NATIONAL STEEL CO
Form 20-F
June 30, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2003
OR
TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to _____
Commission file number: 1-14732

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

National Steel Company	**Federative Republic of Brazil**
(Translation of reguistrant s name into English)	(Jurisdiction of incorporation or organization)

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

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

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

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

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

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

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

286,917,045 Common Shares, with no par value
(adjusted to reflect share split and regrouping effective May 31, 2004)

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

Yes No

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

Item 17 Item 18

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Omitted items of Form 20-F are either not required in a Form 20-F filed as an annual report under the Exchange Act, not applicable or reserved.

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INTRODUCTION

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

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CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

We make statements in this Annual Report that are not historical facts, but rather are forward-looking statements. Forward-looking statements express or imply results, performance or events that are expected in the future. Forward-looking statements include:

- the projected completion dates of, and the projected total investments in, projects under or approved for construction;
- the completion of satisfactory financing arrangements for projects and other transactions;
- efforts to expand production capacity for galvanized, pre-painted, tin-coated and other high value-added products and projected demand for those products;
- the expansion to 40 million tons of iron ore production at our Casa de Pedra mine;
- international expansion;
- increased concentration on our core steel business, including the divestment of some non-steel investments, such as our proposed sale of our thermoelectric co-generation power plant and our interest in the Itá hydroelectric facility;
- increased sales to the automotive industry;
- generation, supply and sales of energy;
- increased opportunities in the packaging industry;
- impact of U.S. protectionist measures and offsetting increases of imports by other regions;
- maintenance of our competitive advantages;
- decrease in our reliance on brokers and establishment of longer term relationships with end users;
- construction or acquisition of a hot strip mill, or entering into a long-term tolling agreement, in the United States; and
- decreased exposure to base metal prices.

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

- general economic conditions, including in particular economic conditions in Brazil and the United States;
- protectionist measures imposed by steel-importing countries;
- electric energy shortages and government responses thereto;

- the performance of the Brazilian and global steel industries and markets;
- export and import market fluctuation levels;
- interest rate levels;
- currency exchange rates, including the *real*/U.S. dollar exchange rate;
- changes in laws and regulations;
- changes in the policies of the *Banco Central do Brasil* Central Bank and the Brazilian or foreign governments; and
- global, national and regional competition in the steel market.

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of December 31, 2002 and 2003 and for each of the three years in the period ended December 31, 2003 contained in Item 18 of this document have been presented in U.S. dollars and prepared in accordance with generally accepted accounting principles in the United States, which are generally referred to as U.S. GAAP . See Note 2(a) to our consolidated financial statements. We publish financial statements in Brazil in accordance with the accounting principles required by the Brazilian Corporate Law, specifically, Law No. 6,404 dated December 15, 1976, as amended, and the rules and regulations of the *Comissão de Valores Mobiliários* the Brazilian Securities Commission or CVM (Brazilian GAAP), which differ in certain significant respects from U.S. GAAP.

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

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

Unless the context otherwise indicates:

- Historical data contained in this Annual Report that were not derived from our consolidated financial statements have been translated from *reais* on a basis similar to the basis used in our consolidated financial statements for the same periods or as of the same dates, except investment amounts have been translated at the foreign exchange rate known as the Commercial Market rate in effect on the date the investment was made.
- Forward-looking statements have been translated from *reais* at the June 17, 2004 Commercial Market rate of R$3.1280 = US$1.00, except that estimated future capital expenditures are based on the most recently budgeted amounts. We may not have adjusted all of the budgeted amounts to reflect all factors that could affect them.

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

There are two principal foreign exchange markets in Brazil: the commercial rate exchange market, which we call the Commercial Market, and the floating rate exchange market, which we call the Floating Market . Most foreign trade and financial foreign currency exchange transactions are carried out on the Commercial Market. Purchases of foreign exchange in the Commercial Market may be carried out only through a financial institution authorized to buy and sell currency in that market. The Floating Market rate generally applies to transactions to which the

Commercial Market rate does not apply. Prior to February 1, 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, banks have been allowed to operate in both markets. These markets are now differentiated solely for regulatory purposes and offer similar pricing and liquidity, despite the potential for distinct treatment for regulatory purposes in the future. See Item 3.D.2. Risk Factors Relating to Brazil Devaluation of the *Real* .

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

	High	**Low**	**Average**(1)	**Period End**
Year ended December 31:				
1999	2.1647	1.2078	1.8272	1.7890
2000	1.9847	1.7234	1.8348	1.9554
2001	2.8007	1.9353	2.3519	2.3204
2002	3.9552	2.2709	2.9983	3.5333
2003	3.6623	2.8219	3.0780	2.8892
Months in 2004:				
January	2.9409	2.8022		2.9409
February	2.9878	2.9042		2.9138
March	2.941	2.8752		2.9086
April	2.9522	2.8743		2.9447
May	3.2051	2.9569		3.1291

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

The Commercial Market rate published by the Central Bank on June 17, 2004 was R$3.1280 per US$1.00.

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PART I

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Item 3: Key Information

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A. Selected Financial Data

The following table sets forth selected consolidated financial data for CSN, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data as of December 31, 2003 and for each of the three years in the period ended December 31, 2003 have been derived from our audited consolidated financial statements, which appear in Item 18 of this document. The information below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including their notes, and Item 5. Operating and Financial Review and Prospects . Also see Presentation of Financial and Other Information . In addition, the following table presents selected consolidated financial data as of December 31, 1999, 2000 and 2001, and for each of the two years in the period ended December 31, 2003, which have been prepared in accordance with U.S. GAAP and presented in U.S. dollars in a manner consistent with the information set forth in our consolidated financial statements.

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(In millions of US$, except share data)				
Income Statement Data:					
Operating revenues					

Domestic sales	1,539	2,029	1,860	1,570	1,843
Export sales	425	354	218	599	1,077
Operating revenues	1,964	2,383	2,078	2,169	2,920
Net operating revenues[1]	1,631	1,946	1,716	1,842	2,548
Cost of products sold	915	1,115	958	994	1,457
Gross profit	716	831	758	848	1,091
Operating expenses					
Selling	128	127	82	127	176
General and administrative	102	117	109	110	96
Others	42	74	73	47	133
Operating expenses	272	318	264	284	405
Operating income	444	513	494	564	686
Non-operating income (expenses), net					
Financial income (expenses), net	109	(157)	(289)	247	(564)
Foreign exchange and monetary gain (loss), net	(593)	(127)	(396)	(1,087)	426
Gain on sales of long-term investments[2]	27		643		
Others	(26)	(19)	36	(30)	14
Non-operating income (expenses), net	(483)	(303)	(6)	(870)	(124)
Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle	(39)	210	488	(306)	562
Income tax expense (benefit)					
Current	21	104	(2)	(25)	125
Deferred	(39)	(87)	(48)	(190)	(88)
Income tax expense (benefit) net	(18)	17	(50)	(215)	37
Equity in results of affiliated companies	3	80	(30)	(71)	9
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	(18)	273	508	(162)	534
Extraordinary item, net of income taxes[3]	66		13		
Cumulative effect of a change in accounting principle, net of income taxes[4]			6		
Net income (loss)	48	273	527	(162)	534
Per common share:[5]					
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	(0.06)	0.95	1.77	(0.56)	1.86
Extraordinary item, net of income taxes[3]	0.23		0.05		
Cumulative effect of a change in accounting principle, net of income taxes[4]			0.02		
Net income (loss)	0.17	0.95	1.84	(0.56)	1.86

Weighted average number of common shares outstanding (in thousands)	286,917	286,917	286,917	286,917	286,917

(1) Net operating revenues consist of operating revenues minus sales taxes, discounts, returns and allowances.
(2) During 2000, we contracted for the sale of our interests *in Light Serviços de Eletricidade S.A.* Light and *Valepar S.A.* Valepar through which we held an interest in *Companhia Vale do Rio Doce* - CVRD. The financial closings of these transactions occurred in 2001, and accordingly, results for 2001 include the gains from these sales. See notes (6) and (8) below.
(3) The extraordinary items in 1999 and 2001 represent gains on the repurchase of Eurodollar notes. See Item 5.B. Liquidity and Capital Resources .
(4) Effect of the adoption of SFAS No. 133. See Note 20 of our consolidated financial statements.
(5) Effective May 31, 2004, we split and regrouped our common shares, so that each trading lot of 1,000 former shares is now represented by four shares. Effective June 10, 2004, our ADSs will be split four-for-one, and each ADS will represent one share after giving effect to the split and regrouping. All share data contained in this document have been adjusted retroactively to reflect the split and regrouping of our shares and the split of our ADSs.

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(In millions of US$)				
Balance Sheet Data (end of period):					
Current assets(6)	1,536	2,443	1,313	1,590	2,310
Property, plant and equipment, net	1,973	2,025	2,062	1,527	1,874
Investments in affiliated companies and other investments(6)	1,008	245	79	8	85
Other assets	325	391	600	530	748
Total assets	4,842	5,104	4,054	3,655	5,017
Minority interest	5				
Current liabilities	1,807	1,898	1,445	1,732	1,228
Long-term liabilities(7)	1,455	2,029	1,863	1,416	2,982
Stockholders equity	1,575	1,177	746	507	807
Total liabilities and stockholders equity	4,842	5,104	4,054	3,655	5,017
Other Data:					
Cash flows from operating activities	640	535	210	806	569
Cash flows from investing activities(8)	(304)	(547)	792	(319)	(248)
Cash flows from financing activities(8)	(211)	(45)	(1,251)	(348)	495
EBITDA(9)	604	713	684	733	938
Dividends and interest on stockholders equity declared(10)	137	470	831	143	258
Dividends and interest on stockholders equity declared per commons share (10)	0.48	1.64	2.90	0.50	0.90

(6) Upon contracting for the sales of our investments in Light and Valepar in 2000, we moved the investments, aggregating US$849 million, from investments in affiliated companies and other investments to investments for sale in current assets. See note (2) above and note (8) below.
(7) Excluding the current portion of long-term debt.
(8) In 2001, cash flows from investing activities include US$1,293 million of proceeds from the sale of our investments in Light and CVRD (see Notes (2) and (6) above), and cash flows from financing activities reflects the payment of US$1,227 million of dividends and interest on stockholders equity with a portion of the proceeds from the sale of those investments. The difference between the proceeds from the sales of our investments in Light and CVRD reflected in our cash flows from investing activities and the aggregate sale price of what we received is a translation adjustment resulting from the depreciation of the real against the U.S. dollar between December 31, 2000 and the respective financial closings, which is reflected in translation adjustments for the year in our statement of changes in stockholders equity for 2001.
(9) EBITDA consists of operating income plus depreciation and other operating expenses. The following table reconciles net income and EBITDA:

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(In millions of US$)				
EBITDA	604	713	684	733	938
Less:					
Depreciation and amortization	118	126	117	122	119
Other expenses	42	74	73	47	133
Operating income	444	513	494	564	686
Non-operating income (expenses), net	(483)	(303)	(6)	(870)	(124)
Income tax expense (benefit)	(18)	17	(50)	(215)	37
Equity in results of affiliated companies	3	80	(30)	(71)	9
Extraordinary item	66		13		
Cumulative effect of a change in accounting principle, net of income tax			6		
Net income (loss)	48	273	527	(162)	534

For a discussion of why we use EBITDA, see Item 5.A.2. Results of Operations . EBITDA is not presented herein as an alternative measure of operating results or cash flow. EBITDA does not represent net income or cash flows from operations, as these terms are defined by U.S. GAAP. EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

(10) Amounts consist of dividends declared, and interest on stockholders' equity accrued, during the year. Generally, dividends are paid in the year they are declared, and interest on stockholders' equity is paid in the year following accrual. For a discussion of our dividend policy and dividend and interest payments made in 2004, see Dividend Policy under Item 8.A. Consolidated Statements and Other Financial Information.

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D. Risk Factors

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

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1. Risk Factors Relating to the Steel Industry and CSN

Cyclicality of Steel Industry; Importance of Export Markets

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

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

Competition

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

Despite significant reductions in steel production capacity by major producers in developed nations over the last decade, the world steel industry, until the end of 2002, was adversely affected by excess worldwide production capacity. This overcapacity reflected generally the decreasing demand for steel in Western industrial countries, as well as a significant increase in steel production capacity in developing countries. Steel-producing countries have been meeting in the OECD (Organization for Economic Cooperation and Development) to try to reach an agreement on world crude steel capacity reduction, but no definitive agreement has been reached.

Beginning in 2003, with China s increasing steel demand and, in a lesser way, increasing steel production, a shortage of important steel production raw materials, such as coke, has led to a more rational balance between supply and demand, as steel companies have not been able to increase production, despite the favorable price environment, but have continued to retire non-competitive capacity.

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

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

Antidumping and Government Protectionism

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

In response to the increased production and exports of steel in many countries, antidumping and countervailing duties and other protectionist measures have been imposed by countries which represent some of the main markets for our exports. Those and similar measures could provoke an unbalance in the international steel market, which could adversely affect our exports. See Item 4.B.10. Government Regulation and Other Legal Matters Antidumping Proceedings .

Raw Materials Costs and Availability

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

Our principal raw materials include iron ore, coal (from which we make coke), limestone, dolomite, manganese, zinc, tin and aluminum. While we obtain all of our iron ore, limestone and dolomite requirements from our mines in Minas Gerais state, and we produce most of our coke requirements from our own coke batteries, we are dependent on third parties for the remainder of our coke requirements and other raw materials required in our operations. All of the coal that we use to produce coke and approximately 20% of our coke requirements in 2003 were imported. Because of the cyclical nature of the coal industry, the price and quantity terms contained in our coking and PCI coal contracts are renegotiated annually. Thus, our coal costs can vary from year to year. The availability of coking coal from third parties has recently become more restricted with most of our purchase coming from China. Given recent coal price increases in Asia, we have just closed contracts due in March, June and December 2005, with an average price increase of 50% free on board (FOB). There can be no assurance that coal prices will not increase further in the future. See Item 4.B.5. Raw Materials and Transportation .

Regarding coke purchases, although we buy only 20% of our needs, on a cost & freight (CFR) basis, coke prices have increased by 65% in 2002 and 120% in 2003. The market is very tight for coke, since China, which supplied 60% of the international market until 2002, has increased its internal consumption and adopted restrictive export quotas. Given these market conditions, we have approved the revamping of one of our coke batteries in order to regain coke self-sufficiency. There can be no assurance, however, that coke prices will not increase further in the future.

In addition to importing coal and coke, we purchase zinc, tin, manganese and aluminum from third-party domestic suppliers. In 2003, raw materials accounted for 39.8% of our total production costs, including outsourced hot rolled coils. Although we believe we will be able to obtain raw materials at reasonable prices, there can be no assurance that decreases in availability or increases in prices (particularly those for products and services obtained from third parties) will not occur in the future, resulting in a decrease in our profitability.

Potential Costs of Environmental Compliance

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

Our steelmaking facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating to the protection of human health and the environment. While the Government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations and can, in some instances, suspend plant operations. Compliance with environmental regulations can be costly, requiring capital expenditures without a concomitant increase in productivity. For a discussion of environment-related legal proceedings involving us, see Item 4.B.10. Government Regulation and Other Legal Matters Environmental Regulation .

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2. Risk Factors Relating to Brazil

Brazilian Government Economic and Political Factors

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

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

On January 1, 2003, Luis Inácio Lula da Silva, the Labor Party s candidate, took office as the new President of Brazil. Although as of today the economic measures adopted by the new administration have been consistent with those adopted by the former administration, there can be no certainty whether such policies will continue to be followed or whether the new administration will adopt different policies in the future. The uncertainty over what policies the current Brazilian government will adopt may have an impact on our business and may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers.

Devaluation of the Real

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

The *real* depreciated against the U.S. dollar approximately 48% in 1999, 9.3% in 2000, 18.7% in 2001 and 52.3% in 2002 and appreciated 18.2% against the U.S. dollar in 2003. Prior to the 1999 devaluation, the Government s monetary policy focused on financing the current account deficit of Brazil s balance of payments. Following the 1999 devaluation, the Government changed its monetary policy to focus on the inflation rate and permitted the *real* to float. Devaluation of the Brazilian currency, in relation to the U.S. dollar or other currencies, may have an adverse effect on our financial condition and results of operations, increasing the cost in reais of our foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke. To the extent that we do not succeed in promptly reinvesting the funds received from our foreign currency-denominated borrowings in foreign currency-denominated assets, it creates a mismatch between our foreign currency-denominated expenses and expenditures and our revenues. See Item 5. Operating and Financial Review and Prospects . The devaluation of the *real* also adversely affects the value of our American Depositary Shares (ADSs).

Extreme Inflation

High inflation rates have in the past had negative effects on the Brazilian economy and our business. A recurrence of high rates of inflation could hurt our earnings.

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

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

As discussed under Devaluation of the *real* in this discussion of risk factors relating to Brazil, the Government changed the conduct of monetary policy after the devaluation of the *real* in 1999 and introduced an inflation targeting policy. Recent rates of inflation, as measured by the IGP-DI, have been 7.7% in 2003, 26.4% in 2002, 10.4% in 2001, 9.8% in 2000 and 20.0% in 1999.

The Central Bank has adopted inflation targets based on the *Índice de Preços ao Consumidor Amplo* IPCA, measured by the *Instituto Brasileiro de Geografia e Estatística* IBGE. For 2002 and 2003, these targets were 3.5%, with a tolerance interval of 2.0%, and 8.5%, without a tolerance interval, respectively. For 2004, the target is 5.5%, with a tolerance interval of 2.5%. In 2002 and 2003, inflation rates, based on the IPCA, were 12.5% and 9.3%, respectively.

There can be no assurance that inflation will be within the Central Bank s tolerance interval, that the lower levels of inflation will continue, that future Brazilian governmental actions (including additional actions to adjust the value of the *real*) will not trigger the renewal of hyperinflation or that any of these actions will not have a material adverse effect on our financial condition and results of operations.

Controls and Restrictions on U.S. Dollar Remittances

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

Brazilian law provides that, whenever there exists, or there is a serious risk of, a material imbalance in Brazil s balance of payments, the Government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1990, as well as on the conversion of the Brazilian currency into foreign currencies. These types of restrictions could hinder or prevent *Banco Itaú S.A.*, our ADR Custodian under our American Depositary Receipt program, or holders who have surrendered ADSs for the underlying Common Shares of CSN, from converting dividends, distributions or the proceeds from any sale of Common Shares into U.S. dollars and remitting those U.S. dollars abroad. Holders of ADSs could be adversely affected by delays in, or refusals to grant, any required governmental approvals for conversion of Brazilian currency payments and remittances abroad in respect of the Common Shares underlying the ADSs. See Item 9.C. Markets and Item 10.D. Exchange Controls for additional information with respect to the ADSs.

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

Risks Associated with Emerging Markets

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

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

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Item 4. Information on CSN

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A. History and Development of CSN

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1. General

We are the second largest fully-integrated steel producer in Brazil and one of the largest in Latin America. See Item 4.B.13. Brazilian Steel Industry . As a result of revampings of one of our blast furnaces and our hot strip mill during 2001, in the third quarter of 2003 we achieved our current annual crude steel capacity and rolled product capacity of 5.8 and 5.1 million tons, respectively, an increase from approximately 5.0 million tons in each case at the beginning of 2001. Production of crude steel and rolled steel products increased in 2003 to 5.3 and 4.8 million tons, respectively, from 5.1 and 4.7 million tons, respectively, in 2002. Production in 2001 was down from the 4.8 and 4.6 million tons, respectively, produced in 2000 as a result of the production stoppage required by the revampings.

Our fully-integrated manufacturing facilities produce a broad line of steel products, including slabs, hot and cold-rolled coils and sheets for the distribution, packaging, automotive, home appliance and construction industries. In 2003, we accounted for 54% of the galvanized steel products sold in Brazil. We are also one of the world s leading producers of tin mill products for packaging containers. In 2003, we accounted for 99% of the tin mill products sold in Brazil.

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

- Iron ore produced from our own mines is processed in sintering machines to produce sinter.
- The sinter and lump ore direct charges are smelted with coke and injected powered coal in blast furnaces to produce pig iron.
- The pig iron is then refined into steel in basic oxygen converters.

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

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2. History

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

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

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

In 1993, we adopted a capital improvement program, which was revised and extended in 1995. The goals of the capital improvement program have been to increase our annual production of crude steel, to improve the productivity of our production units and the quality of our products and to enhance our environmental protection and cleanup programs. Since February 1996, all production has been based on the continuous casting process. Since 1996, we have spent the equivalent of US$2.5 billion under the capital improvement program and for operational capacity maintenance, culminating with the revampings in 2001 of Blast Furnace #3 and Hot Strip Mill #2 at the Presidente Vargas Steelworks that have increased our annual capacity to 5.8 million tons of crude steel and 5.1 million tons of rolled products, from approximately 5.0 million tons in each case at the beginning of 2001.

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B. Business Overview

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1. Business Strategy

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