NATIONAL STEEL CO
Form 20-F
June 30, 2008

As filed with the Securities and Exchange Commission on June 30, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Comission 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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Phone: +55 11 3049-7100 Fax: +55 11 3049-7212
Av. Brigadeiro Faria Lima, 3,400 – 20th floor
04.538-132, 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.	816,203,838, including 46,734,384 common shares held in treasury. This amount does not consider the cancellation of 4,000,000 treasury shares (equivalent to 12,000,000 common shares after the split) and takes into account the one-for-three stock split that took place in January 2008, whereby each common share of our capital stock as of December 31, 2007 became represented by three common shares. For further information, see "Item 7A. Major Shareholders," "Item 9A. Offer and Listing Details" and "Item 10.B. 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.

Yes **No**

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

Yes **No**

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

Yes **No**

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

Large Accelerated Filer **Accelerated Filer** **Non-accelerated Filer**

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

U.S. GAAP **International Financial Reporting Standards as issued by the** **Other**

International Accounting Standards Board

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 Item 18

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

Yes No

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INTRODUCTION

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

- we , us , our or CSN in this annual report 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 , $ or US$ are to United States dollars;
- billions means thousands of millions, km means kilometers, m means meters, tons means metric tons and means megawatts;
- consolidated financial statements are to the consolidated financial statements of Companhia Siderúrgica Nacional and its consolidated subsidiaries as of December 31, 2006 and 2007 and, for the years ended December 31, 2005, 2006 and 2007, together with the corresponding Report of Independent Registered Public Accounting Firms;
- amounts in *reais* stated at a particular date and followed by U.S. dollar equivalents have been converted using the *reais* to U.S. dollars exchange rate in effect on such date; and
- ADSs are to CSN s American Depositary Shares and ADRs are to CSN s American Depositary Receipts.

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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,
- 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 of raw materials;
- changes in international trade;
- protectionist measures imposed by Brazil and other countries;
- anticipated trends in our industry;
- 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;
- 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 guarantees 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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of December 31, 2006 and 2007 and for each of the years ended December 31, 2005, 2006 and 2007 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 *Comissão de Valores Mobiliários*, the Brazilian securities commission, 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 the Brazilian Corporate Law, specifically, Law No. 6,404 dated December 15, 1976, as amended, and the rules and regulations of the CVM, or Brazilian GAAP, which differ in certain significant respects from U.S. GAAP.

Because we operate in an industry that uses the U.S. dollar as its currency of reference, our management believes that it is appropriate to present our 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.

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

Unless the context otherwise indicates:

- historical data contained in this annual report that were not derived from our consolidated financial statements have been translated from *reais* on a basis similar to 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.

Changes on Disclosure of Financial Statements

On July 13, 2007, the CVM issued CVM Rule No. 457 to require listed companies to publish their consolidated financial statements according to IFRS starting with the year ending December 31, 2010.

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 mandated the 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 Committee for Accounting Pronouncements (*Comitê de Pronunciamentos Contábeis*), or CPC, which is a committee of officials from the BOVESPA, 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 and the Brazilian Central Bank to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

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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

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the 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 Brazilian GAAP. Our financial statements prepared in accordance with Brazilian GAAP are not adjusted to account for the effects of inflation.

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, 2006 and 2007 and for each of the years in the three-year period ended December 31, 2007 appear elsewhere herein, together with the reports of our Independent Registered Public Accounting Firms, Deloitte Touche Tohmatsu Auditores Independentes, and KPMG Auditores Independentes, for the periods noted in their reports. The selected financial information as of December 31, 2003, 2004 and 2005 and for each of the years in the two-year period ended December 31, 2004 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.

	Year Ended December 31,				
Income Statement Data:	**2003**	**2004**	**2005**	**2006**	**2007**
	(in millions of US$, except per share data)				
Operating revenues					
Domestic sales	1,843	2,895	3,449	3,550	5,283
Export sales	1,077	1,008	1,224	1,263	1,695
	2,920	**3,903**	**4,673**	**4,813**	**6,978**
Sales taxes	322	735	829	899	1,305
Discounts, returns and allowances	50	84	39	68	156
Net operating revenues(1)	**2,548**	**3,084**	**3,805**	**3,846**	**5,517**
Cost of products sold	1,457	1,407	1,837	2,102	3,076
Gross profit	**1,091**	**1,677**	**1,968**	**1,744**	**2,441**
Operating expenses					
Selling	176	156	186	167	310
General and administrative	96	109	108	148	185

Other	74	50	28	149	85
	346	315	322	464	580
Operating income	**745**	**1,362**	**1,646**	**1,280**	**1,861**
Non-operating income (expenses), net					
Financial income (expenses), net	(564)	(510)	(550)	(533)	(219)
Foreign exchange and monetary gain (loss),	325	153	183	218	438
Other	14	(6)	3	22	81
	(225)	(363)	(364)	(293)	300
Income before income taxes and equity in					

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results of affiliated companies	**520**	**999**	**1,282**	**987**	**2,161**
Income tax expense (benefit)					
Current	152	289	458	198	619
Deferred	(88)	2	(31)	98	(85)
	64	291	427	296	534
Equity in results of affiliated companies	9	51	47	58	76
Net income	**465**	**759**	**902**	**749**	**1,703**
Basic and diluted earnings per common share	0.54	0.89	1.11	0.97	2.21
Weighted average number of common shares outstanding at end of period (in thousands)(2)	860,751	850,428	810,825	772,302	769,749

	As of December 31,				
Balance Sheet Data:	**2003**	**2004**	**2005**	**2006**	**2007**
	(In millions of US$)				
Current assets	2,310	2,907	3,330	3,962	4,665
Property, plant and equipment, net	1,874	2,143	2,547	3,211	4,824
Investments in affiliated companies and other investments (including goodwill)	85	233	312	375	565
Other assets	748	874	968	1,000	2,011
Total assets	5,017	6,157	7,157	8,548	12,065
Current liabilities	1,228	1,216	1,398	1,678	2,865
Long-term liabilities(3)	2,982	3,615	4,750	5,823	6,512
Stockholders equity	807	1,326	1,009	1,047	2,688
Total liabilities and stockholders equity	5,017	6,157	7,157	8,548	12,065

	As of and for the year ended December 31,				
Other Data:	**2003**	**2004**	**2005**	**2006**	**2007**
	(In millions of US$, except per share data and where otherwise stated)				
Cash flows from operating activities	580	354	1,757	919	1,264
Cash flows used in investing activities	(259)	(365)	(593)	(839)	(1,091)

Cash flows from (used in) financing activities	495	(380)	(996)	(263)	(122)
Common shares outstanding (in thousands)	860,751	830,679	774,546	772,240	769,470
Common stock	2,447	2,447	2,447	2,447	2,447
Dividends declared and interest on stockholders equity(4)	258	253	969	914	550
Dividends declared and interest on stockholders equity per common share(2)(4)	0.30	0.30	1.25	1.18	0.71
Dividends declared and interest on stockholders equity (in millions of *reais*)(4)	745	671	2,268	1,954	1,039
Dividends declared and interest on stockholders equity per common share (in *reais*)(2)(4)	0.87	0.81	2.93	2.53	1.35

(1) Net operating revenues consist of operating revenues minus sales taxes, discounts, returns and allowances.

(2) 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. See Item 10.B. Memorandum and Articles of Association .

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

(4) 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 2007, see Item 8A. Consolidated Statements and Other Financial Information Dividend Policy.

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Exchange Rates

Prior to March 4, 2005, there were two principal legal foreign exchange markets in Brazil:

- the commercial rate exchange market, and
- the floating rate exchange market.

Most trade and financial foreign exchange transactions were carried out on the commercial rate exchange market. These included the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies could only be purchased in the commercial exchange market through a Brazilian bank authorized to buy and sell currency in these markets. In both markets, rates were freely negotiated.

Resolution No. 3,265 by the National Monetary Council, dated March 4, 2005, consolidated the foreign exchange markets into one single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the electronic registration system of the Central Bank of Brazil, or Central Bank. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and during that period, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* 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 in the future. See Item 3D. Risk Factors Risks Relating to Brazil.

The following table sets forth the commercial selling rate, expressed in *reais* per U.S. dollar, for the periods indicated.

	Low	**High**	**Average (1)**	**Period-end**
Year ended				
December 31, 2003	2.822	3.662	3.060	2.889
December 31, 2004	2.654	3.205	2.917	2.654
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

	Low	**High**	**Average**	**Period-end**
Month ended				
December 31, 2007	1.762	1.823	1.786	1.771
January 31, 2008	1.741	1.830	1.774	1.760
February 29, 2008	1.672	1.768	1.728	1.683
March 31, 2008	1.670	1.749	1.708	1.749
April 30, 2008	1.658	1.753	1.689	1.687

May 31, 2008	1.629	1.695	1.661	1.629

Source: Central Bank.
(1) Represents the daily average of the close exchange rates during the period.

As of June 27, 2008, the commercial selling rate for U.S. dollars was R$ 1.6077 per US$1.00.

We will pay any cash dividends and make any other cash distributions with respect to the 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 the common shares on the São Paulo Stock Exchange (*Bolsa de Valores do Estado de São Paulo*), or BOVESPA.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

An investment in the ADSs or our 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 the 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 our 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;
- currency fluctuations;
- inflation;
- price instability;
- energy shortages and rationing programs;
- liquidity of domestic capital and lending markets;
- tax policies and rules; and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policies or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and in the securities issued abroad by Brazilian issuers.

Historically, the political scenario in Brazil has influenced the performance of the Brazilian economy in the past; in particular, political crises have affected the confidence of investors and the public in general, which adversely affected the economic development in Brazil.

These and other future developments in the Brazilian economy and governmental policies may adversely affect us.

Inflation and government efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of our common shares and ADSs.

Brazil has experienced extremely high rates of inflation in the past. More recently, Brazil s annual rate of inflation was 1.2% in 2005, 3.8% in 2006 and 7.8% in 2007, as measured by the General Market Price Index (*Índice Geral de Preços Mercado*), or the IGP-M. Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Actions taken to combat inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets.

Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil again experiences high inflation, we may be adversely affected.

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

As a result of inflationary pressures, among other factors, the Brazilian currency has devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 9.3% in 2000 and 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian political elections and the global economic slowdown. Although the *real* appreciated 11.8%, 8.7% and 17.2% against the U.S. dollar in 2005, 2006 and 2007, respectively, no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar.

Historically, depreciations of the *real* relative to the U.S. dollar has also created additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. Depreciation generally curtails access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* relative to the U.S. dollar would also reduce the U.S. dollar value of distributions and dividends on our ADSs and may also reduce the market value of our common shares and ADSs.

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 appreciation trend of the past few years continues, it will cause *real*-denominated production costs to increase as a percentage of total production costs.

Developments and perceptions of risk in other countries, especially the United States and 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 issuers is affected to varying degrees by economic and market conditions in other countries, including the United States, other Latin American and emerging market countries.

Although economic conditions in such countries may differ significantly from economic conditions in Brazil, the reaction of investors to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in 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 ADSs, and could also make it more difficult or impossible for us to gain access to the capital markets and finance our operations on acceptable terms.

Risks Relating to the Steel Industry and CSN

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

The steel industry is highly cyclical, both in Brazil and abroad. During the past years, the Brazilian steel industry has produced more steel than the domestic economy was able to consume, being heavily dependent on export markets. In 2007, there was a significant increase in the demand for steel in the domestic market, which reduced our dependency on export markets. The demand for steel products and, thus, the financial condition and results of operations of companies in the steel industry, including us, are generally affected by macroeconomic fluctuations in the world economy and domestic economies of steel-producing countries, including trends in the automotive, construction, home appliances, packaging and distribution sectors. In recent years, the price of steel in world markets has been at historically high levels, but these price levels may not continue. Since 2003, demand for steel products from developing countries (particularly China), the strength of the Euro and overall worldwide economic growth have contributed to historically high prices for our steel products, but these relatively high prices may not continue. Any material decrease in the demand for steel in domestic or export markets served by us could have a material adverse effect on us.

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

The steel industry is highly competitive with respect to price. Over the last decade, the world steel industry was adversely affected by excess worldwide production capacity, reflecting the decreasing demand for steel in Western industrial countries and significant increases in steel production capacity in countries outside the Organization for Economic Development, or OECD. 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 the 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 would allow a steel manufacturer to lower its costs of production. In addition, most markets are served by several suppliers, often from different countries. Competition from foreign steel producers is strong and may increase due to increases in foreign steel installed capacity, appreciation of the *real* against the U.S. dollar and the reduction of domestic steel demand in other markets.

In addition, many factors influence our competitive position, including efficiency and operating rates, and the availability, quality and cost of raw materials and labor. China has recently become a net exporter of steel and may become one of the main international exporters of steel in the future. If we are unable to remain competitive with China or other producers in the future, we may be adversely affected.

Protectionist and other measures adopted by foreign governments could adversely affect our export sales.

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 foreign governments which represent some of the main markets for our exports. Some of these measures were eliminated, resulting in the reopening of some of the markets for certain products. However, foreign legislation continues to imposes restrictions in the volume of exports to certain countries, such as the restrictions on exports of hot-rolled products to the United States, Canada and Argentina and the restrictions on exports of certain chemical substances to the European Union, effective as of January 2009. The imposition of these and other protectionist measures by other countries may adversely affect our export sales.

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 2007, our costs of raw materials accounted for approximately 44.5% of our total production costs. Our principal raw materials include iron ore, coal, coke (a portion of which we make from coal), limestone, dolomite, manganese, zinc, tin and aluminum. We are dependent on third parties for some of our raw materials requirements. In addition, all of the coal that we use to produce coke and approximately 15.6% of our coke requirements are imported. Currently there is a worldwide shortage of coke and coal, mainly as a result of the rapid growth in the global demand for steel. In 2007, there was a sharp rise in the cost of a number of commodities essential for steelmaking. Any prolonged interruption in the supply of raw materials or energy, or substantial increases in their costs, could adversely affect us and other steel companies. The availability and prices of raw materials may also be negatively affected by, among other factors, new laws or regulations, suppliers allocations to other purchasers, interruptions in production by suppliers, accidents or similar events at suppliers premises or along the supply chain and the availability and cost of transportation.

Global developments, particularly the dramatic increase in Chinese and Indian demand for materials and inputs used in steel manufacturing, may cause severe shortages and/or substantial price increases in key raw materials and ocean transportation capacity. Inability to pass those cost increases on to our customers or to cater to our customers demands because of non-availability of key raw materials or other inputs, may harm our business, financial condition or results of operations.

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

Our steel making, mining and logistics facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating 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 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 emissions practices may result in the need for us to clean up or retrofit our facilities at substantial costs and could result in substantial liabilities. Environmental legislation restrictions imposed by foreign markets to which we export our products, may also adversely affect our export sales.

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.

We require significant amounts of energy, both in the form of natural gas and electricity, to power our plant and equipment. We purchase our natural gas needs through distributors which purchase natural gas from Petróleo Brasileiro S.A. - Petrobras (the 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 negativelly affect our production and production costs and consequently have an adverse effect on us.

Accidents or malfunctions in our critical equipment may decrease or interrupt production. Our insurance policies may not cover all losses and liabilities arising from these decreases or interruptions.

The steel production process depends on certain critical equipment, such as blast furnaces, steel converters, and continuous casting machines. This equipment may be affected by serious malfunctions or damages. Significant interruptions in our production process would adversely affect us.

Our insurance policies for losses in connection with operational risks, covering damages to our facilities (including damage to equipment and blockage of port facilities) and business interruption, may not be sufficient to cover all losses and liabilities arising from a decrease or interruption in the steel, including those related to the failure to deliver orders to clients in a timely manner.

In addition, we are not able to contract insurance policies on comparable terms to those currently in effect, our results of operation and financial condition may be adversely affected if we incur liabilities which are not completely covered by our insurance policies.

We are subject to risks related to legal and administrative proceedings.

We are involved in numerous legal and administrative proceedings, including proceedings related to tax liabilities, labor and civil disputes. As of December 31, 2007, we recorded provisions for these proceedings in the total amount of R$3,578 million (US$2,020 million) and judicially deposited a total amount of R$1,765 million (US$996 million) in escrow.

It is not possible to predict the outcome of these proceedings. In the event that a substantial portion of these proceedings or one or more of the proceedings involving a substantial amount are decided against us, and in the event that no provision has been recorded, our results of operations may be adversely affected. In addition, even if sufficient provisions have been recorded, our liquidity may be adversely affected.

Our activities depend on authorizations from regulatory agencies, and changes in regulations could adversely affect us.

Our activities depend on authorizations from and concessions by governmental regulatory agencies of the countries in which we operate. If these laws and regulations change, modifications to our technologies and operations could be required, and we could be required to make unexpected capital expenditures. For more information, see Item 4B Government Regulation and Other Legal Matters.

We have experienced labor disputes in the past that have disrupted operations, and such disputes could 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, could adversely affect the operation of facilities, or the timing of completion and the cost of our capital projects.

We are exposed to devaluation of our shares as result of certain equity swap agreements and our pension plan assets.

In 2003, we entered into certain equity swap agreements referenced to our shares. These agreements were originally entered into with POBT Bank and Trust Limited (an affiliate of Banco Pactual), which later assigned the agreements to UBS Symmetry Fund, UBS Strategy Fund and Fruhling Fund. The agreements state that the counterparty must pay us the cash dividends and final price return, if positive, on 29,684,400 CSN ADRs and we must pay the counterparty a fixed rate of 6.2569% per annum on the initial price of this number of ADRs and the final price return, if negative, on this number of ADRs. The rationale for these transactions is that equities historically yield higher long-term returns than fixed-income securities, hence tending to offset CSN s long-term debt servicing costs. Since we entered into these swap agreements, our shares have appreciated more than 2,000% over the initial price of the ADRs on the New York Stock Exchange. As of December 31, 2007, the accrued value of these swap agreements to us, based on the market value of our ADRs was US$813.3 million. However, in the event of a sharp depreciation of our shares, the amount payable by us under these swap agreements may be significantly high and materially adverse us. See Item 5A Operating Results , Item 11 Quantitative and

Qualitative Disclosures About Market Risk Equity Risk, and Note 22 to our consolidated financial statements contained in Item 18. Financial Statements.

In addition, we are the principal sponsor of CBS, our employee pension plan. As of December 31, 2007, CBS had an excess of plan assets over pension benefit obligations of US$138 million. The funded status of CBS is affected by, among other things, fluctuations in the fair value of CBS s assets, which totaled US$1,025 million as of December 31, 2007, while CBS accumulated obligations and projected benefit obligations as of December 31, 2007 were US$887 million. As of December 31, 2007, CBS held 4.35% of our shares. In the event of a sharp depreciation of our shares, CBS may become unfunded and have an adverse impact on its actuarial obligations. In this event, we may have to make substantial contributions to the fund to meet its pension benefit obligations. See Item 6D Employees and Note 16 to our consolidated financial statements contained in “Item 18. Financial Statements.”

Risks Relating to a Routine SEC Review

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

We are in the process of responding to comments made by the staff of the SEC regarding our registration statement on Form F-4, filed on September 19, 2005. That registration statement was filed in connection with a proposed public exchange offer of notes originally issued in a non-public transaction. Until our responses to the SEC s comments are finalized, our capital-raising activities will be limited to the U.S. non-public markets and the markets outside the United States.

Risks Relating to our Common Shares and ADSs

If holders of ADSs exchange the ADSs for common shares, they risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the common shares has obtained an electronic certificate of registration from the Central Bank permitting it to remit foreign currency abroad for payments of dividends and other distributions relating to the common shares or upon the disposition of the common shares. If holders of ADSs decide to exchange their ADSs for the underlying common shares, they will be entitled to continue to rely on the custodian s electronic certificate of registration for five business days from the date of exchange. Thereafter, such holders of ADSs may not be able to obtain and remit foreign currency abroad upon the disposition of, or distributions relating to, the common shares unless they obtain their own electronic certificate of registration or register their investment in the common shares pursuant to Resolution No. 2,689, which entitles certain foreign investors to buy and sell securities on the São Paulo Stock Exchange. Holders who do not qualify under Resolution No. 2,689 will generally be subject to less favorable tax treatment on gains with respect to the common shares. If holders of ADSs attempt to obtain their own electronic certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common shares or delay the return of their capital in a timely manner. In addition, we cannot assure you that the custodian s electronic certificate of registration or any certificate of foreign capital registration obtained by a holder of ADSs will not be affected by future legislative or other regulatory changes, or that additional restrictions applicable to such holder, to the disposition of the underlying common shares or to the repatriation of the proceeds from such disposition will not be imposed in the future.

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 the 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 responsible 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 the ability of holders of our common shares or ADSs to sell the common shares underlying the ADSs at the price and time they desire.

Investing in securities, such as the common shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit the ability of holders of our common shares or ADSs to sell the common shares or the ADSs at the price and time desired. There is also significantly greater concentration in the Brazilian securities markets than in major securities markets in the United States. See Item 9C. Markets Trading on the São Paulo Stock Exchange.

The sale of a substantial number of common shares, or the belief that this may occur, could decrease the trading price of the common shares and the 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.

Holders of ADSs might be unable to exercise preemptive rights with respect to the common shares.

Holders of ADSs may not be able to exercise the preemptive rights relating to the common shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not required to file a registration statement with respect to the shares or other securities relating to these preemptive rights and we cannot assure holders of our ADSs that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our ADSs may receive only the net proceeds from the sale of their preemptive rights by the depositary or, if the preemptive rights cannot be sold, the rights will be allowed to lapse.

Item 4. Information on the Company

4A. History and Development of the Company

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 finished steel products increased in 2007 by 51% to 5.3 million tons and finished steel production increased in 2007 by 21% to 5.0 million tons, as compared to 2006.

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 2007, we accounted for approximately 45% of the galvanized steel products sold in Brazil.

We are also one of the world s leading producers of tin mill products for packaging containers. In 2007, we accounted for approximately 98% of the tin mill products sold 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:

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- 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.

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

History

Companhia Siderúrgica Nacional is a Brazilian corporation (*sociedade por ações*) incorporated 1941 pursuant to a decree of Brazilian President, Mr. 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 capacity to 2.4 million tons of crude steel. The third, completed in 1989, increased capacity to 4.5 million tons of crude steel.

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

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.

Accident in Blast Furnace No. 3

In January 2006, there was an accident involving the gas cleaning system adjacent to Blast Furnace No. 3 at the President Vargas steelworks. The accident prevented us from operating the equipment for approximately six months, affecting our operating revenues, as a result of reduced sales volumes, cost of goods sold, as a result of having to purchase slabs from third-party sources, gross profit and operating income, as further explained in Item 5A. Operating Results Results of Operations 2006 Compared to 2005 . In order to meet our customers purchasing orders during the period in which Blast Furnace No. 3 was under repair, we purchased slabs and coils from third-party sources, therefore increasing our costs of goods sold in 2006. In the second half of 2007, our Blast Furnace No. 3 was completely repaired and resumed operating normally.

Capital Expenditures

We invested US$290 million, US$706 million and US$980 million in 2005, 2006 and 2007, respectively, to further improve productivity levels and to maintain our operational capacity. Expenditures of US$632 million were for, among other things, equipment revamping, spare parts purchases, building repairs, equipment automation and information technology at our facilities, while US$348 million were used for the acquisition of CFM. For further information, see Item 5B. Liquidity and Capital Resources Short-Term Debt and Short Term Investments

In 2007, 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 for supply to the construction and home appliance industry sectors, 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 .

Acquisitions

On June 5, 2006, we acquired 100.0% of the shares of Companhia Metalúrgica Prada, or Prada, from Kiskidee Investments Limited LLC, for a total of US$1.00. Prada is the largest steel can manufacturer in Brazil and produces more than one billion steel cans in its four production units located in the states of São Paulo, Santa Catarina and Minas Gerais, in the southeastern and southern regions of Brazil and, accordingly, is one of our major customers of tin mill products.

On July 20, 2007, Nacional Minérios S.A. or Namisa, our wholly-owned mining subsidiary, acquired 100.0% of the shares of Companhia de Fomento Mineral, or CFM. The acquisition price amounted to US$440 million, of which US$100 million was paid upon the execution of the purchase agreement, and US$250 million was paid on August 1, 2007. The remaining US$90 million is to be paid in four installments within two years upon the fulfillment of certain conditions set forth in the purchase agreement. 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.

Namisa s business plan provides for the utilization of available iron ore mining and logistics resources, including its own iron ore mines and contracts with third parties, access to railway transport and port in order to export its production. On April 22, 2008, we publicly announced that we have retained Goldman Sachs as our financial advisor in connection with the potential sale of a portion or all shares of Namisa.

Planned Investments

Iron Ore Project

The investments in our iron ore project comprise the expansion of our mining activities, 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 corridor. We expect to invest a total of US$3.4 billion to produce and/or sell approximately 100 million tons of iron ore products by April 2012, of which US$700 million have already been invested. We will finance these investments with the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico Social*), or BNDES, other export credit agencies from the proceeds we intend to obtain from offerings of securities in general and of free cash flow from our current operations. Our iron ore project and expected investments are divided as follows:

- In January 2004, we announced the approval of investments of approximately US$1.0 billion to expand the annual production of the Casa de Pedra iron ore mine to 53 million tons. We subsequently reviewed these figures and increased our initial investment to US$1.7 billion, and the expansion of the annual production of Casa de Pedra from 53 million to 70 million tons, which is currently being implemented. As of December, 2007, approximately US$400 million had already been invested in the increase in production capacity of the Casa de Pedra mine and its current annual production capacity is 17 million tons.

- In July 2007, with the acquisition of CFM by Namisa, we announced the approval of investments of approximately US$300 million in Namisa to increase its annual production capacity from 3 million tons to 16.5 million tons by 2011.

- We are also investing approximately US$800 million in the expansion of the seaport terminal in Itaguai to enable annual exports of 100 million tons of iron ore by April 2012. Of this amount, approximately US$300 million have already been invested. Our current annual export capacity is equivalent to 30 million tons.

- We are also analyzing the possibility of investing US$600 million to construct pellet plants.

Additionally, in 2006, pursuing our strategy to increase value for our shareholders and strengthen our position as a global player, our Board of Directors approved new investments of over US$4.0 billion over the next three years, which are currently being reviewed in light of our capital budget. These investments are comprised as follows:

Steelmaking

As part of our strategy to strengthen our position as a local and global player, we are seeking to take advantage of our existing competitive iron ore mines and integrated infra-structure to offer a wider portfolio of products, including long products, railway tracks and heavy plates to be sold in the domestic market, and slabs that will feed third-party downstream operations in the United States and/or Europe. We intend to finance these investments with BNDES, other export credit agencies and the use of proceeds obtained from offerings of securities in general and of free cash flow from our current operations.

We plan to build greenfield slab mills in the city of Itaguaí, in the state of Rio de Janeiro, close to our port terminals, and in the city of Congonhas dos Campos, in the state of Minas Gerais, close to our main iron mine Casa de Pedra. We also plan to develop two brownfield projects in the city of Volta Redonda, in the state of Rio de Janeiro, where our main steelmaking facility is located.

The investment in the greenfield slab mill in Itaguaí, in the State of Rio de Janeiro, will be executed in 1.5 million tons modules to a total of 4.5 million tons in a 10 million square meters property that we own. We were granted a preliminary environment permit and expect to obtain the definitive permit in 2008. An economic feasibility study and the basic engineering were conducted by the Chinese company CISDI Engineering Corporation Limited. Finally, we intend to further process the slabs produced in rolling mills in other locations.

The investment in the greenfield slab mill in the city of Congonhas do Campo, in the State of Minas Gerais, will also be executed in 1.5 million tons modules to a total output of 4.5 million tons in an industrial district being developed by the State Government. An agreement was signed with the State Government that will benefit us from the deferral of VAT taxes on the purchase of raw materials and equipments for the next 13 years. The VAT taxes on sales will be financed for 13 years at an interest rate of 6% per annum above the IPCA, the official inflation rate. The portfolio of products will be composed of slabs, hot coils, heavy plates and long products such as rod bars and wire rod.

The brownfield projects in Volta Redonda, in the State of Rio de Janeiro, will be developed inside our main steelmaking facility. We intend to produce additional 1.5 million tons of slabs and 600 thousand tons of long products, such as rod bar and wire rod. We will benefit from the existing infrastructure and utilities used to support a blast furnace and a former foundry of ours which were discontinued. The total investment in long steel products production will be of approximately US$340 million in the necessary installations, including expanding and upgrading a 30-ton electric furnace. The facility is expected to be concluded in December 2008 and will use surplus pig iron and low value added slabs as raw materials. We further intend to process slab in rolling mills in other locations. We have already obtained the preliminary environment permits and expect to get the definitive ones in 2008.

Cement Project

This project represents the entrance of CSN into the cement market, taking advantage of the slag generated by our blast furnaces and of our limestone reserves, located in Arcos, Minas Gerais. These two raw materials, slag and limestone, which are further transformed into clinker, account for approximately 95% of the production cost to produce cement. We are investing approximately US$185 million to build a greenfield grinding mill and clinker furnace, with capacity of 3 million tons and 825,000 tons, respectively. We expect the grinding mill and the clinker furnace will be concluded by the end of 2008 and by the first half of 2009, respectively. These investments will be financed by BNDES, which has already approved a seven-year credit line of up to R$66.8 million indexed based on the long-term interest rate (*Taxa de Juros de Longo*-Prazo), or TJLP, as well as the use of free cash flow from our current operations.

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 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. Investments of approximately R$4.5 billion were approved to build an additional 1,728 km of large gauge, world class railway track. The investments will allow the company to increase the transportation of various products, such as soy beans, cotton, sugar cane, fertilizers, oil and fuels, iron ore and limestone. According to a Memorandum of Understandings entered into as of November 25, 2005, the investments will be financed through: R$1.5 billion from FINOR Northeastern Investment Fund; R$2.2 billion from SUDENE - the Northeastern development federal agency; a R$400 million loan from BNDES to CFN and R$1.05 billion equity from the shareholders of Transnordestina, out of which R$500 million will be supported by a loan from the BNDES to us. However, the parties are currently renegotiating the financings for the project. The construction of the first 100 km started in January 2007 and as of April 30, 2008 over US$68 million (R$120 million) had already been invested by CSN, of which US$30 million (R$52.5 million) were invested in 2007. This project is expected to be concluded by the end of 2010.

Itaguaí CSN Logistics Platform Project

On May 7, 2008 we announced investments of US$ 1.4 billion to build the CSN Logistics Platform Project in the city of Itaguaí, in the state of Rio de Janeiro. The project is composed of:

- The expansion of the existing container seaport terminal, a concession granted to the Company in 2001 for a renewable 25-year term, including improvements on the existing berths;
- The construction of a 850,000 square meters Logistics Support Center adjacent to the seaport terminal with dedicated warehouses and distribution and service centers; and
- The construction of the Lago da Pedra private seaport terminal, adjacent from the existing Sepetiba seaport terminal on a 10 million square meters area that belongs to us, with two piers, nine berths and a 1.2 million square meters back storage area.

The Project will be executed in various steps and once completed will permit the handling of incremental 60 million tons of annual iron ore exports (in addition to the 100 million annual iron ore exports from the expansion of the existing coal seaport terminal); 20 million tons of annual coal and coke imports to support existing and future steel making facilities; 2.3 million annual TEUs (containers) and 17 million tons of general cargo and steel product exports annually.

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 producing capabilities.

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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 Avenida Brigadeiro Faria Lima, 3,400, 20th floor, 04538-132, São Paulo, SP, Brazil and our telephone number is +55-11-3049-7100. 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 advantages:

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 requirements from mining companies such as Companhia Vale do Rio Doce, or CVRD. We hired Golder Associates S.A., or Golder, to evaluate the Casa de Pedra iron ore reserves. The results confirmed mineral resources in excess of 8.3 billion tons, out of which 1.6 billion tons of proven and probable reserves with a grade of approximately 48%. 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, finally, 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 of which we hold 32.9% of the voting capital. 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-party sources.

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 29.3% 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 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, corresponding to 130 MW of firm guaranteed output in December 31, 2007. 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 constantly and consistently presenting substantially high margins. Other factors that lead to our high margins are the strategic location of our steelworks facility, the use of state of the art technology and our qualified work force.

Diverse product portfolio and product mix. We have a diversified product mix that includes: hot rolled, cold rolled, galvanized and our 98% share of steel tin mill products in Brazil. We offer many kinds of steel packaging produced in Brazil at our tin plate steel mill and account for more than 50% 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, should allow us to increase our sales to the automotive segment. Our subsidiary 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, INAL, 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. We believe we are well positioned strategically to develop new products such as long steel and cement that are very important for the civil construction industries.

Strong presence in domestic market and strategic international exposure. We have a strong presence in the domestic market for steel products, with a 98% 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 significant sales channels for our products, selling in the United States 10% of our total sales and in Europe 7% of our total sales in 2007, respectively.

Strategy

Our goal is to increase value for our shareholders, by further benefiting from the competitive cost advantages we offer our customers from the industry segments in which we operate, maintaining our position as one of the world s lowest-cost steel producers, becoming an important iron ore global player and by optimizing our infrastructure assets (our ports, railways and interest in power generating plants).

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

Steel

Our strategy related to our steel business involves:

- supplying domestic markets, where we have historically recorded higher profit margins, with a wide range of finished flat and long steel products;
- implementing a carefully crafted globalization strategy that may include associations with or the acquisition and/or construction of steel operations, steel-related businesses or distribution or service centers outside Brazil, which could further process low cost semi-finished products (slabs) from Brazil and improve our distribution channels abroad;
- emphasizing a wide range of value-added products, mostly galvanized, pre-painted and tin-coated;
- introducing new technologies and systems to enhance our understanding of customers, competitors and industry trends; and
- providing customer solutions supported by quality products and services.

For further information on our planned investments relating to our steel activities, see Item 4A. History and Development of the Company Planned Investments Steel Making (Slab Mills) and Item 4A. History and Development of the Company Planned Investments Long Steel Production .

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 iron ore mine and CFM and search for investment opportunities, primarily in mining operations related to the steel business. For further information on our planned investments relating to our mining activities, see Item 4A. History and Development of the Company Planned Investments Iron Ore Project

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In 2007, we made our first entry into the international iron ore market. This first step 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 the terminal to also handle and export iron ore and to load from its facilities the first shipment of our iron ore products.

Logistics

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

We have substantially improved the infrastructure needed to support the President Vargas steelworks and our export and international strategies by investing in projects such as power generation through hydroelectric power plants, railways and port facilities in order to increase our ability to control production costs and secure reliable sources of energy, raw materials and transportation.

Cement

Our strategy for our cement business includes the achievement of greater utilization of by-products by constructing a clinker furnace and a grinding mill to produce 3 million tons of cement, using the slag generated by our blast furnaces, which we expect will become operational by the end of 2008 and by the first half of 2009, respectively. For further information on our planned investments relating to our cement activities, see Item 4A. History and Development of the Company Planned Investments Cement Project.

Major Products

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

The following chart reflects our production cycle in general terms.

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

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 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.

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 0.49 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 do Campo, 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 Energy Requirements. This coal distillation process also produces coke oven gas as a by-product, which we use as a main source of fuel for our thermoelectric co-generation power plant. After being screened, coke is transported to blast furnaces, where it is used as a combustion source and as a component for transforming iron ore into pig iron. In 2006, we produced about 75-80% 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 PCI facility, which injects low-cost pulverized coal directly into the blast furnaces as a substitute for approximately one-third of the coke otherwise required.

The iron ore is reduced to pig iron through successive chemical reactions with carbon monoxide (from the coke and PCI) in two blast furnaces that operate 24 hours a day. The ore is gradually reduced, then melts and flows downward. Impurities are separated from the iron to form a liquid slag with the loaded fluxes (limestone and dolomite). From time to time, white- hot liquid iron and slag are drawn off from the bottom of the furnace. Slag (containing melted impurities) is granulated and sold to neighboring cement companies. Upon completion of our planned cement plant expected to occur by 2008, slag also will be used to produce cement.

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

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.

Quality Management Program

We practice Total Quality Management, a set of techniques that have been adopted by many leading transnational companies. We also maintain a Quality Management System that has been certified to be in compliance with the ISO 9001 standards set forth by the International Standardization Organization, or ISO. 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.

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 metric tons)		
2007	33.8	5.3	15.7%
2006	30.9	3.5 *	11.3%
2005	31.6	5.2	16.5%
2004	32.9	5.5	16.8%
2003	31.1	5.3	17.0%

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

	2005	**2006**(1)	**2007**
Production of:		*(In millions of metric tons)*	
Iron Ore	13.7	13.1	15.0
Molten Steel	5.3	3.6	5.4
Crude Steel	5.2	3.5	5.3

Hot-rolled Coils and Sheets	4.8	4.1	5.1
Cold-rolled Coils and Sheets	2.6	2.3	3.1
Galvanized Products	1.0	1.1	2.2
Tin Mill Products	1.0	0.8	0.9
Consumption of Coal for Coke Batteries	2.3	2.0	2.3
Consumption of Coal for PCI	0.8	0.5	0.9

(1) Lower production due to the accident at Blast Furnace No. 3 on January 22, 2006.

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. Given the low interest rate environment in the developed economies, worldwide coordinated economic growth over the last few years mainly emerging countries as China, India, Russia and Brazil and tighter supply and demand conditions on various commodity type industrial segments, coal and iron ore miners and coke producers were able to charge customers extremely high prices increases. These commodity type industrial segments are highly concentrated in the hands of a few global players and there can be no assurance that other 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 which has the following installed mining capacity:

Casa de Pedra has an installed mining capacity of 21.5 million tons annually (run-of-mine) with a processing ratio of 74.4%, resulting in a mining capacity of 16 million tons of processed iron ore per year, which exceeds our needs for the Presidente Vargas steelworks. In 2007, the run-of-mine was 21.6 million tons (with a total crusher feed of 19.3 million tons and a total classification and concentration feed of 18.9 million tons). The resulting product tonnage was 15.0 million tons of processed iron ore per year (mass recovery on wet basis of 79.6%) . Of this total amount, 7.1 million tons were delivered to the Presidente Vargas steelworks and 5.9 million tons were sold to third parties, consisting of 2.5 million tons of sinter-feed material, 1.6 million tons of pellet feed materials, 0.4 million tons of lump ore and 1.4 million tons of small lump ore. In addition, approximately 14 million tons of processed iron ore were kept in inventory in 2007.

We own other iron ore assets through Namisa, a wholly-owned subsidiary of ours which acquired CFM in 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. In 2007, 7.7 million tons of ROM were extracted from the Engenho mine with a waste/ore ratio of 0.27. The supply of the Pires beneficiation plant reached 7.9 million tons with product generation in the order of 4.4 million tons composed of Lump Ore (LO), Small Lump Ore, or Hematitinha, Sinter Feed (SF) and concentrates. Also in 2007, 0.65 million tons were extracted from the Fernandinho mine with a waste/ore ratio of 0.16. The beneficiation plant at the Fernandinho unit also processed crude ore acquired from third parties, which along with its own ROM, totaled 1.5 million tons of feed. This processing was responsible for the generation of 0.6 million tons of Lump and Sinter Feed products, in which the Sinter Feed practically corresponded to the total production.

In 2007, CFM sold 4.7 million tons through these two complexes, as well as from Itaminas (from the Sarzedo Mine), of which 1.7 million tons were exported. On March 30, 2008 CFM was merged with Namisa.

Namisa complements our strategy to be a world leading producer of high quality iron ore. Namisa is and will remain fully integrated with our railway and port logistics corridor, providing 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.

In order to free up capital on a small portion of our iron ore project and with a view to speed up other projects on various segments (such as cement, steel, logistics), on April 22, 2008, we publicly announced that we have retained Goldman Sachs as our financial advisor in connection with the potential sale of a portion or all of our shares of Namisa.

Our steelmaking operations consumed 8.0 million tons of iron ore during 2007, consisting of 5.7 million tons of sinter-feed material, 0.7 million tons of iron ore pellets and 1.6 million tons of lump ore. As we don t have pelletizing plants, the total amount of pellets has been acquired in the Brazilian market.

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

Coal. In 2007, our coal consumption totaled 3.3 million tons and accounted for approximately 17% of our production cost. The 32% increase compared to the 2006 consumption is due to the stoppage of Blast Furnace No. 3 in the first half of 2006, from January to June. 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.

Coke. In 2007, in addition to the approximately 1.7 million metric tons of coke we produced, we also consumed 208,193 tons of coke bought from third parties in China and Colombia. The market for coke has been very tight 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 supply-demand balance of metallurgical coke. Despite the instability shown in this market in 2007, we were not much affected by the steep price raises as we have maintained good level of stocks that resulted from the stoppage of Blast Furnace No. 3 in the first half of 2006.

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 2007, we used approximately 914,716 tons of imported PCI coal.

Limestone and Dolomite. We obtain limestone and dolomite from our Bocaina mine at Arcos in Minas Gerais State, which produces 1.6 million tons of limestone and 0.9 million tons of dolomite on an annual basis, more than 90% of which is used in the steelmaking process. See the map under Item 4D. Property, Plants and Equipment for the location of the Bocaina 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 one-month reserve of such materials at the Presidente Vargas steelworks.

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

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 2007 we used 949,000 tons of oxygen to produce 5.3 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$1.2 million.

Electricity. Steelmaking also requires significant amounts of electricity to power rolling mills, production lines, hot metal processing, coking plants and auxiliary units. In 2007, the Presidente Vargas steelworks consumed approximately 3.2 million MWh of electric energy or 610 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.

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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 ironmaking process to generate energy.

Natural Gas. In addition to electricity, we consume natural gas, mainly in our hot strip mill. CEG Rio S.A., 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 Petrobrás, the Brazilian national oil company. 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.

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 and coal and coke being the only inputs acquired abroad.

Our main raw materials suppliers are set forth below:

Main Suppliers	**Raw Material**
BHP Billiton, Jim Walter Resources and Drummond Coal Sales	Coal
Minmetals, Noble and Glencore	Coke
Valesul, Nexans, Imbra and Alubar	Aluminum
Votorantim Metais	Zinc
ERSA, Glencore and Coppertrading	Tin
Engebasa, Tecnometal and Dedini	Spare parts
Magnesita, Saint Gobain and RHI	Refractory bricks
BR Distribuidora, Yushiro and Quaker	Lubricants

Logistics

Transportation costs are a significant component of our steel production costs and are a factor in our price-competitiveness in the export market. Railway transportation is the principal means by which we transport raw materials from our mines to the Presidente Vargas steelworks and steel products to ports for shipment overseas. Iron ore, limestone and dolomite from our two mines located in the State of Minas Gerais are transported by railroad to the Presidente Vargas steelworks for processing into steel. The distances from such mines to the Presidente Vargas steelworks are 328 km and 455 km. Imported coal and coke bought from foreign suppliers are unloaded at the port of 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.

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.

Sales and Marketing

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.

Marketing Organization and Strategy

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

Our operations activities are undertaken by 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 consulting, new products development, capital investment implementation for steel production and processing, as well as the supervision of GalvaSud s and CSN Paraná s operations.

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, GalvaSud, and also by a portion of the galvanized material produced at Presidente Vargas steelworks, benefiting from a combined sales strategy.

In 2007, approximately two thirds of our domestic sales were made through our own sales force directly to customers. The remainder was sold to 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. Our strategy is to maintain Europe and North America as our main export markets, taking advantage of the commercial channels provided by our subsidiaries CSN LLC, in the United States and Lusosider, in Portugal.

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

Further, our management believes that one of the keys to our success is maintaining a presence in the export market. Such presence gives us the flexibility to shift between domestic and export markets, thereby allowing us to maximize our profitability.

Unlike classic commodity products, there is no exchange trading of steel, or uniform pricing, as wide differences exist in terms of size, chemical composition, quality and specifications. In general, 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 15 or 30 days, and, in the case of exports, usually backed by a letter of credit and an insurance policy. Sales are made primarily on cost and freight terms.

Steel Sales by Geographic Region

In 2007, we sold steel products to customers in Brazil and 60 other countries. The fluctuations in the portion of total sales attributable to domestic sales, 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 three main export markets for our products are North America, Europe and Latin America, representing 55%, 31% and 7%, respectively, of our export sales volume in 2007.

In North America, we take advantage of our subsidiary CSN LLC presence, 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, CSN is able to export cold-rolled coils which can be directly sold or processed by CSN LLC in order to manufacture galvanized products.

In Europe, CSN sells hot-rolled coil as raw material for 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$)

	2005				2006				2007			
	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	2,875	59.6	3,155	72.2	2,817	64.3	3,258	72.5	3,614	67.2	4,853	77.0
Export	1,945	40.4	1,214	27.8	1,567	35.7	1,235	27.5	1,764	32.8	1,446	23.0
Total	**4,820**	**100.0**	**4,369**	**100.0**	**4,384**	**100.0**	**4,493**	**100.0**	**5,378**	**100.0**	**6,299**	**100.0**
Exports by Region												
Asia	543	11.3	268	6.1	79	1.8	47	1.1	57	1.1	47	0.7
North America(1)	662	13.7	479	11.0	729	16.7	600	13.4	970	18.0	651	10.4
Latin America	146	3.0	101	2.3	142	3.2	92	2.0	122	2.3	94	1.5
Europe	510	10.6	298	6.8	563	12.8	455	10.1	548	10.2	601	9.5
All Others	84	1.7	68	1.6	54	1.2	41	0.9	67	1.2	53	0.9

Total Exports	**1,945**	**40.4**	**1,214**	**27.8**	**1,567**	**35.7**	**1,235**	**27.5**	**1,764**	**32.8**	**1,446**	**23.0**

(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, which in 2005 represented US$304, in 2006 represented US$320 and in 2007 represented US$679.

Sales by Steel Product

The following table sets forth our market shares for sales in Brazil of hot-rolled, cold-rolled, galvanized and tin mill products for the past three years according to the IBS.

CSN Domestic Market Share

	2005	**2006**	**2007**
	(As a percentage of the market for each product)		
Hot-rolled Products	29.0%	25.0%	31.0%
Cold-rolled Products	19.0%	19.0%	21.0%
Galvanized Products	44.0%	42.0%	44.0%
Tin Mill Products	99.0%	98.0%	98.0%

Sales by Industrial Segment

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

CSN Sales by Industrial Segment in Brazil

	2005	2006	2007
	(In percentages of total domestic volume shipped)		
Distribution	33.8%	38.0%	43.3%
Packaging	22.5%	21.9%	16.3%
Automotive	17.4%	14.6%	14.6%
Home Appliances/OEM	15.2%	15.4%	13.3%
Construction	11.0%	10.2%	12.5%

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 GalvaSud and CSN Paraná. No single customer accounts for more than 5% of our net operating revenues.

Seasonality

Our sales are subject to seasonality. It is well known in both the international and domestic steel market that demand is lower in the first six months of the year, which directly affects sales. On the other hand, demand normally increases in the third quarter. Our sales force considers this seasonality in its planning while, at the same time, seeks to keep production stable by offsetting domestic market fluctuations with exports to other markets.

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 3.8 square km and containing five coke batteries (three of which are currently in operation), three sinter plants, two blast furnaces, a basic oxygen furnace steel shop, which is also referred to as a BOF shop, with three converters, three continuous casting units, one hot strip mill, three cold strip mills, two continuous pickling lines, one continuous annealing line, three continuous galvanizing lines, four continuous annealing lines exclusively for tin mill products and six electrolytic tinning lines.

Our major operational units and corresponding effective capacities as of December 2006, including CSN LLC and Lusosider are set forth in the following chart:

Effective Capacity

	Metric tons per year	Equipment in operation

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

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Downstream Facilities

GalvaSud. We own 100% of GalvaSud, which produces and sells galvanized steel *Galvanew*®, laser-welded and pre-stamped parts for the automotive industry. GalvaSud has an annual capacity of 350,000 tons. For further information on the acquisition of GalvaSud, see Item 4A. History and Development of the Company Acquisitions .

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 hold 100% of the shares of Cia. Metalic Nordeste, or Metalic. Metalic is the only two-piece steel can producer in all Americas. It has approximately 45% 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.

Prada. We own 100% of Prada. Prada is the largest steel can manufacturer in Brazil and produces more than one billion steel cans in its three production units located in the States of São Paulo, Rio Grande do Sul and Minas Gerais, in the southeastern and southern regions of Brazil and, accordingly, is one of our major customers of tin mill products. Currently, we are the only Brazilian producer of tin-coated products, Prada s principal raw material. Prada has important customers in the food and chemical industries including processes and packages of vegetables, fishes, dairy products, lubricants, aerosols, paints and varnishes, and other business activities. For further information on the acquisition of Prada, see Item 4A. History and Development of the Company Acquisitions.

CSN 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. We own 100% of Lusosider, a producer of hot-dip galvanized products, cold-rolled and tin plate located in Seixal, near Lisbon, Portugal. Lusosider produces approximately 240,000 tons of galvanized products, 50,000 tons of cold rolled and 60,000 tons of tin plate annually. Its main customers include service centers, tube making, can making and steel packaging industries. For further information on the acquisition of the remaining 50% of the capital stock of Lusosider, see Item 4A. History and Development of the Company Acquisitions.

INAL. Indústria Nacional de Aços Laminados S/A, or INAL, is our subsidiary and a distributor of laminated steel founded in 1957. Currently, INAL is the number one in the Brazilian distribution market, with 600,000 tons/year of processing capacity installed. INAL has three steel service centers and five distribution centers strategically located in the Brazilian territory. Its main and biggest service center is located in Mogi das Cruzes between São Paulo and Rio de Janeiro. INAL has a service center located in Camaçari, in the State of Bahia, to support sales in the Northeastern and North regions of Brazil. Its product mix also includes sheets, slit coils, sections, and tubes, roofing in standard or customized format, according to client s specifications. INAL 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.

Mines and Mineral Reserves

We hold concessions to mine iron ore, limestone and dolomite. We purchase manganese on the local market.

We own 100% of each of our mines. In addition, each mine is an open pit mine. See the map under Item 4D. Property, Plant and Equipment for the location of the mines in relation to the Presidente Vargas steelworks and for information on the reserves at our Casa de Pedra mine and resources at Engenho and Fernandinho mines.

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).

The Casa de Pedra facilities are located in the city of Congonhas do Campo, 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 run-of-mine capacity of approximately 60 million and 21.5 million tons, respectively.

Most of the run-of-mine of the Pires Beneficiation Plant comes from our Engenho mine, which is located at the northern border of the Casa de Pedra mine. Pires Beneficiation Plant has the capacity to process 8.28 million tons per year. From this total, 5 million tons are currently provided by the Engenho mine and the balance is purchased from third parties.

The Fernandinho mine is located in the city of Itabirito, in the state of Minas Gerais. This unit processes crude ore purchased from third parties, which along with its own run-of-mine, totaled 1.5 million tons of feed in 2007.

Until 2001, we held an interest in CVRD, Latin America s largest mining company and the largest producer and exporter of iron ore in the world, through Valepar. Pursuant to an agreement entered into on December 31, 2000, we sold our interest in Valepar to certain companies and pension funds, including Bradespar S.A. and Litel Participações S.A. In connection with the sale of our then controlling stake at Valepar to Bradespar S.A. and Litel Participações S.A. and the subsequent sale of Valia s (CVRD s pension fund) 10.3% interest in our company in 2003, CVRD obtained a 30-year right of first refusal to match all the conditions, including price, quality and tenor, obtained by us in contracts with third parties to purchase iron ore produced at Casa de Pedra in excess of our and our affiliates needs.

In view of certain acquisitions made by CVRD in 1995, the *Conselho Administrativo de Defesa Econômica*, the Brazilian anti-trust agency, or CADE, issued a decision in August 2005 pursuant to which CVRD would have to choose between its share participation in Ferteco Mineração S.A. (Ferteco) or its rights of first refusal mentioned above. Such decision is being challenged by CVRD before the Brazilian courts. In view of certain additional decisions of the relevant authorities involved in such disputes, we filed with CADE a statement of compliance with the administrative order that imposed that the parties should refrain from performing the rights or first refusal of CVRD related to Casa de Pedra mine. This statement of compliance was publicly announced through a notice to the market (*fato relevante*) on January 17, 2008.

Limestone and Dolomite Mine. Our extraction and preparation of limestone and dolomite is done at our Bocaina mining facility located at 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* n 131/92). The reserves provided were recognized by DNPM, Brazil s competent authority for the reporting of ore reserves. The reserves and resources presented are in situ. For further information on this acquisition, see Item 4A. History and Development of the Company Acquisitions.

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Electricity Distribution and Generation

Thermoelectric Co-Generation Power Plant. We completed 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 its electric energy needs for its steel mills. Aside from operational improvements, the power plant supplies our strip mills with electric energy, processed steam and blown air for the blast furnaces, benefiting the surrounding environment through the elimination of flares that burn steel-processing gases into the atmosphere.

Itá Hydroelectric Facility. We and Tractebel Energia S.A., or Tractebel, each own 48.75%, and Companhia de Cimento Itambé, or Itambé, owns the remaining 2.5%, of Itá Energética S.A., or 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 owns directly the remaining 39.5% of the Itá hydroelectric facility.

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 interests 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 will operate for 30 years the Igarapava hydroelectric facility. Other consortium members are CVRD, Companhia Mineira de Metais, Votorantim Metais Zinco, AngloGold Ashanti Mineração Ltda., and Companhia Energética de Minas Gerais, or CEMIG. The plant attained its full installed capacity of 210 MW, corresponding to 130 MW of firm guaranteed output as of December 31, 2007. We have been using part of our 22 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines. The remainder is consumed by the Presidente Vargas steelworks or sold into the energy market.

Railways

Southeastern Railway System. We own 32.9% (20% of the voting capital) of MRS Logística S.A., or MRS, which has a concession to operate, through the year 2026, the assets of Brazil s Southeastern railway system. The Brazilian Southeastern railway system, covering 1,674 km of track, serves the São Paulo Rio de Janeiro Belo Horizonte industrial triangle in Southeast Brazil, and links the mines 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 26% of the Brazilian Southeastern railway system s total volume. As of December 31, 2007, US$1,974 million were outstanding and payable by MRS to the Brazilian government federal agencies within the next 19 years, of which US$1,902 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 borrowings.

Northeastern Railway System. We and the Steinbruch family each hold 46.9% of the capital stock of Companhia Ferroviária do Nordeste, or CFN, which has a 30-year concession to operate the assets of Brazil s Northeastern railway system. The Northeastern railway system covers 4,238 km of track and operates in the States of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. 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. In 2006, CFN was authorized by the Brazilian transport agency ANTT and by our Board of Directors to merge Transnordestina, a large-gauge world-class railway track, into it. As of December 31, 2007, US$20.0 million was outstanding over the remaining 19-year term of the concession, of which US$19.6 million are treated as an Off-Balance sheet item (See Item 5E. Off-Balance Sheet Arrangements). We and the Steinbruch family are jointly and severally liable for the full payment of the outstanding amount. For more information on the merger and financings for Transnordestina, see Item 4E. History and Development of the Company Planned Investments Transnordestina.

Port Facilities

Solid Bulks Terminal. We hold the concession to operate a solid bulks terminal, one of four terminals that form the Itaguaí Port, located in Rio de Janeiro State, for a term expiring in 2022 renewable for 25 years. Itaguaí Port, in turn, is connected to the Presidente Vargas steelworks, Casa de Pedra and CFM 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 unload at least 3.4 million metric tons of coal and coke from our suppliers through the terminal annually, as well as shipments from third parties. Among the approved investments that we announced is the development and expansion of the solid bulks terminal at Itaguaí to also handle up to 160 million tons of iron ore per year. For further information, see Item 4A. History and Development of the Company Planned Investments Iron Ore Project (Casa de Pedra).

Container Terminal. We own 100% 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, 2007, US$182 million (R$ 322.4 million) of the cost of the concession remained payable over the next 19 years of the lease. 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. The Brazilian Federal Port Agency has allocated US$38 million to 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 which will cross 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 4A. History and Development of the Company Planned Investments Itaguaí CSN Logistics Platform Project.

In 2007, Tecon handled 257,918 TEUs, becoming the largest container terminal in the state of Rio de Janeiro and one of the largest in Brazil. A total of US$15 million was spent in 2007 in purchasing two super post-panamax container cranes capable of serving vessels of up to 8,000 TEUs capacity and two RTGs to work in the container yard. The new container cranes boosted annual handling capacity from 280,000 to over 400,000 TEUs, and turned Tecon into the only terminal in Brazil to possess four super post-panamax gantries. We intend to use this port to ship all our exports of steel products. In 2007, more than 70% of the steel products we exported, 866,890 tons, were shipped from this port.

Insurance

In order to minimize the various risks resulting from our operations, we take several measures. Besides implementing different procedures for maintenance and risk control, which include, but are not limited to, the publication of safety policies for employees, accident simulation, among others, we contract various insurance policies to protect our assets and to comply with applicable law.

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

Our insurance policy provides us coverage for up to US$100 million on damaged equipment and US$750 million on business interruption.

On January 22, 2006, we were affected by an accident involving equipment adjacent to Blast Furnace No. 3, mainly impacting our powder collecting system. As a result of this accident the equipment production was interrupted until the end of the first semester of 2006. The cause of the accident was expressly covered by the terms of the insurance policy, as formally confirmed by the insurance company. We estimate total losses resulting from this accident of approximately US$650 million of which we have already received payment of US$360 million (R$736 million).

Based on preliminary reports issued by independent consultants and on the confirmation of the insurance coverage by the insurance company, we recognized up to December 31, 2006, the amount of US$342 million (R$730 million)related to costs incurred to purchase slabs from third-party sources and fixed expenses as an offset to cost of sales and US$9 million (R$19 million)as an offset to cost of sales corresponding to the income in the write-off of damaged assets (net book value of approximately US$81 million (R$173 million)).

On December 31, 2007, we maintained a balance receivable from losses claimed in the amount of US$105 million (R$186 million). We do not identify any risk in such credit, taking into account the international reputation, the prestige and the ratings of the insurance and reinsurance companies and we consider this as a current asset of CSN based on the fact that we expect to receive such amount in the next 12 months.

Intellectual Property

We have entered into several technical assistance contracts with a number of foreign steel companies and technical cooperation agreements with universities and research institutes in order to provide us with assistance and advice related to specific products and processes. Moreover, we have certain patent applications pending before, in addition to several patents approved by, the Brazilian National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), or INPI. We also own licenses for patents relating to a number of our products and processes.

Competition

Both the worldwide and the Brazilian steel markets are intensely competitive. The primary competitive factors in these markets include quality, price, payment terms and customer service. 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 the steel. These steel substitutes include plastics, aluminum, ceramics, glass and concrete, each one in a specific industrial segment.

Competition in the Brazilian Steel Industry

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

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

	2005		2006		2007	
	Ranking	**Production**	**Ranking**	**Production**	**Ranking**	**Production**
		(In million tons)		*(In million tons)*		*(In million tons)*
Usiminas(1)	1	8.7	1	8.8	1	8.7
Gerdau(2)	2	7.6	2	7.7	2	8.1
CSN(3)	3	5.2	5	3.5	4	5.3
ArcelorMittal Tubarão(4)	4	4.8	3	5.1	3	5.7
ArcelorMittal Aços Longos	5	3.3	4	3.6	5	3.7
Others		2.0		2.2		2.2
Total		**31.6**		**30.9**		**33.8**

Source: IBS

(1) Since 1999, Usiminas has had a majority stake in Cosipa, and the companies acted as a group. In 2005, Cosipa was merged into Usiminas. Data from Cosipa have been merged data from Usiminas.

(2) Data from Aços Villares have been merged with data from Gerdau.

(3) In 2006, CSN s production was negatively affected by an accident of its biggest blast furnace. Since the second half of that year, CSN has been operating at its full capacity.

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

Competitive Position Global

During 2007, Brazil retained its place as the largest producer of crude steel in the Latin America, with a production output of 33.8 million tons and a 2.5% share of total world production, according to data from IBS. In 2007, Brazil was the ninth world s steel producer, accounting for approximately half 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 International Iron and Steel Institute, or IISI. Brazilian exports in 2007 reached 9.9 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 situation with respect to price, our product quality and customer service must be maintained at a high level. We have continually monitored the quality of our products by measuring customer satisfaction with our steel in Europe, Asia and the Americas. See Item 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, low-cost labor and energy resources and good quality infrastructure (principally railways and ports). Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports that allow the operation of large ships, which facilitates access to export markets. Nevertheless, Brazil s products have lost partially their competitiveness, mainly affected by the valuation of the *real* since the beginning of 2006, which resulted in the increase of the price of our products. 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.

Greenfield competition from 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, they are still determining the feasibility of such projects. 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.

Government Regulation and Other Legal Matters

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 (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 technical assembly usually meets every week to discuss eventual problems and to identify risks and aspects of the operations in which the group can act pro-actively, in order to prevent possible environmental damages and harm.

Environmental Regulation

We are subject to Brazilian federal, state and municipal environmental laws and regulations governing air emissions, waste water discharges, and solid and hazardous waste handling and disposal. We are committed to controlling the substantial environmental impact caused by our steelmaking, mining and logistics operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. We believe 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 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 2007, 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; the expansion of the Casa de Pedra mine; the expansion of the Presidente Vargas steelworks; the expansion of the TECAR Solid Bulks Terminal of Itaguaí Port, in the State of Rio de Janeiro, or TECAR, aiming at exports of iron ore; the construction of a cement clinker plant at Arcos and of a cement mill at Volta Redonda and the construction of a pelletizing plant in Arcos.

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$94.1 million in 2005, US$109.0 million in 2006 and US$144.9 million in 2007 (R$282.3 million).

Our investments in environmental projects during 2007 were related mainly to: (1) operations and maintenance of environmental control equipments (2); development of environmental studies for permit applications and (3) studies monitoring and remediation of environmental liabilities due to prior operations, mainly before our privatization. From a total of US$144.9 million (R$282.3 million) spent in 2007, US$48.8 million (R$95.1 million) constituted capital expenditures and US$ 96.1 million (R$187.2 million) constituted operational expenditures.

Our main environmental claims on December 31, 2007 are related to cleaning-up obligations at former coal mines decommissioned in 1989; 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 (CESBRA/BRASCAN).

We reserve an accrual for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. We record provisions for all environmental liabilities and obligations for which we are formally enforced by competent judicial and administrative authorities. As of December 31, 2007, we had provisions for environmental liabilities in the total amount of US$31.2 million (R$55.2 million) (US$25 million as of December 31, 2006), which our management and legal advisors consider sufficient to cover all probable losses. For further information, see Note 18(b) to our consolidated financial statements included in Item 18. Financial Statements.

Mining Concessions

Our mining operations are governed by the Brazilian Federal Constitution and the Mining Code and are subject to the laws, rules and regulations promulgated pursuant thereto. Under the Brazilian Constitution, all mineral resources belong to Brazil. Our mining activities at the 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, which grants us the right to mine for as long as ore reserves exist. Our mining activities at the Bocaina mine are based on a concession under the same conditions. See Item 4D. Property, Plant and Equipment for further information on our reserves at the Casa de Pedra mine and resources at Fernandinho and Engenho mines.

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

Antitrust Regulation

We are subject to various laws in Brazil which seek to maintain a competitive commercial environment in the Brazilian steel industry. For instance, under Law 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 *Conselho Administrativo de Defesa Econômica* CADE determines companies have acted collusively to raise prices, CADE has the authority to impose fines on the offending companies, prohibit them from receiving loans from Brazilian government sources and bar them from bidding on public works projects. In addition, CADE has the authority to 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 was smaller as a result of the increased demand from our domestic market.

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

United States

Anti-dumping 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 50.7% for anti-dumping, and of 6.6% 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 6.4% 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 margins of dumping from the DOC. Final determination was issued in October 2005 and the zero margin of dumping 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, which 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 will 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.

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 price commitment 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 2007, 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 2007, 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 2004, total global crude steel production ranged between approximately 770 million and 1.1 billion tons per year. In 2007, it reached 1.3 billion tons, representing a 7.5% increase compared to 2006. According to the IISI, global finished steel demand is expected to reach 1.3 billion tons in 2008, representing a 6.1% increase compared to 2007.

Developing economies have been increasing their own production capacity. In 2007, China increased its crude steel production by approximately 16% when compared to the Chinese production in 2006. Excluding Chinese figures, the world s average increase was 3% in 2007.

As a traditional global exporter and with its large steel production capacity, Brazil has consistently exported a substantial portion of its production. In 2007, steel production totaled 33.8 million tons, from which 9.9 million tons were designated to exports, compared to a total production of 30.9 million tons and exports of 11.7 million tons in 2006. Domestic sales in 2007 and 2006 amounted to 20.5 million tons and 17.5 million tons, respectively.

Brazil has been playing an important role in the export market, primarily as an exporter of semi-finished products. The Brazilian steel industry has taken several steps towards expanding its capacity to produce value-added products. Brazil s exports of semi-finished steel products aggregated 5.7 million tons in 2006 and 5.1 million tons in 2007, which represented 49% and 52% of total steel exports for both periods, respectively.

Brazilian Steel Industry

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

A Privatized Industry

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

Domestic Demand

Historically, the Brazilian steel industry has been affected by substantial fluctuations in domestic demand for steel. Although national per capita consumption varies with GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Per capita crude steel consumption in Brazil has increased from 95 kilograms per capita in 1999 to 110 kilograms in 2006, which is low when compared to levels in developed country such as the United States, where the per capita crude steel consumption in 2006 was of 444 kilograms, and Germany, where the consumption was of 607 kilograms.

In 2005, despite a good global conjuncture, the Brazilian economy exhibited a modest growth of 2.3% . From 2005 to 2006, total domestic steel sales increased 9.2%, from 16.1 to 17.5 million tons. Sales of flat steel products increased 8.4% in 2006, from 9.8 to 10.6 million tons. In 2007, supported by a 5.4% increase in Brazilian GDP, the sales of flat steel products increased 17.4%, compared to 2006.

The Brazilian flat steel sector is shifting production to the higher value-added consumer durable sector, which is dependent on domestic consumer confidence, which, in turn, is linked to the economic and political record of the current government administration. Despite the moderate growth rate performed by Brazilian economy, the consumer durable goods sector exhibited a 12.2% and 6% increase in 2005 and 2006, respectively. Over the past years, General Motors, Ford and Volkswagen, automobile manufacturers already in Brazil, made significant investments. In addition, Renault, Honda, Daimler-Chrysler, Audi and Peugeot/Citroen built new facilities in Brazil. In 2006, 2.6 million vehicles were produced and in 2007 a total of 3 million vehicles were produced in Brazil, representing a 13.9% increase compared to 2006.

Market Participants

According to IBS associated companies, the Brazilian steel industry is composed of 13 producers, 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 2005, 2006 and 2007, see Item 4B. Business Overview Competition Competition in the Brazilian Steel Industry.

Capacity Utilization

Total Brazilian nominal capacity in 2007 was estimated at 41 million tons, compared to 37 million tons of capacity in 2006. The Brazilian steel industry operated at approximately 82% of nominal crude steel capacity during 2007, contrasting with 83% from the previous year.

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Exports/Imports

In 2007, Brazilian steel exports totaled 9.9 million tons, representing 33% of total Brazilian steel sales (domestic plus exports), accounting for US$6.6 billion in export earnings for Brazil in 2007. 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 2007, supply totaled 33.8 million tons, compared to apparent consumption of 22 million tons.

Brazil also enjoys a diversified steel export market. In 2007, export sales were made to over 120 countries. North America and South America were Brazil s main export markets, accounting for 20% and 32%, respectively, of all Brazilian steel exports in such year. United States was the main destination, representing 19% of total exports. The European Union was responsible for 21% of the Brazilian steel exports in 2007, while Asia, Africa and the Middle East were responsible for 27%. The ten largest markets, taken together, accounted for 63.4% of Brazil s steel exports in 2007. See also Item 4B. Business Overview Competition.

As a result, Brazil is a negligible importer of foreign steel products. Steel imports were 1.6 million tons, or 7.3% of apparent domestic consumption in 2007, compared to 1.9 million tons, or 10.1% in 2006, 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, São Paulo State at Avenida Faria Lima, 3400, 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 3.8 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.

The table below sets forth certain material information regarding our property as of December 31, 2007.

Facility	Location	Size	Use	Productive Capacity	Title	Encumbrances
Presidente Vargas steelworks	Volta Redonda, State of Rio de Janeiro	3.95 square km	steel mill	5.6 million tons per year (mtpy)	owned	None
GalvaSud	Porto Real, State of	0.27 square km	galvanized steel	350,000 tons per	owned	mortgage(1)(2)

	Rio de Janeiro		producer	year		
CSN Paraná	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	None
Metalic	State of Ceará	0.10 square km	steel can manufacturer	900 million cans per year	owned	mortgage(3)
Prada	States of São Paulo, Santa Catarina and Minas Gerais	SP 0.14 square km; MG 0.02 square km ; SC 0.008 square km;	steel can manufacturer	1 billion cans per year	owned	None
Heartland Steel	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	None

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Facility	Location	Size	Use	Productive Capacity	Title	Encumbrances
Lusosider	Seixal, Portugal	0.39 square km	hot-dip galvanized, cold-rolled and tin products	240,000 tons of galvanized products, 50,000 of cold rolled and 60,000 of tin plates per year	owned	None
INAL	Mogi das Cruzes, State of São Paulo	0.20 square km	distributor	730,000 tons per year	owned	None
Casa de Pedra mine	Congonhas, State of Minas Gerais	44,57 square km	iron ore mine	60.0 mtpy (4)	owned (8)	None
Engenho mine	Congonhas, Minas Gerais state	2.87 square km	iron ore mine	5.0 Mtpy	concession	None
Fernandinho mine	Itabirito, Minas Gerais state	1.84 square km	iron ore mine	2,0 Mtpy	concession	None
Bocaina mine	Arcos, State of Minas Gerais	4.11 square km	limestone and dolomite mines	4.0 mtpy	concession	None
ERSA mine	State of Rondônia	0.015 square km	tin mine	1,800 tons	concession	None
Thermoelectric co-generation power plant	Volta Redonda, State of Rio de Janeiro	0.04 square km	power plant	238 MW	owned	None

Itá	Uruguay River - Southern Brazil	9.87 square km	power plant	1,450 MW	concession	None
Igarapava	State of Minas Gerais	5.19 square km	power plant	210 MW	concession	None
Southeastern Railway System [5]	Southern and Southeastern regions of Brazil	1,674 km of tracks	railway	--	concession	None
Companhia Ferroviária do Nordeste [6]	Northern and northeastern regions of Brazil	4,238 km of tracks	railway	--	concession	None
TECAR at Itaguaí Port	State of Rio de Janeiro	0.69 square km	raw materials	4 mtpy	concession	None
Container terminal - TECON at Itaguaí port	State of Rio de Janeiro	0.44 square km	containers	2 mtpy	concession	None
Land	State of Rio de Janeiro	31.02 square km	undeveloped	--	owned	pledge[7]/ /Collateral / mortgage[2]
Land	State of Santa Catarina	6.22 square km	undeveloped	--	owned	pledge[8]/ Collateral
Land	State of Minas Gerais	29.09 square km	undeveloped	--	owned	None

(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) For information on mineral resources at our Casa de Pedra mine, see table under Casa de Pedra Mine below.

(5) We indirectly hold the concession through MRS.

(6) We indirectly hold the concession through CFN.

(7) Pledged pursuant to various legal proceedings, mainly related to tax claims.

(8) Based on the *Manifesto de Mina*. See, Item 4A. History and Development of the Company Government Regulation and Other Legal Matters Mining Concessions.

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 4A. History and Development of the Company Planned Investments.

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

Reserves at Casa de Pedra mine

We have concluded an extensive, multi-year study of our iron ore reserves at our Casa de Pedra mine located in the city of Congonhas do Campo, in the state of Minas Gerais. 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 the Casa de Pedra site. Phase three started in 2005 and involved a complete revaluation of reserves.

CSN 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.

We hired Golder Associates S.A., or Golder, to undertake an audit of the Casa de Pedra iron ore reserves. Golder carried out a full analysis of all available information and has used checks and experience to independently validate that the reported reserves are available to CSN for mining.

Golder accepts as appropriate the estimates regarding proven and probable reserves made by CSN totaling 1,631 million tons of iron ore at a grade of 47.79% Fe and 26.63% SiO_2. This new ore reserve represents a significant increase when compared to the last appraisal report prepared in 2003, which totaled 444 million tons.

The reserves of the Casa de Pedra mine are sufficient to produce about 50 Mtpa and provide CSN the opportunity to develop a new age in its mining business.

Now we are extending our drilling campaign with 10.000m more to increase and improve our knowledge about Casa de Pedra deposit. When this drilling campaing has finished we will audit the reserves again.

Resources at Fernandinho and Engenho mines

An initial study was done at Fernandinho and Engenho mines to define the geological resources and final pits. As this study was preliminary and we are drilling 10.000m at both mines this year, we did not have reserve numbers that could be audited yet. We expect that, as soon this drilling campaing have finished and a new model and final pit have been done this reserve could be audited and incorporated at CSN mineral deposits.

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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

	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)	1,095	514	47.79% Fe	Hematite (21%) Itabirite (79%)	960	8,364
Engenho (Congonhas, Minas Gerais)			46.07%	Itabirite (100%)		868
Fernandinho (Itabirito, Minas Gerais)			40.21%	Itabirite (100%)		584
Total Iron:	**1,095**	**514**			**960**	**9,816**
Limestone and Dolomite:	**Proven[(6)]**	**Probable[(7)]**				
Bocaina (Arcos, Minas Gerais)	132.3	46.6	49.4%CaO 3.78%MgO	Limestone (86%) Dolomite (14%)	174.9	1,199
	Proven+Probable (Mm3)				**(tons)**	**Resources (Mm^3)**
Tin						
(Itapoã do Oeste, Rondônia)	42.27			Paleo valley and shallow	24,612	96.81

(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 run-of-mine 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 estimated from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established.
(7) Means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume between points of observation.

Item 4A. Unresolved Staff Comments

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

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our consolidated financial statements as of December 31, 2006 and 2007 and for each of the years ended December 31, 2005, 2006 and 2007 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 primary factors affecting our results of operations include:

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

Markets and Product Mix

Supply and Demand for Steel

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

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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,		
	2005	**2006**	**2007**
Brazilian Market (in thousands of tons)			
Total Flat and Long Steel			
Production(1)	22,579	23,504	25,850
Apparent Consumption	16,806	18,533	22,041
Hot-Rolled Coils and Sheets			
Production	4,249	4,074	4,326
Apparent Consumption	2,600	2,822	3,354
Cold-Rolled Coils and Sheets			
Production	3,206	3,227	3,412
Apparent Consumption(1)	2,253	2,526	2,900
Galvanized Sheets			
Production(1)	1,883	2,293	2,459
Apparent Consumption(1)	1,540	1,879	2,154
Tin Mill			
Production(1)	741	828	932
Apparent Consumption(1)	504	655	640
Global Market (in millions of tons)			
Crude Steel Production	1,132	1,244	1,344
Demand	1,013	1,113	1,202

Source: IBS and IISI

(1) Information for 2005 does not include heavy and coiled plates.

Product Mix and Prices

We have a strategy of maintaining production at full capacity in order to spread fixed costs over a higher volume of products and to maintain flexibility. This allows us to change our product mix in response to changes in domestic and export demand brought about by domestic and international macroeconomic conditions. As a result of this strategy, production levels are maintained, notwithstanding a decrease in domestic demand. This strategy could, therefore, in any particular period, cause the percentage of sales attributable to export sales to increase and the percentage attributable to domestic sales to decrease. As discussed below, the percentage of sales made in domestic and export markets will impact revenues expressed in U.S. dollars. See Effects of Exchange Rate Fluctuations.

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

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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								
	Metric Tons			% of Sales Volume					
				In Market			Total		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	(In thousands of metric tons)			*(In percentages)*					
Domestic Sales									
Slabs	46	46	84	2	2	2	1	1	2
Hot-rolled	1,037	1,003	1,535	36	35	43	22	22	28
Cold-rolled	399	439	557	14	16	15	8	10	10
Galvanized	726	736	873	25	26	24	15	17	16
Tin Mill	667	594	565	23	21	16	14	14	11
Sub-total	2,875	2,818	3,614	100	100	100	60	64	67
Export sales									
Slabs	86	120	310	4	8	18	2	3	6
Hot-rolled	717	289	93	38	19	5	15	7	2
Cold-rolled	237	142	182	12	9	10	5	3	3
Galvanized	593	759	809	30	48	46	12	17	15
Tin Mill	312	256	370	16	16	21	6	6	7
Sub-total	1,945	1,566	1,764	100	100	100	40	36	33
Total	4,820	4,384	5,378				100	100	100
Total Sales									
Slabs	132	166	394				3	4	8
Hot-rolled	1,754	1,292	1,627				37	29	30
Cold-rolled	636	581	740				13	13	13
Galvanized	1,319	1,495	1,682				27	34	31
Tin Mill	979	850	935				20	20	18
Total	4,820	4,384	5,378				100	100	100

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		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
	(In millions of US$)			*(In percentages)*					
Domestic Sales									
Slabs	14	14	33	1	1	1	-	-	1
Hot-rolled	693	618	1,170	29	26	33	19	17	24
Cold-rolled	313	322	499	13	14	14	9	9	10
Galvanized	661	713	1,097	28	30	31	19	20	22
Tin Mill	669	716	754	28	29	21	19	20	15
Sub-total	2,350	2,383	3,553	100	100	100	65	66	72
Export sales									
Slabs	18	43	154	1	4	11	1	1	3
Hot-rolled	327	168	62	27	14	4	9	5	1
Cold-rolled	125	93	124	10	8	9	3	3	3
Galvanized	463	659	716	39	55	51	13	18	14
Tin Mill	275	243	351	23	19	25	8	7	7
Sub-total	1,208	1,206	1,407	100	100	100	34	34	28
Total	3,558	3,589	4,960				100	100	100

Net Operating Revenues

	U.S. dollars			% of Net Operating Revenues					
				In Market			Total		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	(In millions of US$)			*(In percentages)*					
Total Sales									
Slabs	32	57	187				1	1	4
Hot-rolled	1,020	786	1,232				29	22	25
Cold-rolled	438	415	623				12	12	13
Galvanized	1,124	1,372	1,813				32	38	36
Tin Mill	944	959	1,105				26	27	22
Total	3,558	3,589	4,960				100	100	100

(1) Net operating revenues do not include revenues from non-steel products, principally by-products, services and electric energy, which amounted to US$247 million, US$257 million and US$557 million in 2005, 2006 and 2007, respectively. Net operating revenues attributed to each product class were obtained by multiplying the average price per ton of each class of product by the sales volume of such class.

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 have sold 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, 2007 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. The appreciation of the *real* against the U.S. dollar during 2006 and 2007 affected our net results because the positive effects of such appreciation were not entirely offset by losses on derivative transactions.

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.

Effects of Inflation

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. These decreases in inflation are largely a result of the government s restrictive monetary policy, including periodic changes in interest rates, and the appreciation of the *real* against the U.S. dollar during the past three years.

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 increase with Brazilian inflation because our suppliers and service providers generally increase 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, so that inflation results in increases in our financial expenses and debt service obligations. 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 (according to the IGP- M) and the CDI for the periods shown.

	Year ended December 31,		
	2005	**2006**	**2007**
Inflation (IGP-M) (1)	1.2%	3.8%	7.7%
CDI (2)	19.1%	15.1%	11.7%

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 CDI rate is the average rate for interbank deposits made during the day in Brazil (accumulated for the month of the end of the period and annualized).

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.

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, 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 Statement of Financial Accounting Standards (SFAS 142), Goodwill and Other Intangible Assets, SFAS 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 he impaired, we 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, 2007. This hypothetical change would result in an incremental increase in the annual depreciation expense of US$33 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. 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.

Derivatives

SFAS No. 133, Accounting for Derivative Financial Instruments and Hedging Activities, 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 current earnings or in other comprehensive income (outside net 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 current net 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, as amended.

The determination of the amount of our obligations for pension benefits depends on certain actuarial assumptions. These assumptions are described in Note 16 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 , (FIN 48). 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 the Company s 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. The Company estimates and records the liability for uncertain tax positions considering the probabilities of the outcomes that could he 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.

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. Those contingencies related to income taxes and social contribution 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. This accounting is consistent with our analysis of a liability under FASB Concepts Statement

No. 6. 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 2007 Compared to 2006 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 collectibility of our accounts receivable.

Changes on Disclosure of Financial Statements

On July 13, 2007, the CVM issued CVM Rule No. 457 to require listed companies to publish their consolidated financial statements according to IFRS starting with the year ending December 31, 2010.

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 mandated the 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 Committee for Accounting Pronouncements (*Comitê de Pronunciamentos Contábeis*), or CPC, which is a committee of officials from the BOVESPA, 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 and the Brazilian Central Bank to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

Recently Issued Accounting Pronouncements

The following new accounting standards have been issued and were adopted by us as of December 31, 2007:

FSP No. FAS 115- 1 and 124- 1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" (FSP No. FAS 115- 1 and 124- 1). The FASB issued FSP No. FAS 115-1 and 124-1 in November 2005, which was effective for us beginning January 1, 2006. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other than temporary impairments. The guidance in this FSP amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, " Accounting for Certain Investments Held by Not-for-Profit Organizations", and APB Opinion No. 18. The adoption of FSP No. FAS 115-1 and 124-1 did not have a material impact on our consolidated results of operations, cash flows or financial position.

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment to FASB Statements No. 133 and 140" (SFAS No. 155). In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and

Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for us for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007, and for certain hybrid financial instruments that have been bifurcated prior to the effective date, for which the effect is to be reported as a cumulative-effect adjustment to beginning retained earnings. The adoption of SFAS No. 155 did not have any material impact on our consolidated results of operations, cash flows or financial position.

SFAS No. 156, "Accounting for Servicing of Financial Assets an amendment to FASB Statement No. 140" (SFAS No. 156). In March 2006, the FASB issued SFAS No. 156, which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 156 requires recognition of a servicing asset or liability when an entity enters into arrangements to service financial instruments in certain situations. These servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to subsequently measure its servicing assets or servicing liabilities using either an amortization method or a fair value method. SFAS No. 156 is effective for us as of January 1, 2007, and must be applied prospectively, except where an entity elects to remeasure separately recognized existing arrangements and reclassify certain available-for-sale securities to trading securities, any effects must be reported as a cumulative effect adjustment to retained earnings. The adoption of SFAS No. 156 did not have any material impact on our consolidated results of operations, cash flows or financial position.

SFAS No. 158, "Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). In September 2006, the FASB issued SFAS No. 158, which changes the recognition and disclosure provisions and measurement date requirements for an employer s accounting for defined benefit pension and other postretirement plans. The recognition and disclosure provisions require an employer to (1) recognize the funded status of a benefit plan measured as the difference between plan assets at fair value and the benefit obligation in its statement of financial position, (2) recognize as a component of OCI, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and (3) disclose in the notes to financial statements certain additional information. SFAS No. 158 does not change the amounts recognized in the income statement as net periodic benefit cost. We are required to initially recognize the funded status of our defined benefit pension and other postretirement plans and to provide the required additional disclosures as of December 31, 2006. Retrospective application is not permitted. The adoption of SFAS No. 158 recognition and disclosure provisions are discussed in Note 16 to these consolidated financial statements.

SAB No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108). In September 2006 the SEC issued SAB No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Traditionally, there have been two widely-recognized approaches for quantifying the effects of financial statement misstatements. The income statement approach focuses primarily on the impact of a misstatement on the income statement including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The balance sheet approach, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach (a " dual approach") and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 was effective for our year ended December 31, 2006. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii), under certain circumstances, recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. The adoption of SAB No. 108 did not have any material impact on our consolidated results of operations, cash flows or financial position.

In June 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes". This interpretation 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. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period this interpretation is adopted. The adoption of FIN48 did not have any material impact on our consolidated results of operations or financial position.

FSP No. AUG AIR- 1, "Accounting for Planned Major Maintenance Activities," (FSP No. AUG AIR- 1). In September 2006, the FASB Staff issued FSP No. AUG AIR- 1. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods, if no liability is required to be recorded for an asset retirement obligation based on a legal obligation for which the event obligating the entity has occurred. The FSP also requires disclosures regarding the method of accounting for planned major maintenance activities and the effects of implementing the FSP. The guidance in this FSP is effective for us as of January 1, 2007 and has been applied retrospectively for all financial statements presented. The adoption of FSP No. AUG AIR-1 did not have any material impact on our consolidated results of operations, cash flows or financial position, as we already apply the direct expensing method of accounting.

EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" (EITF No. 06-3). In June 2006, the EITF reached a consensus on EITF No. 06-3 to address any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales, use, value added, and some excise taxes. For taxes within the issue s scope, the consensus requires that entities present such taxes on either a gross (i.e. included in revenues and costs) or net (i.e. exclude from revenues) basis according to their accounting policies, which should be disclosed. If such taxes are reported gross and are significant, entities should disclose the amounts of those taxes. Disclosures may be made on an aggregate basis. The consensus is effective for us beginning January 1, 2007. The adoption of EITF No. 06-3 did not have any material impact on our consolidated results of operations, cash flows or financial position. As discussed in Note 3 to our financial statements included in "Item 18. Financial Statements", our policy is and will continue to be to classify such taxes as a deduction from operating revenues.

EITF Issue No. 06-6, "Debtor s Accounting for a Modification (or exchange) of Convertible Debt Instruments" (EITF No. 06-6). In November 2006, the EITF reached a consensus on EITF No. 06-6. EITF No. 06-6 addresses how a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option should be considered in the issuer s analysis of whether debt extinguishment accounting should be applied, and further addresses the accounting for a modification of a debt instrument (or an exchange of debt instruments) that affects the terms of an embedded conversion option when extinguishment accounting is not applied. EITF No. 06-6 applies to modifications (or exchanges) occurring in interim or annual reporting periods beginning after November 29, 2006, regardless of when the instrument was originally issued. Early application is permitted for modifications (or exchanges) occurring in periods for which financial statements have not been issued. There were no modifications to, or exchanges of, any of our debt instruments within the scope of EITF No. 06-6 in 2006. The impact to us of applying EITF No. 06-6 in subsequent periods will be dependent upon the nature of any modifications to, or exchanges of, any debt instruments within the scope of EITF No. 06-6.

The following new accounting standards have been issued, but have not yet been adopted by us as of December 31, 2007.

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. For us, SFAS No. 157 is effective as of January 1, 2008 and must be applied prospectively except in certain cases. We are currently evaluating the impact of adopting SFAS No. 157, and believe that such standard will not generate a material impact on our consolidated results of operations, cash flows or financial position.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). In February 2007, the FASB issued SFAS No. 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. For us, SFAS No. 159 is effective as of January 1, 2008 and will have no impact on amounts presented for periods prior to the effective date. We will measure our financial assets and financial liabilities subject to SFAS No. 159 at fair value and expect no significant impacts on our consolidated results of operations, cash flows or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combination, which replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement No. 141 that the acquisition method of accounting (which Statement No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Statement 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this statement. This statement s scope is broader than that of Statement No. 141, which applied only to business combinations in which control was obtained by transferring consideration. The result of applying Statement No. 141 s guidance on recognizing and measuring assets and liabilities in a step acquisition was to measure them at a blend of historical costs and fair values, a practice that provided less relevant, accurate and comparable information than will result from applying this statement. In addition, this statement s requirement to measure the non-controlling interest in the target at fair value will result in recognizing the goodwill attributable to the non-controlling interest in addition to that attributable to the acquirer, which improves the completeness of the resulting information and makes it more comparable across entities. By applying the same method of accounting, the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, this statement improves the comparability of the information about business combinations provided in financial reports. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this statement is the same as that of the related FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. The Company will apply such pronouncement on a prospective basis for each new business combination.

In December 2007, FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment to ARB No. 51, which clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this statement is the same as that of the related Statement No. 141(R). This statement shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. We are currently evaluating the impact of such new pronouncement in our consolidated financial statements.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). In May 2008, the FASB issued SFAS No. 162, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (US GAAP). This Statement shall be effective 60 (sixty) days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles .

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Results of Operations

For purposes of comparison, the following table presents the items indicated as percentages of net operating revenues for each of the years ended December 31, 2005, 2006 and 2007 and the percentage change in each of these items from 2005 to 2006 and from 2006 to 2007:

	Year Ended December 31,			Increase (Decrease)	
	2005	**2006**	**2007**	**2006/2005**	**2007/2006**
	%	%	%	%	%
Operating revenues					
Domestic sales	90.6	92.3	95.7	2.9	48.8
Export sales	32.2	32.8	30.7	3.2	34.2
	122.8	125.1	126.5	3.0	45.0
Sales Taxes	(21.8)	(23.4)	(23.6)	(8.4)	45.2
Discounts, returns and allowances	(1.0)	(1.7)	(2.8)	(74.4)	129.4
Net operating revenues	100.0	100.0	100.0	1.1	43.4
Cost of products sold	48.3	54.7	55.7	14.4	46.3
Gross profit	51.7	45.3	44.3	(11.4)	40.0
Operating expenses					
Selling	4.9	4.3	5.6	(10.2)	85.6
General and administrative	2.8	3.8	3.3	37.0	20.3
Other income (expense)	0.7	3.9	1.5	432.1	(42.9)
Operating income	43.3	33.3	33.9	(22.2)	45.4
Non-operating income (expenses), net					
Financial income (expenses), net	(14.5)	(13.9)	(4.0)	3.1	(58.9)
Foreign exchange and monetary gain (loss), net	4.8	5.7	7.9	19.1	100.9
Other, net	0.1	0.6	1.4	633.3	236.4
Income before income taxes and equity in results of affiliated companies	33.7	25.7	39.2	(23.0)	118.9
Income tax	11.2	7.7	9.7	(30.7)	80.4
Current	12.0	5.1	11.2	(56.8)	212.6
Deferred	(0.8)	2.5	(1.5)	416.1	186.7
Equity in results of affiliated companies	1.2	1.5	1.4	23.4	31.0
Net income	23.7	19.5	30.9	(17.0)	127.4

Year 2007 Compared to Year 2006

Operating Revenues

Operating revenues increased by 45%, to U$6,978 million in 2007 from US$4,813 million in 2006, reflecting mainly the recovery of the total production of Blast Furnace No. 3, after the accident involving the gas cleaning system adjacent to it, on January 22, 2006. This accident prevented us from operating the equipment until the second half of 2006, and impacted our operating revenues, gross profit and operating income, as a result of reduced crude steel production and sales volumes. We have overcome the effects of the accident and total production and total sales volume increased to 5,323 million tons in 2007 from 3,499 million tons in 2006, and to 5,378 million tons in 2007 (a record for us) from 4,385 million tons in 2006, respectively.

Domestic Sales

A healthy economic environment in Brazil; inflation rates well under control and within the target determined by the monetary authorities; declining base and long-term interest rates and the announcement of significant investment plans from the public and private sectors strongly increased the demand for steel products in 2007. Brazil s GDP recorded growth was 5.4% in 2007, higher than the global average of 3.4% but still lower than the average registered by the emerging countries of 7.3% . In 2007 as a whole, Brazil s flat steel sales increased 17% over the previous year, led by the automakers (annual production of 2.9 million units, 14% above the previous year), distribution (record sales of 3.3 million tons of steel products, 26% above 2006), home appliance (approximately 10% annual growth rate) and civil construction (5.5% increase over 2006 due to the greater availability of mortgage loans) segments.

Our annual domestic sales volume increased 28% to 3,614 million tons in 2007 from 2,818 million tons in 2006, in line with our strategy of prioritizing the Brazilian market, where flat steel demand increased by approximately 17% and where we have historically generated higher profit margins.

For the year as a whole, according to IBS, we recorded an average market share of 34% in 2007 in terms of volume, higher than the 27% recorded during the previous year. As for the product mix, once again high value-added products such as galvanized, galvalume and tin plate accounted for approximately 50% of the market share for the coated products domestic market.

Domestic prices were adjusted twice to reflect the pent up demand in the local economy. The price of galvanized products sold to distributors and to the civil construction segment increased 6% in January and all steel products, but tin plate, increased from 10% to 14% by mid 2007. For the year as a whole, our average prices increased 6.5% in U.S. dollars, reflecting both the magnitude and timing of the price increases and the appreciation of the *real* against the dollar.

In the domestic market, our operating revenues increased by 49%, to US$5,283 million in 2007 from US$3,550 million in 2006.

As a result of the combined effect of prices and volumes sold and the appreciation of the *real* against the U.S. dollar, total operating revenues increased 45% (or US$2,165 million), to US$6,978 million in 2007 from US$4,813 million in 2006, another record for us.

Export Sales

The year 2007 was marked by a slowing global demand for steel products; exceptionally volatile prices for metals and other commodities, and price increases by the end of the year to catch up with cost pressures on raw materials.

In addition, the international steel market continued with its consolidation process, with expansion projects concentrated in the low-cost production regions, notably in the BRIC nations (Brazil, India, Russia and China).

- In the North American steel market, the overall economic outlook is still uncertain, given the crisis in the real estate market and its impact on the financial system and other industrial segments in the United States. Demand from the main productive sectors slowed throughout 2007, although the need to import approximately 30 million tons of finished steel products per annum, the devaluation of the dollar against the other leading currencies, the exceptionally low level of distributors inventories, cost pressure from the main production inputs and the increase in freight charges led to price rises in the last quarter of 2007 and the latest negotiations would appear to indicate a continuation of this trend throughout 2008.

- In the European steel markets, despite a slow demand, depressed prices and the uncertain economic outlook resulting from the financial crisis in the United States and its potential effects on the European economy, prices begun to increase in recent months due to the expected upturn in the price of the main raw materials and the significant decline of imports from China in late 2007.

- In the Asian steel markets, Chinese total production and exports increased to 489 million tons and 69 million tons in 2007 from 423 million tons and 43 million tons in 2006, respectively. Expectations that the Chinese

Government would announce new measures to avoid a major flood of exports of low value added products and rumors that European countries were analyzing the adoption of anti dumping measures against China led the Chinese exporters to increase the volume of exports during the bulk of the year. The removal of benefits and the imposition of new taxes on exports in late 2007 led to a change in sales allocation towards the Chinese domestic economy and, as a consequence, domestic prices decreased. The tighter credit terms from official banks; the increase in international freight charges and costs pressures on raw materials, have made Chinese steel products less competitive in the international arena. Finally, harsh weather in China has jeopardized charcoal output and local infrastructure, forcing certain steel plants in the south of the country to temporarily suspend operations.

In 2007 we exported 1,764 million tons of steel products, 12.5% above the exported volume recorded in 2006. Our average export prices in 2007 increased at an average of 8.5% in U.S. dollars compared to 2006. In the export market, operating revenues increased 34.2% to US$1,695 million in 2007 from US$1,263 million in 2006.

The year 2007 was also marked by our entrance to the international iron ore market. The so called sea born market is characterized by the existence of few large players who control approximately 70% of the total supply of iron ore. Over the last three years the price of the products produced in Brazil, which is traded at a premium for quality to the products from other countries, increased by approximately 71.5%; 19% and 9.5% in 2005, 2006 and 2007, respectively. For 2008 contracts, Brazilian suppliers announced an approximately 65% price increase for pellet feed and sinter feed and 84% for pellets. We exported a total of 5.1 million tons of iron ore products from our own seaport terminal in Tecon to customers located in Asia and the Middle East and generated net revenues of U$179 million.

Net Operating Revenues

Net operating revenues increased by 43.5%, to US$5,517 in 2007 from US$3,846 million in 2006, mainly due to the 45% increase in operating revenues, whereas sales deductions experienced an increase of 51.4% . Sales deductions, as a percentage of operating revenues, were 20% in 2006 and 20.9% in 2007.

Cost of Products Sold

Cost of products sold increased by 46.3%, to US$3,076 million in 2007 from US$2,102 million in 2006, mainly as a result of the sales volume, which increased by 52% or 1,824 million tons, after the accident on the gas cleaning system adjacent to Blast Furnace No. 3 which prevented us from operating at full speed during the first half of 2006, and the strengthening of the *real* against the U.S. dollar and the resulting effect on our *real*-denominated costs.

Production costs increased by 11%, or US$231 million, to US$2,293 million in 2007 from US$2,062 million in 2006. There were, however, opposing factors which ended up partially canceling each other out: higher consumption and prices of raw materials were offset by no consumption at all in 2007 of outsourced slabs and hot coils acquired in 2006 to keep the rolling mills at full speed after the accident on the gas cleaning system.

Other than the sale of excess inventories from time to time and the purchase by our subsidiaries of semi- finished products from third parties for further processing, our production cost is a proxy to our cost of goods sold.

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

	Year Ended December, 31	
2005	**2006**	**2007**

	US$ 000	US$/ton	%	US$ 000	US$/ton	%	US$ 000	US$/ton	%
Raw Materials									
Iron Ore	72,551	14.03	4.0	66,174	14.92	3.2	130,712	24.65	5.7
Coal	387,514	74.92	21.2	348,264	78.52	16.9	421,996	79.59	18.4
Coke	224,530	43.41	12.3	36,048	8.13	1.7	63,994	12.07	2.8
Metals	4,501	0.87	0.2	165,020	37.20	8.0	242,987	45.83	10.6
Outsourced Hot Coils	119,177	23.04	6.5	30,712	6.92	1.5	955	0.18	0.0
Outsourced Slabs	0	0	-	389,095	87.72	18.9	11,052	2.08	0.5
Other	148,418	28.70	8.1	136,206	30.71	6.6	216,415	40.82	9.4
	956,690	**184.97**	**52.3**	**1,171,519**	**264.12**	**56.8**	**1,088,111**	**205.23**	**47.5**

Energy/Fuel	191,568	37.04	10.5	169,349	38.18	8.2	228,767	43.15	10.0
Labor	157,899	30.53	8.6	175,651	39.60	8.5	217,816	41.08	9.5
Services and Maintenance	256,965	49.68	14.0	274,440	61.87	13.4	396,300	74.75	17.3
Tools and Supplies	105,272	20.35	5.7	100,752	22.71	4.9	131,304	24.77	5.7
Depreciation	142,219	27.50	7.8	165,813	37.38	8.0	217,824	41.08	9.5
Others	20,313	3.93	1.1	5,055	1.14	0.2	12,414	2.34	0.5
	1,830,925	**354.0**	**100.0**	**2,062,579**	**465.0**	**100.0**	**2,292,537**	**432.4**	**100.0**

The comparative analysis of the average cost per ton of products, which decreased 7% from US$465.0 in 2006 to US$432.4 in 2007, is impacted by the absence of slabs and coils acquired from third parties after the accident on the gas cleaning system in 2006 and the greater use of raw materials such as iron ore, coal, coke, aluminum, tin and zinc which increased by 51%, 30%, 37%, 37%, 15% and 4%, respectively. Prices per ton of iron ore, coke, aluminum, tin and zinc increased by 30%, 30%, 11%, 73% and 30%, respectively. Prices per ton of coal decreased by 7%.

There is a large difference between the costs of other items expressed in *reais* and those expressed in U.S. dollars, and a large proportion of these costs is denominated in *reais*. As a result, our labor costs in 2007 expressed in U.S. dollars increased 24%, while our labor costs expressed in *reais* increased 10.1% compared to 2006, mainly reflecting the annual Brazilian inflation rate and the annual wage increases in May 2006. For further information, see Selling, General and Administrative Expenses. In addition, our depreciation costs in 2007 expressed in U.S. dollars increased by 31%, while our depreciation costs expressed in Brazilian *reais* increased by 8.8% .

Gross Profit

Gross profit increased by 40%, to US$2,441 million in 2007 from US$1,744 million in 2006, mainly due to the 23% increase in sales volume, to 5,378 million tons, and the 43.4% increase in net operating revenues to US$5,517 million. On the other hand, the costs of products sold increased by 46.3% to US$3,076 million.

Selling, General and Administrative Expenses

In 2007, we recorded selling, general and administrative expenses of US$495 million, representing a 57.1% increase from the US$315 million recorded in 2006.

Selling expenses increased by 85.6%, to US$310 million in 2007 from US$167 million in 2006, mainly due to the increase in sales volume and the strengthening of the *real* against the U.S. dollar. As a percentage of net operating revenues, selling expenses increased to 5.6% in 2007 from 4.3% in 2006. If expressed in *reais*, these expenses increased by 26.9%, but remained stable at 5.1% as a percentage of net operating revenues.

General and administrative expenses increased by 25%, to US$185 million in 2007 from US$148 million in 2006, mainly due to increased labor expenses (wages increased in May 2007 pursuant to annual negotiations under our collective bargaining agreements). If expressed in *reais*, these expenses increased by 14.6% and decreased from 3.7% to 3.4%, as a percentage of net operating revenues.

Other Income (Expenses)

When compared to 2006, other expenses sharply decreased by US$64 million to an expense of US$85 million in 2007 from an expense of US$149 million in 2006. The variation is primarily due to the gain from the sale of Corus stocks in 2007 of US$116 million partially offset by increases in contingencies of US$47 million, of which US$36 million were labor-related and US$11 million were civil liabilities, and fines of US$14 million.

Operating Income

Operating income increased by 45%, or US$581 million, to US$1,861 million in 2007 from US$1,280 million in 2006. This increase was mainly due to the US$697 million increase in gross profit.

Non-operating Expenses (Income), Net

Non-operating expenses, net increased by US$593 million, to an income of US$300 million in 2007 from an expense of US$293 million in 2006. Our non-operating expenses (income), net are comprised of financial expenses, net and foreign exchange and monetary gain, net.

Financial Expenses (Income), net

In 2007, our financial expenses, net decreased by 58.9%, or US$314 million, to US$219 million in 2007, from US$533 million in 2006, mainly due to the following items:

- US$50 million decrease in interest income;
- US$285 million increase in interest expense;
- US$640 million improvement in the results of our derivative instruments; and
- US$9 million increase in other financial income (expenses).

Interest income

Interest income decreased by 38.8%, or US$50 million, to US$79 million in 2007 from US$129 million in 2006, mainly due to lower interest rates in Brazil and a lower average amount of cash and cash equivalents and short-term investments.

Interest expense

Interest expense increased by 57.8%, or US$249 million, to US$680 million in 2007 from US$431 million in 2006. This increase was mainly due to: (i) an increase of US$383 million on the provision for IPI (Excise tax) presumed credit on inputs and IPI premium credit over exports tax contingencies to reflect the monetary adjustment by the SELIC base interest rate and default charges; (ii) an increase in the provision for the CPMF tax by US$54 million; (iii) the reversal of a US$206 million provision for PIS/COFINS social taxes assessed on financial instruments and interest income; and, (iv) lower interest expenses on debt instruments of US$20 million.

Derivative Instruments

The results on derivative instruments improved by US$634 million, to an income of US$416 million in 2007 from an expense of US$218 million in 2006. Although the strengthening of the *real* against the U.S. dollar was more pronounced in 2007 (17.15%) than in 2006 (8.66%), our expenses on foreign exchange derivative instruments decreased by US$109 million to US$219 million, because the average notional value of those hedging contracts was smaller in 2007. Additionally, we recorded gains on equity linked derivatives of US$640 million in 2007 against US$110 million in 2006. The equity swap agreements state that the counterparty must pay us the cash dividends and final price return, if positive, on 29,684,400 CSN ADRs and we must pay the counterparty a fixed rate of 6.2569% per annum on the initial price of this number of ADRs and the final price return, if negative, on this number of ADRs. Since we entered into these swap agreements, our shares have appreciated more than 2,000% over the initial price of the ADRs on the New York Stock Exchange. As of December 31, 2007, the accrued value of these swap agreements to us, based on the market value of our ADRs was US$813.3 million. See Item 4B Risk Factors, , For more information on the equity swap agreements, see Item 10C Material Contracts, Item 11 Quantitative and Qualitative Disclosures About Market Risk Equity Risk and Note 22 to our consolidated financial statements contained in Item 18. Financial

Statements . For a copy of the equity swap agreements as amended and novated, see Exhibit 10.1 to this annual report.

Other financial income (expense)

Other financial income (expense) decreased by US$21 million, to an expense of US$34 million in 2007, from an expense of US$13 million in 2006, mainly due to expenses incurred in the normal course of business such as discounts, bank charges and other minor items.

Foreign exchange and monetary gain, net

Foreign exchange and monetary gain, net is mainly affected by fluctuations in the *real*/U.S. dollar foreign exchange rate and the impact of such fluctuations on the following:

- our U.S. dollar-denominated gross debt;
- our U.S. dollar-denominated cash, cash equivalents and short-term investments;
- our equity investments in offshore subsidiaries; and
- our trade accounts receivable and payable.

The 101%, or US$220 million increase in foreign exchange and monetary gain, to US$438 million in 2007 from US$218 million in 2006, was primarily due to the impact of the 17.2% appreciation of the *real* against the U.S. dollar on our higher average accounts payable denominated in U.S. dollars.

Income Taxes

We recorded an expense for income tax and social contribution of US$534 million in 2007, compared to US$296 million 2006. The difference is due to the increase in income before taxes and equity in results of affiliated companies to US$2,161 million in 2007 from US$987 million in 2006. Expressed as a percentage of pre-tax income, income tax expense decreased to 24.7% in 2007 from 30% in 2006. Income tax expense in Brazil refers to the collection of federal income tax and social contribution tax. The statutory rates for these taxes applicable to the periods presented herein were 25% for federal income tax and 9% for the social contribution. Therefore, the balances owed for these periods totaled US$735 million in 2007 and US$336 million in 2006 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates in order to arrive at the actual tax expense for the years.

For the period ended December 31, 2007, adjustments totaled US$201 million and were comprised of:

- a US$40 million benefit from interest on stockholder s equity;
- a US$159 million benefit related to non-taxable income of subsidiaries or taxable at different rates;
- US$12 million additions to valuation allowances; and
- other permanent differences that represented a net tax benefit of US$14 million.

For the period ended December, 31 2006, these adjustments totaled an expense of US$40 million and were comprised of:

- a US$28 million benefit from interest on stockholder s equity;

- other permanent differences that represented a net tax credit of US$12 million. The reversal of tax payable under dispute in the amount of US$18 million was offset against foreign exchange loss on the net equity of our offshore subsidiaries, due to the appreciation of the *real* against the U.S. dollar, which was recorded in our results of operations for Brazilian GAAP purposes and represented a non- taxable item. Also, certain expenses such as fines, gifts and donations are included within these permanent differences.

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Our taxable income, generated from our operations in Brazil and abroad, is comprised of the following:

	Year Ended December 31,		
	2006	2007	Changes
	(In million of U.S. dollars)		
Brazil	944	1,562	618
Foreign	43	599	556
Total	987	2,161	1,174

Our taxable income in Brazil was impacted by the increase in sales. The total increase in taxable income generated in Brazil in 2007 compared to 2006 totaled US$618 million. Expressed in *reais*, our taxable income increased 45% in 2007 compared to 2006.

Our foreign taxable income in the years ended December 31, 2006 and 2007 increased US$556 million.

It is not possible to predict the future adjustments to the federal income tax and social contribution at statutory rates, as they depend on interest on stockholder s equity, non-taxable factors including income from offshore operations, and tax losses from offshore operations, especially when expressed as a percentage of income.

Accruals for Disputed Taxes Payable

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. Those contingencies related to income taxes and social contribution 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. This accounting is consistent with our analysis of a liability under FASB Concepts Statement No. 6. 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.

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

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

Disputed taxes payable

- Presumed credit on inputs (*Imposto sobre produtos industrializados*), or IPI (Excise tax).

We have accrued a liability for certain tax liabilities that were offset by credits related to IPI excise tax. The accrual is necessary to offset the contingent gain resulting from our use of IPI excise tax credits. The IPI excise tax credits are similar to value added tax credits related to the purchase of goods used in the production process. Brazilian law prevents companies from recognizing IPI excise tax credits on the acquisition of certain goods. We believe that this prohibition is unconstitutional since it is not consistent with general value added tax principles and we are challenging this prohibition in the Brazilian courts. In May 2003, we sought and obtained a favorable preliminary order from a Brazilian court authorizing us to offset federal tax liabilities with IPI excise tax credits under dispute. On August 27, 2007 the court decided against us, and we made a payment of US$519 million in installments to the Federal Revenue of Brazil and transferred the liability to the accounts of taxes payable in installments. We have filed an appeal against these unfavorable decision and we are currently awaiting decision on the matter.

Several other Brazilian companies have challenged the same prohibition and these companies have received both favorable and unfavorable judgments at different stages of the lawsuit. Recently, for example, the Federal Supreme Court issued a final, unappealable and irrevocable decision on June 25, 2007 against another taxpayer in a similar legal proceeding, denying the use of these credits.

- IPI premium credit on exports

We have recorded accruals for certain tax liabilities that were offset by IPI premium tax credits. The accrual is necessary to offset the contingent gain resulting from the use of IPI premium tax credits and represents the statutory obligation to pay taxes that were offset by these credits. The IPI premium tax credits relate to export sales made from 1992 through 2002. Tax legislation allowed Brazilian companies to recognize IPI premium tax credits until 1983, when the executive branch of the Brazilian government cancelled such benefits and prohibited companies from recognizing these credits. We are challenging the constitutionality of the executive branch s action since only a law enacted by the Brazilian Congress can cancel or repeal benefits duly enacted by prior legislation. In August 2003, we sought and obtained a favorable decision from a Brazilian court of first instance that authorized the use of IPI premium tax credits.

The Brazilian National Treasury appealed from decision and got a favorable decision from the court of appeals. We filed appeals against such decision, to both the Superior Court of Justice and the Federal Supreme Court and are still awaiting the decisions from such courts.

From September 2006 through May 2007, the National Treasury filed five tax deficiency notices and three administrative proceedings against us requiring payments in the amount of approximately R$3.2 billion (US$1.8 billion) referring to the collection of taxes which were offset by IPI premium credits. In view of these executions, a court decision suspended the distribution of dividends and the payment of interest on shareholders equity approved in the Annual Shareholders Meeting of April 30, 2007, and the amount allocated for such purpose was blocked and converted into a judicial deposit. The judicial deposits were equivalent to a total of US$504 million as of December 31, 2007.

On August 29, 2007, we offered treasury shares in the amount of US$277.3 million as a judicial lien, of which 25% were replaced by judicial deposits in monthly installments made until December 31, 2007 and, as these substitutions took place, we requested that the equivalent in shares be released from the lien at market price as of the day prior to the deposit. This request has not been approved to date. In view of these events, our current accounts were unblocked, the court decision to suspend the dividends distribution on this date was revoked, and dividends related to fiscal year

2006 were paid to shareholders as from September 4, 2007.

As of December 31, 2007, the IPI premium credit accrual represented the accumulated IPI tax credits used of US$1,179 million (US$676 million as of December 31, 2006), already updated by the SELIC Brazilian base interest rate.

This provision affects the sales taxes item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

Several other Brazilian companies have challenged the same prohibition. Recent decisions from lower courts indicated that companies may be entitled to utilize these credits. However, on June 27, 2007, the Superior Court of Justice issued a decision against one taxpayer, denying the use of these credits. This decision is subject to review by the Federal Supreme Court, the highest court in this case.

- Income tax and social contribution

We claim recognition of the financial and tax effects on the calculation of income tax and social contribution on net income, related to the Consumer Price Index IPC understated inflation, which occurred in January and February 1989, by a percentage of 51.87% (Plano Verão). In 2004, the proceeding was concluded and judgment was made final and unappealable, granting us the right to apply the index of 42.72% (Jan/89), of which the 12.15% already applied should be deducted. The application of 10.14% (Feb/89) was granted. The proceeding is now under accounting inspection.

On December 31, 2007, we recorded US$187 million (US$153 million in 2006) as judicial deposit and a provision of US$12 million (US$10 million in 2006), which represents the portion not recognized by the courts.

On February 2003, we were charged by tax authorities related to the calculation of income tax and social contribution of previous years in view of the fact that had tax losses carry forward above the 30% limit of taxable income, as provided for by laws.

On August 21, 2003, a decision was rendered by the second panel of the Judgment Federal Revenue Office in Rio de Janeiro related to the decision which made said tax deficiency notice null and void and a new Tax Deficiency Notice was issued about the same matter in November 2003. We challenged such new Tax Deficiency Notice, which was rejected by administrative lower courts. An administrative appeal was brought against such decision, which was accepted in administrative appellate court on April 26, 2006, so that said Tax Deficiency Notice had favorable decision to us, on an irrevocable basis, and respective decision was published in November 2006.

We filed a lawsuit challenging the assessment of Social Contribution on Income on export revenues, based on Constitutional Amendment No. 33/01 and in March 2004, we obtained an initial decision authorizing the exclusion of these revenues from said calculation basis, as well as the offsetting of amounts paid as from 2001. The lower court decision was favorable and the proceeding is waiting for trial of the appeal filed by the Federal Government in the Regional Federal Court. As of December 31, 2007, the amount of suspended liability and the offset credits based on the referred proceedings was US$557 million (US$368 million in 2006), already adjusted by the Selic Brazilian base interest.

- PIS/COFINS Law No. 9,718/98

PIS and COFINS taxes are assessed on revenues. In 1998, new tax legislation was enacted which required Brazilian companies to pay PIS and COFINS taxes on revenues generated by financial investments. Prior to 1998, the Brazilian constitution stated that Brazilian companies were only required to pay PIS and COFINS taxes on revenues generated by operating activities. We are challenging the constitutionality of the assessment of PIS and COFINS taxes on revenues generated by financial investments since, in order to expand the PIS and COFINS tax computation basis, the Brazilian Congress was required to observe a constitutionally mandatory waiting period prior to enacting the legislation. In addition, at the time the new tax legislation was enacted, the Brazilian constitution did not allow such taxes to be assessed on revenues generated by financial investments. In February 1999, a lower court confirmed and we sought and obtained a favorable preliminary order in March 2000. In April 2000, the Brazilian tax authorities appealed to the Brazilian court of appeals. On March 6, 2006, the Brazilian court of appeals issued a decision against us. On March 10, 2006, we appealed from such decision to both the Superior Court of Justice and the Federal Supreme Court. On May 31, 2007, a favorable decision to us was published in the Official Gazette of Justice, and made final and unappealable on June 16, 2007, when in view of such decision, we reversed the provision existing on that date. The reversal of the provision increased our operating results of 2007 by US$179 million.

2006 Compared to 2005

Operating Revenues

Our results for the year ended December 31, 2006 were strongly affected by an accident involving the gas cleaning system adjacent to our Blast Furnace No. 3, on January 22, 2006. This accident prevented us from operating the equipment until the second half of the year, and impacted our operating revenues, gross profit and operating income, as a result of reduced sales volumes and higher cost of goods sold (because we had to purchase slabs from third-party sources), as explained below. The 17% reduction (US$153 million) in our net income to US$749 million in 2006, from US$902 million in 2005 was mainly due to the impact of the accident mentioned above, partially offset by the recognition of the insurance claim in the amount of US$351 million.

Export Sales

The year 2006 was marked by adjustments between global supply and demand and price recoveries through localized production cutbacks and by exceptionally volatile prices for metals, with a direct effect on steel prices. International steel product prices were subject to swings, peaking in mid-July, 2006.

In addition, the international steel market continued with its consolidation process, with expansion projects concentrated in the low-cost production regions, notably in the BRIC nations (Brazil, India, Russia and China).

In the North American and European markets, the increase in consumption combined with the slowdown in supply growth (in the U.S., various blast furnace repairs led to delays in the production schedule) and higher import prices, were the key drivers in the price increases.

In the Chinese market, prices had been rising since the end of 2005, due to the reduction in output rates by the local steel mills.

Due to the accident described above and to the commercial strategy of prioritizing local sales, in 2006 we exported 1,566 million tons, 19% below the exported volume registered in 2005. Our average 2006 export prices increased at an average of 12.8% in U.S. dollars compared to 2005. In the export market, operating revenues increased 3%, to US$1,263 million in 2006 from US$1,224 million in 2005.

Domestic Sales

Brazil s GDP recorded growth of 3.7% in 2006, less than the global average of 5.1% and also lower than the 6.5% average registered by the emerging countries. In 2006 as a whole, Brazil s flat steel sales increased 7.3% over the previous year, led by the automotive (11.8%), distribution (12%), home appliance (9.9%) and OEM (19.7%) segments.

Our annual domestic sales volume (2,818 million tons) in 2006 remained in line with the previous year, in accordance with our strategy of prioritizing the Brazilian market, where we have historically generated higher margins.

For the year as a whole, we recorded an average market share of 27%, remaining stable in comparison with the previous year. As for the product mix, once again high value-added products such as galvanized, galvalume and tin plate accounted for more than 53% of the market share for the coated products domestic market, at the same level as in 2005.

Domestic prices began to recover in the middle of the second quarter, in line with metal prices (copper, zinc, tin, aluminum, etc.) and with international prices. Domestic prices peaked in the third quarter, returning to their 2005 levels in the final quarter. For the year as a whole, our average prices increased 2.4% in U.S. dollars.

In the domestic market, our operating revenues increased by 3%, to US$3,550 million in 2006 from US$3,449 million in 2005.

As a result of the combined effect of prices and volumes sold and the appreciation of the *real* against the U.S. dollar, our total operating revenues increased 3% (or US$140 million), to US$4,813 million in 2006 from US$4,673 million in 2005.

These results are particularly important, given the accident described above which interrupted the production at Blast Furnace No. 3 at our Presidente Vargas steelworks, which is responsible for approximately 70% of the our crude steel output. Also, we took immediate steps to acquire appropriate volumes of steel slabs in order to ensure the delivery of end products to our customers and to keep our dominant market-shares.

We immediately activated our pool of insurers, in order to guarantee compensation as quickly as possible, both for damaged equipment and margin lost, through the insurance policies duly taken out to cover such a contingency.

Net Operating Revenues

Net operating revenues increased by 1%, to US$3,846 in 2006 from US$3,805 million in 2005, mainly due to the 3% increase in operating revenues, whereas sales deductions experienced an increase of 11%. Sales deductions, as a percentage of operating revenues, were 19% in 2005 and 20% in 2006.

Cost of Goods Sold and Production Costs

Cost of goods sold increased by 14%, to US$2,102 million in 2006 from US$1,837 million in 2005, mainly as a result of the strengthening of the *real* against the U.S. dollar and the resulting effect on our *real*-denominated costs, the consumption of 957,000 tons of slabs and 63,000 tons of hot-rolled coils acquired from third parties after the accident on the gas cleaning system adjacent to Blast Furnace No. 3, to keep our rolling mills at full capacity, and the increase in international zinc prices, partially offset by the US$342 million provision for business interruption.

Production costs totaled US$2,062 million in 2006, representing a 13% increase (US$232 million) compared to US$1,831 of production costs in 2005. Expressed in *reais*, production costs were in line with the 2005 figure. There were, however, opposing factors which ended up canceling each other out: the cost increase from the consumption of slabs and coils acquired from third parties and the upturn in international zinc prices offset by reduced consumption of raw materials, such as coke, iron ore, tin, electric power and fuel costs.

As the parent company s production cost is a proxy to our cost of goods sold, we can analyze our changes in cost of goods sold based on the variations occurred in our production cost.

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

	Year Ended December, 31								
	2004			**2005**			**2006**		
	US$ 000	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**
Raw Materials									
Iron Ore	52,533	9.58	3.6	72,551	14.03	4.0	66,174	14.92	3.2
Coal	258,879	47.23	17.7	387,514	74.92	21.2	348,264	78.52	16.9
Coke	259,318	47.31	17.7	224,530	43.41	12.3	36,048	8.13	1.7
Metals	28,215	5.15	1.9	4,501	0.87	0.2	165,020	37.20	8.0
Outsourced Hot Coils	111,923	20.42	7.7	119,177	23.04	6.5	30,712	6.92	1.5
Outsourced Slabs	0	0	-	0	0	-	389,095	87.72	18.9
Other	113,213	20.66	7.7	148,418	28.70	8.1	136,206	30.71	6.6
	824,081	**150.35**	**56.4**	**956,690**	**184.97**	**52.3**	**1,171,519**	**264.12**	**56.8**
Energy/Fuel	159,631	29.12	10.9	191,568	37.04	10.5	169,349	38.18	8.2
Labor	106,566	19.44	7.3	157,899	30.53	8.6	175,651	39.60	8.5
Services and Maintenance	166,993	30.47	11.4	256,965	49.68	14.0	274,440	61.87	13.4
Tools and Supplies	77,683	14.17	5.3	105,272	20.35	5.7	100,752	22.71	4.9
Depreciation	111,765	20.39	7.6	142,219	27.50	7.8	165,813	37.38	8.0
Others	15,674	2.86	1.1	20,313	3.93	1.1	5,055	1.14	0.2
	1,462,392	266.81	100.0	1,830,925	354.0	100.0	2,062,579	465.0	100.0

The comparative analysis of the average cost per ton of products, which increased 31%, from US$354 in 2005 to US$465 in 2006, is also impacted by the use of slabs and coils acquired from third parties and the reduced consumption of raw materials and other items in 2006. The consumption of raw materials such as iron ore, coal, coke, aluminum and tin decreased by 35%, 18%, 70%, 7% and 20%, respectively. Prices per ton of iron ore, zinc and aluminum increased by 41%, 85%, and 13%, respectively.

There is a large difference between the costs of other items expressed in *reais* and those expressed in U.S. dollars, and a large proportion of these costs is denominated in *reais*. As a result, our labor costs in 2006 expressed in U.S. dollars increased 11%, while our labor costs expressed in *reais* increased 2% compared to 2005, mainly reflecting the annual Brazilian inflation rate and the annual wage increases in May 2006. For further information, see Selling, General and Administrative Expenses. In addition, our depreciation costs in 2006 expressed in U.S. dollars increased by 17%, while our depreciation costs expressed in Brazilian *reais* increased by 5%.

Gross Profit

Gross profit decreased by 11.4%, to US$1,744 million in 2006 from US$1,968 million in 2005, mainly due to the US$265 million increase in cost of goods sold in 2006, due principally to the acquisition of slabs and coils from third-party sources at higher costs than our production costs (net of recorded insurance recoveries of US$351 million), and to higher zinc prices. As a result, our gross margin decreased from 42.1% in 2005 to 36.2% in 2006.

Selling, General and Administrative Expenses

In 2006, we recorded selling, general and administrative expenses of US$315 million, representing a 7.1% increase from the US$294 million recorded in 2005.

Selling expenses decreased by 10.2%, to US$167 million in 2006 from US$186 million in 2005, mainly due to lower freight costs as a result of a decrease in volume of exports, which decreased 19% to 1,566 million tons in 2006. As a percentage of net operating revenues, selling expenses decreased from 4.9% in 2005 to 4.3% 2006. Expressed in *reais*, these expenses decreased by 17.5% .

General and administrative expenses increased by US$40 million, or 37%, to US$148 million in 2006 from US$108 million in 2005, mainly due to increased labor expenses (wage increases in May 2006 pursuant to annual negotiations under our collective bargaining agreements), and external legal counsel and consultant expenses. Expressed in *reais*, these expenses increased by 16.7%.

Other Income (Expenses)

When compared to 2005, other expenses sharply increased by US$121 million, to an expense of US$149 million in 2006 from an expense of US$28 million in 2005. The variation is basically due to the US$73 million (US$224 million in 2005) reversal of provisions motivated by the revision of the likelihood of success in many judicial disputes made by our internal and external legal advisors, as well as due to the recent favorable track record on related disputes for labor and civil contingencies.

Operating Income

Operating income decreased by US$366 million, or 22.2%, to US$1,280 million in 2006 from US$1,646 million in 2005. This decrease was mainly due to the US$224 million decrease in gross profit.

Non-operating Expenses (Income), Net

Non-operating expenses, net decreased by 19.5%, or US$71 million, to US$293 million in 2006 from US$364 million in 2005. Our non- operating expenses (income), net are comprised of financial expenses, net and foreign exchange and monetary gain, net.

Financial Expenses (Income), net

In 2006, our financial expenses, net decreased by 3%, or US$17 million, to US$533 million in 2006 from US$550 million in 2005, mainly due to the following items:

- US$24 million decrease in interest income;
- US$24 million increase in interest expense;
- US$27 million decrease in our expenses on derivative instruments; and
- US$38 million decrease in other financial income (expenses).

Interest income

Interest income decreased by 15.7%, or US$24 million, to US$129 million in 2006 from US$153 million in 2005, mainly due to lower interest rates in Brazil and a lower average amount of cash, cash equivalents and short-term investments.

Interest expense

Interest expense increased by 5.9%, or US$24 million, to US$431 million in 2006 from US$407 million in 2005, mainly due to the PIS and COFINS on the provision for insurance claim related to the accident with an equipment adjacent to Blast Furnace No. 3.

Derivative Instruments

The expenses derived from our derivative instruments decreased by US$27 million to an expense of US$218 million in 2006 from an expense of US$245 million in 2005. Due to the strengthening of the *real* against the U.S. dollar, our expenses on foreign exchange derivative instruments increased by US$32 million, to US$328 million in 2006, and were partially offset by a US$59 million increase in gain on equity linked derivatives, to US$110 million in 2006 from US$51 million in 2005.

Other financial income (expense)

Other financial income (expense) decreased by US$64 million, to an income of US$13 million in 2006 from an expense of US$51 million in 2005, mainly due to the US$45 million reversal of the CPMF tax provision during 2006 and an additional US$7 million of capitalized interest, higher than in 2005.

Foreign exchange and monetary gain, net

Foreign exchange and monetary gain, net is mainly affected by fluctuations in the *real*/U.S. dollar foreign exchange rate and the impact of such fluctuations on the following:

- our U.S. dollar-denominated gross debt;
- our U.S. dollar-denominated cash, cash equivalents and short-term investments;
- our equity investments in offshore subsidiaries; and
- our trade accounts receivable and payable.

The 19.1%, or US$35 million increase in foreign exchange and monetary gain, to US$218 million in 2006, from US$183 million in 2005, was primarily due to the impact of lower inflation rates in Brazil on our inflation- indexed outstanding debt and the 8.7% appreciation of the *real* against the U.S. dollar on our higher average accounts payable denominated in U.S. dollars.

Income Taxes

We recorded an expense for income tax and social contribution of US$296 million in 2006, compared to US$427 million in 2005. The difference is due to the decrease in income before taxes and equity in results of affiliated companies, to US$987 million in 2006 from US$1.282 million in 2005. Expressed as a percentage of pre- tax income, income tax expense decreased to 30% in 2006 from 33.3% in 2005. Income tax expense in Brazil refers to the collection of federal income tax and social contribution tax. The statutory rates for these taxes applicable to the periods presented herein were 25% for federal income tax and 9% for the social contribution. Therefore, the balances owed for these periods totaled US$436 million in 2005 and US$336 million in 2006 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates in order to arrive at the actual tax expense for the years.

For the period ended December 31, 2006, adjustments totaled an income of US$40 million and were comprised of:

- a US$28 million benefit from interest on stockholder s equity;
- other permanent differences that represented a net tax credit of US$12 million. The reversal of tax payable under dispute in the amount of US$18 million was offset against foreign exchange loss on the net equity of our offshore subsidiaries, due to the appreciation of the *real* against the U.S. dollar, which was recorded in our results of operations for Brazilian GAAP purposes and represented a non-taxable item. Also, certain expenses such as fines, gifts and donations are included within these permanent differences.

For the period ended December, 31 2005, these adjustments totaled an expense of US$9 million and were comprised of:

- US$38 million benefit from interest on stockholder s equity, which is a deductible expense for tax purposes; and
- other permanent differences that represented tax expenses of US$29 million. Foreign exchange loss on the net equity of our offshore subsidiaries represented a significant permanent item in this period due to the appreciation of the *real* against the U.S. dollar, which was recorded in our results of operations

for Brazilian GAAP purposes and represented a non-taxable item. Also, certain expenses such as fines, gifts and donations are included within these permanent differences.

The effect regarding the reversal of income taxes provision, which was calculated based on tax loss carry forward compensated over the legal limit of 30%, in the amount of US$76 million, was offset against deferred income tax calculated at the same base.

Our taxable income, generated from our operations in Brazil and abroad, is comprised of the following:

	Year Ended December 31,		
	2005	2006	Changes
	(In million of U.S. dollars)		
Brazil	1,231	944	(287)
Foreign	51	43	(8)
Total	1,282	987	(295)

Our taxable income in Brazil was impacted by the decrease in sales as a result of the accident involving the gas cleaning system adjacent to Blast Furnace No. 3 in early 2006, which resulted in a lower taxable income in 2006 as compared to 2005, particularly sharpened by a net loss of US$81 million in the second quarter of 2006, period in which the effects of the interruption in activities of Blast Furnace No. 3 became stronger. The total decrease in taxable income in 2006 compared to 2005 totaled US$295 million. Expressed in *reais*, our taxable income decreased 23% in 2006 compared to 2005.

Our foreign taxable income in the years ended December 31, 2005 and 2006 decreased US$8 million.

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

Accruals for Disputed Taxes Payable

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. 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. This accounting is consistent with our analysis of a liability under FASB Concepts Statement No. 6. 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.

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

Below is a brief description of the major recent developments regarding our accruals for disputed taxes payable:

Disputed taxes payable

- IPI (Excise tax) presumed credit on inputs

We have accrued a liability for certain tax liabilities that were offset by credits related to IPI excise tax. The accrual is necessary to offset the contingent gain resulting from the use of IPI excise tax credits. The IPI excise tax credits are similar to value added tax credits related to the purchase of goods used in the production process. Brazilian law prevents companies from recognizing IPI excise tax credits on the acquisition of certain goods. We believe that this prohibition is unconstitutional since it is not consistent with general value added tax principles and we are challenging this prohibition in the Brazilian courts. In May 2003, we sought and obtained a favorable preliminary order from a Brazilian court authorizing us to compensate federal tax liabilities with IPI excise tax credits under dispute. We are awaiting the decision of a Brazilian court of first instance. After such a decision is rendered, we expect the decision will be subject to several stages of appellate review before a final unappealable judgment is obtained. The IPI excise tax credit accrual recorded by us represents our statutory obligation to pay taxes that were offset with IPI excise tax credits.

Several other Brazilian companies have challenged the same prohibition and these companies have received both favorable and unfavorable judgments at different stages of the judicial process. Recently, for example, the Federal Supreme Court issued a final, unappealable and irrevocable decision on June 25, 2007 against another taxpayer in a similar legal proceeding, denying the use of these credits.

As of December 31, 2006, the IPI excise tax credit accrual representing the accumulated IPI tax credits used was US$441 million (US$303 million as of December 31, 2005), as updated at the SELIC interest rate. This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

- IPI premium credit over exports

We have accrued a liability for certain tax liabilities that were offset by IPI premium tax credits. The accrual is necessary to offset the contingent gain resulting from the use of IPI premium tax credits and represents the statutory obligation to pay taxes that were offset by these credits. The IPI premium tax credits relate to export sales made during 1992 to 2002. Tax legislation allowed Brazilian companies to recognize IPI premium tax credits until 1983, when an act of the executive branch of the Brazilian government cancelled such benefits and prohibited companies from recognizing these credits. CSN is challenging the constitutionality of the executive branch s action since only a law enacted by the Brazilian Congress can cancel or repeal benefits duly enacted by prior legislation. In August 2003, CSN sought and obtained a favorable decision from a Brazilian court of first instance that authorized the use of IPI premium tax credits.

The Brazilian National Treasury appealed such decision and got a favorable decision from the court of appeals. We filed appeals against such decision, to both the Superior Court of Justice and the Federal Supreme Court and are still awaiting the decisions from such courts. In September 2006, the National Treasury filed five tax foreclosures against us to require payments in the total amount of approximately R$1 billion referring to the collection of taxes which were offset by the use of IPI premium tax credits. One of the tax foreclosures is secured by judicial liens of (i) cash deposits in the amount of R$685 million; and (ii) treasury stock, in an amount equivalent to R$504 million (market value). Additionally, in view of such judicial decision, the payment of part of the dividends approved in the Annual Shareholders Meeting of April 30, 2007, was temporarily suspended. For more information, see Item 8A. Consolidated Statements and Other Financial Information Dividend Policy General and Item 13. Defaults, Dividend

Arrearages and Delinquencies.

As of December 31, 2006, the IPI premium credit accrual represented the accumulated IPI tax credits used of US$676 million (US$350 million as of December 31, 2005), already updated by the SELIC Brazilian base interest rate.

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This provision affects the sales taxes line-item of our income statement, and a reversal of this provision would affect the sales taxes and the financial income (expense), net line-items of our income statement.

Several other Brazilian companies have challenged the same prohibition. Recent decisions from lower courts indicated that companies may be entitled to utilize these credits. However, on June 27, 2007, the Superior Court of Justice issued a decision against one taxpayer, denying the use of these credits. This decision is subject to review by the Federal Supreme Court, the highest court in this case.

- Income tax and social contribution

We claim recognition of the financial and tax effects on the calculation of income tax and social contribution on net income, related to Consumer Price Index IPC understated inflation, which occurred in January and February 1989, by a percentage of 51.87% (Plano Verão). In 2004, the proceeding was concluded and judgment was made final and unappealable, granting us the right to apply the index of 42.72% (Jan/89), of which the 12.15% already applied should be deducted. The application of 10.14% (Feb/89) was granted. The proceeding is now under accounting inspection.

On December 31, 2006, we recorded US$153 million (US$155 million in 2005) as judicial deposit and a provision of US$10 million (US$26 million in 2005), which represents the portion not recognized by the courts.

In February 2003, we were charged by tax authorities related to the calculation of income tax and social contribution of previous years in view of the fact that had tax losses carry forward above the 30% limit of taxable income, as provided for by laws.

On August 21, 2003, a decision was rendered by the second panel of the Judgment Federal Revenue Office in Rio de Janeiro related to the decision which made said tax deficiency notice null and void and a new Tax Deficiency Notice was issued about same matter in November 2003. We challenged such new Tax Deficiency Notice, which was rejected in administrative lower courts. An administrative appeal was brought against such decision, which was accepted in administrative appellate court on April 26, 2006, so that said Tax Deficiency Notice had favorable decision to us, on an irrevocable basis, and respective decision was published in November 2006.

We filed a lawsuit challenging the assessment of Social Contribution on Income on export revenues, based on Constitutional Amendment No. 33/01 and in March 2004, we obtained an initial decision authorizing the exclusion of these revenues from said calculation basis, as well as the offsetting of amounts paid as from 2001. The lower court decision was favorable and the proceeding is waiting for trial of the appeal filed by the Federal Government in the Regional Federal Court. On December 31, 2006, the amount of suspended liability and the offset credits based on the referred proceedings was US$368 million (US$234 million in 2005), already adjusted by the Selic - Brazilian base interest.

- PIS/COFINS Law No. 9,718/98

PIS and COFINS taxes are assessed on revenues. In 1998, new tax legislation was enacted which required Brazilian companies to pay PIS and COFINS taxes on revenues generated by financial investments. Prior to 1998, the Brazilian constitution stated that Brazilian companies were only required to pay PIS and COFINS taxes on revenues generated by operating activities. We are challenging the constitutionality of the assessment of PIS and COFINS taxes on revenues generated by financial investments since, in order to expand the PIS and COFINS tax computation basis, the Brazilian Congress was required to observe a constitutionally mandatory waiting period prior to enacting the legislation. In addition, at the time the new tax legislation was enacted, the Brazilian constitution did not allow such taxes to be assessed on revenues generated by financial investments. In February 1999, a lower court confirmed we sought and obtained a favorable preliminary order in March 2000. In April 2000, the Brazilian tax authorities appealed to Brazilian court of appeals. On March 6, 2006, Brazilian court of appeals issued a decision against us. On March 10, 2006, we appealed such decision to both the Superior Court of Justice and the Federal Supreme Court. Until the resolution of these appeals, our rights under the initial favorable decision are in effect. The PIS/COFINS accrual represents our statutory obligation to pay PIS/COFINS taxes due. Certain Brazilian companies obtained favorable final and unappealable judgments in 2005 regarding similar PIS/COFINS legal challenges. Those companies have accordingly reversed some or most of their related disputed tax payment provisions. However, one company did not obtain a favorable decision and was required to pay the related tax obligation. We have a reasonable expectation of success in the final resolution of this matter, though a final and unappealable decision may not be delivered for many years, due to the nature of the Brazilian legal system. It is unlikely that a final and unappealable decision would be delivered within the following year.

As of December 31, 2006, this accrual amounted to US$149 million (US$125 million as of December 31, 2005), which represents the PIS and COFINS incremental taxes statutorily due, as updated at the SELIC interest rate. This provision affects the financial income (expense), net line item of our income statement, and a reversal of this provision would affect the financial income (expense), net line item of our income statement.

- Provisional contribution on financial activities tax, or CPMF tax.

CPMF tax is assessed on cash transactions, including movements of cash between bank accounts. CPMF taxes were created by a constitutional amendment 21 enacted in 1999. We have challenged the legality of the constitutional amendment that created the CPMF tax and despite of the fact that we obtained a favorable decision from a Brazilian lower court in August 1999, an unfavorable final and unappealable decision was rendered by the appropriate Brazilian court of appeals in June 2006. Consequently, we paid US$113 million and recognized a gain of US$45 million due to the expiration (statute of limitations based on which the tax authorities must challenge the tax treatment of the matter) of the accrual recorded up to June 2001. This provision affected the financial expenses line-item of our income statement when recorded, this gain also affected the same line item.

5B. Liquidity and Capital Resources

Overview

Our main uses of funds are for capital expenditures, repayment of debt and dividend payments. We have historically met these requirements by using cash generated from operating activities and through the issuance of short-and long-term debt instruments. We expect to meet our cash needs for 2008 primarily through a combination of operating cash flow, cash and cash equivalents on hand and newly issued long-term debt instruments.

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

Sources of Funds and Working Capital

Cash Flows

Cash and cash equivalents as of the end of 2005, 2006 and 2007 totaled US$1,241 million, US$959 million and US$1,213 million, respectively.

Cash Generated by Operating Activities

We generated cash from our operations in the total amount of US$1,757 million, US$919 million and US$1,264 million in 2005, 2006 and 2007, respectively, providing us with a significant source of liquidity. The 37.5% or US$345 million increase in cash flow from operating activities in 2007 compared to 2006 was mainly due to: (i) an increase of US$954 million in the net income reported by us in 2007; (ii) a US$1,061 million decrease in operating assets such as trade accounts receivable, inventories, recoverable taxes, as discussed in the previous item, (iii) a decrease of US$440 million in operating liabilities such as taxes payable and interest paid; and (iv) a decrease of

US$1,230 million in adjustments to reconcile net income mainly driven by a US$364 million decrease in net foreign exchange and monetary gain, a decrease of US$633 million in accrual of derivatives and a decrease in provisions for contingencies of US$235 million in 2007 as compared to 2006.

Cash Used in Investing Activities

We used cash in our investing activities in the total amount of US$593 million, US$839 million and US$1,091 million in 2005, 2006 and 2007, respectively, mainly for capital expenditures and long-term investments in downstream opportunities (including acquisitions), new products and market niches and infrastructure investments. The increase of US$252 million in 2007 as compared to the prior year was primarily due to the following factors:

- the amount for CFM acquisition of US$350 million in 2007 and US$2 million was offset against cash held by CFM;
- IPI premium credit of US$561 million deposited in escrow in 2007 due to the unfavorable decision in Court; and
- the uses of cash mentioned above were partially offset by US$437 million related to the sale of Corus shares in 2007, which acquisition had occurred during 2006.

For further information, see Item 4A. History and Development of the Company-Acquisitions.

Cash Used in Financing Activities

Cash used in financing activities was US$996 million, US$263 million and US$122 million in 2005, 2006 and 2007, respectively. The US$141 million decrease in cash used in financing activities in 2007 compared to 2006 was mainly driven by US$98 million lesser repayments of debts and a significantly lower distribution of dividends and interest on stockholders equity of US$352 million in 2007 as compared to US$833 million in 2006, which were partially offset by new debt issuances and bilateral loans totaling US$1,659 million in 2007 as compared to US$2,082 million in 2006.

Trade Accounts Receivable Turnover Ratio

Our receivable turnover ratio (the ratio between trade accounts receivable and net operating revenues), expressed in days of sales decreased to 37 on December 31, 2007 from 52 on December 31, 2006, reflecting the improvement in the financial profile of our domestic customers who are also benefiting from the more favorable local economic environment and credit terms available in the financial system.

Inventory Turnover Ratio

Our inventory turnover ratio (obtained by dividing inventories by annualized cost of goods sold), expressed in days of cost of goods sold, decreased to 130 in 2007 from 149 in 2006. This variation is mainly explained by the accident in Blast Furnace No. 3 in 2006 and the need to purchase slabs and hot coils from third parties to keep the rolling mills at full speed.

Trade Accounts Payable Turnover Ratio

The accounts payable turnover ratio (obtained by dividing trade accounts payable by annualized cost of goods sold), expressed in days of cost of goods sold, decreased to 86 on December 31, 2007 from 100 on December 31, 2006. This variation is mainly explained by the accident in Blast Furnace No. 3. in 2006 and the need to purchase slabs and hot coils from third parties to keep the rolling mills at full speed.

Long-term debt (includes current portion)

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

December 31, 2007, cash and cash equivalent instruments totaled US$1,213 million.

We were also taking advantage of the then current liquidity conditions to extend the maturity profile of gross debt. These activities are unrelated to the management of any interest rate, inflation and/or foreign exchange risk exposure. Given the lack of a liquid secondary market for our short term debt instruments, we have accumulated cash instead of prepaying our debt prior to final maturity. As of December 31, 2007, short-term and long-term indebtedness accounted for 21% and 79%, respectively, of our total debt, and the average life of our existing debt was equivalent to approximately ten years, considering 40 years-term for the perpetual bonds issued in July 2005.

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In 2007, our capital expenditures were US$980 million, primarily consisting of US$348 million used in CFM´s acquisition and US$632 million related to acquisitions of equipment, of which US$192 million was used in the Casa de Pedra mine expansion, US$29 million in projects relating to the Itaguaí Port expansion and US$108 million in maintenance.

In 2008, we plan to make capital expenditures of approximately US$1,500 million, compared to US$980 million in 2007, US$706 million in 2006 and US$290 million in 2005.

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

Company Debt and Derivative Instruments

At December 31, 2006 and 2007, total debt (composed of current portion of long-term debt, accrued finance charges, mark-to-market adjustments on derivative instruments, and long-term debt and debentures) aggregated US$4,160 million and US$4,769 million, respectively, equal to 397% and 165% of the stockholders equity at December 31, 2006 and 2007, respectively. At December 31, 2007, our short-term debt (composed of current portion of long-term debt, mark-to-market adjustments on derivative instruments and accrued finance charges) totaled US$1,122 million and our long-term debt (composed of long-term debt and debentures) totaled US$3,647 million. The foregoing amounts do not include debt of others for which we are contingently liable. See Item 5E. Off-Balance Sheet Arrangements.

At December 31, 2007, approximately 30% of our debt was denominated in *reais* and substantially all of the remaining balance was denominated in U.S. dollars. Our current policy is to protect ourselves against foreign exchange losses on our foreign currency-denominated debt and currently approximately 100% of our exposure are protected through foreign exchange derivative products, U.S. dollar-denominated fixed income investments and equity investments in offshore subsidiaries. We continue to review our foreign exchange exposure policy and there are no assurances that we will maintain our current level of protection against such exposure. For a description of our derivative instruments, see Note 22 to our consolidated financial statements contained in Item 18. Financial Statements . Also see Non-operating Expenses (Income), Net under Item 5A. Operating Results Results of Operations 2007 Compared to 2006 and 2006 Compared to 2005.

The major components of US$1,122 million of consolidated current portion of long-term debt outstanding at December 31, 2007 were:

- US$123 million of trade-related transactions;
- US$293 million of advances on advances on export contracts;
- US$275 million of Euronotes;
- US$181 million of debentures;
- US$146 million of negative marked-to-market value on foreign exchange or derivative instruments; and
- US$104 million of accrued interest.

The major components of US$3,647 million of our consolidated long-term debt outstanding at December 31, 2007 were (amounts are reflected in long-term debt):

- US$339 million in local debentures;
- US$800 million of export pre-payments (of which US$388 million is part of our export receivables securitization program);
- US$950 million of Eurodollar notes;

- US$424 million of Eurodollar notes;
- US$162 million of trade-related transactions; and
- US$750 million in perpetual bonds.

The debentures are *real*-denominated debt instruments that were issued in December 2003 and April 2006, being one issuance of US$85.5 million five-year debentures, indexed to the Índice Geral de Preços e Mercado IGPM, a Brazilian price index, and bearing interest at a rate of 10% per annum coupon and another issuance of US$281 million six-year debentures bearing interest at a rate of 103.6% of CDI Brazilian Interbank Reference interest Rate.

Eurodollar and Euro notes issued in accordance with Rule 144A and Regulation S under the Securities Act reflect senior unsecured debt instruments issued by the parent company and its offshore subsidiaries, including the issuance in 2005 of US$750 million, 9.5% per annum coupon perpetual notes. They also include (1) the US$275 million notes, 10.75% per annum coupon, issued in September and December 2003 with final maturity in 2008; (2) the US$550 million notes, 9.75% per annum coupon, issued in December 2003 and January 2004 with final maturity in 2013; and (3) the US$400 million notes, 10% per annum coupon, issued in September 2004 and January 2005 with final maturity in 2015.

Pre-export agreements include the four series of the export receivables securitization program launched in June 2003 as well as other trade-related transactions outside of the program. The first series, issued in June 2003 in the amount of US$142 million, has a seven-year maturity and bears interest at a rate of 7.28% per annum, with a two-year grace period for payment of principal. The second series, issued in August 2003, in the amount of US$125 million, has a three-year maturity and bears interest at Libor plus 1.55% per annum. The third series, issued in June 2004, in the amount of US$162 million, has an eight-year maturity and bears interest at a rate of 7.43% per annum with a three-year grace period. In May 2005, a fourth series was issued in the amount of US$250 million having a ten-year maturity and bearing interest at 6.15% per annum with a three-year grace period. A portion of the proceeds of the fourth series was used to repay the second series.

Maturity Profile

The following table sets forth the maturity profile of our long-term debt at December 31, 2007:

Maturity in	**Principal Amount**
	(In millions of US$)
2009	295
2010	977
2011	338
2012	745
2013 and thereafter	542
Perpetual securities	750
Total	3,647

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

5C. Research and Development, Patents and Licenses, etc.

Our research and development center works closely with our customers. One of the features of this unit is the resident engineer concept, where key customers receive our engineers to help them make better use of our steel products. This unit works closely with the sales sector, focusing on product improvements and developments that will meet our customers needs.

Another feature are the work shops focusing on products applications and simultaneous engineering for parameters adjustment of the our steel products and the customers final goods on the segments of white goods, packaging, automotive and civil construction.

Our investment for research and development projects and activities in 2005, 2006 and 2007 totaled US$10.1 million, US$20.9 million and US$19.7 million, respectively. New products developed under our research and development program include: (i) special steel grades for tin plate products for two pieces cans, (ii) special tin plate for 3 pieces shaped expanded cans, (iii) pre-coated steel for civil construction and white goods, (iv) electrical steel as cold-rolled used for electric motors, (v) high-strength low-alloy hot-rolled steels used for pipes, structures, agricultural appliances, gas containers and automobile wheels, (vi) special bake hardned galvanized steels used for automobiles, (vii) galvalume used for construction and home appliances and others.

5D. Trend Information

Not required.

5E. Off-Balance Sheet Arrangements

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

Contingent Liability with Respect to Consolidated and Non-Consolidated Entities as of December 31, 2007

	Aggregate Amount	**Maturity**
	(In millions of US$)	
Guarantees of Debt:		
CFN	141.3	2008-2020
Contingent Liability for Concession Payments:(1)		
Tecon	182.0	2022
Total	**182.0**	
“Take-or-Pay” Contractual Obligations		
MRS	1,744	2016
White Martins	424	2027
CEG RIO	545	2012
Total	**2,713**	

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

CFN

We guarantee, together with Taquari Participações S.A., the loans BNDES has granted to CFN in May and December 2005 and in January 2006, all of which mature by November 2020, adjusted based on TJLP plus 1.5% per annum. The total outstanding amount of the debt as of December 31, 2007 was US$141.3 million.

Tecon

We own 100% of Sepetiba Tecon S.A., or Tecon, which holds a concession to operate, for a 25-year term (renewable for additional 25 years), the container terminal at the Itaguaí Port. As of December 31, 2007, US$182.0 million (R$322.4 million) of the cost of the concession was outstanding and payable over the next 19 years of the lease. For more information see Item 4A. History and Development of the Company Planned Investments.

"Take-or-Pay" Contractual Obligations

- MRS Logística S.A.

We and MRS Logística S.A. entered into a 10-year contract for iron ore transport. According to the "take-or-pay" clause, we are committed to pay at least 80% of the tons agreed to be transported by MRS. The volume of iron ore transported by MRS in addition to the minimum agreed (take-or-pay) for a given month may be compensated with lower volumes transported in subsequent months. For the take-or-pay quantities, we will pay in accordance with the terms of the contract. As we are a shareholder of MRS, the minimum amounts to be paid under the contract terms are calculated by a tariff model that assure competitive prices.

- White Martins Gases Industriais Ltda.

To secure gas supply (oxygen, nitrogen and argon), in 2005 we signed a 22-year "take-or-pay" agreement with White Martins Gases Industriais, by which we are committed to acquire at least 90% of the gas volume produced at White Martins' plant. Under the terms of the agreement, we are not required to advance funds raised against future processing charges if White Martins is unable to meet its financial obligations.

- Companhia Estadual de Gás do Rio de Janeiro - CEG RIO

To secure natural gas supply, in 2007 the Company has signed a 5-year "take-or-pay" agreement with CEG RIO, by which CSN is committed to acquire at least 70% of the gas volume produced at CEG RIO plant. Under the terms of the agreement, we are not required to advance funds raised against future processing charges if CEG RIO is unable to meet its financial obligations. In addition, if the we do not acquire the minimum volume agreed, the amount paid which relates to that difference may be compensated in future years, including one year after the contract expiration.

5F. Tabular Disclosure of Contractual Obligations

The following table represents our long-term contractual obligations as of December 31, 2007:

	Payment due by period *(In millions of US$)*				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term accrued finance charges[1]	1,524	381	589	350	204
Taxes payable installments	553	116[6]	348	89	0
Long-term debt	4,519	872	1,272	1,083	1,292

"Take-or-Pay" contracts	2,713	374	748	748	843
Concession agreements(5)	182	10	20	20	132
Purchases:	**4,431**	**707**	**1,487**	**638**	**1,599**
Raw materials(2)	1,172	364	808	0	0
Maintenance(3)	97	35	62	0	0
Utilities/Fuel(4)	3,162	308	617	638	1,599
Total	**13,922**	**2,460**	**4,464**	**2,928**	**4,070**

(1) These accrued finance charges refer to the cash outflow related to the contractual interest expense of our long-term debt and were calculated using the contractual interest rates taken forward to the maturity dates of each contract.

(2) Refer mainly to purchases of coal, tin, aluminum and zinc, which comprise part of the raw materials for steel manufacturing and take-or-pay contracts.

(3) We have outstanding contracts with several contractors in order to maintain our plants in good operation conditions; due to the strong demand for specialized maintenance service, the term of some contracts is for more than one year.

(4) Refer mainly to natural gas, power supply and cryogenics, which are provided by limited suppliers; with some of these suppliers we maintain long-term contracts.

(5) Refers only to Tecon s concession agreement since MRS and CFN are not consolidated for US GAAP purposes.

(6) Included as taxes payable in current liabilities.

Item 6. Directors, Senior Management and Employees

6A. Directors and Senior Management

We are managed by our Board of Directors (*Conselho de Administração*), which consists of seven to eleven members, and our Board of Executive Officers (*Diretoria Executiva*), which consists of two to nine Executive Officers with no specific designation (one of which is the Chief Executive Officer). In accordance with our bylaws (*Estatuto Social*), each Director is elected for a term of one year by our shareholders at a shareholders meeting. Our bylaws require our employees to be represented by one Director on the Board of Directors. The members of the Board of Executive Officers are appointed by the Board of Directors for a two-year term.

Our Board of Directors is responsible for the formulation of business plans and policies and our Board of Executive Officers is responsible for the implementation of specific operating decisions. As of December 31, 2007, our Board of Directors was comprised of one Chairman, one Vice Chairman and six members, and our Board of Executive Officers was comprised of our Chief Executive Officer, our Chief Financial Officer and six Executive Officers.

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Our Directors and Executive Officers as of December 31, 2007 were as follows.

Name	**Position**
Board of Directors	
Benjamin Steinbruch	Chairman
Jacks Rabinovich	Vice Chairman
Mauro Molchansky	Member
Fernando Perrone	Member
Dionísio Dias Carneiro Netto	Member
Antonio Francisco dos Santos	Member
Darc Antonio da Luz Costa	Member
Yoshiaki Nakano	Member
Board of Executive Officers	
Benjamin Steinbruch	Chief Executive Officer
Otávio de Garcia Lazcano	Chief Financial Officer
Enéas Garcia Diniz	Executive Officer
Pedro Felipe Borges Neto	Executive Officer
Isaac Popoutchi	Executive Officer
Juarez Saliba de Avelar	Executive Officer
Juliano de Oliveira (1)	Executive Officer
José Marcos Treiger (2)	Executive Officer

(1) As of January 21, 2008, Mr. Oliveira is no longer a member of our Board of Executive Officers.
(2) As of February 19, 2008, Mr. Treiger is no longer a member of our Board of Executive Officers.

Board of Directors

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

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

Mauro Molchansky. Mr. Molchansky was born on September 11, 1950 and has been a member of our Board of Directors since April 24, 2001. He was Executive Officer of Globo Comunicações e Participações S.A. Globopar from August 1994 to March 2002. Before joining Globo Comunicações e Participações S.A.- Globopar in 1994, he was Financial Officer and Investor Relations Officer of Aracruz Celulose S.A. Under Mr. Molchansky s leadership, Aracruz Celulose S.A. was the first Brazilian company to issue American Depositary Shares (level 3) listed and traded on the NYSE, in 1992.

Fernando Perrone. Mr. Perrone was born on May 6, 1947 and has been a member of our Board of Directors since September 26, 2002. He was our Infrastructure and Energy Executive Officer from July 10, 2002 to October 2, 2002. Previously, Mr. Perrone occupied the position of Chief Executive Officer of Empresa Brasileira de Infra- Estrutura Aeroportuária INFRAERO and was an officer of BNDES.

Dionísio Dias Carneiro Netto. Mr. Carneiro Netto was born on September 23, 1945 and has been a member of our Board of Directors since April 30, 2002. He has been a professor at Pontifícia Universidade Católica do Rio de Janeiro from 1977 through 2008. Mr. Carneiro is currently a member of the Consulting Board of the Icatu Group and a member of the Consulting Board and Financial Committee of Brasif.

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

Investment Club (*Clube de Investimento CSN*) and a member of the Board of Directors of *Caixa Beneficente dos Empregados* of CSN, or CBS, our pension plan.

Darc Antonio da Luz Costa. Mr. Costa was born on March 22, 1948 and has been a member of our Board of Directors since April 29, 2004. Since 1975, Mr. Costa has worked for the BNDES. He was Vice-President of BNDES until November 2004.

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

Board of Executive Officers

In addition to Mr. Steinbruch, the following persons are members of our Board of Executive Officers as of December 31, 2007:

Otávio de Garcia Lazcano. Mr. Lazcano was born on June 9, 1969 and was elected our Chief Financial Officer on August 8, 2006. He has been serving CSN since 1996, acting as Financial Manager and Financial Officer. Mr. Lazcano previously served as Financial Analyst of Aracruz Celulose.

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

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

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

Juarez Saliba de Avelar. Mr. Avelar was born on February 13, 1961 and was elected Executive Officer in charge of mineral resources on September 26, 2006. He has been working with us since 2003, acting as Port and Railroads Officer and Mineral Resources Officer. Mr. Avelar served as President of *FERTECO Mineração* and as Officer of South and North unit of Companhia Vale do Rio Doce.

There are no family relationships between any of the persons named above. The address for all of our directors and executive officers is Av. Brigadeiro Faria Lima, 3400, 20th floor, Itaim Bibi, São Paulo, São Paulo State, Brasil (telephone number 55-11-3049-7100).

Indemnification of Officers and Directors

There is no provision for or prohibition against the indemnification of officers and directors in Brazilian law or in our bylaws. Officers are generally not individually liable for acts within the course of their duties. We either indemnify, or maintain directors and officers liability insurance insuring our Directors, our Chief Executive Officer, our Chief Financial Officer and our other Executive Officers and certain key employees against liabilities incurred in connection with their positions with us.

6B. Compensation

For the year ended December 31, 2007, the aggregate compensation paid by us to all members of our Board of Directors and the members of our Board of Executive Officers for services in all capacities was approximately US$9.5 million, which also include payments made as bonuses and profit sharing. In addition, the members of the Board of Directors and of the Board of Executive Officers may receive certain additional company benefits generally provided to company employees and their families, such as medical assistance and life insurance among others.

6C. Board Practices

Fiscal Committee and Audit Committee

Under Brazilian Corporate Law, shareholders may request the appointment of a Fiscal Committee (*Conselho Fiscal*), which is a corporate body independent of management and our external auditors. The primary responsibility of the Fiscal Committee is to review management s activities and the financial statements, and report its findings to the shareholders. The shareholders did not request the installation of a Fiscal Committee at the General Shareholders Meeting held on April 30, 2008.

In June 2005 an Audit Committee (*Comitê de Auditoria*) was appointed in compliance with SEC s rules, which is composed of three independent members of our Board of Directors.

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

The Audit Committee is currently composed of Messrs. Carneiro Netto, Nakano and Perrone. Since the creation of the Audit Committee, it is assisted by an outside consultant.

For information on the date of election and term of office of the members of our Board of Directors and Board of Executive Officers, see Item 6A. Directors and Senior Management.

Service Contracts

We do not have any agreements with our directors providing for benefits upon termination of employment.

6D. Employees

As of December 31, 2005, 2006 and 2007, we had 12,936, 13,659 and 14.274 employees. As of December 31, 2007 approximately 3,220 of our employees were members of the steelworkers union of Volta Redonda and region, which is affiliated with the Central Única dos Trabalhadores, or CUT, a national union. We believe we have a good relationship with CUT. We have collective bargaining agreements, renewable annually each May 1.

We are the principal sponsor of CBS, our employee pension plan. Despite the general pay increase that we granted at the time of our privatization, due to the sharp increase in the fair value of CBS assets, CBS no longer had unfunded projected benefit obligations in 2007, as it had in 2006. As of December 31, 2007, CBS had an excess of plan assets over pension benefit obligations of US$138 million. The funded status of CBS is affected by, among other things, fluctuations in the fair value of CBS s assets, which totaled US$1,025 million as of December 31, 2007 and is substantially comprised of CSN s shares, while CBS accumulated obligations and projected benefit obligations as of December 31, 2007 were US$887 million. See Item 4B Risk Factors and Note 16 to our consolidated financial statements contained in Item 18. Financial Statements.

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

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

6E. Share Ownership

Mr. Benjamin Steinbruch our Chairman and Chief Executive Officer holds ownership interest in Vicunha Siderurgia, our controlling shareholder.

All our Executive Officers and members of our Board of Directors held an aggregate of 0.0001% of our outstanding common shares as of March 31, 2008.

Item 7. Major Shareholders and Related Party Transactions

7A. Major Shareholders

On December 31, 2007 our capital stock was composed of 272,067,946 common shares, including 15,578,128 common shares held in treasury (before our one-for-three stock split). On January 22, 2008, our shareholders approved the cancellation of 4,000,000 treasury shares (equivalent to 12,000,000 common shares after the split) and a one-for-three split of our common shares. As a result of this stock split, each common share of our capital stock as of January 22, 2008 became represented by three common shares after the split. The same ratio of one common share for each ADS was maintained. Considering the stock split, our capital stock issued at December 31, 2007 comprised 816,203,838 common shares, including 46,734,384 common shares held in treasury.

The following table sets forth, as of May 30, 2008, the number of our common shares owned by all persons known to us that own more than 5% of our outstanding common shares as of such date:

	Common Shares	
Name of Person or Group	**Shares Owned**	**Percent of Outstanding Shares[2]**
Vicunha Siderurgia S.A.[1]	348,859,995	45.3%
BNDESPAR	41,476,158	5.4%

(1) Owned indirectly by Benjamin Steinbruch, Chairman of our Board of Directors, and other members of his family.

(2) It does not include 46,734,384 common shares held in treasury.

7B. Related Party Transactions

From time to time we conduct transactions with companies directly or indirectly owned by our principal shareholders or members of our Board of Directors. See Acquisitions and Planned Investments under Item 4A. History and Development of the Company, Item 4B . Business Overview, Item 6A. Directors and Senior Management and Item 7A. Major Shareholders and Note 21 to the consolidated financial statements included in Item 18. Financial Statements.

In 2005, we used Banco Fibra, or Fibra, a bank controlled by the Steinbruch family, in connection with the management of our exclusive investment funds, under circumstances where we were not exposed to Fibra s credit risk and where we paid investment fees not in excess of such fees we would expect to pay to a non-affiliated bank for such services. However, as of August 22, 2006, the management of our exclusive investment funds was transferred to Bank UBS Pactual, under the same circumstances where we are not exposed to the bank s credit risk.

Item 8. Financial Information

8A. Consolidated Statements and Other Financial Information

See Item 3. Key Information Selected Financial Data and Item 18. Financial Statements for our consolidated financial statements.

Legal Proceedings

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. Those contingencies related to income taxes and social contribution 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. This accounting is consistent with our analysis of a liability under FASB Concepts Statement No. 6. 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.

We classify an accrual as short-term when it expects the liability to be settled in 360 days or less. As of December 31, 2007, US$77 million had been classified as short-term accrual for contingencies (US$25 million as of December 31, 2006). This usually occurs when a final, unappealable and irrevocable judgment has been rendered and the legal processes are in the execution phase. However, given the complexity of the Brazilian legal system and the intricacies of some claims, it is impracticable for Brazilian companies to predict the time period in which final decisions will be reached for such claims. Consequently, these claims are classified as long-term liabilities.

The deposits for contingencies and disputed taxes payable are generally based on (i) accruals recorded in connection with lawsuits, (ii) judicial orders issued in connection with lawsuits and (iii) guarantees in connection with judicial foreclosure proceedings. Such deposits are classified as long-term assets, and the release of such deposits is conditioned upon judicial order. When such a judicial order is granted in our favor, the deposit is forfeited and returned to us in cash and the deposit account is appropriately offset. When such a judicial order is granted in a manner unfavorable to us, the deposit is used to offset the related liability and the deposit account is appropriately offset.

We are party to a number of legal proceedings arising from our ordinary course of business, including tax, civil and labor claims. As of December 31, 2007, we recorded aggregate provisions of US$1,943 million relating to tax, civil and labor claims, for which we had deposited US$996 million in judicial escrow accounts. See Note 18 to our consolidated financial statements contained in Item 18. Financial Statements in this annual report.

Labor Contingencies

As of December 31, 2007, the amount of the accrual relating to probable losses for these contingencies was US$59 million (US$21 million in 2006). In 2007, our legal counselors revised the estimated losses based on their judgment and on the recent track record on these disputes. Most of the lawsuits are related to alleged joint liability between us and our independent contractors, wage equalization, additional payments for unhealthy and hazardous activities, overtime and disagreement between employees and the Brazilian government over the amount of severance payable by us. The lawsuits related to the alleged joint liability between us and our independent contractors represent a large portion of the total labor lawsuits against us and are originated from by the independent contractors lack of payment of labor charges, resulting in our inclusion in the lawsuits.

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Civil Contingencies

These are mainly claims for indemnities within the civil judicial processes in which we are involved. Such proceedings, in general, are a result of occupational accidents and diseases related to our industrial activities. In 2007, our legal counselors revised estimated losses based on their judgment and the recent track record on these disputes. As of December 31, 2007, the amount of the accrual relating to probable losses for these contingencies was US$20 million (US$9 million as of December 31, 2006).

Other Tax Contingencies

In addition to the tax contingencies described in Item 5A. Operating Results Results of Operations 2007 Compared to 2006 Disputed Taxes Payable, we are party to other judicial and administrative proceedings not described in the notes to our consolidated financial statements, involving a total of approximately US$2,597 million as of December 31, 2007 (US$1,403 million as of December 31, 2006). Our external legal counsel deemed that the risk of loss arising from these lawsuits are possible as opposed to probable. Therefore, we did not record accruals for contingencies with respect to these lawsuits.

Other taxes contingencies relate to a variety of disputes for which we have recorded provisions for probable losses. No single group of similar claims constitutes more than 5% of total contingencies.

Dividend Policy

General

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

Pursuant to a change in Brazilian tax law effective January 1, 1996, Brazilian companies are also permitted to pay limited amounts of interest on stockholders equity to holders of equity securities and to treat these payments as an expense for Brazilian income tax purposes. These payments may be counted in determining if the statutory minimum dividend requirement has been met, subject to shareholder approval.

For dividends declared during the past five years, see Item 3A. Selected Financial Data.

At our Annual Shareholders Meeting of April 18, 2008, our shareholders approved the payment of dividends and interest on shareholders equity relating to 2007, in the total amount of US$1,249 million, of which US$379 million and US$77 million were already paid on January 8, 2008, as dividends and interest on shareholders equity, respectively, in accordance with the resolutions of our Board of Directors. The outstanding balance of US$793 million was paid on May 5, 2008. These amounts were translated into U.S. dollars based on the exchange rate in effect on the respective dates of payment.

At our Annual Shareholders Meeting of April 30, 2007, our shareholders approved the payment of dividends and interest on shareholders equity related to 2006, in the total amount of US$682.1 million, of which US$191.7 million and US$153.5 million were paid on June 30, 2006 and August 8, 2006, respectively, as intermediary dividends, in accordance with the resolutions of our Board of Directors. These amounts were translated into U.S. dollars based on the exchange rate in effect on the respective dates of payment. The outstanding balance of US$336.9 million (this amount was translated into U.S. dollars based on the exchange rate in effect on the date of declaration), was supposed to be paid on May 9, 2007, but the payment was temporarily suspended as a result of a federal judicial decision related to a tax contingency.

On September 2007, we obtained a favorable decision from the Federal Court, allowing us to pay such outstanding dividends, which payment of US$351 million (converted into U.S. dollars based on the exchange rate in effect on the date of payment) was made on September 4, 2007.

For further information, see Item 5. Operating and Financial Review and Prospects - Item 5A. Operating Results Results of Operations 2007 Compared to 2006 Disputed Taxes Payable

Amounts Available for Distribution

At each Annual Shareholders Meeting, the Board of Directors is required to recommend how our earnings for the preceding fiscal year are to be allocated. For purposes of the Brazilian Corporate Law, a company s net income after income taxes and social contribution taxes for any one fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to employees and management s participation in earnings, represents its net profits for that fiscal year. In accordance with the Brazilian Corporate Law, an amount equal to our net profits , as further:

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

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

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

(iv) increased by reversal of reserves accrued in prior years, will be available for distribution to shareholders in any particular year. We refer to this amount available for distribution to shareholders as the Distributable Amount.

Legal Reserve. Under the Brazilian Corporate Law, we are required to maintain a legal reserve to which we must allocate 5% of our net profits for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. The legal reserve might be used to increase our paid-in capital and net losses, if any, may be charged against the legal reserve.

Discretionary (or Statutory) Reserves. Under the Brazilian Corporate Law, a company may also provide for discretionary allocations of net profits to the extent set forth in its bylaws. Our bylaws do not provide for a discretionary reserve.

Contingency Reserve. Under the Brazilian Corporate Law, a portion of our net profits may also be discretionary allocated to a contingency reserve for an anticipated loss that is deemed probable in future years. Any amount so allocated in a prior year must be either (i) reversed in the fiscal year in which the reasons for its establishment cease to exist or (ii) charged off in the event that the anticipated loss occurs.

Reserve for Investment Projects. Under the Brazilian Corporate Law, a portion of our net income may be allocated for plant expansion and other capital investment projects, the amount of which is based on a capital budget previously presented by management and approved by shareholders. After completion of the relevant capital investment projects, we must retain the appropriation until the shareholders, at a shareholders meeting, vote on a new destination to the amount appropriated or on transferring all or a portion thereof to capital or retained earnings.

Unrealized Income Reserve. Under the Brazilian Corporate Law, the amount by which the Mandatory Dividend (defined below) exceeds the realized portion of net profits for any particular year may be allocated to the unrealized income reserve. The realized portion of net profits is the amount by which net profits exceeds the sum of (i) a company s positive net results considering its subsidiaries and certain affiliates, and (ii) the profits, gains or return recognized in respect of transactions maturing after the end of a fiscal year.

The Brazilian Corporate Law provides that all discretionary allocations of net profits , including discretionary reserves, the contingency reserve, the unrealized income reserve and the reserve for investment projects are subject to approval by the shareholders voting at the Annual Shareholders Meeting and can be used to increase our capital stock, for the payment of dividends in subsequent years, charged off in the event of losses, or used to any other destination. The fiscal incentive investment reserve and legal reserve are also subject to approval by the shareholders voting at the Annual Shareholders Meeting and may be transferred to capital but are not available for the payment of dividends in subsequent years.

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

Mandatory Dividend

Under our bylaws, we are required to distribute to shareholders as dividends in respect of each fiscal year ending on December 31, to the extent profits are available for distribution, an amount equal to not less than 25% of the Distributable Amount (the Mandatory Dividend) in any particular year (the amount of which shall include any interest paid on capital during that year). See Additional Payments on Shareholders Equity below. In addition to the Mandatory Dividend, the Board of Directors may recommend that shareholders receive an additional payment of dividends from other funds legally available therefore. Any payment of interim dividends will be netted against the amount of the Mandatory Dividend for that fiscal year. Under the Brazilian Corporate Law, if the Board of Directors determines prior to the Annual Shareholders Meeting that payment of the Mandatory Dividend for the preceding fiscal year would be inadvisable in view of our financial condition, the Mandatory Dividend need not be paid. That type of determination must be reviewed by the Fiscal Council, if one exists, and reported, together with the appropriate explanations, to the shareholders and to the CVM.

Payment of Dividends

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

Our payments of cash distributions on common shares underlying the ADSs will be made in Brazilian currency to our ADR Custodian on behalf of our ADR Depositary, which will then convert the proceeds into U.S. dollars and will cause the U.S. dollars to be delivered to our ADR Depositary for distribution to holders of ADSs.

Additional Payments on Stockholders Equity

Since January 1, 1996, Brazilian companies have been permitted to pay interest on shareholders equity to holders of equity securities and to treat those payments as deductible expense for Brazilian income tax purposes. The amount of interest payable on capital is calculated based on the TJLP, as determined by the Central Bank, applied to each shareholder s portion of net equity. Brazilian Corporate Law establishes that current earnings are not included as part of the net equity.

The TJLP is determined by the Central Bank on a quarterly basis. The TJLP is based on the annual profitability average of Brazilian public internal and external debt. The TJLP rate for the fourth quarter of 2007 was 6.25% .

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

8B. Significant Changes

No significant changes or events have occurred after the close of the financial statements as of and for the year ended December 31, 2007, other than the events already described in this annual report.

Item 9. The Offer and Listing

9A. Offer and Listing Details

Our capital stock is comprised of common shares without par value (*ações ordinárias*). On January 22, 2008, our shareholders approved a one-for-three split of our common shares. As a result of this stock split, each common share of our capital stock as of January 22, 2008 became represented by three common shares after the split. The same ratio of one common share for each ADS was maintained. See Item 10.B. Memorandum and Articles of Association.

On May 31, 2004, we reverse split our common shares, so that each 1,000 former common shares became represented by four common shares. Effective June 10, 2004, our ADSs were split four-for-one, and each ADS represented one common share after giving effect to the split and regrouping.

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

	Common Shares(1)			**American Depositary Shares(1)**		
	US$ per Share(2)		**Volume**	**US$ per ADS**		**Volume**
	High	**Low**	***(In thousands)***	**High**	**Low**	***(In thousands)***
2003:						
Year end	4.56	1.22	2,758	4.60	1.21	1,667
2004:						
Year end	6.38	3.19	2,516	6.37	3.17	1,967
2005:						
Year end	8.74	5.00	2,886	8.77	5.05	2,548
2006:						
First quarter	10.46	6.99	2,696	10.52	7.19	3,219
Second quarter	12.39	8.62	2,259	12.46	8.58	3,276
Third quarter	11.03	8.77	1,636	10.96	8.89	2,383
Fourth quarter	11.23	9.32	1,846	11.12	9.28	2,340
Year end	12.39	6.99	2,108	12.46	7.19	2,803
2007:						
First quarter	14.44	9.33	2,938	14.28	9.42	3,415
Second quarter	18.28	14.23	2,195	18.34	14.22	3,067
Third quarter	23.81	14.63	2,747	23.64	14.46	4,075

Fourth quarter	29.80	22.82	2,790	30.56	22.82	3,402
Year end	29.80	9.33	2,665	30.56	9.42	3,490
November 30, 2007	25.74	22.82	2,663	26.21	22.82	3,310
December 31, 2007	29.80	25.40	2,901	30.56	25.44	3,657
2008:						
First quarter	40.93	23.75	2,585	40.82	25.53	4,261
Month Ended:						
January 31, 2008	31.24	23.75	2,442	32.21	25.53	4,482
February 29, 2008	40.93	31.54	3,027	40.82	31.27	4,509
March 31, 2008	39.54	35.00	2,316	39.83	35.54	3,780

April 30, 2008	43.78	37.07	1,958	44.61	37.32	3,307
May 30, 2008(3)	51.26	43.01	2,383	51.01	43.31	3,247

Source: Economática.

(1) Prices and volumes of our common shares and ADSs have been adjusted to reflect 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. See Item 10.B. Memorandum and Articles of Association .

(2) U.S. dollar amounts have been translated from *reais* at the exchange rates in effect on the respective dates of the quotations for the common shares set forth above. These U.S. dollar amounts may reflect exchange rate fluctuations and may not correspond to changes in nominal *reais* prices over time;

As of May 30, 2008, the closing sale price (i) per common share on the BOVESPA was US$48.67 and (ii) per ADS on the NYSE was US$49.17. The ADSs are issued under a deposit agreement and JPMorgan Chase Bank serves as depositary under that agreement.

As of May 30, 2008, approximately 199 million, or approximately 25.8%, of our outstanding common shares were held through ADSs. Substantially all of these ADSs were held of record by The Depository Trust Company. In addition, our records indicate that on that date there were approximately 120 record holders (other than our ADR Depositary) with addresses in the U.S., holding an aggregate of approximately 27 million common shares, representing 3.5% of our outstanding common shares.

9B. Plan of Distribution

Not applicable.

9C. Markets

The principal trading market for our common shares is the São Paulo Stock Exchange. Our ADSs trade on the NYSE under the symbol SID .

Trading on the São Paulo Stock Exchange

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade in common and preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia,* or CBLC.

The BOVESPA was a nonprofit entity owned by its member brokerage firms until August, 2007. Since then, BOVESPA Holding became a public company with shares negotiated on the BOVESPA. Trading on the BOVESPA is conducted through an electronic trading system from 10:00 a.m. to 5:00 p.m., São Paulo time, for all securities traded on all markets, except during daylig