, 2.8 million tons of ROM were extracted from the Engenho mine with a waste/ore ratio of 0.35.

The beneficiation plant at Pires also processed crude ore acquired from CSN (Casa de Pedra), which along with its own ROM, generated 5.0 million tons composed of lump ore, small lump ore, or hematitinha, sinter feed and concentrates. In 2009, 0.8 million tons were extracted from the Fernandinho mine with a waste/ore ratio of 0.17. The beneficiation plant at the Fernandinho unit generated 0.5 million tons of small lump ore and sinter feed products, in which the sinter feed practically corresponded to the total production.

Most of the ROM of the Pires Beneficiation Plant comes from Engenho mine (Namisa s property), which is located at the northern border of the Casa de Pedra mine. Pires Beneficiation Plant has the capacity to process 10.3 million tons per year. From this total, 6 million tons are currently provided by the Engenho mine and the balance is purchased from third parties.

The Fernandinho mine produced 1.2 million tons of feed in 2009.

Namisa complements our strategy to be a world leading producer of high quality iron ore. Namisa remains fully integrated with our railway and port logistics corridor, through long-term contracts, which provide sufficient railway and port logistics capacity for Namisa s current and future production. Namisa is a leading company in iron ore mining and trading, with mining and processing operations in the State of Minas Gerais. Trading iron ore is obtained from small mining companies in the neighborhood and other trading companies. For information on the sale of 40% of our ownership interest in Namisa, see Item 4. Information on the Company A. History and Development of the

Company Acquisitions and Dispositions.

Our steelmaking operations consumed 6.2 million tons of iron ore during 2009, consisting of 4.7 million tons of sinter-feed material and 1.5 million tons of lump ore. As we do not have pelletizing plants, the total amount of pellets has been acquired in the Brazilian market. In 2009, we entered into an agreement to receive pellets from Vale, in order to supply our equipment in the Presidente Vargas steelworks in the State of Rio de Janeiro.

Table of Contents

Logistics

Transportation costs are a significant component of our steel and iron ore production costs and are a factor in our price-competitiveness in the export market. Railway transportation is the principal means by which we transport raw materials from our mines to the Presidente Vargas steelworks and steel and iron ore products to ports for shipment overseas. Iron ore, limestone and dolomite from our two mines located in the State of Minas Gerais are transported by railroad to the Presidente Vargas steelworks for processing into steel. The distances from our mines to the Presidente Vargas steelworks are 328 km and 455 km. The distances from our mines to the ports are 440 km and 160 km. Imported coal and coke bought from foreign suppliers are unloaded at the port of Itaguaí, 90 km west of the city of Rio de Janeiro, and shipped 109 km by train to the Presidente Vargas steelworks. Our finished steel products are transported by train, truck and ships to our customers throughout Brazil and abroad. Our 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 indirectly hold concessions for the main railway systems we use. For further information on our railway concessions, see Facilities Railways.

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

Marketing Organization and Strategy

Steel

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

Our sales approach is to establish brand loyalty and achieve a reputation for quality products by developing relationships with our clients and focusing on their specific needs.

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

The distribution unit is responsible for supplying large steel processors and distributors, as well as some industries that produce small diameter pipe and light profiles. The packaging unit acts in an integrated way with suppliers, representatives of the canning industry and distributors to respond to customer needs for finished-products. The automotive unit is supplied by a specialized mill, CSN Porto Real , and also by a portion of the galvanized material produced at Presidente Vargas steelworks, benefiting from a combined sales strategy.

In 2009, approximately two thirds of our domestic sales were made through our own sales force directly to customers. The remaining sales were to independent distributors for subsequent resale to smaller clients.

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

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

Table of Contents

Unlike classic commodity products, there is no exchange trading of steel, or uniform pricing, as wide differences exist in terms of size, quality and specifications. In general, exports are priced based on international spot prices of steel at the time of sale in U.S. dollars or Euros, depending on the destination. 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, transportation and tariff costs to import similar products. Sales are normally paid at sight, or within 14 or 28 days, and, in the case of exports, usually backed by a letter of credit and an insurance policy. Sales are made primarily on cost and freight terms.

Sales by Geographic Region

In 2009, we sold steel products to customers in Brazil and 41 other countries. The fluctuations in the portion of total sales assigned to domestic and international markets, which can be seen in the table below, reflect our ability to adjust sales in light of variations in the domestic and international economies, as well as steel demand and prices, domestically and abroad.

The four main export markets for our products are Europe, Asia, North America and Latin America, representing 33%, 30%, 28% and 6%, respectively, of our export sales volume in 2009.

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

In Europe, we sell hot-rolled coil as raw material to Lusosider, our subsidiary located in Portugal.

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

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

	2007				2008				2009			
	Tons	% of Total	Gross Operating Revenues[2]	% of Total	Tons	% of Total	Gross Operating Revenues[2]	% of Total	Tons	% of Total	Gross Operating Revenues[2]	% of Total
Brazil	3,614	67.2	4,853	77.0	4,158	85.0	6,845	89.6	3,243	78.9	4,585	89.1
Export	1,764	32.8	1,446	23.0	733	15.0	791	10.4	867	21.1	562	10.9
Total	**5,378**	**100.0**	**6,299**	**100.0**	**4,891**	**100.0**	**7,636**	**100.0**	**4,110**	**100.0**	**5,147**	**100.0**
Exports by Region												
Asia	57	1.1	47	0.7	17	0.3	19	0.3	259	6.3	125	2.4
North America[1]	970	18.0	651	10.4	268	5.5	291	3.8	243	5.9	142	2.8
Latin America	122	2.3	94	1.5	96	2.0	105	1.4	55	1.3	61	1.2

Europe	548	10.2	601	9.5	331	6.8	352	4.6	290	7.1	213	4.1
All Others	67	1.2	53	0.9	21	0.4	24	0.3	20	0.5	21	0.4
Total Exports	**1,764**	**32.8**	**1,446**	**23.0**	**733**	**15.0**	**791**	**10.4**	**867**	**21.1**	**562**	**10.9**

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

(2) Total gross operating revenues presented above differ from amounts in our U.S. GAAP financial statements because they do not include revenues from non-steel products (non-steel products include mainly by-products, iron ore, logistics services and cement), which in 2007 represented US$679 million, in 2008 represented US$1,571 million and in 2009 represented US$1,194 million.

Table of Contents

Sales by Product

The following table sets forth our market shares for steel sales in Brazil of hot-rolled, cold-rolled, galvanized and tin mill products for the past three years according to the Brazil Steel Institute (*Instituto Aço Brasil*), or IABr.

CSN Domestic Market Share

	2007	**2008**	**2009**
	(As a percentage of the market for each product)		
Hot-Rolled Products	31.0%	34.0%	33.0%
Cold-Rolled Products	21.0%	26.0%	29.0%
Galvanized Products	44.0%	49.0%	47.0%
Tin Mill Products	98.0%	99.0%	98.0%

Sales by Industry

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

Sales by Industrial Segment in Brazil

	2007	**2008**	**2009**
	(In percentages of total domestic volume shipped)		
Distribution	43.3%	44.7%	38.9%
Packaging	16.3%	15.1%	15.4%
Automotive	14.6%	19.6%	20.6%
Home Appliances/OEM	13.3%	12.1%	14.6%
Construction	12.5%	8.5%	10.5%

We believe we have a particularly strong domestic and export position in the sale of tin mill products used for packaging. Our customers for these products include some of the world s most important food processing companies, as well as many small and medium-sized entities. We also maintain a strong position in the sale of galvanized products for use in the automobile manufacturing, construction and home appliance industries in Brazil and abroad, supplied by CSN Porto Real and CSN Paraná. No single customer accounts for more than 10% of our net operating revenues.

For further information on steel sales, see Item 5A. Operating Results - Results of Operations - Year 2009 Compared to Year 2008 - Operating Revenues .

Seasonality

The seasonality item was not identified in the Company activity, once its production is continuous during the year.

Iron Ore

Iron ore products are commercialized by our commercial team located in Brazil and overseas. In Europe (Portugal) and Asia (Hong Kong), our offices also include our technical assistance management. These three marketing units

allow us to stay in close contact with our customers worldwide, understand the environment where they operate, monitor their requirements and provide all necessary assistance in a short period of time. Domestic sales, market intelligence analysis, planning and administration of sales are handled from Brazil by the staff in our Nova Lima office, which is located approximately 70 km from the Casa de Pedra mine, in the State of Minas Gerais.

We supply our iron ore to the steel industry and our main targets are the Brazilian, European and Asian markets. Prevailing and expected levels of demand for steel products directly affect demand for iron ore. Demand for steel products is influenced by many factors, such as GDP, global manufacturing production, civil construction and infrastructure spending.

Table of Contents

We believe our competitiveness has been improved by our customer service and market intelligence. It is paramount for us to have a clear understanding of our customers businesses in order to address their needs, surpass their expectations and build long-term relationships. We have a customer-oriented marketing policy and place specialized personnel in direct contact with our clients to help determine the mix that best suits each particular customer.

Sales

The first step to our entry into the international iron ore market was taken in February 2007, with the completion of the first phase of the expansion of our coal seaport terminal in Itaguaí, in the State of Rio de Janeiro, which enabled us to also handle and export iron ore and to load from our own facilities the first shipment of our iron ore products.

In 2009, after the first three years trading in the international iron ore market, excluding the sales of our 60% non-consolidated investee Namisa, we exported 9.2 million tons of iron ore, which represents a 37.4% decrease, as compared to 2008. If we consider the sales of our 60% non-consolidated investee Namisa, our exports of iron ore reached 21.8 million tons, a 48.3% increase as compared to 2008. In our consolidated financial statements, export sales decreased 43.1% from US$980 million in 2008 to US$558 million in 2009.

Although the world economy, since the last quarter of 2008, was affected by the side-effects from the economy meltdown, we were able to maintain and increase our iron ore sales if we consider the 2009 sales of our 60% non-consolidated investee Namisa.

In 2009, China accounted for mostly of our iron ore sales, followed by Europe. In 2009, the Asian market (primarily China and Japan) and Europe were the primary markets for our sinter feed while Middle East was the primary market for our pellet feed.

As global iron ore markets are highly competitive, we focus on our flexibility, reliability and efficient manner of supplying iron ore to the world market. The iron ore market worldwide is mainly affected by price, quality, range of products offered, reliability, operating costs and shipping costs. Facing this environment we constantly seek better offer options not just for us but also for our customers.

Through our marketing offices, we have long term relationship with most players of the steel industry in China, Japan, Taiwan, South Korea, Europe and Brazil.

For further information on iron ore sales, see Item 5A. Operating Results - Results of Operations - Year 2009 Compared to Year 2008 - Operating Revenues.

Facilities

Steel Mill

The Presidente Vargas steelworks, located in the city of Volta Redonda, in the State of Rio de Janeiro, began operating in 1946. It is an integrated facility covering approximately 4.0 square km and containing five coke batteries (three of which are currently in operation), three sinter plants, two blast furnaces, a basic oxygen furnace steel shop, or BOF shop, with three converters, three continuous casting units, one hot strip mill, three cold strip mills, two continuous pickling lines, one continuous annealing line, three continuous galvanizing lines, four continuous annealing lines exclusively for tin mill products and six electrolytic tinning lines.

40

Table of Contents

Our major operational units and corresponding effective capacities as of December 31, 2009, including CSN LLC and Lusosider, are set forth in the following chart:

Effective Capacity

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

Downstream Facilities

GalvaSud

On January 29, 2010, we merged GalvaSud S.A., a producer and seller of galvanized steel, Galvanew®, laser-welded and pre-stamped parts for the automotive industry, into us. We held a 99.99% ownership interest in GalvaSud. GalvaSud had an annual capacity of 350,000 tons.

CSN Paraná

Our branch CSN Paraná produces and supplies plain regular galvanized, *Galvalume*® and pre-painted steel products for the construction and home appliance industries. The plant has an annual capacity of 330,000 tons of galvanized products and *Galvalume*® products, 100,000 tons of pre-painted products, which can use cold-rolled or galvanized steel as substrate, and 220,000 tons of pickled hot-rolled coils in excess of the coils required for the coating process.

Metalic

We have a 99.99% ownership interest in Cia. Metalic Nordeste, or Metalic. Metalic is one of the few two-piece steel can producer in all the Americas. It has approximately 48% of the packaging market for carbonated drinks in the Northeastern regions of Brazil. Currently, we are the only supplier to Metalic of the steel used to make two-piece cans. The development of drawn-and-wall-ironed steel for the production of two-piece cans is an important achievement in the production process at the Presidente Vargas steelworks. In addition to the production of the 350ml steel cans, in 2009 Metalic started the 250ml steel cans production, increasing its portfolio of products and servicing the market demand for cans of different sizes.

Prada

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

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

Table of Contents

Inal Nordeste

Inal Nordeste, or INOR, is our subsidiary and a distributor of laminated located in Northeastern Region. INOR has a service center located in the city of Camaçari, in the State of Bahia, to support sales in the Northeastern and North regions of Brazil, with 155,000 tons per year of installed processing capacity.

Companhia Siderurgica Nacional, LLC

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

Lusosider, Aços Planos, S.A.

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

Electricity Distribution and Generation

Thermoelectric Co-Generation Power Plant

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

Itá Hydroelectric Facility

Each of Tractebel and we own 48.75%, and Companhia de Cimento Itambé, or Itambé, owns the remaining 2.5% of ITASA, a special-purpose company formed for the purpose of owning and operating, under a 30-year concession, 60.5% of the Itá hydroelectric facility on the Uruguay river in Southern Brazil. Tractebel directly owns the remaining 39.5% of the Itá hydroelectric facility.

Table of Contents

The power facility was built under a project finance structure with an investment of approximately US$860 million. The long-term financing for the project was closed in March 2001 and consisted of US$78 million of debentures issued by ITASA, a US$144 million loan from private banks and US$116 million of direct financing from BNDES, all of which are due by 2013. The sponsors of the project have invested approximately US$306 million in this project.

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

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

Igarapava Hydroelectric Facility

We own 17.9% of a consortium that built and is to operate for 30 years the Igarapava hydroelectric facility. Other consortium members are Vale, Companhia Mineira de Metais, Votorantim Metais Zinco, AngloGold Ashanti Mineração Ltda., and Companhia Energética de Minas Gerais, or CEMIG. The plant became full operational on December 30, 1999 with an installed capacity of 210 MW, corresponding to 136 MW of firm guaranteed output as of December 31, 2008. We have been using part of our 22.8 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines and to the Presidente Vargas steelworks. From time to time, we also sell the excess energy in the spot energy market.

Railways

Southeastern Railway System

MRS has a concession to operate, through the year 2026, Brazil s Southeastern railway system. As of December 31, 2009, we held directly and indirectly 33.27% of MRS total capital. The Brazilian Southeastern railway system, with 1,674 km of track, serves the São Paulo Rio de Janeiro Belo Horizonte industrial triangle in Southeast Brazil, and links our mines located in the State of Minas Gerais to the ports located in the states of São Paulo and Rio de Janeiro and to the steel mills of CSN, Companhia Siderúrgica Paulista, or Cosipa, and Gerdau Açominas. In addition to serving other customers, the line transports iron ore from our mines at Casa de Pedra in the State of Minas Gerais and coke and coal from the Itaguaí Port in the State of Rio de Janeiro to the Presidente Vargas steelworks and transports our exports to the ports of Itaguaí and Rio de Janeiro. The railway system connects the Presidente Vargas steelworks to the container terminal at Itaguaí Port, which handles most of our steel exports. Our transport volumes represent approximately 28% of the Brazilian Southeastern railway system s total volume. As of December 31, 2009, US$1,964 million (R$3,420 million) were outstanding and payable by MRS to the Brazilian government federal agencies within the next 17 years, of which US$1,899 million (R$3,306 million) are treated as an off-balance sheet item (See Item 5E. Off-Balance Sheet Arrangements). While we are jointly and severally liable with the other principal MRS shareholders for the full payment of the outstanding amount, we expect that MRS will make the lease payments through internally generated funds and proceeds from financing.

Northeastern Railway System

As of December 31, 2009, we hold 84.3% of the capital stock of Transnordestina Logística S.A. Transnordestina Logística S.A. has a 30-year concession granted in 1998 to operate Brazil s Northeastern railway system. The Northeastern railway system includes 4,238 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba,

Pernambuco, Alagoas and Rio Grande do Norte. It also connects with the region s leading ports, thereby offering an important competitive advantage through opportunities for intermodal transportation solutions and made-to-measure logistics projects. As of December 31, 2009, a payment in the amount of US$21.7 million (R$37.8 million) was outstanding in connection with the remaining 17-year term of the concession, of which US$21.5 million (R$37.5 million) are treated as an off-balance sheet item (See Item 5E. Off-Balance Sheet Arrangements). For more information on the merger and financings for Transnordestina, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Transnordestina.

Table of Contents

Port Facilities

Solid Bulks Terminal

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

Container Terminal

We own 99.99% of Sepetiba Tecon S.A., or TECON, which has a concession to operate, for a 25-year term that is renewable for another 25 years, the container terminal at Itaguaí Port. As of December 31, 2009, US$174 million of the cost of the concession remained payable over the next 16 years of the lease. For more information, see Item 5E. Off-Balance Sheet Arrangements. The Itaguaí Port is located in the heart of Brazil s Southeast Region, with all major exporting and importing areas of the states of São Paulo, Minas Gerais and Rio de Janeiro within 500 km from the port. This area represents more than 60% of the Brazilian gross domestic product, or GDP, according to the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*). The Brazilian Federal Port Agency spent US$70 million in port infrastructure projects such as expanding the maritime access channel and increasing the depth from 18.5 meters to 20 meters. In addition, significant investments are also being made by the Brazilian federal government in adding two extra lanes to the Rio Santos road, in constructing the Rio de Janeiro Metropolitan Bypass, a beltway that will cross the Rio de Janeiro metropolitan area. Also, MRS railway is investing in an extra rail track along the way to the Itaguaí Port. These factors, combined with favorable natural conditions, like natural deep waters and low urbanization rate around port area, allow the operation of large vessels as well as highly competitive prices for all the services rendered, result in the terminal being a major hub port in Brazil. For further information on our planned investments relating to our Itaguaí CSN Logistics Platform Project, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Itaguaí CSN Logistics Platform Project.

The figures show the effect of investments made since 2007 in two Super Post Panamax Portainers and two Rubber Tired Gantry, or RTG, cranes. These investments, along with a focused marketing and sales strategy, enabled the terminal to rank first in market share among the three terminals of the state of Rio de Janeiro, with 39% of the total moves in those terminals.

We plan to carry out new infrastructure and equipment investments in Sepetiba TECON, as the Berth 301 Equalization and the acquisition of two new Super Post Panamax Portainers and four new RTG cranes to yard operations. These investments will increase TECON s capacity from 320,000 containers (or 480,000 TEUs) to 410,000 containers (or 610,000 TEUs) a year and from 2.0 million tons to 6.0 million tons a year of steel products. We intend to use this port to ship all our exports of steel products. In 2009, 91.6% of the exported steel products (or 666,410 tons), was shipped from this port, as compared to 82% in 2008.

In 2009, the terminal had its throughput affected by the global downturn. It achieved 154,289 units handled (or 224,898 TEUs), which represents a 28% decrease as compared to 2008.

Table of Contents

Insurance

In view of the nature of our operations, we renewed with international reinsurance companies, for the period from February 21, 2008 to February 21, 2009, the All Risks coverage for operational risks for the Presidente Vargas Steelworks, Casa de Pedra Mine, Arcos Mine, Paraná Branch, Coal Terminal - TECAR, GalvaSud (property damage and loss of profits), Container Terminal - TECON and ERSA (loss of profits), for a total risk amount of US$9.57 billion (property damage and loss of profit) and a maximum indemnification amount, in the event of an accident, of US$750 million for property damage and loss of profits.

As of February 22, 2009, we have not been able to contract with insurance and reinsurance companies insurance coverage for operational risks relating to our Presidente Vargas Steelworks.

We currently have valid insurance policies to cover material damage and business interruption for: Namisa, CSN Porto Real (former Galvasud), Prada, CSN Cimentos, Inal Nordeste, Metalic, ERSA, CSN LLC, CSN Paraná, Lusosider, Itá and Igarapava hydroelectric plants and Transnordestina.

In addition to the negotiations in connection with our operational risks policy for our Presidente Vargas Steelworks, the renewal of insurance policies for the following entities are currently being negotiated: CSN (Casa de Pedra and Arcos), TECON and TECAR.

For information on how our lack of insurance coverage may affect us, see Item 3D Risk Factors Malfunctioning equipment or accidents on our premises, railways or ports may decrease or interrupt production, internal logistics or distribution of our products. We do not have insurance policies to cover losses and liabilities in connection with operational risks, and may not have sufficient insurance coverage for certain other events.

The risk assumptions adopted, given their nature, are not part of the scope of a financial statements audit, and, consequently, they were not examined by our independent auditors.

Intellectual Property

We have several technical cooperation agreements with universities and research institutes in order to provide us with special technical reports and advice related to specific products and processes. In addition to several patents previously approved by the Brazilian National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), in 2009 we requested the deposit of 21 new patents on the field of product applications.

Competition in the Steel Industry

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. Further, continuous advances in materials sciences and resulting technologies have given rise to improvements in products such as plastics, aluminum, ceramics, glass and concrete that permit them to substitute steel for certain purposes.

Competition in the Brazilian Steel Industry

The primary competitive factors in the domestic market include quality, price, payment terms and customer service. Several foreign steel companies, however, are significant investors in Brazilian steel mills.

Table of Contents

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

	2007		2008		2009	
	Ranking	**Production** *(In million tons)*	**Ranking**	**Production** *(In million tons)*	**Ranking**	**Production** *(In million tons)*
Gerdau[(1)]	2	8.1	1	8.7	1	6.1
Usiminas	1	8.7	2	8.0	2	5.6
ArcelorMittal Tubarão	3	5.7	3	6.2	3	5.3
CSN	4	5.3	4	5.0	4	4.4
ArcelorMittal Aços Longos	5	3.7	5	3.5	5	3.2
Others		2.2		2.3		1.9
Total		**33.7**		**33.7**		**26.5**

Source: IBS

(1) Data from Aços Villares have been merged into data from Gerdau.

Competitive Position Global

During 2009, Brazil retained its place as the largest producer of crude steel in the Latin America, with a production output of 26.5 million tons and a 2.2% share of total world production, according to data from IBS. In 2009, Brazil was the ninth world s steel producer, accounting for approximately two-thirds of total production in Latin America, approximately twice the size of Mexico s and approximately one-third of U.S. steel production, according to data from the World Steel Association, or WSA. According to IABr Brazilian exports in 2009 reached 8.6 million tons of finished and semi-finished steel products.

We compete on a global basis with the world s leading steel manufacturers. We have positioned ourselves in the world market with a product mix characterized by high margin and strong demand, such as, tin mill and galvanized. We have relatively low-cost and sufficient availability of labor and energy, and own high-grade iron ore reserves that we believe 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 position in the world steel market in light of the highly competitive international environment 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 4B. Business Overview Government Regulation and Other Legal Matters Proceedings Related to Protectionist Measures for a description of protectionist measures being taken by steel-importing countries that could negatively impact our competitive position.

Competitive Advantages of the Brazilian Steel Industry

Brazil s principal competitive advantages are its abundant supply of low-cost, high-grade iron ore 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. Nevertheless, Brazil s products have lost partially their competitiveness, mainly due to the appreciation of the *real* against the U.S. dollar since the beginning of 2006, which resulted in the increase of the price of our products. In 2009, the *real* continued to significantly appreciate against the U.S. dollar and reflected the effects of the financial crisis and weak demand. Despite all these factors, we believe Brazil s average cost of steel production is one of the lowest in the world.

As in most domestic markets, the domestic price of steel in Brazil has historically been higher than its export price. The low production costs in Brazil are a 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.

Competition from greenfield projects of new market entrants would be discouraged by existing participant s ties to sources of raw materials and well-established distribution networks. In the last years, several foreign competitors announced their intention to undertake greenfield projects in Brazil. To date, some of these competitors have cancelled or postponed their projects, while others continue to evaluate their feasibility, in particular due to global economic and financial crisis in 2008 and 2009 and the high level of investment required. The strategic goal of these projects, as announced by their participants, is to replace non-competitive slab production plants in Europe or to expand upon slab capacity production of Asian companies in order to service their home markets.

Table of Contents

Government Regulation and Other Legal Matters

Environmental Regulation

Promoting responsible environmental and social management is part of our business. We prioritize processes and equipments that offer the most modern and reliable technologies on environmental risks monitoring and control. We operate a corporate environmental department managed under an Environmental Management System, or EMS, compliant with ISO 14001:2004 requirements. In addition, we have a factory committee for environmental management composed of professionals from all departments of CSN s main steelworks. This factory committee usually meets every week to discuss any problem and to identify risks and aspects of the operations in which the group can act pro-actively, in order to prevent possible environmental harm.

We are subject to Brazilian federal, state and municipal environmental laws and regulations governing air emissions, waste water discharges, and solid and hazardous waste handling and disposal. We are committed to controlling the substantial environmental impact caused by our steelmaking, mining, cement and logistics operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. We believe we are currently 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 and local 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 complemented by a current process of regulations reviews and new propositions at the federal level. The environmental regulations of the State of Rio de Janeiro, in which the Presidente Vargas steelworks is located, are plant-specific. Thus, specific goals and standards are established in operating permits or environmental accords issued to each company or plant. These specific operation conditions complement the standards and regulations of general applicability and are required to be observed throughout the life of the permit or accord. The terms of such operating permits are subject to change and are likely to become stricter. All of our facilities currently have operating permits.

In 2009, we requested and obtained several emissions permits and renewals of environmental permits, both for current operations and for the development of new projects regarding steel and cement manufacturing, iron ore and limestone mining and logistics, including: (i) the expansion of the Casa de Pedra mine; (ii) the construction of the Transnordestina Railroad, to explore railway transportation in the Northeastern region of Brazil; and (iii) the operation of a cement mill at Volta Redonda.

Environmental Expenditures and Claims

Since our privatization, we have invested heavily in environmental protection and remediation programs. We had environmental expenditures (capitalized and expensed) of US$144.9 million in 2007, US$180.0 million in 2008 and US$145.4 million in 2009.

Our investments in environmental projects during 2009 were related mainly to: (i) operations and maintenance of environmental control equipments; (ii) development of environmental studies for permit applications and (iii) studies monitoring and remediation of environmental liabilities due to prior operations, mainly before our privatization. From a total of US$145.4 million spent in 2009, US$40.7 million constituted capital expenditures and US$104.7 million constituted operational expenditures.

47

Table of Contents

Our main environmental claims on December 31, 2009 were associated with cleaning-up obligations at former coal mines decommissioned in 1989 at the state of Santa Catarina; legal environmental compensation projected for new projects at the States of Minas Gerais and Rio de Janeiro; and cleaning-up obligations due to former operations of Presidente Vargas steelworks. We did not include in the accruals any environmental liabilities related to ERSA, as they were born by its former owner.

We reserve an accrual for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. As of December 31, 2009, we had provisions for environmental liabilities in the total amount of US$66.8 million (R$116.3 million), as compared to US$30.5 million as of December 31, 2008, which our management and legal advisors consider sufficient to cover all probable losses. For further information, see Note 17(b) to our consolidated financial statements included in Item 18. Financial Statements.

Brazil mining regulation

Under the Brazilian Constitution, all mineral resources in Brazil belong to the federal government. The Brazilian Constitution and Mining Code impose various regulatory restrictions on mining companies relating to, among other things:

§ the manner in which mineral deposits must be exploited;

§ the health and safety of workers and the safety of residential areas located near mining operations;

§ the protection and restoration of the environment;

§ the prevention of pollution; and

§ the support of local communities where mines are located.

Mining companies in Brazil can only prospect and mine pursuant to prospecting authorizations or mining concessions granted by the National Department of Mineral Production (*Departamento Nacional de Produção Mineral*), or DNPM, an agency of the Ministry of Mines and Energy of the Brazilian Government. DNPM grants prospecting authorizations to a requesting party for an initial period of three years. These authorizations are renewable at DNPM s discretion for another period of one to three years, provided that the requesting party is able to show that the renewal is necessary for proper conclusion of prospecting activities. On-site prospecting activities must start within 60 days of official publication of the issuance of a prospecting authorization. Upon completion of prospecting activities and geological exploration at the site, the grantee must submit a final report to DNPM. If the geological exploration reveals the existence of a mineral deposit that is economically exploitable, the grantee has one year (which DNPM may extend) from approval of the report by DNPM to apply for a mining concession or to transfer its right to apply for a mining concession to an unrelated party. When a mining concession is granted, the holder of the concession must begin on-site mining activities within six months. DNPM grants mining concessions for an indeterminate period of time lasting until the exhaustion of the mineral deposit. Extracted minerals that are specified in the concession belong to the holder of the concession. With the prior approval of DNPM, the holder of a mining concession can transfer it to an unrelated party that is qualified to own concessions. Under certain circumstances, mining concessions may challenged by unrelated parties.

Mining Concessions

Our mining activities at Casa de Pedra mine are performed based on a *Manifesto de Mina*, which gives us full ownership over the mineral deposits existing within our property limits. Our mining activities at Engenho and Fernandinho mines are based on a concession by the Ministry of Mines and Energy, which grants us the right to exploit mineral resources from the mine for an indeterminate period of time lasting until the exhaustion of the mineral deposit. Our mining activities at the Bocaína mine are based on a concession under the same conditions. See Item 4D. Property, Plant and Equipment for further information on our reserves at Casa de Pedra mine and resources at Fernandinho and Engenho mines.

Table of Contents

Mining Rights and Ownership

Our mining rights for Casa de Pedra mine include the mine, beneficiation plant, roads, loading yard and railway branch and are duly registered with the National Department of Mineral Production (*Departamento Nacional de Produção Mineral - DNPM*). We have also been granted by DNPM easements in 15 mine areas located in the surrounding region, which are not currently part of Casa de Pedra mine, and hold title to all our proved and probable reserves.

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

The exploitation in Casa de Pedra mine are subject to mining lease restrictions, which were duly addressed in our iron ore reserve calculations. Quality requirements (chemical and physical) are the key modifying factors in the definition of ore reserves at Casa de Pedra and were properly accounted for by the CSN mine planning department.

The Brazilian government charges us a royalty known as the Financial Compensation for Exploiting Mineral Resources (*Compensação Financeira pela Exploração de Recursos Minerais*), or CFEM, on the revenues from the sale of minerals we extract, net of taxes, insurance costs and costs of transportation. The current annual rates on our products are:

§ 2% for iron ore, kaolin, copper, nickel, fertilizers and other minerals;

§ 3% on bauxite, potash and manganese ore; and

§ 1% on gold.

The Mining Code and ancillary mining laws and regulations also impose other financial obligations. For example, mining companies must compensate landowners for the damages and loss of income caused by the use and occupation of the land (either for exploitation or exploration) and must also share with the landowners the results of the exploration (in a rate of 50% of the CFEM). Mining companies must also compensate the government for damages caused to public lands. A substantial majority of our mines and mining concessions are on lands owned by us or on public lands for which we hold mining concessions.

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 No. 8,884/94, the *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 Brazilian anti-trust agency (*Conselho Administrativo de Defesa Econômica*), or CADE, determines companies have acted collusively to raise prices, it 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 projects. In addition, CADE has the authority to dissolve mergers and to require a company to divest assets should it determine that the industry in which it operates is insufficiently competitive.

Proceedings Related to Protectionist Measures

Over the past several years, exports of steel products from various countries and companies, including Brazil and us, have been the subject of anti-dumping, countervailing duty and other trade related investigations from importing countries. These investigations resulted in duties that limit our access to certain markets. Despite the imposed limitations, our exports have not been significantly affected, as we were able to re-direct our sales from restricted markets to other markets, and also because the volume of exports or products available for exports has been decreasing as a result of the increased demand from our domestic market and thus present participation of exports in our total sales was significantly reduced.

Table of Contents

Below are summaries of the protectionist measures to which our exports are subject.

United States

Anti-dumping and Countervailing Duties. In September 1998, U.S. authorities initiated anti-dumping and countervailing duties investigations on hot-rolled steel sheet and coil imported from Brazil and other countries. In February 1999, the U.S. Department of Commerce, or DOC, reached a preliminary determination on the anti-dumping and countervailing duties margins. We were found to have preliminary margins of 50.66% for anti-dumping, and of 6.62% for countervailing duties. In July 1999, Brazil and the United States signed a five-year suspension agreement, suspending the anti-dumping investigation and establishing a minimum price of US$327 per ton (delivery duty paid), subject to quarterly review by the DOC. In February 2002, the U.S. government terminated the anti-dumping suspension agreement and reinstated the anti-dumping margin of 41.27%. Also in July 1999, the Brazilian and U.S. governments signed a suspension agreement related to the countervailing duties investigation, which limited exports of hot-rolled sheets and coils from Brazil to 295,000 tons per year. At the request of the Brazilian government, the agreement was terminated in September 2004. Upon the termination of this agreement, countervailing duties of 6.35% became effective in September 2004, to be applied to imports of hot-rolled products from Brazil. In April 2004, we requested the DOC to conduct an administrative review of the anti-dumping investigation. Through this review, in April 2005, we obtained a favorable preliminary determination of zero margin of dumping from the DOC. Final determination was issued in October 2005 and the zero margin of dumping preliminary found by the DOC was confirmed.

Simultaneously to the administrative review, we participated in an anti-dumping and countervailing duties expiry review which involved the exports of hot-rolled sheet and coils to the U.S. The expiry review was jointly developed by the International Trade Commission and the DOC, through the Import Administration- I.A., that was initiated in May 2004. Final determination was rendered in April 2005, retaining the anti-dumping and countervailing duties orders until May 12, 2010.

In October 2005, the DOC initiated an administrative review of the investigation of subsidies and countervailing duties involving hot-rolled products. As the petitioners gave up on their participation in the review, it was terminated by the DOC in February 2006. Since the countervailing duties refer to subsidies related to the privatization period, and the depreciation period was fixed in fifteen years by the investigation, by the time the next expiry review is held by the International Trade Commission, in 2010, the effects of the subsidies involved will have been terminated, and therefore, the imposition of the countervailing duties might be discontinued.

Canada

Anti-dumping. In January 2001, the Canadian government initiated an anti-dumping investigation process involving hot-rolled sheets and coils exported from Brazil. The investigation was concluded in August 2001, with the imposition by Canada of an anti-dumping tax of 26.3% on imports of those products from Brazil, with minimum prices to be observed. In August 2002, the Canada Border and Services Agency, or the CBSA, initiated a revision of the values previously established and, in March 2003, the revised values were issued. These values are adjusted whenever there is an adjustment of the Canadian domestic prices. In February 2005, the CBSA initiated a reinvestigation of hot-rolled sheets and coils. We did not participate in this investigation.

In December 2005, the Canadian International Trade Tribunal, or CITT, initiated an expiry review of hot-rolled products, in which we participated. A final determination was issued in August 2006, determining the continuation of the anti-dumping order for hot-rolled products. As a result, exports of our hot rolled products to Canada are subject to anti-dumping duties of 77%.

Argentina

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

Table of Contents

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

In December 2004, exporters were notified of the revision of resolution No. 1,420/1999 from the Economic, Work and Public Services Ministry of Argentina relating to the export of Brazilian hot-rolled products. In January 2005, an expiry review of the anti-dumping process was initiated to analyze the maintenance, modification and/or derogation of the action of the administrative authority of the Argentinean government. We participated in this review.

In June 2006, Argentina published resolution No. 412/2006 terminating the anti-dumping investigation for hot-rolled products from Brazil, Russia and Ukraine, determining to Brazil the margin of 147.95% . The application of anti-dumping duties was replaced by a suspension agreement set forth in that same resolution, valid for five years from its publication, on June 6, 2006.

Overview of Steel Industry

World Steel Industry

The worldwide steel industry comprises hundreds of steelmaking facilities divided into two major categories, integrated steelworks and non-integrated steelworks, characterized by the method used for producing steel. Integrated plants, which accounted for approximately 66% of worldwide crude steel production in 2008, 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 34% of worldwide crude steel production in 2008, produce steel by melting scrap metal, occasionally complemented with other metallic materials, such as direct reduction iron or hot-briquette iron, in electric arc furnaces. Industry experts expect that a lack of a reliable and continuous supply of quality scrap metal, as well as the high cost of electricity, may restrict the growth of mini- mills.

Steel continues to be the material of choice in the automotive, construction, machinery and other industries. Notwithstanding potential threats from substitute materials such as plastics, aluminum, glass and ceramics, especially for the automotive industry, steel continues to demonstrate its economic advantage. From 1990 through 2005, total global crude steel production ranged between approximately 770 million and 1.1 billion tons per year. In 2008, it reached 1.33 billion tons, representing a 1.2% decrease as compared to 2007. In 2009, global crude steel production decreased 7.9% as compared to 2008, and reached 1.22 billion tons.

China s crude steel production in 2009 reached 568 million tons, an increase of 13.5% as compared to 2008. Production volume in China has more than doubled in five years, from 222 million tons in 2002. China s share of world steel production continued to grow in 2009, reaching 46.4% of world total crude steel.

Asia produced 766 million tons of crude steel in 2009, representing 63.7% of world total steel production and an increase of 1% as compared to 2008. Overall, steel production declined in Europe, North America, South America and Commonwealth of Independent States in 2009.

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.

Table of Contents

A Privatized Industry

During almost 50 years of state control, the Brazilian flat steel sector was coordinated on a national basis under the auspices of *Siderbrás*, the national steel monopoly. The state had far less involvement in the non-flat steel sector, which has traditionally been made up of smaller private sector companies. The larger integrated flat steel producers operated as semi autonomous companies under the control of Siderbrás and were each individually privatized between 1991 and 1993. We believe that the privatization of the steel sector in Brazil has resulted in improved financial performance, as a result of increased efficiencies, higher levels of productivity, lower operating costs, a decline in the labor force and an increase in investment.

Domestic Demand

Historically, the Brazilian steel industry has been affected by substantial fluctuations in domestic demand for steel. Although national per capita consumption varies with GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Per capita crude steel consumption in Brazil has increased from 95 kilograms per capita in 1999 to 108 kilograms in 2009, which is considered low when compared to levels in developed countries such as the United States, where the per capita crude steel consumption in 2007 was of 373 kilograms, and Germany, where the consumption was of 558 kilograms.

From 2005 to 2007, despite a good global conjuncture, the Brazilian economy exhibited an average growth GDP of 4.4%. Since September 2008, overall global economic activity has slowed significantly, which impacted our fourth quarter results. Domestic steel sales in 2008 and 2009 were 24 million tons and 18 million tons, respectively.

The Brazilian flat steel sector is shifting production to the higher value-added consumer durable sector. This sector is highly dependent on domestic consumer confidence, which, in turn, is affected by economic policies and certain expectations of the current government administration. Over the past years, automobile manufacturers made significant investments in Brazil. Vehicles production increased regularly in the past years, until September 2008, when the effects the 2008 of financial crisis grew in size and scope. In spite of the slowdown in automobile production, market data indicated a recovery in car sales since the beginning of 2009.

Market Participants

According to IBS, the Brazilian steel industry is composed of 26 mills managed by 8 corporate groups, with an installed annual capacity of approximately 41 million tons, producing a full range of flat, long, carbon, stainless and specialty steel. For information on the production by the largest Brazilian steel companies for the years ended December 2006, 2007, 2008 and 2009, see Item 4B. Business Overview Competition Competition in the Brazilian Steel Industry.

Capacity Utilization

Total Brazilian nominal capacity in 2009 was estimated at 42.1 million tons, as compared to 41.5 million tons in 2008. The Brazilian steel industry operated at approximately 63.4% of nominal crude steel capacity during 2009, as compared to 81% in 2008.

Exports/Imports

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 expanding its capacity to produce value-added products.

Brazil s exports of semi-finished steel products reached 5.7 million tons in 2008 and 4.6 million tons in 2009, which represented 62% and 54% of total steel exports for each period, respectively.

In 2009, Brazilian steel exports totaled 8.6 million tons, representing 32% of total Brazilian steel sales (domestic plus exports) and accounting for US$4.7 billion in export earnings for Brazil in 2009. 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 2009, supply totaled 26.7 million tons, as compared to apparent consumption of 18 million tons.

Table of Contents

Brazil also enjoys a diversified steel export market. In 2009, export sales were made to over 120 countries. North America and South America were Brazil s main export markets, accounting for 12% and 21%, respectively, of all Brazilian steel exports in such year. United States was the main destination, representing 8% of total exports. The European Union was responsible for 9% of the Brazilian steel exports in 2009, while Asia, Africa and the Middle East were responsible for 58%. The ten largest markets, taken together, accounted for 66% of Brazil s steel exports in 2009. See also Item 4B. Business Overview Competition.

As a result, Brazil is a negligible importer of foreign steel products. Steel imports were 2.3 million tons, or 8.6% of apparent domestic consumption in 2009, as compared to 2.7 million tons, or 11% in 2008, according to IBS.

4C. Organizational Structure

We do business directly and through subsidiaries. For more information on our organizational structure, see Note 1(a) to our consolidated financial statements included in Item 18. Financial Statements.

4D. Property, Plant and Equipment

Our principal executive offices are located in the city of São Paulo, the State of São Paulo at Avenida Brigadeiro Faria Lima, 3,400, 20th floor (telephone number 55-11-3049-7100), and our main production operations are located in the city of Volta Redonda, in the State of Rio de Janeiro, located approximately 120 km from the city of Rio de Janeiro. Presidente Vargas steelworks, our steel mill, is an integrated facility covering approximately 4.0 square km and located in the city of Volta Redonda in the State of Rio de Janeiro. Our iron ore, limestone and dolomite mines are located in the State of Minas Gerais, which borders the State of Rio de Janeiro 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.

Table of Contents

The table below sets forth certain material information regarding our property as of December 31, 2009.

Facility	Location	Size	Use	Productive Capacity	Title	Encun
Presidente Vargas steelworks	Volta Redonda, State of Rio de Janeiro	4.0 square km	steel mill	5.6 million tons per year	owned	N
CSN Porto Real (former GalvaSud)	Porto Real, State of Rio de Janeiro	0.27 square km	galvanized steel producer	350,000 tons per year	owned	mortg
CSN Paraná	Araucária, State of Paraná	0.98 square km	galvanized and pre-painted products	100,000 tons of pre- painted product and 220,000 tons of pickled hot-rolled coils	owned	N
Metalic	Maracanaú, State of Ceará	0.10 square km	steel can manufacturer	900 million cans per year	owned	mort
Prada	São Paulo, State of São Paulo and Uberlândia, State of Minas Gerais	SP 0.14 square km; MG 0.02 square km;	steel can manufacturer	1 billion cans per year	owned	N
CSN, LLC	Terre Haute, Indiana, USA	0.78 square km	cold-rolled and galvanized products	800,000 tons of cold-rolled products and 315,000 tons per year of galvanized products	owned	N
Lusosider	Seixal, Portugal	0.39 square km	hot-dip galvanized, cold-rolled and tin products	240,000 tons of galvanized products and 50,000 tons of cold-rolled products per year	owned	N
Prada	Mogi das Cruzes, State of São Paulo	0.20 square	distributor	730,000 tons per year	owned	N

		km				
Casa de Pedra mine	Congonhas, State of Minas Gerais	44.57 square km	iron ore mine	60.0 mtpy[4]	owned[5]	N
Engenho mine[6]	Congonhas, State of Minas Gerais	2.87 square km	iron ore mine	5.0 mtpy	concession	N
Fernandinho mine[6]	Itabirito, State of Minas Gerais	1.84 square km	iron ore mine	2.0 mtpy	concession	N
Bocaina mine	Arcos, State of Minas Gerais	4.11 square km	limestone and dolomite mines	4.0 mtpy	concession	N
ERSA mine	Ariquemes, State of Rondônia	0.015 square km	tin mine	1,800 tons	concession	N
Thermoelectric co- generation power plant	Volta Redonda, State of Rio de Janeiro	0.04 square km	power plant	238 MW	owned	N
Itá[7]	Uruguay River - Southern Brazil	9.87 square km	power plant	1,450 MW	concession	N
Igarapava[8]	State of Minas Gerais	5.19 square km	power plant	210 MW	concession	N
Southeastern Railway System [9]	Southern and Southeastern regions of Brazil	1,674 km of tracks	railway	--	concession	N
Transnordestina	Northern and northeastern regions of Brazil	4,238 km of tracks	railway	--	concession	N
TECAR at Itaguaí Port	Itaguaí, State of Rio de Janeiro	0.69 square km	raw materials	4 mtpy	concession	N
Container terminal - TECON at Itaguaí port	Itaguaí, State of Rio de Janeiro	0.44 square km	containers	2 mtpy	concession	N
Land	State of Rio de Janeiro	31.02 square	undeveloped	--	owned	pledge[10] mort

		km				
Land	State of Santa Catarina	6.22 square km	undeveloped	--	owned	pledge(10
Land	State of Minas Gerais	29.09 square km	undeveloped	--	owned	N

(1) Pursuant to a loan agreement entered into by the State of Rio de Janeiro and Galvasud as of May 4, 2000.
(2) Pursuant to a loan agreement entered into by Kreditanstatt Für Wiederafbau, Galvasud and Unibanco as of August 23, 1999.
(3) Pursuant to an industrial letter of credit issued by Banco do Nordeste do Brasil to Metalic, as of June 5, 2001, with maturity on February 5, 2011.
(4) Information on equipment fleet installed annual ROM capacity. For information on installed annual production of products capacity, and information on mineral resources at our Casa de Pedra mine, see Reserves at Casa de Pedra Mine and table under Casa de Pedra Mine below.
(5) Based on the *Manifesto de Mina*. See, Item 4. Information on the Company A. History and Development of the Company Government Regulation and Other Legal Matters Mining Concessions.
(6) Property owned by our 60% non-consolidated investee Namisa.
(7) Property 29.5% owned by us.
(8) Property 17.9% owned by us.
(9) We indirectly hold the concession through MRS.
(10) Pledged pursuant to various legal proceedings, mainly related to tax claims.

Table of Contents

For information on environmental issues with respect to some of the facilities described above, see Item 4B. Business Overview Government Regulation and Other Legal Matters Environmental Expenditures and Claims. In addition, for information on our plans to construct, expand and improve our facilities, see Item 4. Information on the Company A. History and Development of the Company Planned Investments.

The map above shows the locations of the Presidente Vargas steelworks, the CSN Paraná, Prada, CSN Porto Real (former GalvaSud), Metalic, Lusosider, ERSA and CSN LLC facilities, our iron ore, limestone and dolomite mines, the power generating facilities in which we have an ownership interest, and the main port used by us to export steel products and import coal and coke, as well as the main railway connections.

Item 4A. Unresolved Staff Comments

In 2005, we filed a registration statement on SEC Form F-4 for an Exxon Capital exchange offer. We incorporated by reference in the F-4 our annual report on Form 20-F/A for the fiscal year ended December 31, 2004, or the 2004 Form 20-F. The SEC then advised us that it had reviewed our 2004 Form 20-F and our consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 included therein and provided us with comments and questions with regard to the 2004 Form 20-F. The unresolved staff comments are related to (i) the accounting treatment of our accruals for disputed taxes payable relating to certain tax liabilities for which we were disputing payment and (ii) the use of certain tax credits to offset such tax liabilities. The Form F-4 has not yet been declared effective.

During 2009, the SEC reviewed our 2008 annual report on Form 20-F, or the 2008 Form 20-F, and requested clarification about a number of disclosure items, including the accounting treatments mentioned above. We amended the 2008 Form 20F and received an SEC letter concluding the SEC review process on the 2008 Form 20-F with no further comments and questions.

We are currently working with the SEC to have the Form F-4 declared effective based on the fact that the comments underlying the 2004 Form 20F were resolved in the 2008 Form 20F.

Table of Contents

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our consolidated financial statements as of December 31, 2008 and 2009 and for each of the years ended December 31, 2007, 2008 and 2009 included in Item 18. Financial Statements. Our consolidated financial statements were prepared in accordance with U.S. GAAP and are presented in U.S. dollars, as explained in Note 2(a) to our consolidated financial statements included in Item 18. Financial Statements.

5A. Operating Results

Overview

The outlook for the global economy has improved since the second half of 2009. Lead indicators point to a recovery in general market conditions. According to International Monetary Fund, or IMF, emerging economies will be responsible for a higher contribution to world GDP growth than industrialized economies. The Brazilian Steel Institute (*Instituto Aço Brasil*), or IABr, expects strong demand on steel/iron ore, based on strong GDP growth and infrastructure investments in Brazil.

The recovery of Brazilian domestic activity consolidated during the later part of 2009. According to Fundação Getúlio Vargas, or FGV, confidence indicators show that industrial output has returned to pre-crisis levels. This recovery in industrial production was led by production of consumer durables, which in turn increased demand for steel products.

Control over inflation, reduced interest rates, improved earnings, lower unemployment, the increasing availability of credit and government measures to encourage consumption in Brazil contributed to re-establish economic growth in 2009.

Despite the optimism over job creation, the latest data from the Brazilian Labor Ministry s employment registry, or CAGED, shows that 995,000 jobs were created in 2009, the lowest figure since 2003. In 2010, however, the Ministry expects to create 2 million new registered jobs.

Individual and corporate loans in Brazil continued to increase and at year end 2009 amounted to 45% of GDP. In 2009, the total volume of credit in the financial system reached R$1.4 trillion, 14.9% more than in 2008. Reduced interest on loan transactions encouraged the acquisition of property and durable goods.

Inflation in Brazil continues within the target range. The IPCA consumer price index closed 2009 at 4.3%, 0.2 p.p. below the target established by the Central Bank. Given market expectations of inflationary pressure in 2010, the Central Bank is expected to increase the SELIC base rate to prevent inflation.

Sectors

Steel

Brazil s steel industry finished 2009 with consistent signs of a recovery, with figures indicating a very different scenario from the end of 2008, which was strongly impacted by the economic crisis.

Until the beginning of 2009, six of the 14 blast furnaces in Brazil were shut down due to reduced demand. However, as both consumption and international prices recovered throughout the year, by the end of 2009 only one

blast furnace remained non-operational in the country.

According to IABr, production of steel in Brazil in 2009 totaled 26.5 million tons of crude steel and 11.8 million tons of rolled flat steel, a decrease of 21.4% and 17.3%, respectively, as compared to 2008. Annual domestic sales of rolled flat steel totaled 9.0 million tons in 2009, a 25.9% decrease as compared to 2008. Flat steel exports totaled 2.5 million tons, a 53.6% increase as compared to 2008.

The prices of the main steel inputs are expected to increase in 2010, especially coal and iron ore, in turn increasing production costs in the main steel mills and benefiting the more integrated producers who have access to raw materials.

Table of Contents

The Brazilian automobile market closed 2009 with its third consecutive annual sales record. The total number of vehicles licensed during the year was 3.1 million, an 11.4% increase as compared to 2008. According to ANFAVEA (the Brazilian vehicle manufacturers association), annual vehicle production totaled 3.2 million units, just 1% less than in 2008.

In the Brazilian construction sector, according to the São Paulo construction industry association, or SindusCon-SP, despite the difficulties faced the construction industry closed 2009 with a positive outlook. Current estimates indicate that the sector GDP increased by 1% over 2008. The Minha Casa Minha Vida housing program, the Growth Acceleration Program (PAC) and the infrastructure investments related to the World Cup and the Olympics will all have a positive impact on the sector in the future.

The steel distribution sector in Brazil had annual sales volume of 3,397 million tons, an 8.6% decrease as compared to 2008 due to the significant decrease in demand in the first half of 2009.

According to the Brazilian steel distributors association, or INDA, sales should increase by 15% in 2010, reaching 3.9 million tons, higher than 2008 s record figure, mainly driven by higher output of consumer durables and the recovery of the capital goods industry.

In light of the tax breaks in Brazil which began in April 2009 and ended in January 2010, the home appliance industry overcame the originally negative outlook for 2009. At the beginning of 2009, annual sales were expected to fall by 20% but according to the Brazilian home appliance manufacturers association, or Eletros, sales of stoves, refrigerators and washing machines increased by 6%, 20% and 25%, respectively, during the period when the IPI (federal VAT) cuts were in effect. In 2010 the outlook for the home appliance industry is positive in light of expected greater availability of credit.

Mining

Currently global iron ore production has not been able to meet the world steel demand. Consequently, there is pressure on price fundamentals that affect spot prices.

China, the biggest consumer of Brazilian ore, imported 628 million tons in 2009, 41% more than in 2008 and a new record. As a result, the share of imported ore in China increased from approximately 60% to approximately 70% in 2009.

Low freight costs improved the competitiveness of Brazilian ore over Chinese ore. The Brazil-Asia benchmark price averaged approximately US$51/t in 2009, whereas the February 2010 spot price was more than US$130/t.

Brazil and Australia were still China s leading suppliers, accounting for more than 68% of the country s iron ore imports, supported by a reduction in India s relative share.

According to the Brazilian Mining Institute, or IBRAM, Brazilian iron ore production totaled approximately 300 million tons in 2009, a 19% decrease as compared to 2008. For 2010, IBRAM expects an annual output of 380 million tons.

In 2009, Brazil exported 267 million tons of iron ore, 5% less than the previous year.

The confidence in long term global fundamentals underlines the continuity of our growth perspective to become a major iron ore supplier. CSN has already become an important player in seaborne trade by improving its ranking

position every year as market recognizes its importance as a major iron ore supplier.

The Macquarie Group estimates that demand on the key seaborne trade routes will rise again in 2010. Based on an estimated Chinese steel production of approximately 640 million mt, iron ore imports into the country are projected to increase by approximately 55 million mt in 2010. Allied to a recovery in steel production in Europe and Japan, demand fundamentals continue to look strong.

Table of Contents

Our steelmaking operations consumed 6.2 million tons of iron ore during 2009, consisting of 4.7 million tons of sinter-feed material and 1.5 million tons of lump ore. As we do not have pelletizing plants, the total amount of pellets has been acquired in the Brazilian market.

International Macro-Economic Scenario

USA

U.S. GDP decreased by 2.5% in 2009, declining 0.5% in the final quarter, mainly due to the tax and monetary incentives implemented along the year.

The Organisation for Economic Co-operation and Development OECD expects GDP to recover slowly in 2010, possibly achieving growth of 2.3%, held back by reduced availability of jobs, credit restrictions and the high level of family debt. The steel market is expected to have a gradual recovery over the next two years.

Crude steel production in 2009 totaled 58 million tons, a 36% decrease on the previous year.

Distributors sales remained stable in the second half of 2009, but were below pre-crisis levels. In light of decrease in production and increased sales efforts, inventories in November 2009 fell for the 13th consecutive month. These conditions favor a slow recovery, which is already being reflected in an increase in steel production capacity use, currently at approximately 65%.

Europe

The European economy underwent a severe recession in 2009 and is expected to still be suffering from the effects of the crisis in 2010. According to the National Associations of Steel, Tube and Metal Distribution, or Eurometal, of the 27 countries members of the European Union, only Poland recorded GDP growth in 2009. The bloc average GDP decreased by 4.1% and is only expected to increase by 0.7% in 2010.

In addition, some countries are facing serious difficulties with their public debt, notably Spain, Portugal, Ireland and, especially, Greece.

According to Worldsteel Association, annual EU steel production totaled 139 million tons, 30% less than in 2008, ratifying Eurometal s estimate of a 33% reduction in apparent consumption of steel. In 2010 and 2011, apparent consumption is expected to increase by 12.5% and 7.6%, respectively, but still below 2007 levels.

Also according to Eurometal, the destocking process began in March 2010. In December 2009, inventories were equivalent to 68 days of sales, close to the historical average of 71 days recorded in 2008. In the short term, demand should recover mainly through the build-up of stocks.

Asia

China remained in 2009 one of the main drivers of the global economy. In the fourth quarter of 2009 alone the Chinese GDP increased 10.7%, and the annual growth for 2009 was 8.7%. The performance of the Chinese economy has a strong influence on commodity prices, especially oil and iron ore.

Chinese industrial output is expected to record significant growth over the next two years, although not as much as before the crisis.

Demand slowed down in the beginning of 2010, due to the normal winter seasonal effects, but is experienced to gradually recover in the rest of the year, with Chinese distributors slowly building up their inventories.

Asian exports are still being affected by reduced global demand and non-competitive production costs, especially in a scenario of main raw material cost pressure.

Table of Contents

All Asian countries recorded a reduction in steel production in 2009, except for China, whose output increased 14% as compared to 2008 to 568 million tons, increasing its share of the global total to 47%.

Steel Markets and Product Mix

Supply and Demand for Steel

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

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

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

	Year ended December 31,		
	2007	**2008**	**2009**
Brazilian Market (in thousands of tons)			
Total Flat and Long Steel			
Production[(1)]	25,850	24,726	20,223
Apparent Consumption	22,060	24,048	18,576
Hot-Rolled Coils and Sheets			
Production	4,326	3,926	3,474
Apparent Consumption	3,354	3,481	2,615
Cold-Rolled Coils and Sheets			
Production	3,412	3,038	2,692
Apparent Consumption[(1)]	2,900	2,849	2,497
Galvanized Sheets			
Production[(1)]	2,459	2,343	2,004
Apparent Consumption[(1)]	2,154	2,478	1,913
Tin Mill			
Production[(1)]	932	724	665
Apparent Consumption[(1)]	640	623	570
Global Market (in millions of tons)			
Crude Steel Production	1,346	1,330	1,224
Demand	1,202	1,309	1,202

Source: IBS and International Iron and Steel Institute, or IISI.

Product Mix and Prices

Sales trends in both the domestic and export markets are forecasted monthly based on historical data of the preceding months. CSN uses its own information system to remain current on market developments so that it can respond swiftly to fluctuations in demand.

CSN considers its flexibility in shifting between markets, and its ability to monitor and optimize inventory levels in light of changing demand, as key to its success.

We also have a strategy of increasing the portion of our sales attributable to higher value-added coated products, particularly galvanized and tin plate products. Galvanized products are directed at the automotive, construction and home appliance industries. Tin plate products are used by the steel packaging market.

Table of Contents

The international steel price discounts that occurred in 2009 due to the global economic and financial crisis were not sufficient to increase steel demand and prices remained at low levels until the end of 2009.

Sales Volume and Net Operating Revenues by Steel Products and Markets

The following table sets forth our steel product sales volume and net operating revenues by product and market.

	Sales Volume								
	Tons			**% of Sales Volume**					
				In Market			**Total**		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
	(In thousands of tons)			*(In percentages)*					
Domestic Sales									
Slabs	84	78	25	2	2	1	2	2	1
Hot-rolled	1,535	1,746	1,204	43	42	37	28	36	29
Cold-rolled	557	685	639	15	16	20	10	14	16
Galvanized	873	1,088	875	24	26	27	16	22	21
Tin Mill	565	561	500	16	14	15	11	11	12
Sub-total	3,614	4,158	3,243	100	100	100	67	85	79
Export sales									
Slabs	310	32	162	18	4	19	6	1	4
Hot-rolled	93	34	191	5	5	22	2	1	5
Cold-rolled	182	32	4	10	4	-	3	1	-
Galvanized	809	464	397	46	63	46	15	9	10
Tin Mill	370	172	114	21	24	13	7	3	2
Sub-total	1,764	733	868	100	100	100	33	15	21
Total	5,378	4,891	4,111				100	100	100
Total Sales									
Slabs	394	110	187				8	2	4
Hot-rolled	1,627	1,780	1,395				30	36	34
Cold-rolled	740	717	643				13	15	16
Galvanized	1,682	1,552	1,272				31	32	31
Tin Mill	935	733	614				18	15	15
Total	5,378	4,891	4,111				100	100	100

Table of Contents

The following table sets forth our steel product net revenues by product and market.

	Net Operating Revenues								
	U.S. dollars			% of Net Operating Revenues					
				In Market			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	(In millions of US$)			*(In percentages)*					
Domestic Sales									
Slabs	33	47	10	1	1	-	1	1	-
Hot-rolled	1,170	1,740	992	33	35	29	24	30	25
Cold-rolled	499	757	587	14	15	18	10	13	15
Galvanized	1,097	1,583	1,051	31	32	31	22	28	27
Tin Mill	754	862	757	21	17	22	15	15	19
Sub-total	3,553	4,989	3,397	100	100	100	72	87	86
Export sales									
Slabs	154	20	62	11	2	11	3	-	2
Hot-rolled	62	23	91	4	3	16	1	-	2
Cold-rolled	124	24	4	9	3	1	3	-	-
Galvanized	716	491	277	51	65	49	14	9	7
Tin Mill	351	203	130	25	27	23	7	4	3
Sub-total	1,407	761	564	100	100	100	28	13	14
Total	4,960	5,750	3,961				100	100	100
Total Sales									
Slabs	187	67	72	4	1	2	3	1	2
Hot-rolled	1,232	1,763	1,083	25	30	27	23	30	27
Cold-rolled	623	781	591	13	14	15	12	13	15
Galvanized	1,813	2,074	1,328	36	36	34	34	36	32
Tin Mill	1,105	1,065	887	22	19	22	21	18	22
Sub-total	4,960	5,750	3,961	100	100	100	93	98	98
By-products	398	115	138	-	-	-	7	2	2
Total	**5,358**	**5,865**	**4,099**	**100**	**100**	**100**	**100**	**100**	**100**

Brazilian Macro-Economic Scenario

As a company with the vast majority of its operations currently in Brazil, we are affected by the general economic conditions of Brazil. We believe the rate of growth in Brazil is important in determining our future growth capacity and our results of operations.

The Brazilian economy was affected by the global financial crisis especially in the first half of 2009, the Brazilian federal government took several measures in order to resume economic growth. Control over inflation, reduced interest rates, improved earnings, lower unemployment, the increasing availability of credit and measures to encourage consumption all helped fuel demand and re-establish economic growth in 2009. Hence, industrial production recorded a strong growth in the second half of 2009, lead by the production of consumer durables, in turn increasing demand for steel products.

Table of Contents

The following table shows certain Brazilian economic indicators for the periods indicated:

	Year ended December 31,		
	2007	**2008**	**2009**
GDP growth	6.1%	5.1%	-0.2%
Inflation (IPCA)[1]	4.5%	5.9%	4.3%
Inflation (IGP-M)[2]	7.7%	9.8%	-1.7%
CDI[3]	11.7%	12.4%	9.8%
Appreciation (depreciation) of the *real* against the U.S. dollar	17.2%	-32.0%	25.5%
Exchange rate at end of period (US$1.00)	R$1.771	R$2.337	R$1.741
Average exchange rate (US$1.00)	R$1.948	R$1.837	R$1.994

Sources: IBGE, Fundação Getúlio Vargas, Central Bank and Bloomberg.
(1)The IPCA is a consumer price index measured by the IBGE.
(2)The IGP-M is the general market price index measured by the Fundação Getúlio Vargas.
(3)The Interbank Deposit Rate, or CDI, represents the average interbank deposit rate performed during a given day in Brazil (accrued as of the last month of the period, annualized).

Effects of Exchange Rate Fluctuations

Our financial statements included in this annual report are expressed in U.S. dollars. Our export revenues are substantially denominated in U.S. dollars. Our domestic revenues are denominated in Brazilian *reais* (although domestic sales prices reflect international prices with a time lag of some months).

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

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

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

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

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

The impact during the three years ending December 31, 2009 of fluctuations in the *real* exchange rate against other currencies on our results of operations can be seen in the foreign exchange and monetary gain (loss), net line in our income statement, although that amount is partially offset by the net financial income (or expense) attributable to the profit (or loss) on our derivative transaction of our foreign currency-denominated debt. In order to minimize the effects of the exchange rate fluctuations, we often engage in derivative transactions, including currency swap and foreign currency option agreements. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Table of Contents

Effects of Inflation and Interest Rates

Inflation rates in Brazil have been significantly volatile in the past, although they have stabilized in recent years. Inflation rates remained relatively stable from 2003 to 2004, decreased in 2005 and 2006 and increased in 2007 and 2008. In 2009, for the first time since its creation in 1989, the IGP-M inflation index recorded a deflation in a calendar year, equivalent to 1.71%. Furthermore, in 2009 the *real* appreciated against the U.S. dollar, reflecting especially the faster recovery of the Brazilian economy.

Inflation affects our financial performance by increasing some of our costs and expenses denominated in *reais* that are not linked to the U.S. dollar. Our cash costs and operating expenses are substantially denominated in *reais* and have tended to follow the Brazilian inflation ratio because our suppliers and service providers generally increase or decrease prices to reflect Brazilian inflation. In addition, some of our *real-denominated* debt is indexed to take into account the effects of inflation. Under this debt, the principal amount is generally adjusted with reference to inflation indexes. In addition, a significant portion of our *real-denominated* debt bears interest based on the Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, rate which is partially adjusted for inflation.

The table below shows the Brazilian general price inflation and the CDI for the periods shown.

	Year ended December 31,		
	2007	**2008**	**2009**
Inflation (IGP-M) [(1)]	7.7%	9.8%	-1.7%
CDI [(2)]	11.7%	12.4%	9.8%

Source: Fundação Getúlio Vargas, or FGV, and Bloomberg.
(1) The IGP-M inflation is the general market price index measured by the FGV.
(2) The Interbank Deposit Rate, or CDI, represents the average interbank deposit rate performed during a given day in Brazil (accrued as of the last month of the period, annualized).

Accounting for mining production utilized by our steel production

We are currently self-sufficient in iron ore used in the steel production. The iron ore is extracted from our Casa de Pedra mine, which in 2009 supplied approximately 6.2 million tons of its total iron ore production (approximately 21 million tons) to us. The remainder or the iron ore production is sold to third party clients in Brazil and throughout the world.

The cost of iron ore supplied to us is recorded on our income statement in cost of goods sold line item at its extraction cost plus transport from the mine. In 2007, 2008 and 2009, these costs were US$130.7 million, US$150.7 million and US$110.7 million, respectively. In December 2009, we announced a planned segregation of our iron ore business and correlated logistics activities into one of our subsidiaries. This segregation is pending certain regulatory approvals. Upon the transfer of the iron ore business to our subsidiary, iron ore will be provided to our steel works at market

prices, which are higher than the currently recorded costs. This transfer of the iron ore business will decrease our steel segment margins and increase our mining segment margins, but should not affect our margins on a consolidated basis. We expect to have certain tax impacts which are currently under analysis.

Critical Accounting Estimates

In preparing our financial statements, we make estimates concerning a variety of matters. Some of these matters are highly uncertain, and our estimates involve judgments we make based on the information available to us. In the discussion below, we have identified several of these matters for which our financial presentation would be materially affected if either (1) we used different estimates that we could reasonably have used or (2) in the future we change our estimates in response to changes that are reasonably likely to occur.

Table of Contents

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

Valuation of long-lived assets, intangible assets and goodwill

Under U.S. GAAP, in accordance with Statements of Financial Accounting Standards, or SFAS, No. 144 FASB ASC Subtopic 360-10, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

We test goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets FASB ASC Topic 350, Intangibles - Goodwill and Other. SFAS No. 142 requires that goodwill be tested for impairment at the reporting-unit level (Reporting Unit) at least annually and more frequently upon the occurrence of certain events, as defined by SFAS 142. Goodwill is tested for impairment annually in December in a two-step process. First, we determine if the carrying amount of our Reporting Unit exceeds the fair value of the Reporting Unit, which would indicate that goodwill may be impaired. If we determine that goodwill may be impaired, we then compare the implied fair value of the goodwill, as defined by SFAS 142, to our carrying amount to determine if there is an impairment loss. We do not have any goodwill that we consider to be impaired.

Depreciation and amortization

Adopted depreciation rates are based on estimated useful lives of the underlying assets, derived from historical information available to us, as well as known industry trends. Depreciation is computed on the straight-line basis at rates which take into consideration the useful lives of the related assets, as follows (average): buildings - 25 years; equipment - 15 years; furniture and fixtures - 10 years; hardware and vehicles - 5 years. The sensitivity of an impact in changes in the useful lives of property, plant and equipment was assessed by applying a hypothetical 10% increase in the depreciation rate existing at December 31, 2009. This hypothetical change would result in an incremental increase in the annual depreciation expense of US$34 million in the year of the change.

Fair value of business combinations

We estimate the fair value of assets acquired and liabilities assumed of our business combinations as required by SFAS No. 141, Accounting for Business Combinations - FASB ASC Subtopic 805-10. Accordingly, when determining the purchase price allocations of our business acquisitions, we usually adjust to fair value certain items such as inventories, property, plant and equipment, mines, present value of long-term assets and liabilities, among others, which are determined by independent appraisals that perform the valuations for us. Also, for business combinations purposes, we identify intangible assets apart from goodwill based on the guidance provided in Appendix

A of SFAS No. 141 and consider the establishments of SFAS No. 142, Goodwill and Other Intangible Assets as to impairment tests or definition of the useful lives of our intangibles identified apart from goodwill, Statement No. 141(R), Business Combinations for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations, and of FAS 141(R)-1 Accounting for Assets Acquired and Liabilities assumed in a Business Combination that Arise from Contingencies.

Table of Contents

Derivatives

SFAS No. 133, Accounting for Derivative Financial Instruments and Hedging Activities - FASB ASC Topic 815, as amended, requires that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in the statements of income or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge. We have not designated any derivative financial instruments as hedges and the fair value adjustments to our derivatives were thus recorded in the statements of income. With respect to the fair value measurement, we must make assumptions such as to future foreign currency exchange and interest rates. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Pension plans

We sponsor defined benefit pension plans covering some of our retirees. We account for these benefits in accordance with SFAS No. 87, Employers Accounting for Pensions, - FASB ASC Subtopic 715-20 Defined Benefit Plans General as amended, and SFAS Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), included in ASC Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General.

The determination of the amount of our obligations for pension benefits depends on certain actuarial assumptions. These assumptions are described in Note 15 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries. In accordance with U.S. GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and generally affect our recognized expenses and recorded obligations in such future periods.

Deferred taxes

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

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109, or FIN 48 - ASC Subtopic 740-10. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return that results in a tax benefit. Additionally, FIN 48 provides guidance on de-recognition, statement of operations classification of interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN 48 on January 1, 2007, and the provisions of FIN 48 have been

applied to all income tax positions commencing from that date. We recognize potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense.

We record liabilities for uncertain tax positions that could be challenged by taxing authorities that, in our judgment, do not meet the more likely than not threshold of being sustained upon examination, based on the facts, circumstances, and information available at the reporting date. We estimate and record the liability for uncertain tax positions considering the probabilities of the outcomes that could be realized upon settlement using the facts, circumstances and information available at the reporting date. It is often difficult to predict the final outcome or timing of resolution of any particular tax matter. Various events, some of which cannot be predicted, may occur that would affect our recognition of liabilities for uncertain tax positions.

Table of Contents

Contingencies and disputed taxes

We record provisions for contingencies relating to legal proceedings with respect to which we deem the likelihood of an unfavorable outcome to be probable and the loss can be reasonably estimated. This determination is made based on the legal opinion of our internal and external legal counsel. We believe these contingencies are properly recognized in our financial statements in accordance with SFAS No. 5 - ASC Topic 450, Contingencies. Those contingencies related to income taxes and social contributions are accounted for based on the more-likely-than-not concept in accordance with FIN 48. We are also involved in judicial and administrative proceedings that are aimed at obtaining or defending our legal rights with respect to taxes that we believe to be unconstitutional or otherwise not required to be paid by us. We believe that these proceedings will ultimately result in the realization of contingent tax credits or benefits that can be used to settle direct and indirect tax obligations owed to the Brazilian Federal or State Governments. We do not recognize these contingent tax credits or benefits in our financial statements until realization of such gain contingencies has been resolved. This occurs when a final irrevocable decision is rendered by the courts in Brazil. When we use contingent tax credits or benefits based on favorable temporary court decisions that are still subject to appeal to offset current direct or indirect tax obligations, we maintain the legal obligation accrued in our financial statements until a final irrevocable judicial decision on those contingent tax credits or benefits is rendered. The accrual for the legal obligation related to the current direct or indirect tax obligations offset is not reversed until such time as the utilization of the contingent tax credits or benefits is ultimately realized. The accounting for the contingent tax credits is in accordance with accounting for contingent assets under SFAS No. 5. Our accruals include interest on the tax obligations that we may offset with contingent tax credits or benefits at the interest rate defined in the relevant tax law. The recorded accruals for these disputed taxes and other contingencies may change in the future due to new developments in each matter, such as changes in legislation, irrevocable, final judicial decisions specific to us, or changes in approach, such as a change in settlement strategy in dealing with these matters. See Item 5A. Operating Results-Results of Operations-2009 Compared to 2008-Disputed Taxes Payable and Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings for further information on the judicial and administrative proceedings in which we are involved.

Allowance for doubtful accounts

We consider a provision for bad debts in our trade accounts receivable in order to reflect our expectation as to the net realizable value thereof. This provision is estimated based on an analysis of our receivables and is periodically reviewed to maintain real expectation of collectability of our accounts receivable.

Recently Issued Accounting Pronouncements Adopted and Not Adopted by Us

For a description on the recently issued accounting pronouncements, see Note 3 to our consolidated financial statements contained in Item 18. Financial Statements .

Table of Contents

Results of Operations

For purposes of comparison, the following table presents certain financial information with respect to our operating results for each of the years ended December 31, 2007, 2008 and 2009 and the percentage change in each of these items from 2008 to 2007 and from 2009 to 2008:

	Year Ended December 31,			Increase (Decrease)	
	2007	**2008**	**2009**	**2008/2007**	**2009/2008**
				%	**%**
Operating revenues					
Domestic sales	5,283	7,377	5,204	39.6	(29.5)
Export sales	1,695	1,830	1,137	8.0	(37.9)
Total	**6,978**	**9,207**	**6,341**	31.9	(31,1)
Sales Taxes	(1,305)	(1,835)	(1,257)	40.6	(31.5)
Discounts, returns and allowances	(156)	(185)	(70)	18.6	(62.2)
Net operating revenues					