NATIONAL STEEL CO
Form 20-F
June 01, 2010

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

Commission File Number 1-14732

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

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

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

Paulo Penido Pinto Marques, Chief Financial Officer
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invrel@csn.com.br
Av. Brigadeiro Faria Lima, 3,400 20th floor
04538-132, São Paulo-SP, Brazil

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Common Shares without par value	New York Stock Exchange*
American Depositary Shares, (as evidenced by American Depositary Receipts), each representing one share of Common Stock	New York Stock Exchange

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

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

None

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

None

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

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

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

R Yes 1 No

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

1 Yes R No

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

R Yes 1 No

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

1 Yes R No

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

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

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

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

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

Item 17 1 Item 18 1

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

1 Yes R No

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INTRODUCTION

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

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

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

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

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

Presentation of financial statements in accordance with IFRS

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

Convergence of Brazilian GAAP to IFRS

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

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

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

Reporting Currency

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

As described more fully in Note 2(a) to our consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our consolidated financial statements have been translated from the *real* amounts in accordance with the criteria set forth in the U.S. Financial Accounting Standards Board s Statement of Financial Accounting Standards No. 52, Foreign Currency Translation, at the year-end exchange rate (for balance sheet items) or the average exchange rate prevailing during the period (for income statement items). In this annual report, we refer to a Statement of Financial Accounting Standards issued by the U.S. Financial Accounting Standards Board as an SFAS.

Unless the context otherwise indicates:

- historical data contained in this annual report that were not derived from our consolidated financial statements have been translated from *reais* on a basis similar to that used in our consolidated financial statements for the same periods or as of the same dates, except investment amounts that have been translated at the exchange rate in effect on the date the investment was made.
- forward-looking statements have been translated from *reais* at the exchange rate in effect at the time of the most recently budgeted amounts. We may not have adjusted all of the budgeted amounts to reflect all factors that could affect them. In addition, exceptionally we may have translated budgeted amount based on the exchange rate in effect on the date of the action, operation or document.

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

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

3A. Selected Financial Data

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

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

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

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

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

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

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

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

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

Exchange Rates

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

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

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

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

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

Source: Central Bank.

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

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Us and the Industries in Which We Operate

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

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

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

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

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

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

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

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

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

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

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

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

Government measures could adversely affect us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Drilling and production risks could adversely affect the mining process.

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to our Common Shares and ADSs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 4. Information on the Company

4A. History and Development of the Company

History

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

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

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

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

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

General

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

Steel

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

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

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

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

Mining

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

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

Cement

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

Acquisitions and Dispositions

Namisa

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

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

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

Riversdale

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

Segregation of Mining Assets

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

Panatlântica

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

Cimpor

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

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

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

Capital Expenditures

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

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

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

Planned Investments

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

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

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

Iron Ore

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

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

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

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

Steel

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

Cement

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

Transnordestina

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

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

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

Additional Investments

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

Other Information

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

4B. Business Overview

Competitive Strengths

We believe that we have the following competitive strengths:

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

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

Self-sufficiency in energy generation. We are self-sufficient in energy, through our interests in the hydroelectric plants of Itá and Igarapava, and our own thermoelectric plant inside the Presidente Vargas steelworks. We also sell excess energy we generate into the energy market. Our 238 MW thermoelectric co-generation plant provides the Presidente Vargas steelworks with approximately 60% of its energy needs for its steel mills, using as its primary fuel the waste gases generated by our coke ovens, blast furnaces and steel processing facilities. We indirectly hold 29.5% of the Itá hydroelectric plant that has installed capacity of 1,450 MW, with a guaranteed output of 668 MW to us and to the other shareholders of Itá Energética S.A., or ITASA, proportionally to our interests in the project, pursuant to 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. In addition, we hold 17.9% of the Igarapava hydroelectric, with 210 MW fully installed capacity. We have been using part of our 22 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines.

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

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

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

Strategies

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

Steel

Our strategy for our steel business involves:

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

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

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

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

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

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

Mining

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

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

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

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

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

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

Logistics

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

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

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

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

Cement

Our strategy for cement business includes greater utilization of by-products by continuing construction of our cement grinding and a clinker facility that we expect will produce 2.8 million tons of cement by 2011. We have an advanced project to build a new integrated cement plant in the State of Minas Gerais (grinding and clinker), taking advantage of our calcareous reserves, with capacity to produce 0.6 million tons of cement. We are also developing 3 other new projects with projected capacity 1 mtpy each, in locations in Brazil yet to be defined. For information on our planned investments relating to our cement activities, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Cement.

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Additional Investments

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

Our Steel Segment

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

The following chart reflects our production cycle in general terms.

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

Slabs

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

Hot-Rolled Products

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

Cold-Rolled Products

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

Galvanized Products

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

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

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

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

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

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

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

Tin Mill Products

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

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

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

Production

Production Process

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

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

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

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

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

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

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

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

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

Quality Management Program

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

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Production Output

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

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

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

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

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

Raw Materials and Suppliers

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

Raw Materials and Energy Requirements

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

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

Iron Ore

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

Coal

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

Coke

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

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

Limestone and Dolomite

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

Aluminum, Zinc and Tin

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

Other Raw Materials

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

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

Water

Large amounts of water are also required in the production of steel. Water serves as a solvent, a catalyst and a cleaning agent. It is also used to cool, to carry away waste, to help produce and distribute heat and power, and to dilute liquids. Our source of water is the Paraíba do Sul River, which runs through the city of Volta Redonda. Over 80% of the water used in the steelmaking process is recirculated and the balance, after processing, is returned to the Paraíba do Sul River. Since March 2003, the Brazilian government has imposed a monthly tax for our use of water from the Paraíba do Sul River, based on an annual fee of approximately US$1.6 million.

Electricity

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

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

Natural Gas

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

Diesel Oil

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

Clinker

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

Suppliers

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

Our main raw materials suppliers are set forth below:

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

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

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

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Our Mining Segment

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

Our Mines

Location, Access and Operation

Casa de Pedra

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

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

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

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

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

Namisa

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

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

The maps below illustrate the location of our Engenho mine:

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

The maps below illustrate the location of our Fernandinho mine:

Limestone and Dolomite Mine

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

Tin

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

Mining Rights and Ownership

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

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

Casa de Pedra

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

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

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

Mineral Reserves

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

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

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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 As of December 31, 2009

	Proven and Probable Reserves(1)					**Mineral Deposits Resources**(2)
Mine Name and Location	**Ore Tonnage**(3) **(millions of tons)**		**Grade(4)**	**Rock Type**	**Recoverable Product**(5) **(millions of tons)**	**Tonnage (millions of tons)**
	Proven(6)	**Probable**(7)				
Iron:						
Casa de Pedra(Congonhas, Minas Gerais)	1,048	514	47.79% Fe	Hematite (21%) Itabirite (79%)	943	8,317
Engenho (Congonhas, Minas Gerais)			46.07%	Itabirite (100%)		857
Fernandinho (Itabirito, Minas Gerais)			40.21%	Itabirite (100%)		582
Total Iron:	**1,048**	**514**			**943**	**9,788**
Limestone and Dolomite:	**Proven**(6)	**Probable**(7)				
Bocaina (Arcos, Minas Gerais)	120.2	41.9	41.3%CaO 5.99%MgO	Limestone (86%) Dolomite (14%)	158.5	1,190
	Proven+Probable Reserves(Mm3)				Recoverable Product[5] **(in tons)**	Resources (Mm^3) **(in million cubic meters)**
Tin						
(Itapoã do Oeste,				Paleo valley and		

Rondônia)	41.33	shallow	24,066	95.87

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

Casa de Pedra

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

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

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

Golder accepts as appropriate the estimates regarding proven and probable reserves made by us, totaling 1,631 million tons of iron ore (as of December 31, 2006) at a grade of 47.79% Fe and 26.63% SiO_2. This new estimate of our iron ore reserves at Casa de Pedra is significantly larger than our estimate of 444 million tons, reported on an appraisal report prepared in 2003.

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

Namisa

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

Production

Casa de Pedra

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

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

Namisa

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

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

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

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

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

Company Acquisitions and Dispositions.

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

Logistics

Transportation costs are a significant component of our steel and iron ore production costs and are a factor in our price-competitiveness in the export market. Railway transportation is the principal means by which we transport raw materials from our mines to the Presidente Vargas steelworks and steel and iron ore products to ports for shipment overseas. Iron ore, limestone and dolomite from our two mines located in the State of Minas Gerais are transported by railroad to the Presidente Vargas steelworks for processing into steel. The distances from our mines to the Presidente Vargas steelworks are 328 km and 455 km. The distances from our mines to the ports are 440 km and 160 km. Imported coal and coke bought from foreign suppliers are unloaded at the port of Itaguaí, 90 km west of the city of Rio de Janeiro, and shipped 109 km by train to the Presidente Vargas steelworks. Our finished steel products are transported by train, truck and ships to our customers throughout Brazil and abroad. Our principal Brazilian markets are the cities of São Paulo (335 km from the Presidente Vargas steelworks), Rio de Janeiro (120 km) and Belo Horizonte (429 km).

Until recently, Brazil s railway system (including railcars and tracks) was principally government-owned and in need of repair, but has now been largely privatized. In an attempt to increase the reliability of our rail transportation, we indirectly hold concessions for the main railway systems we use. For further information on our railway concessions, see Facilities Railways.

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

Marketing Organization and Strategy

Steel

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

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

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

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

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

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

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

Unlike classic commodity products, there is no exchange trading of steel, or uniform pricing, as wide differences exist in terms of size, quality and specifications. In general, exports are priced based on international spot prices of steel at the time of sale in U.S. dollars or Euros, depending on the destination. To establish the domestic price, the corresponding international quotations are converted into *reais* and an additional amount is added to reflect, among other things, local demand, transportation and tariff costs to import similar products. Sales are normally paid at sight, or within 14 or 28 days, and, in the case of exports, usually backed by a letter of credit and an insurance policy. Sales are made primarily on cost and freight terms.

Sales by Geographic Region

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

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

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

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

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

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

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

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

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

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

Sales by Product

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

CSN Domestic Market Share

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

Sales by Industry

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

Sales by Industrial Segment in Brazil

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

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

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

Seasonality

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

Iron Ore

Iron ore products are commercialized by our commercial team located in Brazil and overseas. In Europe (Portugal) and Asia (Hong Kong), our offices also include our technical assistance management. These three marketing units allow us to stay in close contact with our customers worldwide, understand the environment where they operate, monitor their requirements and provide all necessary assistance in a short period of time. Domestic sales, market intelligence analysis, planning and administration of sales are handled from Brazil by the staff in our Nova Lima office, which is located approximately 70 km from the Casa de Pedra mine, in the State of Minas Gerais.

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

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

Sales

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

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

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

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

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

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

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

Facilities

Steel Mill

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

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

Effective Capacity

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

Downstream Facilities

GalvaSud

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

CSN Paraná

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

Metalic

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

Prada

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

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

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Inal Nordeste

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

Companhia Siderurgica Nacional, LLC

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

Lusosider, Aços Planos, S.A.

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

Electricity Distribution and Generation

Thermoelectric Co-Generation Power Plant

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

Itá Hydroelectric Facility

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

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

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

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

Igarapava Hydroelectric Facility

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

Railways

Southeastern Railway System

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

Northeastern Railway System

As of December 31, 2009, we hold 84.3% of the capital stock of Transnordestina Logística S.A. Transnordestina Logística S.A. has a 30-year concession granted in 1998 to operate Brazil s Northeastern railway system. The Northeastern railway system includes 4,238 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. It also connects with the region s leading ports, thereby offering an important competitive advantage through opportunities for intermodal transportation solutions and made-to-measure logistics projects. As of December 31, 2009, a payment in the amount of US$21.7 million (R$37.8 million) was outstanding in connection with the remaining 17-year term of the concession, of which US$21.5 million (R$37.5 million) are treated as an off-balance sheet item (See Item 5E. Off-Balance Sheet Arrangements). For more information on the merger and financings for Transnordestina, see Item 4. Information on the Company A. History and Development of the Company Planned Investments Transnordestina.

Port Facilities

Solid Bulks Terminal

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

Container Terminal

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

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

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

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

Insurance

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

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

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

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

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

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

Intellectual Property

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

Competition in the Steel Industry

Both the worldwide and the Brazilian steel markets are intensely competitive. The primary competitive factors in these markets include quality, price, payment terms and customer service. Further, continuous advances in materials sciences and resulting technologies have given rise to improvements in products such as plastics, aluminum, ceramics, glass and concrete that permit them to substitute steel for certain purposes.

Competition in the Brazilian Steel Industry

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

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

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

Source: IBS

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

Competitive Position Global

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

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

Competitive Advantages of the Brazilian Steel Industry

Brazil s principal competitive advantages are its abundant supply of low-cost, high-grade iron ore and energy resources. Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports that allow the operation of large ships, which facilitates access to export markets. Nevertheless, Brazil s products have lost partially their competitiveness, mainly due to the appreciation of the *real* against the U.S. dollar since the beginning of 2006, which resulted in the increase of the price of our products. In 2009, the *real* continued to significantly appreciate against the U.S. dollar and reflected the effects of the financial crisis and weak demand. Despite all these factors, we believe Brazil s average cost of steel production is one of the lowest in the world.

As in most domestic markets, the domestic price of steel in Brazil has historically been higher than its export price. The low production costs in Brazil are a barrier to foreign steel imports. Consequently, most of the steel sold in the Brazilian steel market is manufactured by Brazilian producers, and we do not believe that sales in Brazil by foreign producers will increase significantly or that steel prices in Brazil will decrease significantly because of competition from foreign steel producers.

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

Government Regulation and Other Legal Matters

Environmental Regulation

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

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

The Brazilian Federal Constitution gives both the federal and state governments power to enact environmental protection laws and issue regulations under such laws. In addition, we are subject to municipal environmental laws and regulations. While the Brazilian government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state and local governments have the power to enact more stringent environmental regulations. Most of the environmental regulations in Brazil are thus at the state and local level complemented by a current process of regulations reviews and new propositions at the federal level. The environmental regulations of the State of Rio de Janeiro, in which the Presidente Vargas steelworks is located, are plant-specific. Thus, specific goals and standards are established in operating permits or environmental accords issued to each company or plant. These specific operation conditions complement the standards and regulations of general applicability and are required to be observed throughout the life of the permit or accord. The terms of such operating permits are subject to change and are likely to become stricter. All of our facilities currently have operating permits.

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

Environmental Expenditures and Claims

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

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

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

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

Brazil mining regulation

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

§ the manner in which mineral deposits must be exploited;

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

§ the protection and restoration of the environment;

§ the prevention of pollution; and

§ the support of local communities where mines are located.

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

Mining Concessions

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

Mining Rights and Ownership

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

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

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

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

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

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

§ 1% on gold.

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

Antitrust Regulation

We are subject to various laws in Brazil which seek to maintain a competitive commercial environment in the Brazilian steel industry. For instance, under Law No. 8,884/94, the *Lei de Defesa da Concorrência*, or Competition Defense Law, the *Secretaria de Direito Econômico* of Brazil s Ministry of Justice has broad authority to promote economic competition among companies in Brazil, including the ability to suspend price increases and investigate collusive behavior between companies. In addition, if the Brazilian anti-trust agency (*Conselho Administrativo de Defesa Econômica*), or CADE, determines companies have acted collusively to raise prices, it has the authority to impose fines on the offending companies, prohibit them from receiving loans from Brazilian government sources and bar them from bidding on public projects. In addition, CADE has the authority to dissolve mergers and to require a company to divest assets should it determine that the industry in which it operates is insufficiently competitive.

Proceedings Related to Protectionist Measures

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

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

United States

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

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

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

Canada

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

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

Argentina

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

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

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

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

Overview of Steel Industry

World Steel Industry

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

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

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

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

Brazilian Steel Industry

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

A Privatized Industry

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

Domestic Demand

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

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

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

Market Participants

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

Capacity Utilization

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

Exports/Imports

Brazil has been playing an important role in the export market, primarily as an exporter of semi-finished products. The Brazilian steel industry has taken several steps towards expanding its capacity to produce value-added products.

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

In 2009, Brazilian steel exports totaled 8.6 million tons, representing 32% of total Brazilian steel sales (domestic plus exports) and accounting for US$4.7 billion in export earnings for Brazil in 2009. Over the last 20 years, the Brazilian steel industry has been characterized by a structural need to export, which is demonstrated by the industry s supply demand curve. The Brazilian steel industry has experienced periods of overcapacity, cyclicality and intense competition during the past several years. Demand for finished steel products, as measured by domestic apparent consumption, has consistently fallen short of total supply (defined as total production plus imports). In 2009, supply totaled 26.7 million tons, as compared to apparent consumption of 18 million tons.

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

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

4C. Organizational Structure

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

4D. Property, Plant and Equipment

Our principal executive offices are located in the city of São Paulo, the State of São Paulo at Avenida Brigadeiro Faria Lima, 3,400, 20th floor (telephone number 55-11-3049-7100), and our main production operations are located in the city of Volta Redonda, in the State of Rio de Janeiro, located approximately 120 km from the city of Rio de Janeiro. Presidente Vargas steelworks, our steel mill, is an integrated facility covering approximately 4.0 square km and located in the city of Volta Redonda in the State of Rio de Janeiro. Our iron ore, limestone and dolomite mines are located in the State of Minas Gerais, which borders the State of Rio de Janeiro to the north. Each of these mines is within 500 km of, and is connected by rail and paved road to, the city of Volta Redonda.

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

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

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

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

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

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

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

Item 4A. Unresolved Staff Comments

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

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

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

Item 5. Operating and Financial Review and Prospects

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

5A. Operating Results

Overview

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

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

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

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

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

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

Sectors

Steel

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

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

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

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

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

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

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

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

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

Mining

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

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

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

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

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

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

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

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

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

International Macro-Economic Scenario

USA

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

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

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

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

Europe

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

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

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

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

Asia

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

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

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

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

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

Steel Markets and Product Mix

Supply and Demand for Steel

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

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

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

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

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

Product Mix and Prices

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

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

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

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

Sales Volume and Net Operating Revenues by Steel Products and Markets

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

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

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

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

Brazilian Macro-Economic Scenario

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

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

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

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

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

Effects of Exchange Rate Fluctuations

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

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

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

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

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

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

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

Effects of Inflation and Interest Rates

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

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

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

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

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

Accounting for mining production utilized by our steel production

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

The cost of iron ore supplied to us is recorded on our income statement in cost of goods sold line item at its extraction cost plus transport from the mine. In 2007, 2008 and 2009, these costs were US$130.7 million, US$150.7 million and US$110.7 million, respectively. In December 2009, we announced a planned segregation of our iron ore business and correlated logistics activities into one of our subsidiaries. This segregation is pending certain regulatory approvals. Upon the transfer of the iron ore business to our subsidiary, iron ore will be provided to our steel works at market prices, which are higher than the currently recorded costs. This transfer of the iron ore business will decrease our steel segment margins and increase our mining segment margins, but should not affect our margins on a consolidated basis. We expect to have certain tax impacts which are currently under analysis.

Critical Accounting Estimates

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

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

Valuation of long-lived assets, intangible assets and goodwill

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

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

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

Depreciation and amortization

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

Fair value of business combinations

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

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

Derivatives

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

Pension plans

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

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

Deferred taxes

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

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

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

Contingencies and disputed taxes

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

Allowance for doubtful accounts

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

Recently Issued Accounting Pronouncements Adopted and Not Adopted by Us

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

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Results of Operations

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

	Year Ended December 31,			Increase (Decrease)	
	2007	**2008**	**2009**	**2008/2007**	**2009/2008**
				%	%
Operating revenues					
Domestic sales	5,283	7,377	5,204	39.6	(29.5)
Export sales	1,695	1,830	1,137	8.0	(37.9)
Total	**6,978**	**9,207**	**6,341**	31.9	(31,1)
Sales Taxes	(1,305)	(1,835)	(1,257)	40.6	(31.5)
Discounts, returns and allowances	(156)	(185)	(70)	18.6	(62.2)
Net operating revenues	**5,517**	**7,187**	**5,014**	30.3	(30.2)
Cost of products sold	(3,076)	(3,602)	(3,250)	17.1	(9.8)
Gross profit	**2,441**	**3,585**	**1,764**	46.9	(50.8)
Operating expenses					
Selling	(310)	(412)	(345)	32.9	(16.3)
General and administrative	(185)	(219)	(208)	18.4	(5.0)
Other income (expense)	(85)	(110)	(47)	29.4	(57.3)
Operating income	**1,861**	**2,844**	**1,164**	52.8	(59.0)
Non-operating income (expenses), net					
Financial income (expenses), net	(219)	(380)	(871)	73.5	129.2
Foreign exchange and monetary gain (loss), net	438	(1,265)	422	(388.8)	(133.3)
Other, net	81	1,742	(26)	(2,051)	(101.5)
Income before income taxes and equity in results of affiliated companies	**2,161**	**2,941**	**689**	36.1	(76.6)
Income tax	**(534)**	**(414)**	**(219)**	22.5	(47.1)
Current	(619)	(615)	(167)	(0.6)	(72.8)
Deferred	85	201	(52)	136.5	(125.9)
Equity in results of affiliated companies	76	127	809	67.1	537.0
Net income	**1,703**	**2,654**	**1,279**	55.8	(51.8)

Net loss attributable to noncontrolling interest	-	-	**2**	-	100.0
Net income attributable to Companhia Siderúrgica Nacional	**1,703**	**2,654**	**1,281**	55.8	(51.8)

Year 2009 Compared to Year 2008

Operating Revenues

Despite the beginning of a global recovery in the economy, 2009 was marked by lower global demand for steel products, metals and other commodities. Consequently, our operating revenues decreased by 31.1%, from US$9,207 million in 2008 to US$6,341million in 2009, as a result of the shrinking demand and lower average prices. Total domestic revenues decreased 29.5%, from US$7,377 million in 2008 to US$5,204 million in 2009, while total export revenues decreased 37.9%, from US$1,830 million in 2008 to US$1,137 million in 2009.

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Steel

In 2009, our total steel revenues amounted to US$5,345 million, a decrease of US$2,439 million, or 31.3%, when compared to the US$7,784 million recorded in 2008. This decrease in steel revenues occurred in both the domestic and export markets.

Our annual steel domestic revenues decreased US$2,168 million, or 31.3%, from US$6,934 million in 2008 to US$4,766 million in 2009, due to: (i) reduction of 22.0% in sales volume from 4,158 million tons in 2008 to 3,243 million tons in 2009, due to the decrease in demand, especially in the first half of 2009 and (ii) reduced prices granted during the first half of 2009.

Our annual steel export revenues decreased US$271 million, or 31.9%, from US$850 million in 2008 to US$579 million in 2009, due to lower prices in the international market despite the increase in the total export sales from 733 thousand tons in 2008 to 868 thousand tons in 2009, we sold a lower volume of higher value-added products such as galvanized and tin plate. (see table *Sales Volume and Net Operating Revenues by Steel Products and Markets* above).

Mining

The global economic and financial crisis that commenced in 2008 impacted our iron ore business during 2009, negatively affecting our operating revenues. Prices decreased significantly in 2009 despite the increase in iron ore volumes imported by China during the year.

Our mining operating revenues decreased US$692 million, or 50.1%, to US$690 million in 2009 from US$1,382 million in 2008, mainly due to the following factors:

§ The significant decrease in iron ore prices in 2009, which affected our net operating revenues in US$210 million;

§ The decrease in sales volumes of the Casa de Pedra mine of approximately 30%, due to the concentration of iron ore sales through Namisa, in which we own a non-consolidated 60% ownership interest. This decrease in volume sold by us through Casa de Pedra mine reduced our revenues in US$144 million;

§ The deconsolidation of Namisa, our 60% subsidiary in 2009, which negatively impacted our revenues in US$379 million in comparison to 2008; and

§ During 2009, we sold higher volumes of run-of-mine to our 60% non-consolidated investee Namisa, which increased our operating revenues in US$50 million as compared to 2008.

Our domestic sales decreased US$270 million, or 67.2%, to US$132 million in 2009 from US$402 million in 2008 due to the lower domestic demand and a significant decrease in domestic prices. Domestic sales represented 3% of our total sales in 2009 as compared to 21% in 2008.

Our export sales decreased US$422 million, or 43.1%, to US$558 million in 2009 from US$980 million in 2008 due to the deconsolidation of our 60% non-consolidated investee Namisa as of 2009, which impacted our export sales in US$337 million, as well as the decrease in iron ore prices worldwide. The sharpest sales decrease occurred in Asia, which reduced from US$826 million in 2008 to US$460 million in 2009, and to Europe, from US$148 million in 2008 to US$82 million in 2009.

Sales Taxes

Our deductions from operating revenues consist of sales taxes, which decreased by 31.5%, from US$1,835 million in 2008 to US$1,257 million in 2009.

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Steel

Steel sales taxes, which include the Social Integration Tax Program (*Programa de Integração Social*), or PIS, the Social Security Financing Tax (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, the Tax on Industrial Products (*Imposto sobre Produtos Industrializados*), or IPI, and Tax on Services (*Imposto sobre Serviços*), or ISS, and the Value-Added Tax (*Imposto sobre Circulação de Mercadorias e Serviços*), or ICMS, tax decreased US$556 million, or 32.1%, from US$1,734 million in 2008 to US$1,178 million in 2009, due to the reduction on sales of steel products to the domestic market, as described above.

Mining

In terms of mining, sales taxes consist of PIS, COFINS and ICMS. Mining sales taxes decreased by 60.4%, from US$53 million in 2008 to US$21 million in 2009 due to the decrease in sales to the domestic market and the decrease in iron ore prices.

Discounts, returns and allowances

Discounts, returns and allowances are also deducted from our operating revenues and decreased by 62.2%, from US$185 million in 2008 to US$70 million in 2009, representing 1% of our gross operating revenues in 2009 as compared to 2% in 2008. These discounts, returns and allowances are made in the ordinary course of our business.

Net Operating Revenues

Net operating revenues decreased by 30.2%, from US$7,187 million in 2008 to US$5,014 million in 2009, mainly due to the 31.1% decrease in operating revenues as discussed above.

Steel

Steel net operating revenues decreased US$1,766 million, or 30.1%, from US$5,865 million in 2008 to US$4,099 million in 2009, mainly due to the reduction in steel sales volume given the slowdown in demand, especially in the first half of 2009, lower prices in the international market and discounts in prices granted during the first half of 2009.

Mining

Net operating revenues decreased by 49.8%, from US$1,329 in 2008 to US$667 in 2009 primarily due to the decreases in sales volume and lower iron ore prices as described above.

Cost of Products Sold

Steel

The following table sets forth our steel production costs, the production costs per ton of steel and the portion of production costs attributable to the primary components of our costs of production. With the exception of coal and coke which we import and some metals (such as aluminum, zinc and tin), whose domestic prices are linked to international prices, our costs of production 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								
	2007			2008			2009		
	US$ 000	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**
Raw Materials									
Iron Ore	130,712	24.65	5.7	150,716	29.55	5.1	110,743	25.48	4.7
Coal	421,996	79.59	18.4	613,774	120.35	20.8	521,599	119.99	22.1
Coke	63,994	12.07	2.8	232,151	45.52	7.9	189,042	43.49	8.0
Metals	242,987	45.83	10.6	147,934	29.01	5.0	86,881	19.99	3.7
Outsourced Hot Coils	955	0.18	0.0	84,726	16.61	2.9	30,308	6.97	1.3
Outsourced Slabs	11,052	2.08	0.5	174,073	34.13	5.9	893	0.21	-
Other(1)	216,415	40.82	9.4	276,177	54.15	9.4	180,207	41.45	7.6
	1,088,111	**205.23**	**47.5**	**1,679,551**	**329.33**	**56.9**	**1,119,673**	**257.57**	**47.4**
Energy/Fuel	228,767	43.15	10.0	274,339	53.79	9.3	268.410	61.74	11.4
Labor	217,816	41.08	9.5	199,352	39.09	6.7	243.105	55.92	10.3
Services and Maintenance	396,300	74.75	17.3	370,547	72.66	12.6	335,107	77.09	14.2
Tools and Supplies	131,304	24.77	5.7	150,453	29.50	5.1	110,636	25.45	4.7
Depreciation	217,824	41.08	9.5	264,880	51.94	9.0	280,720	64.58	11.9
Others	12,414	2.34	0.5	11,023	2.16	0.4	3,685	0.85	0.2
	2,292,537	**432.4**	**100.0**	**2,950,145**	**578.47**	**100.00**	**2,361,336**	**543.2**	**100.00**

(1) Include pellets, scrap, limestone and dolomite.

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 cost of products sold is equivalent to our steel production cost.

We are self-sufficient in almost all the raw materials used in the steel production. The principal raw materials we use in our integrated steel mill include iron ore, coke, coal (from which we produce most of our coke necessities), limestone, dolomite, aluminum, tin and zinc. In addition, our production operations consume water, gases, electricity and ancillary materials.

We obtain all of our iron ore requirements from our Casa de Pedra mine located in the State of Minas Gerais, and the limestone and dolomite from our Bocaina mine in the city of Arcos, in the State of Minas Gerais.

The coal and coke we consume are acquired from different international producers See Item Raw Materials and Suppliers . During 2009, given the lower global demand for steel products, there was a decrease in the consumption and in the prices of some commodities used for steelmaking.

Our coal costs decreased 15.0%, from US$613.8 million in 2008 to US$521.6 million in 2009, corresponding to 22.1% of our steel production cost, given the reduction in consumption and the lower average prices.

There was also a decrease of 18.6% in the costs of coke, from US$232.1 million in 2008 to US$189.0 million in 2009, which accounted for 8.0% of our production cost, mainly due to the lower consumption.

Production cost decreased also due to the lower consumption of slabs and hot-rolled coils acquired from third parties in 2008. Those costs decreased 87.9%, from US$258.8 million in 2008 to US$31.2 million in 2009.

The costs of metals such as aluminum, zinc and tin also decreased from US$147.9 million in 2008 to US$86.9 million in 2009, or 41.2%, given the reduction in consumption and lower prices.

Other raw materials include pellets and scrap purchased in the market and also limestone and dolomite that we extract from our own mines in the city of Arcos, in the state of Minas Gerais.

Mining

Our cost of goods sold increased by 5.5% from US$401 million in 2008 to US$423 million in 2009 due to an increase in certain costs, such as labor, services and maintenance and energy and fuel. Our costs of products sold per ton increased from US$ 21.79 in 2008 to US$23.24 in 2009.

Gross Profit

Gross profit decreased by 50.8%, from US$3,585 million in 2008 to US$1,764 million in 2009, mainly due to the decrease of 30.2% in net operating revenues from US$7,187 million in 2008 to US$5,014 million in 2009 and given the decrease of 9.8% in the cost of products sold, from US$3,602 million to US$3,250 million.

Steel

Gross profit in the steel segment decreased US$1,277 million, or 48.0%, from US$2,661 million in 2008 to US$1,384 million in 2009 due to the reduction of US$1,766 million in steel net revenues and the reduction of US$489 million in the cost of steel products sold, from US$3,204 million in 2008 to US$2,715 million in 2009, mainly due to lower steel sales volumes and decrease in production, with a lower dilution of fixed costs.

Mining

Our gross profit decreased by 73.7% from US$928 million in 2008 to US$244 million in 2009 mainly due to the deconsolidation of our 60% non-consolidated investee Namisa, a decrease in iron ore prices and demand constraint in 2009 as compared to 2008.

Selling, General and Administrative Expenses

In 2009, we recorded selling, general and administrative expenses of US$553 million, representing a 12.4% decrease from the US$631 million recorded in 2008.

Selling expenses decreased by 16.3%, from US$412 million in 2008 to US$345 million in 2009, mainly due to a decrease in the steel sales volume on the domestic market.

General and administrative expenses decreased by 5.0%, from US$219 million in 2008 to US$208 million in 2009, as a result of our efforts to adapt our structure to the global economic and financial crisis.

Other Income (Expenses)

Other expenses decreased by US$63 million, from US$110 million in 2008 to US$47 million in 2009, mainly due to commercial contingencies and fines in 2008, in particular with respect to transportation of products, which did not occur in 2009.

Operating Income

Operating income decreased by 59.0%, or US$1,680 million, from US$2,844 million in 2008 to US$1,164 million in 2009. This decrease was mainly due to the US$1,821 million decrease in gross profit, reflecting mainly the effects of the global economic and financial crisis.

Non-operating Expenses (Income), Net

Our non-operating income (expenses), net are comprised of the financial results, foreign exchange and monetary results, and, in 2008, also included the gain on 40% dilution of interest in our 60% non-consolidated investee Namisa to an Asian consortium as explained below. Non-operating income, net decreased by US$570 million, from an income of US$97 million in 2008 to an expense of US$475 million in 2009.

On December 30, 2008, we sold 2,271,825 shares of Namisa s voting capital, one of our mining subsidiaries and, subsequently, Namisa issued 187,749,249 new shares at a price of US$16.20 per share, subscribed and paid in by Big Jump, increasing its ownership interest to 40%, diluting our voting and total interest in Namisa to 60%. Big Jump paid in cash for Namisa s shares the amount of US$3,041 million.

As a result of the acquisition, Big Jump holds 40% and CSN holds 60% of Namisa s shares. Based on the shareholders agreement of Namisa, our management concluded that Namisa s financial statements should not be consolidated with our financial statements as of December 30, 2008, as the purchaser consortium has effective and significant participation rights rather than protective rights through the right to participate in significant decisions related to Namisa s ordinary course of business. Accordingly, Namisa s results have been consolidated only until the date of sale and dilution, December 30, 2008.

Upon the sale of Namisa s shares and dilution, we adopted income statement recognition as our accounting policy for gains in dilution and, accordingly, recorded a net non-operating gain on 40%-dilution of our interest in the amount of US$1,667 million, as detailed below:

	Amount	Percentage	Gain (loss)
Namisa s net equity before capital increase by Big Jump, represented by 287,303,436 shares	395	40%	(158)
Capital increase by Big Jump through issuance of 187,749,249 new shares (US$1.48 per share plus additional paid in capital of US$14.72 per share)	3,041	60%	1,825
Net non-taxable gain on dilution of interest in Namisa			1,667

The gain of US$1,667 million referred to above is non-taxable since a dilution of interest is not considered as a capital gain in accordance with Brazilian tax law.

Financial expenses (income), Net

In 2009 our net financial expenses increased by 129.2%, or US$491 million, from US$380 million in 2008 to US$871 million in 2009, mainly due to the following items:

- US$156 million increase in interest income;
- US$384 million increase in interest expense;
- US$169 million decrease in our income from derivative instruments, and;
- US$94 million increase in our other financial expenses, net.

Interest income

Interest income increased by 156%, or US$156 million, from US$100 million in 2008 to US$256 million in 2009 mainly due to higher accrual of interest receivable from financial investments in the amount of US$67 million, interest receivable from loans to our 60% non-consolidated investee Namisa in the amount of US$87 million, and a waiver of interests on certain federal taxes in the amount of US$138 million. These increases in interest income were partially offset by a decrease of US$161 million related to the reversal of interest accrued on restricted deposits for legal proceedings on presumed credit of IPI.

Interest expense

Interest expense increased by 69.8%, or US$384 million, from US$550 million in 2008 to US$934 million in 2009 mainly due to interest on the prepayment agreements for port services and iron ore supplies entered into at the end of 2008. See Item 5E. Off-Balance Sheet Arrangements Contractual Obligations Namisa. These prepayment interest, that impacted the statements of income from January, 2009, amounted to US$450 million in 2009 partially offset by lower fines and interest on taxes in the amount of US$86 million.

Derivative instruments

The results on derivative instruments decreased by 135.2%, or US$169 million, shifting from a gain of US$125 million in 2008 to a loss of US$44 million in 2009 primarily due to the net results of our hedging swaps (USD vs. CDI) which generated a net loss of US$417 million in 2009.

Other financial income (expenses), net

Other financial income (expenses), net increased by 170.9%, or US$94 million, from an expense of US$55 million in 2008 to an expense of US$149 million in 2009 mainly due to an increase in discounts given to customers and certain bank commissions.

Foreign Exchange and Monetary Gain, Net

Foreign exchange and monetary gain, net increased by 133.4%, or US$1,687 million, from a loss of US$1,265 million in 2008 to a gain of US$422 million in 2009 mainly affected by appreciation of the *real* against the *U.S. dollar*. This appreciation affects:

- Our U.S. dollar-denominated gross debt;
- Our U.S. dollar-denominated cash and cash equivalents; and
- Our trade accounts receivable and payable.

Income Taxes

We recorded an expense for income tax and social contribution of US$219 million in 2009, as compared to US$414 million 2008. Expressed as a percentage of pre-tax income, income tax expense increased from 14.0% in 2008 to 31.7% in 2009. 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$234 million in 2009 and US$1,001 million in 2008 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates in order to reach the actual tax expense for the years.

For the year ended December 31, 2009, adjustments totaled US$15 million and were comprised of:

- a US$55 million benefit from interest on stockholders equity;
- a US$65 million adjustment related to non deductable foreign exchange expense from subsidiaries or taxed at different rates;
- a US$126 million benefit related to non taxable income from the Federal Tax Repayment Program, or REFIS, adjustments;
- tax incentives and other permanent differences that represented a net tax adjustment of US$29 million; and
- a US$72 million addition to valuation allowance since certain subsidiaries had tax losses carryforward in 2009 which are not expected to be recovered.

For the year ended December 31, 2008, adjustments totaled US$587 million and were comprised of:

- a US$39 million benefit from interest on stockholders equity;
- a US$472 million benefit related to non taxable income of subsidiaries or income taxable at different rates, net of US$567 million benefit related to the 40% dilution of our interest in Namisa;
- a US$21 million addition to valuation allowance since certain subsidiaries had tax losses carryforward in 2008 which are not expected to be recovered; and
- tax incentives and other permanent differences that represented a net tax benefit of US$97 million.

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

	Year Ended December 31,		
	2008	2009	Changes
	(In million of U.S. dollars)		
Brazil	3,225	1,039	(2,186)
Foreign	(284)	(350)	(66)
Total	**2,941**	**689**	**(2,252)**

Our taxable income in Brazil was impacted by the decrease in sales. The total decrease in taxable income generated in Brazil in 2009, as compared to 2008, totaled US$2,186 million. Expressed in *reais*, our taxable income decreased by 74.6% in 2009, as compared to 2008. Our foreign taxable income increased by US$66 million in 2009, as compared to 2008.

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

The provisions for contingencies relate to legal proceedings with respect to which we deem the likelihood of an unfavorable outcome to be probable and the loss reasonably estimable. 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 Statements of Financial Accounting Standards No. 5 (SFAS No. 5), included in ASC Topic 450, Contingencies. Those contingencies related to income taxes and social contributions are accounted for based on the more-likely-than-not concept in accordance with FIN 48, included in ASC Subtopic 740-10. 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 after contingencies have been resolved. This occurs when a final irrevocable decision is rendered by a court in Brazil. When we use contingent tax credits or benefits based on favorable temporary court decisions that are still subject to appeal to offset current direct or indirect tax obligations, we maintain the legal obligation accrued in our financial statements until a final irrevocable judicial decision on those contingent tax credits or benefits is rendered. The accrual for the legal obligation related to the current direct or indirect tax obligations offset is not reversed until such time as the utilization of the contingent tax credits or benefits is ultimately realized. The accounting for the contingent tax credits is in accordance with accounting for contingent assets under SFAS No. 5. Our accruals include interest on the tax obligations that we may offset with contingent tax credits or benefits at the interest rate defined in the relevant tax law.

We classify an accrual as short-term when we expect the liability to be settled in 365 days or less. As of December 31, 2009, US$109 million had been classified as short-term accrual for contingencies, as compared to US$69 million as of December 31, 2008. This usually occurs when a final, unappealable and irrevocable judgment has been rendered and the legal processes are in the execution phase. 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.

On November 26, 2009, CSN and its subsidiaries adhered to the REFIS introduced by Law 11,941/09 and Provisional Measure 470/09, in order to settle our tax and social security liabilities through a special settlement and installment payment system. Management s decision took into consideration the economic benefits provided by the REFIS, such as discounts and fines exemptions, as well as the high costs of maintaining pending lawsuits.

As a result, in 2009, we recorded the adjustments necessary to be made in the provisions, as well as reductions in debts, including debts offset against IPI premium credit over export, ordinary payment migration and sundry debts, which amounted to US$2.9 billion, including interests and related charges. Adherence to the special tax programs reduced the amount previously due in fines, interest and legal charges, generating a positive impact on our pre-tax income of US$255 million.

The new amount of the debts following the reductions stipulated by the tax program of Law 11,941/09 was offset with court deposits and the residual amount will be settled in 180 installments as of the ratification of the debts by the authorities, which we expect will take place in mid-2010. The debts due under Provisional Measure 470/09 are being settled in 12 installments beginning in November 2009. On December 31, 2009, taxes payable in installments from REFIS amounted to US$475 million. For a description of our policies for the provisioning of contingencies see "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information - Legal Proceedings" below.

Disputed taxes payable

Imposto sobre produto industrializado - IPI (Excise Tax) presumed credit on inputs

We have accrued a liability for certain tax liabilities that were offset against 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, the reason why we challenged this prohibition in 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 were awaiting the decision of a Brazilian trial court. 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 as of December 31, 2008 represented our statutory obligation to pay taxes that were offset with IPI excise tax credits.

We have noted that several other Brazilian companies have challenged the same prohibition and these companies have received both favorable and unfavorable judgments at different stages of the judicial process. Recently, for example, the Brazilian Federal Supreme Court issued a final, unappealable and irrevocable decision on June 25, 2007 against a given taxpayer, denying the use of these credits. On August 27, 2007 the proceeding had an unfavorable decision for us, which were paying the amount of US$519 million with the Federal Revenue of Brazil in installments and transferred the liability to the accounts of taxes payable in installments. From the unfavorable aforementioned decision, an appeal was filed by us.

In light of the above, on November 26, 2009, CSN adhered, the abovementioned cases to the REFIS introduced by Law 11,941/09 and Executive Order 470/09, and as a result the amount payable in installments was reduced to US$284 million as of December 31, 2009 (US$369 million as of December 31, 2008).

IPI premium credit over exports

We have accrued a liability for certain tax liabilities that were offset against 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 against these credits. The IPI premium tax credits relate to export sales made during 1992 to 2002. Tax laws allowed Brazilian companies to recognize IPI premium tax credits until 1983, when an act of the executive branch of the Brazilian government cancelled such benefits and prohibited companies from recognizing these credits. We challenged the constitutionality of the executive branch s action since only a law enacted by the Brazilian legislature could cancel or repeal benefits duly enacted by prior legislation. In August 2003, we sought and obtained a favorable decision from a Brazilian trial court that authorized the use of IPI premium tax credits.

The Brazilian National Treasury filed an appeal against such decision and was awarded a favorable decision from a Brazilian court of appeals. We filed appeals against such decision before both the Brazilian Superior Court of Justice and the Brazilian Federal Supreme Court and were still awaiting for decisions from such courts. In September 2006, the Brazilian 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 against the use of IPI premium tax credits.

During 2007, in view of these foreclosure proceedings, the distribution of dividends and the payment of interest on shareholders equity expected to take place on April 30, 2007 were suspended and the amount allocated for such purpose was blocked by court decision. On August 29, 2007, we offered assets in lien represented by treasury shares in the amount of US$270 million (R$536 million translated using the exchange rate as of the date of the transaction). 25% of this amount was substituted by judicial deposits in monthly installments performed up to December 31, 2007 and as these substitutions took place, the equivalent in shares was released from the lien at the share price determined at the closing price of the day prior to the deposit. In view of these events, our bank accounts were unblocked, the court decision to suspend the dividends distribution was revoked, and dividends were paid to shareholders as from September 4, 2007.

In March 2009, we offered Letters of Guarantee in the amount of US$477 million (R$830 million), which aimed to replace the levy of execution upon securities carried out as of the disclosure of dividend payment. The prevalence of guarantee in treasury shares, bank surety or cash to be deposited judicially had not yet been decided by the Regional Federal Court.

On August 13, 2009, the Brazilian Federal Supreme Court issued a decision with effects of general repercussion establishing that the IPI Premium Credit was only effective up to October 1990. Thus, the credits determined after 1990 were not recognized, and, in view of this court decision, our board of directors approved the adhesion of such debts to REFIS.

We had provisioned the amount of credits already offset, increased by default charges up to September 30, 2009 (as of December 31, 2008, the IPI premium credit accrual represented the accumulated IPI tax credits used of US$953 million). The new balance after the application of reductions set forth in the program of Law 11,941/09 was offset with court deposits related to referred operations, resulting in excess deposits amounting to US$297 million after application of REFIS reductions, which may be offset by other debts discussed in court by the taxpayer or converted into cash. Such debts are yet subject to ratification by the proper authorities, which we expect will take place in mid-2010. Debts registered pursuant to Provisional Measure 470/09 are being paid in 12 installments as of November 2009.

Income tax and social contribution

As disclosed in Note 6 to our consolidated financial statements for the year ended December 31, 2009 included elsewhere herein, we account for the uncertainties in income tax and social contribution in accordance with FIN 48 beginning on January 1, 2007.

Plano Verão

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 to 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 currently under accounting investigation.

At December 31, 2009, we had US$195 million, as compared to US$144 million in 2008 as judicial deposit and a provision of US$12 million, as compared to US$9 million in 2008, which represents the portion not recognized by the courts.

Social Contribution on Income from Export Revenues

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 referred 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. At December 31, 2009, the amount of suspended liability and the offset credits based on the referred proceedings was US$712 million, as compared to US$495 million at December 31, 2008, already adjusted by the SELIC.

The debts related to the offsetting of amounts paid as from 2001, as well as the debts related to the exclusion of export revenues from taxable basis were included in the REFIS. Such debts will be subject to ratification by the proper authorities, which we expect will take place in mid-2010. We still claim the exclusion of profits derived from exports from the calculation basis of the Social Contribution, according to the initial decision obtained by us.

PIS/COFINS Law No. 9,718/98

PIS and COFINS are taxes assessed on revenues. In 1998, new tax legislation was enacted which required Brazilian companies to pay PIS and COFINS on revenues resulted from financial investments. Prior to 1998, the Brazilian Federal constitution dictated that Brazilian companies were only required to pay PIS and COFINS taxes on revenues from operational activities. We challenged the constitutionality of the assessment of PIS and COFINS from financial investments since, in order to expand the PIS and COFINS tax calculation basis, the Brazilian legislature was required to observe a constitutionally mandated waiting period prior to enacting the legislation. In addition, at the time the new tax legislation was enacted, the Brazilian Federal constitution did not allow such taxes to be assessed on revenues from financial investments. In February 1999, a lower court confirmed this position. We sought and obtained a favorable preliminary order in March 2000. In April 2000, the Brazilian tax authorities appealed to a Brazilian court of appeals. On March 6, 2006, the relevant Brazilian court of appeals issued a decision unfavorable to us. On March 10, 2006, we appealed against such decision before both the Brazilian Superior Court of Justice and the Brazilian Supreme Court. Until the resolution of these appeals, our rights under the initial favorable decision were still in effect. The PIS/COFINS accrual represents our statutory obligation to pay PIS/COFINS taxes due. We have noted that some 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 given company did not obtain a favorable decision and was required to pay the related tax obligation.

On May 31, 2007, a decision in our favor was made final and unappealable. Such decision was published in the Official Gazette of Justice, on June 16, 2007, when in view we reversed the provision existing on that date. The reversal of the provision increased our operating results of 2007 by US$179 million.

Other non-income tax contingencies

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$2.6 billion as of December 31, 2009 (US$2.5 billion as of December 31, 2008), of which U$$1.8 billion is related to tax proceedings (US$1.9 billion as of December 31, 2008), US$0.2 billion to civil judicial processes (US$0.2 billion as of December 31, 2008) and US$0.6 billion to labor lawsuits (US$0.4 billion as of December 31, 2008). Most of these other proceedings are comprised of tax assessments received related to fines and penalties on credits used to offset legal and tax-related obligations that were previously considered as remote. Our external legal counsel deemed that the risk of loss arising from these lawsuits was only possible as opposed to probable. Therefore, we did not record accruals for contingencies with respect to these lawsuits.

Other tax 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.

Year 2008 Compared to Year 2007

Operating Revenues

Our operating revenues increased by 31.9%, from US$6,978 million in 2007 to US$9,207 million in 2008, as a result of the following combined effects: (i) successive steel price hikes along the year in the Brazilian market, (ii) a better sales mix concentration, and (iii) a larger share of the mining segment as a percentage of our total revenues, which benefits from higher iron prices in the international market.

We recorded annual steel sales volume of 4,891 million tons in 2008, representing a decrease from 5,378 million tons in 2007, and annual iron-ore sales of 18.5 million tons in 2008, excluding own consumption, a Company record. In 2007, we recorded annual iron-ore sales of 10.5 million tons.

The strong performance of the Brazilian steel sector in the first ten months of 2008 evidenced a 9% increase on our domestic sales as compared to 2007, as a result mainly of a strong demand for steel products and successive price increases. In November 2008, however, the global financial crisis affected our customers and demand for our products decreased abruptly. According to IBS, crude steel production remained flat over 2007 at 33 million tons.

Domestic Sales

Our annual domestic sales volume increased 15% from 3,614 million tons in 2007 to 4,158 million tons in 2008, in line with our strategy of prioritizing the Brazilian market, where we have historically generated higher profit margins.

According to IBS, we recorded an average steel market share of 39% in 2008 in terms of volume, as compared to the 34% market share 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 40% of total domestic volume in 2008

Domestic prices were adjusted three times in March, May and July of 2008, amounting to the following increases: 50% for hot-rolled, 38% for cold-rolled, 27% for galvanized and 12% for tin plate.

In the domestic market, our operating revenues increased by 39.6%, from US$5,283 million in 2007 to US$7,377 million in 2008, as a result of the combined effect described above.

Annual iron-ore sales, excluding own consumption, reached 18.5 million tons in 2008, an all-time record for the Company, with domestic sales accounting for 3.9 million ton, or 21% of the total.

Export Sales

The year 2008 was marked by a slowing global demand for steel products, and exceptionally volatile prices for metals and other commodities.

In 2008 we exported 733,000 tons of steel products, representing a 58.4% decrease as compared to the exported volume recorded in 2007. Our iron-ore sales exports volume increased 186.9% from 5.1 million tons in 2007 to 14.7 million tons in 2008.

Operating revenues from our exports increased 8.0% from US$1,695 million in 2007 to US$1,830 million in 2008, as previously explained.

The main effects the slowing global demand for steel products are explained below, by each international market.

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USA

Given the U.S. economy, which had been showing signs of weakening since the end of 2007, the steel demand fell by 25% in 2008. Lack of credit and consumer confidence had a direct impact on the destocking of steel products and distributors inventories began to fall slightly as of September 2008.

Despite this reduction in inventory, however, prices continued to fall and hot-rolled coils closed the year at around US$540 per ton, 12% below the average prices recorded in the last 5 years.

Industry capacity use also felt the effects of the downturn, falling from 90% in mid-year to 50% at the end of 2008, as the industry sought to balance domestic market supply by cutting back on production. Only 9 out of the 30 blast furnaces in the United States were operating by the end of 2007.

According to the International Iron and Steel Institute, or IISI, U.S. steel production totaled 91 million tons in 2008, representing a decrease of 7.31% as compared to 2007.

Europe

The 2008 financial crisis spread through Europe in September and rapidly struck the steel sector. Auto production fell steadily throughout the year, reducing steel demand in the second half of 2008.

In order to prevent a price collapse, European producers cut output by 35%. Nevertheless, inventories remained high and there was additional pressure from imports, and prices reached their lowest levels at the beginning of 2009.

With the recent reduction in freight charges, imported steel became more competitive than the local product at the end of the year. Transport costs, which had peaked at US$130 per ton by mid 2008, closed at just US$10 per ton on December 2008, favoring imports, especially from China.

Asia

According to CRU Analysis, steel plate demand levels in China, which had been recording double-digit growth for some time, was in decline in the last two months of 2008 and it is estimated that the annual steel consumption must have fallen by 17% due to dwindling demand in both the domestic and international markets.

Nevertheless, IISI figures show that Chinese steel production edged up by 1.7% in 2008 to more than 500 million tons. In Japan, however, it contracted by 1.2% to 118 million tons.

Sales Taxes

Our deductions from operating revenues consist of sales taxes the Social Integration Tax Program (*Programa de Integração Social*), or PIS, the Social Security Financing Tax (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, the Tax on Industrial Products (*Imposto sobre Produtos Industrializados*), or IPI, and Tax on Services (Imposto sobre Serviços), or ISS, and the ICMS tax. Sales taxes increased by 41%, from US$1,305 million in 2007 to US$1,835 million in 2008. This increase is explained by the substantial increase on sales in the domestic market, in line with our strategy of prioritizing the Brazilian market.

Discounts, returns and allowances

Discounts, returns and allowances are also deducted from our operating revenues. Although discounts, deductions and allowances increased by 18.6%, from US$156 million in 2007 to US$185 million in 2008, they remained stable when compared to our gross operating revenues. These discounts, returns and allowances were made in the ordinary course of our business.

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Net Operating Revenues

Net operating revenues increased by 30.3%, from US$5,517 million in 2007 to US$7,187 million in 2008, mainly due to the 31.9% increase in operating revenues, whereas sales deductions experienced an increase of 38.3%. Sales deductions, as a percentage of operating revenues, were 20.9% in 2007 and 21.9% in 2008.

Cost of Products 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 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 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								
	2006			**2007**			**2008**		
	US$ 000	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**	**US$ 000**	**US$/ton**	**%**
Raw Materials									
Iron Ore	66,174	14.92	3.2	130,712	24.65	5.7	150,716	29.55	5.1
Coal	348,264	78.52	16.9	421,996	79.59	18.4	613,774	120.35	20.8
Coke	36,048	8.13	1.7	63,994	12.07	2.8	232,151	45.52	7.9
Metals	165,020	37.20	8.0	242,987	45.83	10.6	147,934	29.01	5.0
Outsourced Hot Coils	30,712	6.92	1.5	955	0.18	0.0	84,726	16.61	2.9
Outsourced Slabs	389,095	87.72	18.9	11,052	2.08	0.5	174,073	34.13	5.9
Other(1)	136,206	30.71	6.6	216,415	40.82	9.4	276,177	54.15	9.4
	1,171,519	**264.12**	**56.8**	**1,088,111**	**205.23**	**47.5**	**1,679,551**	**329.33**	**56.9**
Energy/Fuel	**169,349**	**38.18**	**8.2**	**228,767**	**43.15**	**10.0**	274,339	53.79	9.3
Labor	**175,651**	**39.60**	**8.5**	**217,816**	**41.08**	**9.5**	199,352	39.09	6.7
Services and Maintenance	**274,440**	**61.87**	**13.4**	**396,300**	**74.75**	**17.3**	370,547	72.66	12.6
Tools and Supplies	**100,752**	**22.71**	**4.9**	**131,304**	**24.77**	**5.7**	150,453	29.50	5.1
Depreciation	**165,813**	**37.38**	**8.0**	**217,824**	**41.08**	**9.5**	264,880	51.94	9.0
Others	**5,055**	**1.14**	**0.2**	**12,414**	**2.34**	**0.5**	11,023	2.16	0.4
	2,062,579	**465.0**	**100.0**	**2,292,537**	**432.4**	**100.0**	**2,950,145**	**578.47**	**100.00**

(1) Include pellets, scrap, limestone and dolomite.

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 cost of products sold is equivalent to our production cost.

We are self-sufficient in almost all the raw materials used in the steel production. 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.

We obtain all of our iron ore requirements from our Casa de Pedra mine located in the State of Minas Gerais, and the limestone and dolomite from our Bocaina mine in the city of Arcos, in the State of Minas Gerais.

The coal and coke we consume are acquired from different international producers See Item Raw Materials and Suppliers . Given the worldwide economic growth over the last few years and increasing demand for various commodities, coal and coke producers significantly raised their prices up until mid 2008, which strongly impacted the steel industry.

Our coal costs increased from US$422.0 million in 2007 to US$613.8 million in 2008, reaching 20.8% of our production cost, due to the increased prices.

With respect to coke, we faced not only significant price increases, but also larger consumption, which impacted significantly our costs. Our coke costs raised from US$64.0 million in 2007 to US$232 million in 2008, accounting for 7.9% of our total production cost.

Another factor that impacted our production costs was the acquisition until October 2008 of slabs and hot-rolled coils from third parties in order to face the increase in domestic demand for flat steel. The costs with outsourced slabs and hot coils reached US$258.8 million in 2008, representing almost 9% of our total production costs, different from 2007, when we did not acquire slabs and hot-rolled coils from third parties.

Other raw materials include pellets and scrap purchase in the market and also limestone and dolomite that we extract from our own mines in the city of Arcos, in the State of Minas Gerais.

Energy and fuel costs increased from US$228.8 million in 2007 to US$274.3 million in 2008 owing to the increase in gas price, corresponding to 9% of our total production costs.

Gross Profit

Gross profit increased by 47.9%, from US$2,441 million in 2007 to US$3,611 million in 2008, mainly due to the increase of 30.3% in net operating revenues from US$5,517 million in 2007 to US$7,187 million in 2008, which was partially offset by the increase of 16.2% in the cost of products sold.

The 30.3% increase in our consolidated net operating revenues from 2007 to 2008 can be attributed to the following:

In connection with our steel segment: (i) larger volume of sales in the domestic market (increase from 3,614 million tons in 2007 to 4,158 million tons in 2008) where we historically have recorded higher profit margins; (ii) increase of the domestic sales in terms of total sales volume, from 67% in 2007 to 85% in 2008; and (iii) successive steel price hikes in the domestic market during 2008.

In connection with the mining segment: (i) an all-time record of 18.5 million tons of iron ore sales volume in 2008 due to the increase of our iron ore export capacity in the Itaguaí Port and general improvements in iron ore extraction processes and logistics; and (ii) the increase in average iron ore prices in the international market realized in 2008.

On the other hand, our cost of products sold increased at a lower rate (16.2%) due to the following reasons:

In connection with the steel segment (i) cost of products sold is mainly driven by raw material prices (which represent 50% of our total steel production cost); (ii) we are self sufficient in the production of iron ore, which is one of the main raw material for steelmaking - thus, our exposure to the increases in raw material prices realized in 2008 was mainly limited to coke and coal (which represented 29% of our production cost in 2008); and (iii) there was no significant oscillation in the other steel production costs for the year.

In connection with the mining segment: (i) the production cost is basically driven by extraction, beneficiation and logistic costs, which remained stable in 2008; and (ii) we realized a dilution in our per ton iron ore fixed production costs, due to the aforementioned increase in sales volumes.

Selling, General and Administrative Expenses

In 2008, we recorded selling, general and administrative expenses of US$631 million, representing a 27.5% increase from the US$495 million recorded in 2007.

Selling expenses increased by 32.9%, from US$310 million in 2007 to US$412 million in 2008, mainly due to an increase in our efforts to sell steel products on the domestic market, an increase in freight prices and distribution costs, and higher provisions for doubtful accounts. If expressed in *reais*, these expenses increased by 30.0%, but remained stable at 5.6% as a percentage of net operating revenues.

General and administrative expenses increased by 18.4%, from US$185 million in 2007 to US$219 million in 2008, mainly due to higher labor costs, given the increase in the number of employees in 2008 and the annual wage increases in May 2008. If expressed in *reais*, these expenses increased by 11.7% and decreased from 3.3% to 3.0%, as a percentage of net operating revenues.

Other Income (Expenses)

Other expenses increased by US$51 million, from an expense of US$85 million in 2007 to an expense of US$136 million in 2008, mainly due to increases in commercial contingencies and fines, in particular with respect to transport of products.

Operating Income

Operating income increased by 52.8%, or US$983 million, from US$1,861 million in 2007 to US$2,844 million in 2008. This growth was mainly due to the US$1,170 million increase in gross profit, reflecting mainly the successive steel product price hikes along the year in the Brazilian market and the contribution of our mining segment.

Non-operating Expenses (Income), Net

Non-operating income, net decreased by US$203 million, from an income of US$300 million in 2007 to an income of US$97 million in 2008. Our non-operating expenses (income), net are comprised of financial expenses, net, foreign exchange and monetary loss (gain), net and, in 2008, also the gain on 40% dilution of interest in our subsidiary Namisa to an Asian consortium.

On December 30, 2008, we sold 2,271,825 shares of Namisa s voting capital, one of our mining subsidiaries and, subsequently, Namisa issued 187,749,249 new shares at a price of US$16.20 per share, subscribed and paid up by Big Jump Energy Participações S.A., or Big Jump, a company whose shareholders are Brazil Japan Iron Ore Corporation, or BJIOC, and Posco, increasing its ownership interest to 40%, diluting our voting and total interest in Namisa to 60%. BJIOC is a company incorporated by a consortium formed by the Japanese companies Itochu Corporation, JFE Steel Corporation, Nippon Steel Corporation, Sumitomo Metal Industries Ltd, Kobe Steel Ltd and Nisshin Steel Co Ltd, and the Korean company, Posco. Big Jump paid in cash for Namisa s shares the amount of US$3,041 million.

As a result of the acquisition, Big Jump holds 40% and CSN holds 60% of Namisa s shares and also based on the shareholders agreement of Namisa, our management concluded that Namisa s balance sheet should not be consolidated with CSN s balance sheet as of December 30, 2008; accordingly, Namisa s results have been consolidated until the date of sale and dilution. After analyzing the transaction, we concluded that the purchaser consortium has effective and significant participation rights rather than protective rights through the right to participate in significant decisions related to Namisa s ordinary course of business.

Upon the sale of Namisa s shares and dilution, CSN adopted income statement recognition as its accounting policy and, accordingly, recorded a net non-operating gain on 40%-dilution of its interest in the amount of US$1,667 million, as detailed below:

	Amount	Percentage	Gain (loss)
Namisa s net equity before capital increase by Big Jump, represented by 287,303,436 shares	395	40%	(158)
	3,041	60%	1,825

Capital increase by Big Jump through issuance of 187,749,249 new shares (US$1.48 per share plus additional paid in capital of US$14.72 per share)	
Net non-taxable gain on dilution of interest in Namisa	1,667

The gain of US$1,667 million referred to above is non-taxable since a dilution of interest is not considered as a capital gain in accordance with Brazilian tax legislation.

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Financial Expenses (Income), Net

In 2008, our net financial expenses, increased by 73.5%, or US$161 million, from US$219 million in 2007 to US$380 million, mainly due to the following items:

- US$21 million increase in interest income;
- US$130 million decrease in interest expense;
- US$291 million decrease in our income from derivative instruments; and
- US$21 million decrease in other financial income (expenses).

Interest Income

Interest income increased by 26.6%, or US$21 million, from US$79 million in 2007 to US$100 million in 2008, mainly due to greater average amount of cash and cash equivalents.

Interest Expense

Interest expense decreased by 19.1%, or US$130 million, from US$680 million in 2007 to US$550 million in 2008. This decrease was mainly due to a sharp decrease in interest on tax contingencies of US$245 million, as well as lower interest rates on our *real*-denominated debt. This decrease was partially offset by an increase in taxes on financial income, in the amount of US$175 million.

Derivative Instruments

The results on derivative instruments decreased by US$291 million, from an income of US$416 million in 2007 to an income of US$125 million in 2008. Despite the depreciation of the exchange rate as of December 31, 2008, as compared to the exchange rate as of December 31, 2007, our foreign exchange derivative instruments generated an income of US$419 million in 2008 as compared to an expense of US$219 million in 2007, which was offset by an expense of US$530 million in 2008 in our equity linked derivatives, as compared to a gain of US$640 million in 2007. In September 2008, we realized our equity swap agreement with a gain of US$1,005.7 million. After realization, we renewed our equity swap agreement and, as of December 31, 2008, the accrued amount in our current liabilities, based on the market value of our ADRs was an unrealized loss of US$685.1 million. For more information on the equity swap agreements, see Item 4B Risk Factors , Item 10C Material Contracts , Item 11 Quantitative and Qualitative Disclosures About Market Risk Equity Risk and Note 21 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, from an expense of US$34 million in 2007 to an expense of US$55 million in 2008, mainly due to expenses incurred in the normal course of business such as discounts, taxes on financial income, 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 388.8%, or US$1,703 million, decrease in foreign exchange and monetary gain, from a US$438 million gain in 2007 to a US$1,265 million loss in 2008, was primarily caused by the depreciation of the *real* against the U.S. dollar, which increased our expenses in connection with U.S. dollar-denominated debt and accounts payable.

Income Taxes

We recorded an expense for income tax and social contribution of US$414 million in 2008, as compared to US$534 million 2007. Expressed as a percentage of pre-tax income, income tax expense decreased from 24.7% in 2007 to 14.0% in 2008. 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$1,001 million in 2008 and US$735 million in 2007 (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 year ended December 31, 2008, adjustments totaled US$587 million and were comprised of:

- a US$39 million benefit from interest on stockholders equity;
- a US$472 million benefit related to non taxable income of subsidiaries or income taxable at different rates, net of US$567 million benefit related to the 40% dilution of our interest in Namisa;
- a US$21 million addition to valuation allowance since certain subsidiaries had tax losses carryforward in 2008 which are not expected to be recovered; and
- tax incentives and other permanent differences that represented a net tax benefit of US$97 million.

For the year 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;
- a US$12 million additions to valuation allowances; and
- other permanent differences that represented a net tax benefit of US$14 million.

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

	Year Ended December 31,		
	2007	**2008**	**Changes**
		(In million of U.S. dollars)	
Brazil	1,562	3,225	1,663
Foreign	599	(284)	(883)
Total	**2,161**	**2,941**	**780**

Our taxable income in Brazil was impacted by the increase in sales. The total increase in taxable income generated in Brazil in 2008, as compared to 2007, totaled US$1,663 million. Expressed in *reais*, our taxable income increased by 28.4% in 2008, as compared to 2007. Our foreign taxable income decreased by US$883 million in 2008, as compared to 2007.

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.

Mining Segment

We began exporting iron ore only in 2007, when we first presented our results by segment. As a result we only had a full year of iron ore export operation in 2008 and any comparative analysis for our mining segment between 2008 and 2007 is not representative in light of the low volumes sold in 2007.

Operating revenues for our mining segment, excluding intersegment sales[1], amounted to US$1,211 million in 2008, as compared to US$267 million in 2007, an increase of US$944 million (or 353.6%). If we include intersegment sales, operating revenues for our mining segment would have amounted to US$1,382 million in 2008, as compared to US$267 million in 2007, an increase of US$1,115 million (or 417.6%).

The increase in operating revenues for our mining segment was mainly due to:

(i) Increase in total iron-ore sales volume from 10.5 million tons in 2007 to 18.5 million tons in 2008, a 76% increase, mainly due to the increase in capacity in our Solid Bulks seaport terminal in the Itaguaí Port. The completion of the second phase of this terminal project in the Itaguaí Port resulted in an increase of the handling capacity from 7 million tons of iron ore per year in 2007 to 30 million tons in 2008.

In terms of operating revenues, this increase in capacity enabled us to increase our export sales and, consequently, the total iron ore sales volumes, which resulted in an increase of US$523 million to our mining segment operating revenues from 2007 to 2008; and

(ii) Increase in iron ore international prices in light of substantial demand from China. In 2008 iron ore export prices averaged US$67 per ton, 56% more than the US$43 per ton average in 2007. The impact of the increase in prices on our operating revenues resulted in an increase of US$421 million to our mining segment from 2007 to 2008.

Cost and Operating Expenses for the mining segment increased from US$347 million in 2007 to US$562 million in 2008 due to the higher volume sold in 2008.

In 2008 our gross profit for the mining segment amounted to US$928 million, with gross margin of 70%, and operating income amounted to US$767 million, with operating margin of 58%. As compared to 2007 our margins increased in light of increase in iron ore prices, greater volume sold and dilution of iron ore fixed production costs.

In 2008 operating revenues, gross profit, and operating income for Namisa were US$434 million, US$263 million and US$168 million, respectively. Therefore, excluding Namisa our operating revenues, gross profit, and operating income arising from our mining activities in 2008 would have been US$948 million, US$665 million and US$599 million, respectively, which would still represent significant increases if compared to 2007 (which included Namisa).

Namisa s results for 2009 will be presented as equity in results of affiliates in our statement of income under our mining segment.

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[1] In 2008, intersegment sales from mining to steel segment amounted to US$171 million. Including intersegment sales, mining operating revenues totaled US$1,382 million as presented in our consolidated statements of income in Note 19.

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 2010 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 December 31, 2007, 2008 and 2009 totaled US$1,213 million, US$3,542 million and US$3,981 million, respectively.

Cash Generated by Operating Activities

We generated cash from our operations in the total amount of US$1,264 million, US$2,067 million and US$40 million in 2007, 2008 and 2009 respectively. The US$2.027 million decrease in cash flow from operating activities in 2009 as compared to 2008 was mainly due to:

(i) a decrease of US$1,373 million in the net income reported by us in 2009;

(ii) a decrease of US$639 million in adjustments to reconcile net income mainly driven by a US$1,687 million decrease in net foreign exchange gain, a US$339 million decrease in accrual for derivatives, and a gain in equity results in the amount of US$694 million due to Namisa s results of operations, partially offset by the gain on dilution of our interest in Namisa of US$1,667 million recognized in 2008;

(iii) a decrease of 1,213 in our operating liabilities primarily due to a decrease of US$1,064 million in trade accounts payable, US$416 million in interest paid, partially offset by an increase of US$330 million in taxes payable; and

(iv) these decreases were partially offset by a decrease of US$1,198 million in our operating assets such as trade accounts receivable and inventories.

Cash Used in Investing Activities

We used cash in our investing activities in the total amount of US$1,091 million, US$1,292 million and US$829 million in 2007, 2008 and 2009, respectively. The net decrease of US$463 million in 2009 as compared to 2008 was mainly due to net effects of equity swap margin of guarantee of US$404 million, offset by a increase of US$191 million in restricted deposits from legal proceedings, US$143 million related to acquisition of investment in Riversdale Mining Limited and US$256 million due to intercompany loans.

Cash Used in Financing Activities

Cash used in financing activities was US$122 million in 2007 and provided by was US$1,867 million and US$872 million in 2008, and 2009, respectively. The US$995 million decrease in cash provided by financing activities in 2009, as compared to 2008, was mainly due to a increase in long-term debt repayments of US$509 million, distribution of dividends and interest on shareholders equity of US$1,017 million in 2009, decrease of US$221 million when compared to US$1,238 million in 2008, and increase in US$590 million due to acquisition of our own shares to be held in treasury. Additionally, in 2008, financing activities were impacted by approximately US$3.0 billion received on December 30, 2008 as pre-payment for future sales of ROM and rendering of port services to Namisa.

Trade Accounts Receivable Turnover Ratio

Our receivable turnover ratio (the ratio between trade accounts receivable and net operating revenues), expressed in days of sales increased to 36 on December 31, 2009 from 27 on December 31, 2008, reflecting the effects of the global economic and financial crisis.

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 increased to 140 days in 2009, as compared to 117 days in 2008, primarily as a result of the lower demand for steel products worldwide in 2009.

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 61 on December 31, 2009 from 79 on December 31, 2008, reflecting the effects of world financial crisis in 2009.

Liquidity Management

Given the capital intensive and cyclical nature of our industry, 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, 2009, cash and cash equivalent instruments totaled US$3,981 million.

We were also taking advantage of the 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, 2009, short-term and long-term indebtedness accounted for 5.8% and 94.2%, 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.

Capital Expenditures and Investments

In 2009, our capital expenditures were US$930 million used in acquisitions of equipment, of which US$214 million was used in the Casa de Pedra mine expansion, US$23 million in projects relating to the Itaguaí Port expansion and US$245 million in maintenance.

In 2010, we plan to make capital expenditures of up to US$2,305 million, compared to US$930 million in 2009, of which US$502 million will be used in the Casa de Pedra mine expansion, US$352 million in projects relating to the Itaguaí Port expansion and US$178 million in running capex. We also plan to invest US$1,325 million in subsidiaries, of which US$808 million in Transnordestina S.A, US$284 million in CSN Long Steel, US$155 million in CSN Cement and US$78 million in other subsidiaries.

Total planned investments for the period between 2010 and 2016 amount to US$18.8 billion, of which: US$6.2 billion are planned for our mining business (Casa de Pedra capacity expansion to 50 mtpy; Namisa capacity expansion to 39 mtpy; TECAR capacity expansion to 84 mtpy); US$4.8 billion are planned for our steel business (increase in long steel capacity of 1.5 mtpy with 3 plants; expansion of flat steel of 1.5 mt; and other projects focused on improving our operational return, such as a coke battery revamp); US$1 billion are planned for our cement business (3 plants of 1 mt each, Arcos Integrated Plant of 0.6 mt and Volta Redonda Expansion to 2.4 mt); US$3.4 billion are planned for logistics (Transnordestina Extension and Berth 301 in TECON); and US$3.4 billion for our maintenance and programs to improve our performance.

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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, 2008 and 2009, 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$5,525 million and US$8,034 million, respectively, equal to 167% and 192% of the stockholders equity at December 31, 2008 and 2009, respectively. At December 31, 2009, our short-term debt (composed of current portion of long-term debt, mark-to-market adjustments on derivative instruments, and including accrued finance charges) totaled US$715 million and our long-term debt (composed of long-term debt and debentures) totaled US$7,319 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, 2009, approximately 41% 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 and interest rate losses on our debt and currently our exposure is protected through foreign exchange derivative products, including futures, swaps, and FRA-Forward Rate Agreement. For a description of our derivative instruments, see Note 21 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 Year 2009 Compared to Year 2008 Non-operating Expenses (Income), Net and Item 5A. Operating Results Results of Operations Year 2008 Compared to Year 2007 Non-operating Expenses (Income), Net.

The major components of US$452 million of our consolidated current portion of long-term debt outstanding at December 31, 2009 were:

- US$94 million of trade-related transactions;
- US$124 million of advances on export contracts;
- US$127 million of BNDES-Finame;
- US$101 million of pre export financing; and
- US$6 million of other financings.

The major components of US$7,319 million of our consolidated long-term debt outstanding at December 31, 2009 were (amounts are reflected in long-term debt):

- US$345 million in a local debenture;
- US$1,046 million of export pre-payments and trade-related transactions;
- US$1,700 million of Euronotes;
- US$819 million of BNDES-Finame;
- US$750 million in perpetual bonds;
- US$1,432 million of pre export financing; and
- US$1,227 million of other financings.

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The local debenture is a real-denominated debt instrument, issued in February 2006, of R$600 million six-year debentures bearing interest at a rate of 103.6% of the CDI rate per annum.

Eurodollar and Euronotes 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 (i) the US$300 million bonds, 10% per annum coupon, and the US$300 million notes, 8.25% per annum coupon, issued in 1997 with final maturity in 2047; (ii) the US$550 million notes, 9.75% per annum coupon, issued in December 2003 and January 2004 with final maturity in 2013; (iii) the US$400 million notes, 10% per annum coupon, issued in September 2004 and January 2005 with final maturity in 2015, and (iv) the US$750 million notes, 6.875% per annum coupon, issued in September 2009 with maturity in 2019.

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 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.

Our export receivables securitization program launched in June 2003 currently includes three series of senior secured notes outstanding, issued in July 2003, June 2004 and July 2005. On July 2, 2009, we notified the creditors of the July 2003 tranche notes on our irrevocable intention of performing the early redemption of such notes, settlement of which occurred on August 5, 2009 at the principal amount of US$35.5 million. Also on July 2, 2009 we began a consent solicitation process with creditors related to the June 2004 and July 2005 tranche notes in order to obtain their consent or waiver in relation to the following matters: (i) inclusion of iron ore receivables in the program; (ii) adoption of flexible dates for the performance of early redemption of notes; (iii) change in a few export coverage ratios provided for in the program; and (iv) waive certain accumulation events occurred in the 21st and 23rd quarters of the program, for possible characterization purposes of an early amortization event. On August 5, 2009, the trustee for the program confirmed to have received the creditors consents for both tranches in sufficient amount to approve all these matters.

We issued export credit notes, or NCEs: (i) on April 11, 2008, in the amount of R$100 million in favor of Banco do Brasil S.A., due 2013; (ii) on September 30, 2009, in the amount of R$1.0 billion, in favor of Banco do Brasil S.A., due 2014; and (iii) on September 30, 2009, in the amount of R$300 million, in favor of Banco Nossa Caixa S.A., due 2014.

On August 18, 2009 we contracted a credit facility from Caixa Econômica Federal, or CEF, under its special credit for large companies, in the form of a bank credit bill, or CCB, in the amount of R$2.0 billion and to be amortized in 36 months.

On February 9, 2010 we contracted an additional credit facility from CEF under its special credit for large companies, in the form of a CCB, in the amount of R$1.0 billion and to be amortized in 36 month.

On May 21, 2010, our subsidiary Congonhas Minérios S.A. issued an NCE in the amount of R$2.0 billion in favor of Banco do Brasil S.A. The NCE will be amortized over eight years and is guaranteed by us.

Maturity Profile

The following table sets forth the maturity profile of our long-term debt at December 31, 2009:

Maturity in	Principal Amount
	(In millions of US$)
2011	1,112
2012	2,104
2013	1,250
2014	601
2015 and thereafter	1,502
Perpetual securities	750
Total	7,319

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 integrated technical assistance services, where CSN customers receive from our engineers guidance and recommendations to help them make better use of our steel products. This unit works closely with the sales sector, focusing on product development that will meet our customers needs.

Another feature are the workshops focusing on product development, applications, simultaneous engineering for cost reduction and parameters adjustment on CSN steel products and customers final products on automotive, home appliances, steel packaging and civil construction segments.

Our investment in research and development projects and activities in 2009 totaled US$22.8 million. New products recently developed under our research and development program include: (i) dual phase steels to reduce overall weight of automobiles; (ii) extra deep draw quality (EDDQ) steel for inner and exposal parts of automobiles; (iii) bake hardening ultra low carbon steel for exposal parts of automobiles; (iv) extra tin cold rolled steel CSN Extra Fino ® for home appliance and furniture applications, (v) electrical steel as cold-rolled used for energy saving in refrigerator compressors and electric motors; (vi) special steel grades for thickness reduction on tin plate products for two-piece cans; (vii) special tin plate steel for expanded three-piece cans; (viii) innovation on the three pieces cans and launching new design and shape in the market; (ix) pre-painted steel for automotive fuel thanks replacing plastic in Brazilian automobile market; (x) pre-painted steel for home appliances refrigerator cabinets; (xi) high-strength low-alloy hot-rolled steels used for automobile parts; and (xii) galvalume used for civil construction.

5D. Trend Information

Overview

For 2010 and the following years, the combination of gradual global economic recovery and the positive outlook of domestic consumption in Brazil provide a favorable scenario for our business.

We expect that investments will benefit from this favorable economic scenario, rewarding our decision to continue to implement our investment projects during the global economic and financial crisis in 2008 and 2009.

In addition to organic growth projects, we routinely review potential acquisition opportunities and strategic alliances in all segments in which we operate in Brazil and abroad, in order to accelerate our expansion and value generation.

We have consistently presented sound financial results, and comfortable indebtedness level. Our comfortable current cash situation provides support for organic growth portfolio, finances possible acquisitions and at the same time maintains a special policy of dividends distribution for our shareholders, being in a competitive and favorable position in relation to other groups of the sector.

Steel

Despite the slight recovery of global steel production and a more positive outlook for Brazil, idle capacity is still above historical average levels and the worldwide high values of capex demands compatible incentive prices in order to render new projects feasible.

According to the IABr, domestic steel product consumption is expected to increase by 23.3% in 2010 to 22.9 million tons, while exports are expected to increase by 23.4% to 11 million tons, alongside a 25.1% increase in production to 33.2 million tons. Due to the continuous rising urbanization in developing countries and also world population growth, steel consumption is forecast to continue to increase beyond 2014 and therefore raw materials will be needed to support the production growth.

In this context, we are assessing alternatives and growing arrangements for our flat steel industrial facilities, with a view towards potential growth of our steel production, that currently operates at a 5.1 mtpy pace of rolling steel.

We increased our interest in the automotive market and have projects under implementation that will allow growth in segments of higher added value, to optimize results per produced ton.

Also in the flat steel market, in 2010 and 2011, we will diversify our supply of greater added value products. Including the service center expansion directed at the automotive segment and the expansion of the pre painted line for home appliance and civil construction.

Continuing with the goal of diversifying and investing in the growth expectation of the civil construction in the domestic market, our 500 Kta capacity plant of long steel, including iron bar and wire rods in our portfolio, is under advanced stage of construction works, estimated to enter into operation by the first quarter of 2011. In the long steel segment, we are considering the implementation of two new plants in Brazil, of 500 kta capacity each, in addition to a cold rolled unit in order to offer a more complete product portfolio to the market.

Iron Ore

We expect for 2010 and upcoming years a growth in consumption and further increase of exports to China, which overcame local production for the first time in 2009.

The global outlook projects a substantial price increase for 2010. The current difference between spot market prices and benchmark is of approximately 90%. Low inventories in China, together with supply close to demand , with a slight tendency to shortage, support this trend.

In 2010, we expect to achieve an important landmark in our expansion in mining and will gain a pace of production of 40 million tons per year at our Casa de Pedra unit. For the following years, expansion projects, already with high percentages of hiring, will raise production level to 50 million tons per year.

In addition, Namisa continues with its expansion leading to an expected sales level of 39 million tons per year, relying on projects of concentration and pelletizing in advanced stage of development.

To ensure the production outflow, we expect the Itaguaí Port will reach an 84 mtpy shipment capacity, achieving 45 million tons per year still in 2010.

This combined increase of production and shipment benefits from a favorable window of opportunity to the overseas iron ore market.

At the same time, we continue our studies for the segregation of assets related to the iron ore business and correlated logistics, through the transfer to a new subsidiary, in order to capture the full value of the mining business. Based on the studies results and on market conditions, we may be able to carry out a public offering in Brazil of shares or the combination of these businesses with third parties.

Considering the changes in the sales model and the iron ore pricing in the overseas market, we have been developing studies in the shipping area, in order to adjust in a competitive way to this new reality.

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

Cement

Total cement sales in Brazil in 2009 totaled 51.3 million tons, a decrease of 0.8% as compared to 2008, despite an increase in domestic sales of 0.1%. The Brazilian Cement Manufacturers Association, or SNIC, is projecting a growth of approximately 6% for 2010.

After successfully finishing the enhancement of the new plant, we estimate that in 2010 the unit operates at a 1.0 million tons per year capacity.

Our product and brand have had excellent acceptance, overcoming initial estimates. With the conclusion of the clinker production project and the gradual increase in the use of own slag we expect to be able to significantly reduce our costs. Distribution centers and logistics optimization projects, currently under studies, should also contribute to the increase of our cement business.

We are considering alternatives for organic growth in order to take advantage of our crushing capacity (2.8 million tons per year) through the increase of clinker production. Our goal is to produce approximately 4.0 million tons per year in Brazil as of 2013, to capture the strong growth expected in the market due to the World Cup and the Olympic Games, in addition to the strong pace of construction of new housing and commercial units, as well as infrastructure projects. See Item 4. Information on the Company A. History and Development of the Company Planned Investments.

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, 2009

	Aggregate Amount	**Maturity**
	(In millions of US$)	
Guarantees of Debt:		
Transnordestina	173	2009-2020
Contingent Liability for Concession Payments[1] :		
Sepetiba Tecon	174	2025
Transnordestina	56	2027
Solid Bulks Terminal - TECAR	13	2022
Total	**243**	
Take-or-Pay Contractual Obligations		
MRS Logística S.A.	843	2016
White Martins Gases Industriais Ltda.	385	2016
Companhia Estadual de Gás do Rio de Janeiro CEG Rio	444	2012

Ferrovia Centro Atlântica FCA	152	2013
Vale S/A	350	2014
Companhia Paranaense de Gás - COMPAGÁS	102	2024
Companhia Paranaense de Energia - COPEL	55	2021
Total	**2,331**	
Total Contingent Liability with Respect to Consolidated and Non-consolidated Entities:	**2,747**	

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

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Guarantees

We guarantee the loans BNDES has granted to Transnordestina in May and December 2005, and in January 2006, all of which mature by November 2020, adjusted based on the TJLP plus 1.5% per annum. The total outstanding amount of the debt as of December 31, 2009 was US$173 million.

Concessions

Sepetiba Tecon

We own 99.99% 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, 2009, US$174 million (R$303 million) of the cost of the concession was outstanding and payable over the next 18 years of the lease. For more information see Item 4. Information on the Company A. History and Development of the Company Planned Investments Itaguaí CSN Logistics Platform Project.

Transnordestina

As of December 31, 2009, we held 84.34% of the capital stock of Transnordestina S.A., which has a 30-year concession granted in 1998 to operate 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. As of December 31, 2009, US$56 million was outstanding over the remaining 17-year term of the concession.

Solid Bulks Terminal

We hold the concession to operate TECAR, a solid bulks terminal, one of four terminals that form the Itaguaí Port, located in the State of Rio de Janeiro, for a term expiring in 2022 and renewable for another 25 years. Itaguaí Port, in turn, is connected to the Presidente Vargas steelworks, Casa de Pedra and 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 load and unload at least 3.0 million tons of bulk cargo annually. Among the approved investments that we announced is the development and expansion of the solid bulks terminal at the Itaguaí Port to also handle up to 84 million tons of iron ore per year.

Contractual Obligations

Namisa

Port Services

On December 30, 2008, we received approximately US$2.2 billion as prepayment under an agreement with Namisa with a term of 34 years. Under this agreement, we are required to render port services to Namisa, which consists of transporting from 17.1 million tons to 39.0 million tons of iron ore annually. The price of these port services is annually reviewed and prospectively adjusted considering the changes in price of iron ore. The contract is set to expire in 2042.

High Silica ROM

On December 30, 2008, we received approximately US$665 million as prepayment for a take-or-pay agreement with Namisa with a term of 30 years. Under this agreement, we are required to provide high silica crude iron ore ROM to Namisa in a volume that ranges from 42.0 million tons to 54.0 million tons per year. Depending on the market price for high silica crude iron ore ROM, we may receive additional amounts under this agreement, which is set to expire in 2038.

Low Silica ROM

On December 30, 2008, we received approximately US$177 million as prepayment for a take-or-pay agreement with Namisa with a term of 35 years. Under this agreement, we are required to provide low silica crude iron ore ROM to Namisa in a volume that ranges from 5.0 million tons to 2.8 million tons per year. Depending on the market price for low silica crude iron ore ROM, we may receive additional amounts under this agreement, which is set to expire in 2043.

Take-or-Pay Contractual Obligations

MRS Logística S.A.

Transportation of Iron Ore, Coal and Coke to Volta Redonda

The volume set for iron ore and pellets is 8,280,000 tons per year and for coal, coke and other reduction products is 3,600,000 tons per year. It is accepted variation up to 10%, with a guarantee of payment of at least 90%, but the compromise is for each item individually. MRS, on the other hand, is required to transport at least 80% of the volume established by the agreement. The agreement expires on September 12, 2012.

Transportation of Iron Ore for Export from Itaguaí

The volume set is 8,000,000 tons per year. It is accepted variation of up to approximately 5% of the volume set, with a guarantee of payment of at least 80%. We may increase or decrease the volume set in the agreement every year up to 10%, taking into consideration the volume actually transported in the previous year. The agreement expires on May 31, 2016.

Transportation of Steel Product

It accepts a reduction of up to 20% of volume for the quarter forecast, with a guarantee of payment of at least 80% of the volume agreed with the accounts meeting. We have established quarterly flexibility to renegotiate the Take or Pay if the volume is not reached. Our supplier is required to commit at least 90% of the monthly volume agreed in the agreement. The agreement expired on December 27, 2009.

For all the three contracts we have flexibility to renegotiate the Take or Pay if the volume is not reached. 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.

Cement Transportation - CSN CIMENTOS

We and MRS are negotiating new values for this contract.

White Martins Gases Industriais Ltda.

To secure gas supply (oxygen, nitrogen and argon), in 1994 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 guaranteed in the agreement with 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

To secure natural gas supply, in 2007 we have signed a five-year take-or-pay agreement with CEG Rio, by which we are committed to acquire at least 70% of the gas volume guaranteed in the agreement with CEG Rio. 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 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.

Ferrovia Centro Atlântica - FCA

This agreement covers transportation of reduction products from the city of Arcos to the city of Volta Redonda. Volume set for reduction products is 1,900,000 tons per year, which may vary up or down by 5%. The agreement will expire on August 31, 2013.

Vale S.A.

To secure pellets supply, in 2009 we signed a 5-year take-or-pay agreement with Vale, by which we are committed to acquire at least 90% of the pellets volume guaranteed in an agreement with Vale. Under the terms of the agreement, we are not required to advance funds raised against future processing charges if Vale is unable to meet its financial obligations.

***Companhia Paranaense de Gás* - COMPAGÁS**

We and Companhia Paranaense de Gás entered into a 20-year contract to secure natural gas supply. According to the take or pay clause, we are committed to acquire at least 80% of the annual natural gas volume contracted from Companhia Paranaense de Gás.

***Companhia Paranaense de Energia* COPEL**

To secure energy supply, we entered into a 20-year agreement with Companhia Paranaense de Energia. According to the take or pay clause, we are committed to acquire at least 80% of the annual energy volume contracted from Companhia Paranaense de Energia.

5F. Tabular Disclosure of Contractual Obligations

The following table represents our long-term contractual obligations as of December 31, 2009:

	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]	2,389	608	963	387	431
Taxes payable in installments	475	315	160	-	-
Long-term debt	4,732	1,296	1,304	913	1,219
Take-or-Pay contracts	2,330	501	1,260	493	76
Concession agreements[5]	243	15	30	30	168
Unrecognized tax benefits[6]	724	-	-	-	-
Purchase obligations:					
Raw materials[2]	1,097	748	349	0	0

Maintenance(3)	185	101	69	15	0
Utilities/Fuel(4)	2,377	474	942	417	544
Total	**3,659**	**1,323**	**1,360**	**432**	**544**

(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; and with some of which we maintain long-term contracts.
(5) Refers to TECON, TECAR and Transnordestina s concessions agreements since MRS is not consolidated for U.S. GAAP purposes.
(6) Due to the uncertainties of the expected timing of cash payments, if any, associated with the unrecognized tax benefits, its total amount of US$724 million has been excluded from the tabular disclosure table above.

5G. Safe Harbor

See Forward-Looking Statements.

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Item 6. Directors, Senior Management and Employees

6A. Directors and Senior Management

General

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 an annual 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 the date of this annual report, our Board of Directors was comprised of one Chairman, one Vice Chairman and five members, and our Board of Executive Officers was comprised of our Chief Executive Officer, our Chief Financial Officer and three Executive Officers.

Our Directors and Executive Officers as of the date of this annual report are:

Name	Position	First Elected to our Board on	Last Elected to our Board on
Board of Directors			
Benjamin Steinbruch	Chairman	April 23, 1993	April 30, 2010
Jacks Rabinovich	Vice Chairman	April 23, 1993	April 30, 2010
Fernando Perrone	Member	September 26, 2002	April 30, 2010
Dionísio Dias Carneiro Netto	Member	April 30, 2002	April 30, 2010
Antonio Francisco dos Santos	Member	December 23, 1997	April 30, 2010
Yoshiaki Nakano	Member	April 29, 2004	April 30, 2010
Gilberto Sayão da Silva	Member	April 30, 2009	April 30, 2010
Board of Executive Officers			
Benjamin Steinbruch	Chief Executive Officer	April 30, 2002	August 06, 2009
Paulo Penido Pinto Marques	Chief Financial Officer	May 7, 2009	May 12, 2009
Enéas Garcia Diniz	Executive Officer	June 21, 2005	August 06, 2009
Alberto Monteiro de Queiroz Netto	Executive Officer	September 1, 2009	September 1, 2009
José Taragano	Executive Officer	December 15, 2009	December 15, 2009

The next election for our Board of Directors is expected to take place on April 30, 2011, and we are unable to anticipate when the next election for our Board of Executive Officers is expected to take place.

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 Chief Executive 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.

Fernando Perrone. Mr. Perrone was born on May 6, 1947 and has been a member of our Board of Directors since September 26, 2002 and a member of our Audit Committee since June 24, 2005. 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 and a member of our Audit Committee since June 24, 2005. Mr. Carneiro Netto has been a professor at *Pontifícia Universidade Católica do Rio de Janeiro*, at *UnB* and at *EPGE/FGV* and currently teaches at *Instituto de Gestão de Riscos Financeiros e Atuariais da Pontifícia Universidade Católica do Rio de Janeiro.* He was also a Vice-President of FINEP from 1979 to 1980 and has been a member of Boards of Directors in several companies. Mr. Carneiro Netto was a member of the Advisory Board of the African Economic Research Council and of the Committee for Development Planning at United Nations. He is an officer-parter of Galanto Consultoria, officer of the Instituto de Estudos de Política Econômica da Casa das Garças and member of the Executive Committee of Instituto de Gestão de Riscos Financeiros e Atuariais at *Pontifícia Universidade Católica do Rio de Janeiro*. He writes a fortnightly column in the newspaper *O Estado de Sao Paulo*.

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. Mr. Santos was Coordinator of Industrial Engineering, Chief of Industrial Engineering and Chief of Production Planning and a member of the Board of Directors of *Caixa Beneficente dos Empregados* of CSN, or CBS, our pension plan until 2008. He is currently Chairman and Chief Executive Officer of the Board of the CSN Employee Investment Club (*Clube de Investimento CSN*).

Yoshiaki Nakano. Mr. Nakano was born on August 30, 1944 and has been a member of our Board of Directors since April 29, 2004 and a member of our Audit Committee since June 24, 2005. 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 in São Paulo. Mr. Nakano is also a member of the Board of Directors of the Fundação de Amparo à Pesquisa do Estado de São Paulo - FAPESP, of the Conselho Superior de Economia, of the FIESP/IRS, and a member of the Consulting Board of the Grupo Pão de Açúcar.

Gilberto Sayão da Silva. Mr. Sayão has been a member of our Board of Directors since April 30, 2009. Mr. Sayão also currently acts as the Chief Executive Officer of UBS Pactual Alternative Investments, a subsidiary of UBS Pactual Asset Management.

Board of Executive Officers

In addition to Mr. Steinbruch, the following persons were members of our Board of Executive Officers as of the date of this annual report:

Paulo Penido Pinto Marques. Mr. Marques was elected our Chief Financial Officer on May 12, 2009. Prior to joining CSN, Mr. Marques was Finance, Investor Relations and Information Technology Vice-President of Usinas Siderúrgicas de Minas Gerais S.A. - USIMINAS, Financial Officer of Usiminas Mecânicas S.A., member of the State Board of *Associação Brasileira das Companhias Abertas*, Financial Officer of the Companhia Siderúrgica Paulista - COSIPA, Officer of Mineração J. Mendes, Officer of Controle da Fasal S.A. and Officer of Consórcio Siderurgia Amazonia Ltd. (controller of Sidor - Venezuela). Mr. Marques has also participated in the Board of Executive Officers or the Board of Directors of Usiparts - automotive systems, Unigal, Rio Negro - steel trade and industrialization. He was also Vice-President at Financing Area, Credit and Risk of Morgan Guaranty Trust Co. of New York, Officer of Relationship with companies and Financial Institutions Area of BankBoston, Officer of Investments of Corporate Banking of Citibank.

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.

Alberto Monteiro de Queiroz Netto, Mr. Queiroz was born on November 30, 1967 and was elected Executive Officer of the Treasury on September 01, 2009. He was a career employee of the Bank of Brazil for twenty-five years, was chief financial conglomerate Bank of Brazil, President of BB DTVM - Asset Management, where he worked for nine years, and also at the same time, vice president of the National Association Investment Bank s (ANBID) and Chairman of Best Practices for Marketing Industry Investment Funds. He was Director of the Board of BB Securities in London, and the Bank of Brazil Broker Dealer in New York.

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José Taragano, Mr. Taragano was born on August 09, 1954 and was elected Executive Officer of Projects on December 15, 2009. He was employed by Brenco as COO - Executive VP of Operations, Executive Director of Klabin SA, worked for 24 years at Alcoa, a large and diverse operations in the General Direction of the business of Aluminium, Alumina and Chemicals, and various locations in Engineering, Production, Quality and Customer Satisfaction, EHS, HR, Logistics & Purchasing and Start-Ups large in Brazil and abroad.

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, city of São Paulo, State of São Paulo, Brazil (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 respective positions with us.

6B. Compensation

For the year ended December 31, 2009, 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 US$11 million (R$22 million), which includes salaries, bonuses, profit sharing arrangements and benefits, such as medical assistance, pension plan and life insurance among others. See Item 6D. Employees for a brief description of our profit sharing arrangements.

We are the principal sponsor of CBS, our employee pension plan. CBS had an excess of plan assets over pension benefit obligations of US$245 million in 2009. The fair value of the resources of CBS, totaled US$1,245 million as of December 31, 2009, and projected benefit obligations were US$1,000 million. See Item 3D-Risk Factors. We are exposed to valuation of our shares as result of certain equity swap agreements and our pension plan assets and Note 15 to our consolidated financial statements contained in Item 18. Financial Statements.

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. Our shareholders did not request the installation of a Fiscal Committee at the Annual Shareholders Meeting held on April 30, 2010.

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. Our Audit Committee has also been tasked with identifying, prioritizing and submitting actions to be implemented by our Executive Officers, and analyzing the annual report, and our financial statements and making recommendations to our Board of Directors.

The Audit Committee is currently composed of Mr. Perrone, Mr. Carneiro Netto and Mr. Nakano and is constantly 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 permit our directors to continue to participate in our employee pension plan after ceasing to be a director of our Company.

6D. Employees

As of December 31, 2007, 2008 and 2009, we had 14.274, 15.104 and 16.492 employees, respectively. As of December 31, 2009, approximately 2.475 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 every May 1. Moreover, we have members affiliated to other unions, such as the Engineer Union with 55 members, the Accountant Union with 7 members and the Workers Unions from Arcos, Casa de Pedra and Araucária, with a total of 352 members. On the others company s controlled by CSN, as Prada, Ersa and Metalic, we have a total of 1.046 members.

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 other measures such as sales, cost control, productivity and inventory levels, as appropriate for each sector based on its nature.

6E. Share Ownership

The Steinbruch family, which includes Mr. Benjamin Steinbruch, our Chairman and Chief Executive Officer holds an indirect majority 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, 2010.

Item 7. Major Shareholders and Related Party Transactions

7A. Major Shareholders

On March 31, 2010 our capital stock was composed of 1,510,359,220 common shares, including 52,389,112 common shares held in treasury. On March 25, 2010 a two-for-one stock split that took place, whereby each common share of our capital stock as of that date became represented by two common shares.

The following table sets forth, as of March 31, 2010, 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	
	Shares Owned	**Percent of Outstanding Shares(2)**

Name of Person or Group		
Vicunha Siderurgia S.A.(1)	697,719,990	47.86%

(1) Owned indirectly by the Steinbruch family, which includes Mr Benjamin Steinbruch, Chairman of our Board of Directors, and other members of his family.
(2) It does not include 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 Item 4. Information on the Company A. History and Development of the Company Acquisitions and Dispositions, Item 4B. Business Overview, Item 4. Information on the Company A. History and Development of the Company Planned Investments, Item 6A. Directors and Senior Management and Item 7A. Major Shareholders and Note 20 to the consolidated financial statements included in Item 18. Financial Statements.

During 2008, we, through one of our subsidiaries, exported US$36 million of steel products to our subsidiary Lusosider, in Portugal. These export transactions were made using a third party, and have been eliminated in our consolidated financial statements.

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 judgment is rendered by the courts in Brazil. When we use contingent tax credits or benefits based on favorable temporary court orders 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 judgment on those contingent tax credits or benefits is rendered. The accrual for the legal obligation related to the current direct or indirect tax obligations offset is not reversed until such time as the utilization of the contingent tax credits or benefits is ultimately realized. The accounting for the contingent tax credits is in accordance with accounting for contingent assets under SFAS No. 5. Our accruals include interest on the tax obligations that we may offset with contingent tax credits or benefits at the interest rate defined in the relevant tax law.

We classify an accrual as short-term when it expects the liability to be settled in 360 days or less. As of December 31, 2009, US$109 million had been classified as short-term accrual for contingencies (US$69 million as of December 31, 2008). This usually occurs when a final, unappealable and irrevocable judgment has been rendered and is being enforced. Given the complexity of the Brazilian legal system, we are unable to anticipate when final judgments will be rendered on most of the 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) court 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 court order. When such a court 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 court 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, 2009, we recorded aggregate long-term provisions of US$941 million relating to these claims, for which we had deposited US$807 million in judicial escrow accounts. See Note 17 to our consolidated financial statements contained in Item 18. Financial Statements in this annual report.

Labor Contingencies

As of December 31, 2009, total accrual relating to probable losses for these contingencies was US$88 million (US$50 million in 2008). Our legal counselors periodically review accruals based on their judgment, as well as the recent track records of these disputes. Most of the lawsuits are related to alleged joint liability between us and our independent contractors, wage equalization, differences of 40% fine on the FGTS deposits due to inflation purge, additional payments for unhealthy and hazardous activities, overtime and profit sharing differences from 1997 to 1999 and from 2001 to 2003. The lawsuits related to the alleged joint liability between us and our independent contractors represent a significant portion of the total labor suits against us, and refer to non-payment of labor charges by our independent contractors to their employees, for which we may be found jointly liable.

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 2009, our legal counsel revised estimated losses based on their own judgment and recent precedents for these disputes. As of December 31,2009, the amount of the relating to probable losses for these contingencies was . US$26 million (US$20 million as of December 31, 2008).

Other Tax Contingencies

In addition to the tax contingencies described in Item 5A. Operating Results Results of Operations 2009 Compared to 2008 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$2.6 billion as of December 31, 2009 (US$2.5 billion as of December 31, 2008). 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 tax 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.

Legal Disputes with Vale

Until 2001, we held an ownership interest in Vale, 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 ownership 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 (Vale s pension fund) 10.3% ownership interest in our company in 2003, Vale 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 Vale in 1995, CADE issued a decision in August 2005 pursuant to which Vale would have to choose between its ownership interest in Ferteco Mineração S.A., or Ferteco, or its rights of first refusal mentioned above. Such decision was challenged by Vale before the Brazilian courts. We filed with CADE a statement of compliance with the administrative order that requires the parties to refrain from exercising the rights of first refusal of Vale 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.

Several disputes between us and Vale arose from the transactions described in the two preceding paragraphs, including those (i) related to alleged indemnification or compensation rights arising from the exclusion of the preference rights relative to the acquisition of surplus iron ore produced by the Casa de Pedra mine, as well as to the Casa de Pedra mine itself, (ii) arising from obligations envisaged in the agreements related to the elimination of crossed shareholdings between Vale and CSN, occurred in December 2000; and (iii) related to other pending matters in regard to these issues.

On April 27, 2009, we and Vale entered into a settlement agreement for the purpose of terminating all these pending lawsuits between the two companies. The settlement agreement, which has already been ratified by our and Vale s shareholders, also encompassed the revision and/or the termination of certain terms and conditions included in certain commercial contracts entered into between us and Vale.

Dividend Policy

General

Subject to certain exceptions set forth in 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 our Board of Directors and approval by the vote of our shareholders. 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 our 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 our Board of Directors that such distributions would be inadvisable in view of our financial condition. In December 2000, our 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 30, 2009, our shareholders approved the payment of dividends and interest on shareholders equity relating to 2008, in the total amount of US$868.6 million (US$738.2 million as dividends and US$130.4 million as interest on shareholders equity).

The total amount of approved dividends include dividends paid in advance on November 27, 2008, in the amount of US$70.6 million, that had already been approved by our Board of Directors on August 12, 2008, and dividends that had already been approved by our Board of Directors on March 24, 2009 in the amount of US$667.6 million.

Soon after the announcement of the payment of such dividends in the amount of US$667.6 million, a court order was issued by a trial state tax court in the State of Rio de Janeiro in connection with tax claims related to IPI premium credits on exports that we have recorded, in order to block US$354.2 million of our funds, which were later converted into a court deposit. For this reason, we paid our shareholders on April 2, 2009 the amount of funds that had not been blocked of US$313.4 million. Nevertheless, aiming at the preservation of our shareholders rights, we paid on June 26, 2009, the remaining dividends of US$354.2 million. Following our adhesion to the REFIS the US$313.4 million which had been blocked were used to settle our tax liabilities under the special settlement and installment payment system under REFIS.

The US$130.4 million as interest on shareholders equity were paid on May 11, 2009.

At our Annual Shareholders Meeting of April 30, 2010, our shareholders approved the payment of dividends and interest on shareholders equity relating to 2009, in the total amount of US$1,050.7 million (US$866.8 million as dividends and US$183.9 million as interest on shareholders equity).

The distribution of the US$183.9 million as interest on shareholders equity had already been approved by our Board of Directors, on December 17, 2009, and was paid in two installments. The first payment of US$143.5 million was on December 29, 2009 and the second one of US$40.4 million was on April 30, 2010.

The dividends of US$866.8 million are expected to be paid on June 25, 2010.

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, our Board of Directors is required to recommend how our earnings for the preceding fiscal year are to be allocated. For purposes of Brazilian Corporate Law, a company s net income after income tax and social contribution 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 Brazilian Corporate Law, an amount equal to our net profits as further (i) reduced by amounts allocated to the legal reserve; (ii) reduced by amounts allocated to the contingency reserve; and (iii) increased by reversion of the contingency reserves constituted in prior years, will be available for distribution to shareholders, or the Distributable Amount, in any particular year.

Legal Reserve. Under Brazilian Corporate Law, we are required to maintain a legal reserve to which web must allocate 5% of our net profits for each fiscal year until the amount of the reserve equals 20% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in a year in which the legal reserve, when added to our other established capital reserves, exceeds 30% of our capital stock. Any net losses may be offset with the amounts allocated to the legal reserve. The amounts allocated to such reserve must be approved by our shareholders in the Annual Shareholders Meeting, and may be used to increase our capital stock or to offset losses and, therefore, they are not available for the payment of dividends.

Discretionary (or Statutory) Reserves. Under Brazilian Corporate Law, any corporation may provide in its by-laws for additional reserves, provided that the maximum amount that may be allocated, the purpose and allocation criteria of the reserve are specified. These reserves may not be allocated for if such reserve affects the payment of the Mandatory Dividend (as defined bellow). Our by-laws currently do not provide for this reserve.

Contingency Reserve. Under Brazilian Corporate Law, a percentage of our net profits may be allocated to a contingency reserve for estimable losses that are considered probable in future years. Any amount so allocated in a prior year must either be reserved in the fiscal year in which the loss had been anticipated if the loss does not occur as projected or be written off in the event that the anticipated loss occurs.

Tax Incentive Reserve. Our shareholders in a shareholders meeting may, as proposed by management, allocate to the tax incentive reserve part of our net profits resulting from donations or governmental grants for investments, which may be excluded from the taxable basis of a Mandatory Dividend (as defined bellow). Our by-laws currently do not provide for such reserve.

Unrealized Income Reserve. Under Brazilian Corporate Law, the amount by which the distributable amount exceeds realized net income in a given fiscal year may be allocated to unrealized profits reserves. Brazilian Corporate Law defines realized net profits for the period as the amount by which our net profits exceeds the sum of (i) positive equity results and (ii) the profits, gains or returns that will be received by us after the end of the subsequent fiscal year. Net profits allocated to the unrealized profits reserves must be added to the next mandatory dividend distribution after those profits have been realized, if they have not been used to absorb losses in subsequent periods.

Retained Earnings Reserve. Under Brazilian Corporate Law, our shareholders may decide at a general shareholders meeting to retain a portion of our net income that is provided for in a previously approved capital expenditure budget.

No allocation of net income may be made to the retained earnings reserve in case such allocation affects the payment of a mandatory dividend.

The balance of our profit reserves, except those for contingencies, tax incentives and unrealized profits, shall not be greater than our capital stock. If such reserves reach this limit, the manner in which such surplus is used will be decided at a shareholders meeting.

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 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.

Capital Reserve. Under Brazilian Corporate Law, the capital reserve consists of premium from the issuance of shares, goodwill reserves from mergers, sales of founders' shares, sales of warrants, premium from the issuance of debentures, tax and fiscal incentives and gifts. Amounts allocated to our capital reserve are not taken into consideration for purposes of determining Mandatory Dividends (as defined bellow). Our capital stock is not currently represented by founders' shares. In addition, the remaining balance in the capital reserve may only be used to increase our capital stock, to absorb losses that surpass accumulated profits and the profit reserves or to redeem, reimburse or purchase shares.

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 at least 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, our 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 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 within the first four months after the end of our fiscal year at which an annual dividend may be declared. Additionally, our Board of Directors may declare interim dividends. Under 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 on shareholders equity as described under Additional Payments on Shareholders Equity below) in respect of its shares, after which we will no longer be liable for the dividend 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 Shareholders 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 2009 was 6%.

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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

None

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.

On March 25, 2010, our shareholders approved a two-for-one split of our common shares. As a result of this stock split, each common share of our capital stock as of March 25, 2010 became represented by two 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.

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 BM&FBOVESPA (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**