

NATIONAL STEEL CO
Form 20-F/A
June 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
Amendment No. 1

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002
OR
- TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: **1-14732**

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| National Steel Company (Translation of registrant's name into English) | Federative Republic of Brazil (Jurisdiction of incorporation or organization) |
| Av. Presidente Juscelino Kubitschek 1830 - Torre 1 | |
| 13º andar | |
| Itaim Bibi | |
| 04543-900 São Paulo, SP, Brazil (Address of principal executive offices) | |

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---|--|
| Common Shares, with no par value | The New York Stock Exchange* |

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

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

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

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

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

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

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Yes No

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

Item 17 Item 18

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

EXPLANATORY NOTE

We are amending our Annual Report on Form 20-F for the year ended December 31, 2002 (the Annual Report) to conform the formatting of the tables forming part of the financial statements of Companhia Vale do Rio Doce (CVRD) and the signatures to the independent auditors reports included in Item 18 of the Annual Report to the requirements for electronic filings under Rules 302 and 304 of Regulation S-T. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, this amendment to the Annual Report includes Item 18 in its entirety, notwithstanding the fact that it is identical to Item 18 of the Annual Report, except as to formatting.

No other changes are being made to the Annual Report, as originally filed. The Annual Report, as amended by this amendment, continues to speak as of the date of its original filing, and we have not updated the disclosure as of a later date.

Item 18. Financial Statements

The following consolidated financial statements of the Registrant, together with the report of Deloitte Touche Tohmatsu thereon, are filed as part of this Annual Report.

| | Page |
|---|------|
| Independent Auditors Report | F-R |
| Consolidated financial statements: | |
| Balance sheets as of December 31, 2001 and 2002 | FS-1 |
| Statements of income for the years December 31, 2000, 2001 and 2002 | FS-3 |
| Statements of cash flows for the years ended December 31, 2000, 2001 and 2002 | FS-4 |
| Statements of changes in stockholders equity for the years ended December 31, 2000, 2001 and 2002 | FS-6 |
| Notes to financial statements | FS-8 |

The following consolidated financial statements of CVRD, together with the report of PriceWaterhouseCoopers Auditores Independentes thereon, are filed as part of this Annual Report.

| | Page |
|--|------|
| Report of independent accountants | F-2 |
| Consolidated financial statements: | |
| Statement of income for the year December 31, 2000 | F-5 |
| Statement of cash flows for the year ended December 31, 2000 | F-6 |
| Notes to financial statements | F-8 |

SIGNATURE

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this amendment to the annual report on its behalf.

June 27, 2003

Companhia Siderúrgica Nacional

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

By: /s/ Claudia de Azerêdo Santos

Name: Claudia de Azerêdo Santos

Title: General Counsel

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

CERTIFICATIONS

I, Benjamin Steinbruch, certify that:

1. I have reviewed the annual report on Form 20-F of Companhia Siderúrgica Nacional (the registrant), as amended by the amendment on Form 20-F/A dated as of June 27, 2003 (the Amendment ; the annual report, as so amended, is referred to herein as this annual report);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared
- b. evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
- c. presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and
6. I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 16, 2003, except for the changes effected by the Amendment, for which the date is June 27, 2003.

Signature: /s/ Benjamin Steinbruch

Name: Benjamin Steinbruch

Title: Chief Executive Officer and
Acting Chief Financial Officer

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Companhia Siderúrgica Nacional

Consolidated Financial Statements

For the years ended December 31, 2002, 2001 and 2000 And Independent Auditors Report

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Stockholders of Companhia Siderúrgica Nacional:

We have audited the accompanying consolidated balance sheets of Companhia Siderúrgica Nacional (a Brazilian corporation) and its subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We did not audit the consolidated financial statements of Companhia Vale do Rio Doce (CVRD) (the Company s lower tier equity method affiliate). The Company s equity result of US\$75,000,000 in the net income of CVRD for the year ended December 31, 2000 is included in the accompanying consolidated financial statements for the year ended December 31, 2000. The consolidated financial statements of CVRD for the year ended December 31, 2000 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such company, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22, the accompanying consolidated financial statements for the year ended December 31, 2000 have been restated.

Rio de Janeiro, Brazil,

/s/ Deloitte Touche Tohmatsu
May 15, 2003

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Companhia Siderurgica Nacional

Consolidated Balance Sheets

Expressed in millions of United States dollars, except share data

| Assets | As of December 31, | |
|--|---------------------------|--------------|
| | 2001 | 2002 |
| Current assets | | |
| Cash and cash equivalents | 330 | 356 |
| Trade accounts receivable, net | 401 | 421 |
| Inventories | 336 | 210 |
| Derivative assets | - | 400 |
| Taxes recoverable | 109 | 44 |
| Deferred income taxes | 94 | 124 |
| Prepaid expenses | 15 | 13 |
| Others | 28 | 22 |
| | 1,313 | 1,590 |
| Property, plant and equipment, net | 2,062 | 1,527 |
| Investments in affiliated companies and other investments | 79 | 8 |
| Other assets | | |
| Accounts receivable | 8 | 10 |
| Restricted deposits for legal proceedings | 160 | 126 |
| Taxes recoverable | 78 | 29 |
| Deferred income taxes | 136 | 166 |
| Prepaid expenses | 18 | 27 |
| Investments for sale | 115 | 71 |
| Debt and equity securities | 11 | 32 |
| Advances to employees | 5 | 4 |
| Securities receivable | 39 | - |
| Others | 30 | 65 |
| | 600 | 530 |
| | 4,054 | 3,655 |

The accompanying notes are an integral part of these consolidated balance sheets.

| Liabilities and stockholders' equity | As of December 31, | |
|--|---------------------------|-------------|
| | 2001 | 2002 |
| Current liabilities | | |
| Trade accounts payable | 168 | 158 |
| Payroll and related charges | 35 | 29 |
| Taxes payable | 33 | 21 |
| Interest on stockholders' equity | - | 83 |
| Current portion of long-term debt | 307 | 30 |
| Short-term debt and advances on export contracts | 819 | 979 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | |
|---|--------------|--------------|
| Accrued finance charges | 53 | 56 |
| Derivative liabilities | - | 298 |
| Others | 30 | 78 |
| | 1,445 | 1,732 |
| Long-term liabilities | | |
| Accrued pension cost | 273 | 179 |
| Long-term debt and debentures | 1,325 | 996 |
| Accrual for contingencies | 240 | 196 |
| Taxes payable | 17 | 17 |
| Others | 8 | 28 |
| | 1,863 | 1,416 |
| Stockholders' equity | | |
| Common stock - 100,000,000 thousand shares (no par value) authorized - 71,729,261 thousand shares issued and outstanding | 2,447 | 2,447 |
| Capital surplus | 53 | 53 |
| Retained earnings (accumulated loss) | | |
| Appropriated | 501 | 282 |
| Unappropriated | (277) | (363) |
| Accumulated other comprehensive loss | | |
| Cumulative translation adjustments | (1,978) | (1,912) |
| | 746 | 507 |
| | 4,054 | 3,655 |

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Income

Expressed in millions of United States dollars, except share data

| | Years ended December 31 | | |
|--|------------------------------|--------------|--------------|
| | 2000 | 2001 | 2002 |
| | (As Restated See Note 22) | | |
| Operating revenues | | | |
| Domestic sales | 2,029 | 1,860 | 1,570 |
| Export sales | 354 | 218 | 599 |
| | 2,383 | 2,078 | 2,169 |
| Sales taxes, discounts, returns and allowances | 437 | 362 | 327 |
| | 1,946 | 1,716 | 1,842 |
| Net operating revenues | 1,946 | 1,716 | 1,842 |
| Cost of products sold | 1,115 | 958 | 994 |
| | 831 | 758 | 848 |
| Gross profit | | | |
| Operating expenses | | | |
| Selling | 127 | 82 | 127 |
| General and administrative | 117 | 109 | 110 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|---|-------------------|-------------------|-------------------|
| Others | 74 | 73 | 47 |
| | 318 | 264 | 284 |
| Operating income | 513 | 494 | 564 |
| Non-operating income (expenses), net | | | |
| Financial income | 121 | 92 | 466 |
| Financial expenses | (278) | (381) | (219) |
| Foreign exchange and monetary loss, net | (127) | (396) | (1,087) |
| Gain on sales of long-term investments | - | 643 | - |
| Others | (19) | 36 | (30) |
| | (303) | (6) | (870) |
| Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle | 210 | 488 | (306) |
| Income taxes | | | |
| Current | (104) | 2 | 25 |
| Deferred | 87 | 48 | 190 |
| | (17) | 50 | 215 |
| Equity in results of affiliated companies | 80 | (30) | (71) |
| Income (loss) before extraordinary item and cumulative effect of a change in accounting principle | 273 | 508 | (162) |
| Extraordinary item, net of income taxes | - | 13 | - |
| Cumulative effect of a change in accounting principle, net of income taxes | - | 6 | - |
| Net income (loss) | 273 | 527 | (162) |
| Basic and diluted earnings per thousand common shares (in U.S. dollars) | | | |
| Income (loss) before extraordinary item and cumulative effect of a change in accounting principle | 3.81 | 7.09 | (2.26) |
| Extraordinary item, net of income taxes | - | 0.18 | - |
| Cumulative effect of a change in accounting principle, net of income taxes | - | 0.08 | - |
| Basic and diluted earnings (loss) per thousand common shares | 3.81 | 7.35 | (2.26) |
| Weighted average number of common shares outstanding (in thousands) | 71,729,261 | 71,729,261 | 71,729,261 |

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Expressed in millions of United States dollars

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | Years ended December 31, | | |
|---|--------------------------------------|------------|------------|
| | 2000 | 2001 | 2002 |
| | (As Restated See Note 22) | | |
| Cash flows from operating activities | | | |
| Net income (loss) | 273 | 527 | (162) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 126 | 117 | 122 |
| Foreign exchange and monetary loss, net | 127 | 396 | 1,087 |
| Accrual for contingencies | 45 | 48 | 24 |
| Residual value of equipment retired | 9 | 6 | 30 |
| Deferred income taxes | (87) | (48) | (190) |
| Provision for loss on investments | 4 | 4 | 26 |
| Equity in results of affiliated companies | (80) | 30 | 45 |
| Gain on sales of long-term investments | - | (643) | - |
| Gain on debt extinguishment, net of income taxes | - | (13) | - |
| Others | 36 | 26 | 12 |
| Decrease (increase) in operating assets | | | |
| Trade accounts receivable and other | (20) | (204) | (168) |
| Inventories | (86) | 12 | 11 |
| Derivative assets, net | - | - | (112) |
| Taxes recoverable | 26 | (84) | 50 |
| Prepaid expenses | 12 | (10) | (51) |
| Restricted deposits for legal proceedings | (78) | (29) | (21) |
| Others | 9 | 36 | (7) |
| Increase (decrease) in operating liabilities | | | |
| Suppliers | 113 | (38) | 48 |
| Taxes payable | 82 | 10 | 5 |
| Accrued pension cost | 24 | 18 | - |
| Accounts payable in installments | (6) | (6) | - |
| Others | 6 | 55 | 57 |
| Net cash provided by operating activities | 535 | 210 | 806 |

The accompanying notes are an integral part of these consolidated financial statements.

| | Years ended December 31, | | |
|--|--------------------------------------|------------|--------------|
| | 2000 | 2001 | 2002 |
| | (As Restated See Note 22) | | |
| Cash flows from investing activities | | | |
| Additions to property, plant and equipment | (377) | (430) | (264) |
| Acquisition of investments | (154) | (62) | (42) |
| Disposition of investments | - | 1,293 | - |
| Loans to related parties | (16) | (9) | (13) |
| Net cash provided by (used in) investing activities | (547) | 792 | (319) |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| Cash flows from financing activities | | | |
|---|-------------|----------------|--------------|
| Short-term debt, net borrowings and repayments | 212 | 81 | (263) |
| Long-term debt | | | |
| Proceeds | 697 | 779 | 536 |
| Repayments | (891) | (884) | (561) |
| Dividends and interest on stockholders' equity | (63) | (1,227) | (60) |
| | <hr/> | | |
| Net cash used in financing activities | (45) | (1,251) | (348) |
| | <hr/> | | |
| Increase (decrease) in cash and cash equivalents | (57) | (249) | 139 |
| Effects of changes in exchange rates on cash and cash equivalents | (70) | (109) | (113) |
| Cash and cash equivalents, beginning of year | 815 | 688 | 330 |
| | <hr/> | | |
| Cash and cash equivalents, end of year | 688 | 330 | 356 |
| | <hr/> | | |

Cash paid during the year for:

| | | | |
|--|-----|-----|-----|
| Interest, net of interest capitalized | 146 | 201 | 145 |
| Income tax and social contribution, including withholding income tax | 90 | 64 | 13 |

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders Equity

Expressed in millions of United States dollars

| | Years ended December 31, | | |
|---|--------------------------------------|--------------|--------------|
| | 2000 | 2001 | 2002 |
| | (As Restated See Note 22) | | |
| Common stock | | | |
| Balance, beginning and end of year | 2,447 | 2,447 | 2,447 |
| | <hr/> | | |
| Capital surplus | | | |
| Balance, beginning and end of year | 53 | 53 | 53 |
| | <hr/> | | |
| Treasury stock | | | |
| Balance, beginning of year | (24) | (24) | - |
| Write off of treasury stock | - | 24 | - |
| | <hr/> | | |
| Balance, end of year | (24) | - | - |
| | <hr/> | | |
| Accumulated other comprehensive loss | | | |
| Cumulative translation adjustments | | | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|----------------------------|---------|---------|---------|
| Balance, beginning of year | (1,611) | (1,807) | (1,978) |
| Change in the year | (196) | (171) | 66 |

| | | | |
|----------------------|----------------|----------------|----------------|
| Balance, end of year | (1,807) | (1,978) | (1,912) |
|----------------------|----------------|----------------|----------------|

Unrealized gain (loss) on available-for-sale security

| | | | |
|----------------------------|------|------|---|
| Balance, beginning of year | (35) | (16) | - |
| Change in the year | 28 | 24 | - |
| Tax effect on above | (9) | (8) | - |

| | | | |
|----------------------|-------------|----------|----------|
| Balance, end of year | (16) | - | - |
|----------------------|-------------|----------|----------|

The accompanying notes are an integral part of these consolidated financial statements.

Years ended December 31,

| | | | |
|--|-------------|-------------|-------------|
| | 2000 | 2001 | 2002 |
|--|-------------|-------------|-------------|

**(As Restated
See Note 22)**

Retained earnings (accumulated loss)

Appropriated

| | | | |
|----------------------------|-------|-------|-------|
| Investment reserve | | | |
| Balance, beginning of year | 963 | 543 | 416 |
| | (420) | (127) | (190) |

Transfer to unappropriated retained earnings

| | | | |
|----------------------|------------|------------|------------|
| Balance, end of year | 543 | 416 | 226 |
|----------------------|------------|------------|------------|

Legal reserve

| | | | |
|---|----|-----|------|
| Balance, beginning of year | 56 | 93 | 85 |
| Transfer from (to) unappropriated retained earnings | 37 | (8) | (29) |

| | | | |
|----------------------|-----------|-----------|-----------|
| Balance, end of year | 93 | 85 | 56 |
|----------------------|-----------|-----------|-----------|

| | | | |
|----------------------------|------------|------------|------------|
| Total balance, end of year | 636 | 501 | 282 |
|----------------------------|------------|------------|------------|

Unappropriated

| | | | |
|---|-------|-------|-------|
| Balance, beginning of year | (287) | (112) | (277) |
| Net income (loss) | 273 | 527 | (162) |
| Payment of dividends and interest on stockholders' equity | (470) | (831) | (143) |
| Adjustments relating to investments by affiliates | (11) | 4 | - |
| Appropriation from reserves | 383 | 135 | 219 |

| | | | |
|----------------------|--------------|--------------|--------------|
| Balance, end of year | (112) | (277) | (363) |
|----------------------|--------------|--------------|--------------|

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|--|--------------|------------|-------------|
| Total retained earnings (accumulated loss) | 524 | 224 | (81) |
| <hr/> | | | |
| Total stockholders' equity | 1,177 | 746 | 507 |
| <hr/> | | | |
| Comprehensive income (loss) | | | |
| Net income (loss) | 273 | 527 | (162) |
| Translation adjustments for the year | (196) | (171) | 66 |
| Unrealized gain on available-for-sale security, net of income taxes | 19 | 16 | - |
| <hr/> | | | |
| Total comprehensive income (loss) | 96 | 372 | (96) |
| <hr/> | | | |

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

Companhia Siderúrgica Nacional is a publicly held company, incorporated on April 9, 1941 under the laws of the Federative Republic of Brazil (Companhia Siderúrgica Nacional and its subsidiaries are collectively referred to herein as CSN or the Company).

CSN is a vertically integrated company that produces a wide range of value-added steel products, such as hot-dip galvanized sheets and tin mill products, and is Brazil's sole tinplate producer. CSN also runs its own iron ore, limestone and dolomite mines, in the State of Minas Gerais, which supply all the needs of its Presidente Vargas Steelworks in the State of Rio de Janeiro. As a complement to its activities, the Company has also made strategic investments in railroads and power supply companies, among others. The Company's consolidated subsidiaries are:

- CSN Cayman Ltd. (wholly-owned) a trading company incorporated in the Cayman Islands, established for the principal purpose of facilitating a securitization of the Company's receivables. On January 2001, the investment in CSN Cayman Ltd. was transferred to Energy I Corp. CSN Cayman Ltd. has a 100% interest in Management Services Co., a Panamanian corporation that provides management services to related parties;
- CSN Steel Corp. (wholly-owned) incorporated in the Cayman Islands, held the investment in Valepar S.A. made in connection with the acquisition of shares of CVRD, which were sold in March 2001;
- CSN Iron, S.A. (wholly-owned) incorporated in the Republic of Panama, established to act as an issuer of securities in order to obtain funds for CSN. In December 2001, the investment in CSN Iron, S.A. was transferred to CSN Panama, S.A.;

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

- CSN Panama, S.A. (99.99% owned) - incorporated in the Republic of Panama, holds a 37.5% interest in CSN Aceros, S.A., which was acquired in connection with the acquisition of shares of Sepetiba Tecon S.A.;
- CSN Overseas (wholly-owned) incorporated in the Cayman Islands, a trading company for CSN's export sales;
- CSN Islands Corp. (wholly-owned) incorporated in the Cayman Islands, established to act as an issuer of Eurobonds;
- Energy I Corp. (wholly-owned) incorporated in the Cayman Islands, its major objective was the sale of CSN's stake in Light Serviços de Eletricidade S.A. In December 2001, the investment in Energy I Corp. was transferred to CSN Energy Corp.;
- CSN Energy Corp. (wholly-owned) incorporated in the Cayman Islands, participates in other companies through equity stakes;
- Tangua Inc. (wholly-owned)- incorporated in the Republic of Panama, indirectly participates in Companhia Siderúrgica Nacional LLC through equity stake;
- Companhia Siderúrgica Nacional LLC (wholly-owned) incorporated in Delaware, runs a steel mill facility located in the United States;
- FEM Projetos, Construções e Montagens S.A. (99.99% owned) its main activities were industrial maintenance and technical assistance. The shareholders decided, starting from June 2002, to write-off the property, plant and equipment of FEM;
- INAL - Industria Nacional de Aços Laminados S.A. (99.99% owned) - a steel distribution company located in Sao Paulo. In December 2002, the investment in INAL was transferred to CISA;
- CISA CSN Indústria de Aços Revestidos S.A. (99.99% owned) CISA consists of a large galvanizing complex, focused on the construction and home appliance segments in Brazil. It began operations in January 2001. See Note 23(c) for a description of the spin-off of the CISA plant to CSN in February 2003;
- CSN Participações Energéticas S.A. (99.70% owned) - participates in other companies through equity stakes (in pre-operating stage);
- CSN Energia S.A. (99.90% owned) engaged in the trading of electric power;
- CSC Cia. Siderúrgica do Ceará (99.99% owned) dormant company;
- CSN I S.A. (99.67% owned) dormant company;
- SCP Sociedade por Cota de Participação (wholly-owned) engaged in the trading and distribution of energy; and
- Metalic Cia. Metalic Nordeste (wholly-owned) located in Ceara, is the only company in Brazil that produces two-piece steel cans.

2 Summary of significant accounting policies

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, the use of estimates is required to account for certain assets, liabilities and transactions. The Company's consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment and goodwill, provisions necessary for losses on accounts receivable and for contingent liabilities, employee post-retirement benefits and other similar evaluations. Actual results may vary from estimates.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The financial statements have been prepared from the records maintained in Brazil.

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which differ in certain respects from the Brazilian accounting principles applied by the Company in its statutory financial statements prepared in accordance with the Brazilian Corporate Law.

The U.S. dollar amounts for the periods presented have been translated from the Brazilian currency amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards (SFAS) No. 52 Foreign Currency Translation (SFAS 52).

As from July 1, 1997, the Company concluded that the Brazilian economy had ceased to be highly inflationary and changed its functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais). Accordingly, at July 1, 1997, the Company translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities. At each period ended after July 1, 1997, the Company has translated all assets and liabilities into U.S. dollars at the current exchange rate (R\$2.3204 and R\$3.5333 to US\$1.00 at December 31, 2001 and 2002, respectively), and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency, which were previously not translated) at the average rates prevailing during the period. The translation gain or loss resulting from this translation process is included as a component of accumulated other comprehensive loss in stockholders equity.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the Brazilian real are included in the results of operations as incurred.

Stockholders equity included in the financial statements presented herein differs from that included in the Company s statutory accounting records as a result of differences between the variations in the U.S. dollar exchange rate and in the indices mandated for indexation of the statutory financial statements and adjustments made to reflect the requirements of US GAAP.

(b) Basis of consolidation

The financial statements of majority-owned subsidiaries that CSN controls have been consolidated. All significant intercompany accounts and transactions have been eliminated. The financial statements of all subsidiaries have been prepared in accordance with US GAAP.

(c) Inventories

Inventories are stated at the lower of the average actual cost to purchase or manufacture the inventory or the current estimated market value. Allowances for slow-moving or obsolete inventories are recorded when considered appropriate.

(d) Investments in affiliated companies and other investments

The Company uses the equity method of accounting for all long-term investments for which it owns at least 20% of the investee's outstanding voting stock or has the ability to exercise significant influence over operating and financial policies of the investee, but not the control. The equity method requires periodic adjustments to the investment account to recognize the Company's proportionate share in the investee's results, reduced by receipt of investee dividends. The Company accounts for its investment securities having a quoted market price (other than those accounted for under the equity method) in accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115).

Other investments are accounted for at cost.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest incurred during the construction period of major new facilities. 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; and vehicles 5 years.

Costs of developing iron ore and other mines or expanding the capacity of operating mines are capitalized and charged to operations on the units-of-production method based on the total quantity to be recovered. These costs have not been material for the years presented.

Maintenance expenses, including those related to programmed maintenance of the Company's blast furnaces, are charged to the cost of production as incurred.

(f) Recoverability of long lived assets

In accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS 144), management reviews long lived assets, primarily property, plant and equipment to be used in the business, for the purpose of determining and measuring impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. SFAS 144 requires the recognition of an impairment loss when the estimate of undiscounted future operating cash flows expected to be generated by the asset is less than its carrying value. Measurement of the impairment loss is based on the fair value of the asset, as determined based on quoted market prices, discounted cash flows or appraisals.

(g) Revenues and expenses

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Revenues are recognized when the products have been delivered to the customer or shipped and the risk of ownership has passed to the customer, persuasive evidence of the basis of the sale exists, the price is fixed or determinable, the customer no longer has a right of return and collectibility is reasonably assured. Expenses and costs are recognized on the accrual basis.

The Company reflects value-added taxes as a reduction of gross operating revenues.

Revenues from the sale of electricity through the Wholesale Energy Market (the MAE) are recorded on an accrual basis in accordance with information registered on the MAE and communicated to the Company by the MAE.

(h) Environmental and remediation costs

The Company provides for remediation costs and penalties when a loss is probable and the amount of associated costs is reasonably determinable. Generally, the timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action.

Expenditures relating to ongoing compliance with environmental regulations are charged to earnings or capitalized, as appropriate. Capitalization is considered appropriate when the expenditures relate to items that will continue to provide benefits to the Company and primarily pertain to the acquisition and installation of equipment for control of air and effluent emissions. These ongoing programs are designed to minimize the environmental impact of the Company's mining and steel operations and are also expected to reduce costs that might otherwise be incurred on cessation of mining activities.

(i) Research and development

Expenditures for research and development in new products for the year ended December 31, 2002 were US\$8 (US\$8 and US\$9 in 2001 and 2000, respectively).

(j) Accrued pension cost

SFAS No. 87 Employers Accounting for Pensions (SFAS 87) has been applied as from the beginning of the earliest year presented in these financial statements. However, amortization of the net transition obligation existing at January 1, 1995, when the Company first adopted SFAS 87, has been computed retroactively as if it had been established on January 1, 1989, which is the date that SFAS 87 first became applicable for non-U.S. pension funds.

SFAS No. 132 Employers Disclosure About Pensions and Other Post-retirement Benefits (SFAS 132) provides a new basis of disclosure for pension and other post-retirement benefit plans in the annual financial statements of a company. The intent of the new disclosures, among others, is to provide information that will allow the reader to reconcile annual changes in a plan's financial position and the related financial impact on the plan's sponsor. The Company adopted SFAS 132 retroactively as from January 1, 1997, and the required disclosures are presented in Note 14.

(k) Employee profit participation plan

The parent Company sponsors an employee profit participation plan for all parent Company employees, which is based on annual EBITDA (earnings before interest, income taxes, depreciation and amortization) determined on the basis of the Company's statutory financial statements. The plan establishes the distribution of up to 2.5% of annual EBITDA, provided the EBITDA margin (EBITDA as a percentage of revenues) is at least 33%. Expenses of the employee profit participation plan, recorded under general and administrative expenses, amounted to US\$16, US\$12 and US\$17 for 2000, 2001 and 2002, respectively.

(l) Compensated absences

Liability regarding employee compensation for vacation benefits is accrued.

(m) Income taxes

SFAS No. 109 Accounting for Income Taxes has been applied for all years presented. The effect of adjustments made to reflect the requirements of US GAAP, as well as differences between the tax basis of non-monetary assets and liabilities and the amounts included in these financial statements, have been recognized as temporary differences for the purpose of recording deferred income taxes. Net operating loss carryforwards are recognized as deferred tax assets and a valuation allowance is recorded when management believes it to be more likely than not that deferred tax assets will not be fully recovered in the future.

(n) Statements of cash flows

Cash flows relating to overnight financing and investments are reported on a net basis. Short-term investments that have a ready market and original maturity, when purchased, of 90 days or less are considered cash equivalents.

(o) Earnings per share

The Company has adopted SFAS No. 128 Earnings Per Share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the year. Because the Company does not have any potentially dilutive common shares outstanding, diluted earnings per share is equal to basic earnings per share. The common shares of the Company are traded in stock markets in thousands of shares, and earnings per share are presented per thousand shares.

(p) Concentration of credit risk

Financial instruments that potentially subject CSN to concentrations of credit risk are cash and cash equivalents and trade accounts receivable. CSN limits

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

its credit risk associated with cash and cash equivalents by placing its investments with highly-rated financial institutions in very short-term applications. With respect to trade accounts receivable, CSN limits its credit risk by performing ongoing credit evaluations and, depending on the results of the evaluation, requiring letters of credit, guarantees or collateral. CSN's products are utilized in a wide variety of industry segments, therefore accounts receivable and sales are not concentrated in one single industry and, accordingly, management does not believe significant concentration of credit risk exists.

(q) Comprehensive income (loss)

SFAS No. 130 Reporting Comprehensive Income (SFAS 130) requires that companies display changes in the equity of a business enterprise during a period resulting from transactions and other events and circumstances from non-owner sources. The Company has adopted SFAS 130 for all years presented and has included a Comprehensive income (loss) statement as part of the consolidated statements of changes in stockholders equity.

(r) Interest attributed to stockholders

As from January 1, 1996, Brazilian corporations are allowed to attribute interest on stockholders equity. The calculation is based on the stockholders equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank (approximately 11%, 10% and 10% for years 2000, 2001 and 2002, respectively). Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves, determined in each case on the basis of the statutory financial statements. The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to the Company, as opposed to making a dividend payment, is a reduction in income tax charge equivalent to the statutory rate applied to such amount. Income tax is withheld from interest payments at the rate of 15%, except for interest due to the Brazilian Government, which is exempt from tax withholdings. The Company opted to pay such tax-deductible interest to its stockholders, and has therefore accrued the amounts due as of December 31, 2002 with a direct charge to stockholders equity.

(s) Segment information

SFAS No. 131 Disclosures about Segments of Enterprise and Related Information (SFAS 131) requires that a business enterprise supplementally disclose certain financial information among its various and distinct operating activities. Such information is to be oriented from the point of view of how operating and financial decisions are made for each business sector. The Company has adopted SFAS 131 for all years presented, as further disclosed in Note 18.

(t) Financial statements as of and for the year ended December 31, 2000

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The financial statements as of and for the year ended December 31, 2000 were reclassified, when applicable, for comparison purposes, mainly for the following: (i) in the balance sheets and statements of cash flows, reclassification of certain amounts from taxes payable (current and long-term) to accrual for contingencies (long-term); (ii) in the statements of cash flows, the changes in restricted deposits for legal proceedings were reclassified from investing activities to operating activities; (iii) in the statements of cash flows, certain reclassifications were made to reflect more adequately the effects of the disposal of investments.

3 Recently issued accounting pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments, and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative s fair value that is considered to be ineffective, as defined, may have to be immediately recorded in earnings. Any portion of a change in a derivative s fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will be recorded in earnings. As a result of adopting SFAS 133, as of January 1, 2001, the Company recorded an asset of US\$9, reflecting the net fair value on such date of its derivative financial instruments, and the contra-entry is presented as a gain of US\$6 (net of income tax effects of US\$3) under cumulative effect of a change in accounting principle, net of income taxes in the statement of income for the year ended December 31, 2001.

In October 2000, FASB issued SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125 (SFAS 140). SFAS 140 carries forward most of SFAS 125 s provisions without amendment. However, it revises criteria for accounting for certain transfers of financial assets and the reporting and disclosure requirements for collateral arrangements. SFAS 140 s disclosure requirements must be applied for fiscal years ending after December 15, 2000. The other provisions of SFAS 140 apply to transactions and commitments occurring after March 31, 2001. The adoption of SFAS 140 did not have a material effect on the Company s consolidated results of operations and financial position.

During June 2001, FASB issued SFAS No. 141 Business Combinations (SFAS 141). SFAS 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board (APB) Opinion No. 16 Business

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Combinations (Opinion 16) and SFAS No. 38 Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations within the scope of SFAS 141 are to be accounted for using the purchase method. In addition, SFAS 141 establishes that intangible assets must be recognized as assets apart from goodwill if they meet one of two criteria the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS 141 also provides a list of intangible assets that meet either of those criteria. In addition to the disclosure requirements prescribed in Opinion 16, SFAS 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. SFAS 141 also establishes that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. The business combinations described in Note 4 were accounted for according to SFAS 141, as further described in that Note.

During June 2001, FASB issued SFAS No. 142 Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17 Intangible Assets. SFAS 142 also amends SFAS No. 121 Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of , to exclude from its scope goodwill and intangible assets that are not amortized. SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. An exception to the SFAS 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject to the nonamortization and amortization provisions of this statement. The Company concluded that, based on the provisions of SFAS 142, no impairment loss should be recognized on this goodwill balance, which amounted to US\$21 as of December 31, 2001.

During June 2001, FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations (SFAS 143). SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long lived asset. Under SFAS 143, the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS 143 require companies to provide more information about asset retirement

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

obligations. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with earlier application encouraged. The adoption of SFAS 143 as of January 1, 2002 did not have a material effect on the Company's consolidated results of operations and financial position.

During August 2001, FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS 144), which supersedes SFAS No. 121 Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of (SFAS 121), but retains fundamental provisions of SFAS 121 relating to (a) recognition or measurement of impairment of long lived assets to be held and used and (b) measurement of long lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30 Reporting the Results of Operations (Opinion 30) for segments of a business to be disposed of, but retains Opinion 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those years, with early application encouraged. The adoption of SFAS 144 as of January 1, 2002 did not have a material effect on the Company's consolidated results of operations and financial position.

In April 2002, FASB issued SFAS No. 145 Rescission of FASB Statements SFAS 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections (SFAS 145). SFAS 145 rescinds SFAS No. 4 Reporting Gains and Losses from Extinguishments of Debt (SFAS 4), and an amendment of that Statement, SFAS No. 64 Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements . SFAS 145 also rescinds SFAS No. 44 Accounting for Intangible Assets of Motor Carriers. SFAS 145 amends SFAS No. 13 Accounting for Leases (SFAS 13) to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provisions of SFAS 145 related to the rescission of SFAS 4 are required to be applied for fiscal years beginning after May 15, 2002. The provisions of SFAS 145 related to SFAS 13 apply to transactions occurring after May 15, 2002. Early application of the provisions of SFAS 145 is encouraged. The Company does not expect the adoption of SFAS 145 will have a significant impact on its consolidated results of operations, financial position or cash flows.

In June 2002, FASB issued SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) (Issue 94-3). The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by FASB in SFAS 146 is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 improves financial reporting by requiring that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The accounting for similar events and circumstances will be the same, thereby improving the comparability and representational faithfulness of reported financial information. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect that the adoption of SFAS 146 will have a significant impact on its consolidated results of operations, financial position or cash flows.

In November 2002, FASB issued Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN 45, management believes that the implementation of this interpretation will not result in any impact to the Company's financial statements.

In April 2003, FASB issued SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149), which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities under SFAS 133. SFAS 149 clarifies the circumstances under which a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS 133. In addition, SFAS 149 clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 amends certain other existing pronouncements, resulting in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for relationships designated after June 30, 2003, and is to be applied prospectively. The Company does not believe that the adoption of SFAS 149 will have a material impact on the Company's financial statements.

In May 2003, FASB issued SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 affects a company's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type are obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the guidance in SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company is currently evaluating the impact of SFAS 150 on its financial position, results of operations and cash flows.

4 Business combinations

On June 19, 2001, the Company obtained the right to acquire certain assets (pickling line, cold rolling and galvanizing lines, box annealing, skin pass mill and a service center for cutting and slitting) which belonged to Heartland Steel Inc. (Heartland), located in Terre Haute, Indiana, USA and operating under Chapter 11 protection. This strategy was made in line with CSN's planning for international development. Such right was subsequently transferred in July to a limited liability company, Companhia Siderúrgica Nacional LLC (LLC), a Delaware company. LLC was established on June 26, 2001 by Companhia Siderúrgica Nacional Holdings, LLC (Holdings) and Companhia Siderúrgica Nacional Partner, LLC (Partner) contributing US\$147 in capital. Holdings owns 99% of LLC and Partner owns 1% of LLC. Partner is a wholly-owned subsidiary of Holdings. Holdings is a wholly-owned subsidiary of Tangua Inc. (Tangua). Tangua is owned by a third entity.

On July 16, 2001, LLC acquired the above-mentioned assets for the amount of US\$55 and assumed certain liabilities in the amount of US\$19. The acquisition was accounted for using the purchase method with the assets acquired and liabilities assumed recorded at fair value. No goodwill resulted from the acquisition. The purchase price allocation is substantially complete except for finalizing the property tax accrual, which is still being analyzed. The financial statements include LLC's best estimate of the property tax liability but may be subject to change based on completion of the analysis. The purchase price allocation is shown as follows:

| | |
|---------------------------|----|
| Cash paid for property | 49 |
| Cash paid for rollline | 2 |
| Cash paid for spare parts | 3 |
| Bank receivable | 1 |
| Debt assumed | 15 |
| Accrued interest | 1 |
| Accrued property tax | 1 |

Acquisition of in process liability

2

Total purchase price

74

The Company plans to acquire the capital shares of LLC in July 2003.

LLC signed an agreement with Management Services Co., a Panamanian corporation (the Service Party), whose shares are owned by CSN Cayman Ltd., a wholly-owned subsidiary of the Company. Under this agreement, the Service Party is responsible for performing management services for LLC reasonably deemed associated and connected with or deriving from (in any case, directly or indirectly) the steel business. As a consequence of these agreements, the transactions above have been accounted for by the Company under the provisions of SFAS 141 and, accordingly, the consolidated financial statements of the Company include the results of operations of LLC and Tangua since July 16, 2001.

LLC operates a steel processing facility in Terre Haute, Indiana. The facility has a 1.1 million ton per year capacity and has the capability to pickle, cold-roll, anneal, temper, galvanize and slit flat-rolled steel. The steel industry in the United States is currently experiencing a general decline in demand and pricing due to a variety of factors, including current economic conditions in the United States and worldwide over-capacity. Accordingly, there can be no assurance at this time as to when LLC will operate at a profitable level.

In November 2002, the Company acquired 100% of the shares of Cia Metalic Nordeste (Metalic) as part of its strategy to expand into the tin-coated products market. Metalic is the only two-piece steel can producer in Brazil, and it has approximately 40% of the packaging market for carbonated drinks in the North and Northeastern regions of Brazil. Metalic was acquired from members of the Steinbruch family, who also have an interest in the Company. The total purchase price paid amounted to R\$108.5 million (US\$30) and is payable in 12 monthly installments, commencing November 2002, indexed as of July 1, 2002 by the General Market Price Index (IGPM) published by the Fundaao Getlio Vargas, plus interest of 12% per year. As a result of this transaction, the Company recognized goodwill in the amount of R\$126 million (US\$39), which is included in other assets. This transaction will be accounted for using the purchase method in accordance with SFAS 141, with the purchase price being allocated to the assets acquired and liabilities assumed based on their respective fair values. Such allocation has not been completed as of December 31, 2002. The pro forma effects of the Metalic acquisition on the Company s consolidated financial statements are not material.

5 Income taxes

Income taxes in Brazil comprise federal income tax and social contribution (which is an additional federal income tax). The statutory rates applicable for the three years presented herein are: i) federal income tax: 25% for the whole period; and ii) social contribution: 12% in January 2000 and 9% for the balance of the period. Accordingly, the deferred tax balances at each year-end are

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

computed at the rates to be in force in the subsequent year, according to enacted laws (33% at December 31, 2000 and 2001 and 34% at December 31, 2002 for federal income tax plus social contribution). The amounts reported as income tax expense in these financial statements are reconciled to the statutory rates as follows:

| | Years ended December 31, | | |
|---|--------------------------|------------|--------------|
| | 2000 | 2001 | 2002 |
| Income (loss) before income taxes, equity in results of affiliated companies, extraordinary item and cumulative effect of a change in accounting principle | 210 | 488 | (306) |
| Federal income tax and social contribution at statutory rates | (69) | (161) | 104 |
| Adjustments to derive effective tax rate | | | |
| Interest on stockholders' equity | 82 | 13 | 27 |
| Non-taxable income (loss) from outside Brazil | (17) | 214 | 7 |
| Reversal of tax contingencies | - | - | 32 |
| Others | (13) | (16) | 45 |
| Tax benefit (expense) per income statements | (17) | 50 | 215 |

The major components of deferred income tax accounts in the balance sheet are as follows:

| | As of December 31, | |
|--|--------------------|------------|
| | 2001 | 2002 |
| Current assets | | |
| Tax loss carryforwards | 79 | 40 |
| Non-deductible accrued expenses | 15 | 84 |
| Net current deferred tax assets | 94 | 124 |
| Non-current assets | | |
| Tax loss carryforwards | 16 | 70 |
| Non-deductible accrued expenses | 60 | 50 |
| Accrued pension cost | 90 | 59 |
| | 166 | 179 |
| Non-current liabilities | | |
| Property, plant and equipment | 21 | 13 |
| Investments in affiliated companies | 9 | - |
| | 30 | 13 |
| Net non-current deferred tax assets | 136 | 166 |

Management believes that the deferred tax assets are fully realizable and therefore that no valuation allowance is required.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The deferred assets related to income tax loss carryforwards and social contribution negative basis carryforwards, in the amounts of US\$88 (US\$81 in 2001) and US\$22 (US\$15 in 2001), respectively, as of December 31, 2002, were set up based on the history of CSN's profitability and on the expectation of future profitability. These benefits are expected to be completely realized within five years. Tax loss carryforwards do not expire under Brazilian tax law.

6 Cash and cash equivalents

| | As of December 31, | |
|---------------------------------------|---------------------------|-------------|
| | 2001 | 2002 |
| Cash in hand and bank deposits | | |
| Local currency | 17 | 37 |
| Time deposits | | |
| Local currency | 178 | 257 |
| U.S. dollars | 135 | 62 |
| Total | 330 | 356 |

Management has been investing surplus cash in an investment fund comprised of Brazilian government bonds, fixed income securities with monetary or foreign exchange variation, issued in Brazil, commercial paper and money market funds.

7 Trade accounts receivable

| | As of December 31, | |
|--------------------------------------|---------------------------|-------------|
| | 2001 | 2002 |
| Domestic | 391 | 340 |
| Export - Denominated in U.S. dollars | 45 | 109 |
| | 436 | 449 |
| Allowance for doubtful accounts | (35) | (28) |
| Total | 401 | 421 |

During 2000, 2001 and 2002, the Company recorded receivables aggregating US\$137 (translated at the December 31, 2002 exchange rate) in respect of its MAE electric energy sales, based on prices furnished by the MAE.

In May 2002, the Agência Nacional de Energia Elétrica - ANEEL issued Order No. 288, which retroactively imposed additional transmission costs, resulting in changes in the electric energy prices which the Company relied on. Therefore, in 2002, the Company made a US\$24 provision to reflect these changes in electric energy prices. As a result of a partial settlement of the receivables related to these MAE sales, the Company received US\$26 in December 2002 and US\$22 in January and February 2003. At March 31, 2003, US\$68 of the Company's MAE receivables remained outstanding. The settlement of the Company's remaining

MAE receivables is expected to occur after the completion of an independent audit by ANEEL to validate the accuracy of the amounts determined by the MAE and communicated to the electric power companies. It is expected that this audit will be completed by the end of June 2003 and that payment will commence shortly thereafter.

No single customer accounted for more than 10% of total trade accounts receivable at December 31, 2001 or 2002, or total revenues in any of the three years in the period ended December 31, 2002. As of December 31, 2001 and 2002, the Company fully provided for the receivables from certain customers, after negotiations over past due accounts failed.

8 Investments for sale

On December 11, 2000, CSN sold through its subsidiary Energy I Corp. its participation in the capital stock of Light Serviços de Eletricidade S.A. to EDF International S.A. and AES Treasure Cove Ltd. for R\$708 million (US\$362), with the financial closing taking place on January 11, 2001. The gain on this transaction was US\$185, which is recorded under non-operating income (expenses), net gain on sales of long-term investments in the consolidated statement of income for the year ended December 31, 2001. The gain net of income taxes was US\$150.

The Company's investment in Light Serviços de Eletricidade S.A. was classified as available-for-sale under the provisions of SFAS 115. Accordingly, the unrealized holding losses, net of taxes, were excluded from income and recognized as a separate component of stockholders' equity (other comprehensive loss). As a result of this sale, the unrealized loss in the amount of US\$16 (net of income tax effects) as of December 31, 2000 was reversed against the gain, which was recognized in the consolidated statement of income for the year ended December 31, 2001.

On December 31, 2000, agreements were signed for the purpose of eliminating existing cross-holdings between CSN and CVRD. Under these agreements CSN sold 32,926,078 ordinary shares issued by Valepar S.A., corresponding to 8.4739% of the shares issued by CVRD, for an amount equivalent to US\$1,313, to BRADESPAR S.A, BRADESPLAN Participações S.A. and Litel Participações S.A., with the financial closing taking place in March 2001. The gain on this transaction was US\$458, which is recorded under non-operating income (expenses), net gain on sales of long-term investments in the consolidated statements of income for the year ended December 31, 2001.

As the financial closings for these transactions occurred in 2001, the Company did not record such transactions in the 2000 financial statements. Instead, the sales were recorded in 2001, as established by SFAS No. 125 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which states that sales of financial assets must be accounted for at the time the transfer of securities and the financial closing occur.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

As of December 31, 2002, the investments in Inepar-Ind. and Itá Energética S.A. in the amounts of US\$5 and US\$66, respectively, were recorded in investments for sale within other assets.

9 Inventories

| | As of December 31, | |
|--------------------------------------|--------------------|------------|
| | 2001 | 2002 |
| Finished products | 74 | 73 |
| Products in process | 64 | 38 |
| Raw material | 92 | 43 |
| Spare parts and maintenance supplies | 64 | 49 |
| Other | 42 | 7 |
| Total | 336 | 210 |

10 Investments in affiliated companies and other investments

| | As of and for the years ended December 31, | | | | | | |
|--|--|--------------|-------------|------|------|---|------|
| | Direct ownership | | Investments | | | Equity in results of affiliated companies | |
| | 2002 | 2002 | 2001 | 2002 | 2000 | 2001 | 2002 |
| Companies | Voting | Total | | | | | |
| MRS Logística S.A. | 18.72% | 32.22% | 61 | - | 10 | (14) | (24) |
| Companhia Ferroviária do Nordeste | 32.40% | 32.40% | - | - | (1) | - | - |
| Valepar S.A. | - | - | - | - | 75 | - | - |
| Itá Energética S.A. | 48.75% | 48.75% | - | - | 2 | 3 | (9) |
| GalvaSud S.A. | 51.00% | 51.00% | 10 | - | (3) | (16) | (12) |
| CSN Aceros, S.A. | 37.50% | 37.50% | - | - | (2) | (2) | - |
| Sepetiba Tecon S.A. | 20.00% | 20.00% | - | - | (1) | (1) | - |
| | | | 71 | - | 80 | (30) | (45) |
| Other investments | | | | | | | |
| At cost | | | | | | | |
| Ferrovias Centro Atlântica S.A. | 11.66% | 11.95% | 8 | 5 | | | |
| Goodwill | | | | | | | |
| MRS Logística S.A. | | | - | 3 | | | |
| | | | 79 | 8 | 80 | (30) | (45) |
| Provision for loss on investments | | | | | | | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | |
|---------------------|-----------|-------------|-----------|-------------|-------------|
| Sepetiba Tecon S.A. | - | (3) | - | - | (4) |
| GalvaSud S.A. | - | (11) | - | - | (15) |
| CSN Aceros, S.A. | - | (5) | - | - | (7) |
| | 79 | (11) | 80 | (30) | (71) |

Ferrovía Centro-Atlântica S.A. (FCA), MRS Logística S.A. (MRS) and Companhia Ferroviária do Nordeste (CFN)

The interests in these railroad networks were acquired through participation in consortia which obtained, in privatization auctions, the concessions to operate the railway networks of the Rede Ferroviária Federal S.A. The Company s aim is to help FCA, MRS and CFN to improve the efficiency and reliability of the railway networks. FCA and MRS are the principal means of transporting the Company s raw materials to the Presidente Vargas Steelworks facility.

As disclosed in note 23, the Company intends to sell its stake in FCA to CVRD, as well as to acquire CVRD s stake in CFN.

Valepar S.A.

The Company was a member of a consortium that on May 6, 1997 successfully bid in the auction for a controlling stake in CVRD, one of the world s largest mining companies. The consortium paid a total of US\$3,100 for 42% of the common shares of CVRD, which in turn represented approximately 27% of the issued and outstanding shares of CVRD, as of May 6, 1997. The members of the consortium formed Valepar S.A., a special purpose company, to hold their interests in CVRD. CSN owned 31% of Valepar S.A., giving it an indirect interest in 13.2% of CVRD s common shares, representing 8.5% of CVRD s total capitalization. The Company paid US\$989 for its investment in Valepar S.A, of which US\$786 was financed by a bridge loan from a syndicate of lenders, including NationsBank N.A, also an indirect shareholder of Valepar S.A.

The summarized information for the year ended December 31, 2000 (as restated) with respect to CVRD s results of operations in accordance with US GAAP is as follows:

| | Year ended December 31, 2000 |
|----------------------------|---|
| Statement of income | (As restated See Note 22) |
| Net operating revenue | 3,935 |
| Net cost and expenses | (2,951) |
| Income before income taxes | 1,054 |
| Income taxes | 32 |
| Net income | 1,086 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Itá Energética S.A.

Formed in July 1996, this special-purpose company is responsible for the construction of the Itá hydroelectric facility, a 1,450 MW power facility that was built on the Uruguay river in southern Brazil. In late 2001, the Board of Directors of the Company decided to dispose of its ownership of the subsidiary Itá Energética S.A. As of December 31, 2002, the investment in Itá Energética S.A., in the amount of US\$66 (US\$106 in 2001), was recorded under investments for sale in other assets. Amortization of goodwill for each of the years in the two-year period ended December 31, 2001 was US\$0.4, which is included in the statements of income for those years.

GalvaSud S.A.

A joint venture formed in May 1998 with Thyssen-Krupp Stahl A.G., GalvaSud S.A. began producing hot-dipped galvanized steel for the automobile industry in December 2000. The GalvaSud plant is located in the State of Rio de Janeiro, approximately 45 km from the Presidente Vargas Steelworks. Although CSN's participation in GalvaSud S.A. is 51%, this investee is not consolidated, since Thyssen-Krupp Stahl A.G. has substantial veto rights according to the shareholders' agreement between the parties.

CSN Aceros, S.A. and Sepetiba Tecon S.A.

CSN's investment in CSN Aceros, S.A. is held through its subsidiary CSN Panama, S.A. Located in the Republic of Panama, CSN Aceros, S.A. holds an 80% interest in Sepetiba Tecon S.A., a joint-venture company formed with CVRD for the purpose of carrying out a concession agreement to use a container marine terminal in the State of Rio de Janeiro, where the Company intends to concentrate its steel exports, for a 25-year period.

CSN's total participation in Sepetiba Tecon S.A., consisting of a direct participation of 20% and an indirect participation of 30% through CSN Aceros, S.A., is 50%.

As disclosed in note 23, the Company intends to acquire CVRD's stake in Sepetiba Tecon S.A.

11 Property, plant and equipment

| | As of December 31, 2001 | | |
|------------------------|--------------------------------|-------------------------------------|------------|
| | Cost | Accumulated Depreciation | Net |
| Land | 15 | - | 15 |
| Buildings | 104 | 18 | 86 |
| Equipment | 3,085 | 1,302 | 1,783 |
| Furniture and fixtures | 24 | 16 | 8 |
| Vehicles | 5 | 3 | 2 |
| Others | 66 | 30 | 36 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | 3,299 | 1,369 | 1,930 |
|--------------------------------|--------------|-------------------------------------|--------------|
| Construction in progress | 132 | - | 132 |
| | 3,431 | 1,369 | 2,062 |
| As of December 31, 2002 | | | |
| | Cost | Accumulated Depreciation | Net |
| Land | 8 | - | 8 |
| Buildings | 267 | 60 | 207 |
| Equipment | 1,869 | 855 | 1,014 |
| Furniture and fixtures | 107 | 27 | 80 |
| Vehicles | 4 | 3 | 1 |
| Others | 109 | 55 | 54 |
| | 2,364 | 1,000 | 1,364 |
| Construction in progress | 163 | - | 163 |
| | 2,527 | 1,000 | 1,527 |

Construction in progress consists principally of a group of investments in equipment in order to improve the productivity of the Company's production units and quality of its products. The main investments are for undertakings in the area of environmental protection, cost reduction, infrastructure and automation, and information and telecommunication technologies. In 2000, 2001 and 2002, interest capitalized amounted to US\$17, US\$3 and US\$12, respectively.

As of December 31, 2002, the fixed assets securing financial obligations amounted to US\$654 (US\$713 in 2001).

12 Loans and financing

| | As of December 31, | | | | | | | |
|----------------------------|---------------------------|---------------------|-------------------|---------------------|------------------|---------------------|-------------------|---------------------|
| | 2001 | | | | 2002 | | | |
| | Long-term | | Short-term | | Long-term | | Short-term | |
| | CSN | Subsidiaries | CSN | Subsidiaries | CSN | Subsidiaries | CSN | Subsidiaries |
| Foreign currency | | | | | | | | |
| Prepayment | 141 | - | 169 | - | 90 | 51 | 100 | 17 |
| Euronotes | - | 443 | - | - | - | 79 | - | - |
| Commercial paper | - | 331 | - | 140 | - | - | - | 330 |
| BNDES/Finame | 322 | - | 21 | - | 296 | - | 30 | - |
| Financed imports | 60 | - | 357 | - | 100 | - | 138 | - |
| ECAs -bilateral agreements | 69 | - | 2 | - | 52 | - | 14 | - |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | |
|--|--------------|------------|------------|------------|------------|------------|------------|------------|
| Advances on export contracts | - | - | - | - | - | - | 86 | - |
| Acquisition of assets and loan for working capital | - | - | - | - | - | - | - | 196 |
| Other | 53 | 201 | 89 | 19 | 17 | 64 | 9 | 19 |
| | 645 | 975 | 638 | 159 | 555 | 194 | 377 | 562 |
| Denominated in Brazilian reais | | | | | | | | |
| BNDES/Finame | 22 | 33 | 22 | - | 31 | - | 18 | - |
| Debentures | - | - | - | - | 189 | - | 10 | - |
| Other | - | - | - | - | - | 57 | - | 12 |
| | 22 | 33 | 22 | - | 220 | 57 | 28 | 12 |
| Current portion of long-term debt | | | | | | | | |
| Principal | (85) | (222) | - | - | (30) | - | - | - |
| Accrued finance charges | (28) | (15) | - | - | - | - | - | - |
| | 554 | 771 | 660 | 159 | 745 | 251 | 405 | 574 |
| Total | 1,325 | | 819 | | 996 | | 979 | |

(a) Short-term

At December 31, 2002, the Company's short-term borrowings, incurred for the purpose of financing working capital, bear interest at rates ranging from 2.73% to 4.02% (2001 5% to 7.3%) per annum. The variable rates range from the London Interbank Offered Rate (LIBOR) plus 1.1% per annum to LIBOR plus 2.15% per annum.

(b) Long-term

At December 31, 2002, the Company's long-term debt bear interest at rates as follows:

| | % | CSN | Subsidiaries |
|--|---------------|------------|--------------|
| Denominated in local currency | | | |
| Long-term interest rate ("TJLP"), General price index ("IGP-DI"), Interbank deposit certificate ("CDI") or General consumer price index ("IGPM") | 2.75 to 13.25 | 220 | 57 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Denominated in foreign currency

| | | | |
|----------------------|--------------|------------|------------|
| United States dollar | 2.65 to 9.13 | 428 | 194 |
| Japanese yen | 1.37 to 6.63 | 47 | - |
| Others | 5.0 to 13.65 | 50 | - |
| | | 745 | 251 |

Indices applied to debt in each year are as follows:

| | % | | |
|---|--------|-------|-------|
| | 2000 | 2001 | 2002 |
| TJLP - Long-term interest rate | 10.93 | 9.50 | 10.00 |
| CDI - Interbank deposit certificate | - | - | 19.04 |
| United States dollar exchange rate change | 9.30 | 18.67 | 52.27 |
| Japanese yen exchange rate change | (2.16) | 3.66 | 68.15 |

The long-term portion of the Company's debt outstanding at December 31, 2002 becomes due as follows:

| | |
|---------------------|------------|
| 2004 | 241 |
| 2005 | 282 |
| 2006 | 132 |
| 2007 | 140 |
| 2008 and thereafter | 201 |
| Total | 996 |

Security for the Company's debt outstanding at December 31, 2002 was as follows:

| | |
|---------------------------------------|--------------|
| Property, plant and equipment | 654 |
| Notes receivable from foreign clients | 506 |
| Bank guarantee | 95 |
| Total | 1,255 |

On June 17, 1997, CSN Iron, S.A. issued US\$600 principal amount of 9 1/8% Eurodollar Notes due 2007. The Company unconditionally guaranteed the payment of all amounts due on such Notes. Following two public tender offers that closed in March 1999 and June 2001 and other repurchases by CSN, CSN has repurchased a total of US\$521 of the US\$600 Notes issued, leaving approximately US\$79 of the Notes outstanding. The gain on the June 2001 repurchase transaction was US\$13, net of income taxes of US\$6, which was recorded as an extraordinary item in the consolidated statement of income for the year ended December 31, 2001. In addition, pursuant to the June 2001 transaction, the terms and conditions of the Notes and the related Trust Deed were changed, conforming certain covenants under these Notes to those under certain of CSN's other outstanding notes.

On February 15, 2001, the Company decided to accelerate the settlement of the securitization financing of its subsidiary CSN Cayman Ltd., which would have

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

originally matured in September 2001 and 2003, in the total amount of US\$108. The effect of this transaction on the Company's results of operations for the period ended December 31, 2001 was not material.

In April 2001, the Company issued Commercial Paper in the international market, through its subsidiary CSN Overseas, in the total amount of US\$250, with a two-term maturity, at an approximate cost of 5.9% per annum.

In July 2001, the affiliate Tangua obtained a loan of US\$175. This loan bears interest at LIBOR plus 1.875% per annum and is due on July 16, 2003.

In October 2001, the Company placed a US\$220 U.S. Commercial Paper/Trade Notes program in the international market, through its subsidiary CSN Overseas. The transaction consists of a line of US\$140, with a one-year maturity and an approximate cost of 4.3% per annum, and of a line of US\$80 with a two-year maturity and an approximate cost of 6.2% per annum. All of the funds raised in this transaction were used to finance and refinance CSN's trade international related transactions.

The Company's U.S. Commercial Paper program is supported by letters of credit issued by banks and carries an A1/P1 credit rating from Moody's and Standard & Poors, for the benefit of the overseas holders of the U.S. Commercial Paper. The issuers of these letters of credit, in turn, have sold participations in the letters of credit to a syndicate of supporting banks from Brazil and abroad.

In March 2002, the Company issued R\$690 million (US\$292) of real-denominated debentures in two tranches: a three-year tranche of US\$228 bearing interest at the Certificado de Déposito Interbancário (CDI), the Brazilian interbank interest rate, plus 2.75% per annum, and a four-year tranche of US\$64 indexed to the Índice Geral de Preços do Mercado (IGPM) and bearing interest at 13.25% per annum. The proceeds are available for general corporate purposes, including debt repayment.

During March 2002, the Company repurchased R\$23 million (US\$8) of the first tranche debentures and R\$21 million (US\$7) of the second tranche debentures. The second tranche was resold in September 2002. The repurchases and resales had no impact on the Company's results, because the debentures were purchased at their carrying amounts.

In August 2002, the Company paid, at maturity, US\$350 of notes issued by its subsidiary CSN Islands Corp.

Financial restrictions

Pursuant to an agreement entered into on December 31, 2000, Vicunha Siderurgia S.A. (Vicunha Siderurgia) financed the increase of its interest in CSN from 14.1% to 46.5% by issuing debentures in an aggregate principal amount of R\$1.9 billion (US\$972). Under the trust deed under which the debentures were issued (the Deed) and an agreement between Vicunha Siderurgia and BNDES Participações

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

S.A. BNDESPAR that will stay in effect as long as BNDESPAR holds the debentures, Vicunha Siderurgia will be in default if:

- CSN's net financial debt exceeds three times EBITDA;
- CSN s net financial expenses (including net monetary variations but excluding net exchange rate variations in excess of INPC (National Consumer Price Index Índice Nacional de Preços ao Consumidor) plus 5%) exceeds 60% of EBITDA in 2001 or 50% thereafter; or
- CSN s net financial expenses (including net monetary variations but excluding net exchange rate variations) exceeds the lower of (a) 30% of EBITDA in 2002 (40% thereafter) or (b) EBITDA less income taxes, social contribution, dividends paid in an amount equal to the debt service on the debentures and CSN s capital expenditures from cash generated by operations and increases in the capital of unconsolidated subsidiaries.

As of December 31, 2002, none of such amounts was exceeded. Such amounts are determined in accordance with the accounting principles applied by CSN in its statutory financial statements prepared in accordance with the Brazilian Corporate Law.

13 Stockholders equity

(a) Capital

The capital stock of the Company at December 31, 2002 is represented by 71,729,261 (2001 71,729,261) thousand common shares (no par value). Each common share has the right to one vote in the General Stockholders Meeting.

(b) Appropriated retained earnings

Brazilian laws and CSN s by-laws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis. The purpose and basis of appropriation to such reserves is described below:

- Investment reserve this is a general reserve for future expansion of CSN s activities.
- Legal reserve this reserve is a requirement for all Brazilian corporations and represents the annual appropriation of 5% of net income up to a limit of 20% of capital stock, as determined according to Brazilian corporate legislation. This reserve may be used to increase capital or to absorb losses, but may not be distributed as cash dividends.

(c) Dividends and interest on stockholders equity

The Company s by-laws guarantee a minimum annual dividend equal to 25% of the adjusted net income for the year, as required by the Brazilian Corporate Law. Interest on stockholders equity since January 1, 1996 is considered part of the minimum dividend.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the Company's statutory accounting records. At December 31, 2002, retained earnings as stated in the statutory accounting records was equal to zero. In addition, in accordance with the statutory accounting records, appropriated retained earnings at December 31, 2002 includes the equivalent of US\$226, related to the investment reserve, which could be transferred to unappropriated retained earnings and paid as dividends and interest on stockholders' equity, if approved by the stockholders.

The Company paid US\$60 (US\$831 in 2001) of dividends and interest on stockholders' equity for the year ended December 31, 2002 and accrued US\$83 for payment in 2003.

14 Pension plan

(a) Description of the plans

The Company has pension plans which cover substantially all employees. The plans are administered by the Board of Directors of a foundation named Caixa Beneficente dos Empregados da CSN (CBS), a private non-profit pension fund established in July 1960, which has as its members employees of CSN and certain CSN subsidiaries that joined the fund by agreement, and CBS's own employees. The Board of Directors of CBS is comprised of its president and ten members, six of whom are chosen by CSN, the principal sponsor of CBS, and four of whom are chosen by the participants.

Until January 1996, CBS had only a defined benefit plan with benefits based on years of service, salary and social security benefits. On December 27, 1995, the Secretaria de Previdência Complementar (the Brazilian Government's secretary for Supplementary Social Security or the SPC) approved the implementation of a new benefit plan as from January 1996, called the Plano Misto de Benefício Suplementar (a hybrid plan), structured in the form of a defined contribution plan. Employees hired after that date can only join the new hybrid plan. Additionally, all active employees who were participants in the old defined benefit plan were offered the opportunity to switch to the new hybrid plan. As of August 1996, 4,197 employees had transferred to the new hybrid plan, representing approximately 60% of the total number of active employees at that date. On December 31, 2002, CBS had 24,483 participants, of whom 19,198 were contributors (24,934 and 19,674, respectively, at December 31, 2001), enrolled in its benefit plans, including 7,540 active (7,829 at December 31, 2001) and 16,943 retired (17,105 at December 31, 2001) employees. Of the total participants, 17,278 belong to the defined benefit plan and 7,205 to the hybrid plan.

CBS's assets comprise principally time deposits, shares of CSN, equity securities, government securities and properties. At December 31, 2002, CBS owned 2,604,922 thousand (2001 2,604,922 thousand) common shares of CSN with a market value at that date of US\$37.6 (2001 US\$41). CBS also had at December 31, 2002, 266,158 thousand quotas of the Clube de Investimento CSN, an investment club comprised of CSN's employees and itself a shareholder of CSN,

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

with a carrying value of US\$8.4 (737,760 thousand quotas with a carrying value of US\$27 at December 31, 2001).

(b) Defined contribution plan

The defined contribution plan is funded through contributions of the Company and the participants to the plan. CSN is committed to contribute to the plan a percentage of the salary of each participant, ranging from 3% to 7%. Contributions made by the Company to the plan during 2002 amounted to US\$2.7 (2001 US\$3.8).

(c) Defined benefit plan

Information with respect to the Company's defined benefit plan, for the years presented is as follows:

(i) Change in benefit obligation

| | As of December 31, | |
|--|--------------------|------------|
| | 2001 | 2002 |
| Projected benefit obligation at beginning of year | 425 | 285 |
| Service cost | 2 | 1 |
| Interest cost | 39 | 27 |
| Benefits paid | (36) | (27) |
| Effect of exchange rate changes | (67) | (98) |
| Actuarial gain (loss) | (78) | 58 |
| Projected benefit obligation at end of year | 285 | 246 |

(ii) Change in plan assets

| | As of December 31, | |
|---|--------------------|------------|
| | 2001 | 2002 |
| Fair value of plan assets at beginning of year | 174 | 151 |
| Actual return on plan assets | 31 | 27 |
| Employer contributions | 5 | 6 |
| Employee contributions | 3 | 1 |
| Benefits paid | (36) | (27) |
| Effect of exchange rate changes | (26) | (52) |
| Fair value of plan assets at end of year | 151 | 106 |

(iii) Accrued pension cost liability

| | As of December 31, | |
|--|--------------------|------|
| | 2001 | 2002 |
| Funded status, excess of projected benefit obligation over plan assets | 134 | 141 |
| Unrecognized net actuarial gain | 139 | 38 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Accrued pension cost liability 273 179

(iv) Periodic pension cost

Net periodic pension cost includes the following components:

| | Year ended December 31, | | |
|---|-------------------------|-----------|----------|
| | 2000 | 2001 | 2002 |
| Service cost-benefits earned during the year | 3 | 2 | 1 |
| Interest cost on projected benefit obligation | 49 | 39 | 27 |
| Expected return on plan assets | (22) | (15) | (14) |
| Net amortization and deferral | 1 | (1) | (7) |
| | 31 | 25 | 7 |
| Employees contributions | (2) | (1) | (1) |
| Net periodic pension cost | 29 | 24 | 6 |

Actuarial assumptions used for the calculations were:

| | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|---|-------------------|--------------------|-------------------|
| Discount rates | Inflation plus 6% | Inflation plus 10% | Inflation plus 8% |
| Rates of increase in compensation levels | Inflation plus 1% | Inflation plus 1% | Inflation plus 1% |
| Expected long-term rate of return on assets | Inflation plus 6% | Inflation plus 10% | Inflation plus 8% |

The projected annual inflation rate adopted was 5% for all years presented.

The discount rates and expected long-term rate of return on assets were changed for 2002, since management believes the rate of 8% more adequately reflects CBS s assets profitability and Brazil s projected economic scenario.

| (v) Funded status | As of December 31, | |
|---|--------------------|------------|
| | 2001 | 2002 |
| Actuarial present value of: | | |
| Vested benefit obligation | 281 | 232 |
| Non-vested benefit obligation | 1 | 13 |
| Total accumulated benefit obligation | 282 | 245 |
| Projected benefit obligation | 285 | 246 |
| Fair value of plan assets | (151) | (105) |
| Funded position | 134 | 141 |
| Unrecognized net actuarial gain | 139 | 38 |
| Accrued pension cost liability | 273 | 179 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

As a result of a general pay increase granted by CSN at the time of its privatization and a decline in the value of CBS's assets, CBS has substantial unfunded projected defined benefit obligations. In August 2002, the SPC approved a proposal for the payment of the unfunded projected obligations, replacing and supplementing an agreement in place since January 1996. Under the new agreement, CSN, as the plan's sponsor, will pay the unfunded projected defined benefit obligations in monthly installments over 20 years, beginning in June 2002. Under the new agreement, CSN is also obligated to make additional payments in the event CBS does not have adequate cash to meet the defined benefit plan's obligations and will be entitled to a refund of any surplus not required to meet such obligations. The new agreement does not affect CSN's pension obligations or periodic pension cost reflected in its consolidated financial statements prepared in accordance with US GAAP.

15 Employee benefits

In addition to the pension fund, the Company makes monthly contributions based on the payroll for government pension, social security and severance indemnity plans, and such payments are expensed as incurred. Also, certain severance payments are due on dismissal of employees, consisting principally of one month's salary and a severance payment calculated at 40% plus 10% (according to Supplementary Law No. 110/2001) of the accumulated contributions made to the government severance indemnity plan on behalf of the employee. Amounts paid on dismissal totaled US\$7, US\$8 and US\$6 in the years ended December 31, 2000, 2001 and 2002, respectively. Based on current operating plans, management does not expect that amounts of future severance indemnities will be material.

16 Commitments and contingencies

(a) Accruals and deposits

The accruals for contingencies and the related legal deposit balances are as follows:

| | As of December 31, 2001 | | As of December 31, 2002 | |
|----------------------------|-------------------------|------------|-------------------------|------------|
| | Deposits | Accruals | Deposits | Accruals |
| Labor | 9 | 30 | 6 | 13 |
| Tax | | | | |
| Social contribution | 56 | 40 | 29 | 13 |
| Income tax | 66 | 54 | 57 | 17 |
| PIS/COFINS Law no. 9718/99 | | 50 | | 52 |
| CPMF | | 31 | | 33 |
| Other tax | 23 | 25 | 27 | 34 |
| Other | 6 | 18 | 7 | 36 |
| | 160 | 248 | 126 | 198 |
| Current liabilities | | (8) | | (2) |
| Long-term | 160 | 240 | 126 | 196 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The amounts presented below refer to the parent Company, since the accruals for contingencies relating to subsidiaries are not considered significant by management.

(i) Labor contingencies

For 2002, these are represented mainly by 1,830 (1,948 in 2001) labor claims in which CSN was the defendant. For 2002, the amount of the accrual for these contingencies was US\$13 (US\$30 in 2001). Most of the lawsuits are related to CSN's joint liability with independent contractors, wage equalization, overtime and additional payments for unhealthy and hazardous activities.

The lawsuits related to CSN's joint liability with independent contractors represent a large portion of the total labor lawsuits against the Company and originate from the non-payment by the independent contractors of employee obligations, which results in CSN's inclusion in the lawsuits.

The most recent lawsuits originating from CSN's joint liability with independent contractors have generally been decided in favor of CSN due to procedures that have been adopted by the Company in order to inspect and assure the compliance of the wage payments and social charges withdrawals by the independent contractors, which have been in operation for the last 36 months.

(ii) Tax contingencies

(A) Social contribution and income tax

The Company claims that, in connection with the correction of the distortion in the calculation of the basis for the income tax and social contribution as a result of the use of the Consumer Price Index (IPC) of January 1989 (referred to as the Summer Plan), it is entitled to a refund of 51.87% of the tax liability determined under the Summer Plan. In the first quarter of 2003, the Tribunal Regional Federal TRF, the regional tax court, confirmed lower court rulings establishing that the percentage to which CSN is entitled is 42.72% minus the applicable index of 12.15%. As a result, as of December 31, 2002, CSN reversed US\$32, or approximately half, of its accrual for this tax liability. CSN is pursuing the balance of its claim.

(B) PIS/COFINS Law no. 9718/99

CSN is appealing the legality of Law no. 9718/99, which increased the PIS and COFINS calculation basis, including the financial revenue of CSN. The amount of this accrual was US\$52 at December 31, 2002 (US\$50 at December 31, 2001). CSN obtained a favorable verdict in the lower court and the suit is going through a compulsory review by the TRF. The Company's legal counsel expects a favorable decision.

(C) CPMF - Provisional contribution on financial activities tax

CSN has been appealing the CPMF (Provisional Contribution on Financial Activities) tax since the promulgation of Constitutional Amendment No. 21/99.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The amount of this accrual was US\$33 as of December 31, 2002 (US\$31 as of December 31, 2001). CSN obtained a favorable verdict in the lower court and the suit is on appeal to the TRF. The most recent precedents by the courts have not been favorable to CSN's position.

(D) Other tax accruals

Other tax accruals relate to a variety of disputes. No single group of similar claims constitutes more than 5% of total accruals.

(iii) Other accruals

Other accruals relate to a variety of disputes. No single group of similar claims constitutes more than 5% of total accruals.

(b) Other commitments and contingencies

Anti-trust penalty

In October 1999, the Company and other Brazilian steel industries were fined by the Brazilian anti-trust board (CADE) based on allegations of having agreed beforehand to increase steel prices in 1996. CADE fined all companies involved 1% of their gross operating revenues in 1996. CSN's part amounted to US\$6. In the opinion of the Company's legal counsel, it is not possible at this time to estimate the probability of loss in relation to this contingency. For this reason, no provision has been accrued at this time.

Environmental

The Company is subject to Brazilian federal, state and municipal laws and regulations governing environmental obligations and liabilities. The Company is committed to controlling the substantial environmental impact caused by steelmaking, mining and port operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. CSN believes that it is in substantial compliance with applicable environmental requirements.

The Company provides for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. Management does not anticipate that costs for environmental lawsuits, to the extent not previously provided for, will have a material adverse effect on the Company's consolidated financial position. The actual provision for environmental contingencies relates mainly to penalties and lawsuits imposed on the Company's coal mines, which have been decommissioned since 1989, and fines related to consent orders issued between 1986 and 1998 on the Presidente Vargas Steelworks.

The Company operates an environmental department managed under an EMS Environmental Management System, compliant with ISO 14001 requirements. CSN received the ISO 14001 Certificate for its iron ore mining operations in December 2000 (with certification renewed in 2001 and 2002) and for its

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

steelmaking units and limestone mining operations in December 2002.

Since privatization, CSN has invested heavily in environmental and other clean-up programs. Total environmental expenditures (capitalized and expensed) during the past three years were as follows: 2000 R\$172.5 million (US\$94.3); 2001 R\$150.9 million (US\$64.2); and 2002 R\$123 million (US\$42.1). Of the R\$123 million (US\$42.1) spent in 2002, capital expenditures constituted R\$52.6 million (US\$18) and environmental maintenance and operating costs constituted R\$70.4 million (US\$24.1).

The Company signed an accord relating to environmental matters at the Presidente Vargas Steelworks in September 1994 with Fundação Estadual de Engenharia do Meio-Ambiente (environmental protection agency of the state of Rio de Janeiro or FEEMA), which was amended in January 1996, December 1998 and January 2000 (the FEEMA Accord). Under the last amendment of this accord, the Company was obligated to make over the next three years expenditures aggregating R\$181 million (US\$101) on 130 items, which include environmental technology and construction of new equipment to control soil, air and water pollution. The Company also agreed in the amendment to spend R\$14 million (US\$5) to build sanitation facilities to benefit the Volta Redonda community (the Compensatory Measures).

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

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

The Company also entered into an accord relating to environmental matters at the Presidente Vargas Steelworks with the city of Volta Redonda in January 1995 (the January 1995 Accord). Under the January 1995 Accord, the Company invested R\$1.4 million (US\$0.8) in an environmental quality program designed both to preserve the environment and provide assistance to the Volta Redonda community. The program s priority is to compensate the city of Volta Redonda for environmental damage allegedly caused by the Presidente Vargas Steelworks. This program has been suspended since 2000 as a result of an appeal by the state

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

public attorney's office. The January 1995 Accord also requires funds to be allocated to protect one of the last Atlantic rainforest reserves in the city of Volta Redonda and the several endangered species inhabiting it.

On November 30, 2001, the Company entered into a term of commitment, which is similar to the January 2000 amendment of the FEEMA Accord, with SEMADS - Rio de Janeiro State Secretariat for Environment and Sustainable Development (the SEMADS Accord), establishing a two and a half-year period to bring the Sepetiba coal terminal into compliance with applicable environmental laws and regulations. Pursuant to the SEMADS Accord, CSN has installed equipment and systems to control and monitor air emissions, as well as sea pollution from port activities and handling imported coal. The total amount involved in the SEMADS Accord is R\$5 million (US\$2), of which approximately R\$2 million (US\$0.6) remains to be spent in 2003.

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

17 Guarantees

The Company has financial responsibility, through guarantees or otherwise, for obligations of investees as follows:

| | Currency | 2002 | 2001 | Expiration | |
|---------------------------------------|----------|------|------|-----------------------|--|
| | | | | Date | Conditions |
| CFN Companhia Ferroviária do Nordeste | R\$ | 19 | | 07/11/03 | Joint guarantee of bank financing for working capital purposes |
| Sepetiba Tecon S.A. | US\$ | 36 | 39 | 09/15/03 and 06/15/09 | Guarantee for equipment acquisition financing and terminal improvement |
| Sepetiba Tecon S.A. | R\$ | 29 | 27 | 12/15/11 and 01/16/12 | Guarantee for financing of 60% of construction work and installations |
| | | | | 12/15/2003 | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | |
|-------------------|-----|-----|-----|--|
| GalvaSud S.A. (1) | R\$ | 242 | 175 | Guarantee for financing of equipment acquisition |
|-------------------|-----|-----|-----|--|

(1) All shares issued by GalvaSud S.A. owned by the Company are pledged in favor of Unibanco - União dos Bancos Brasileiros S.A. and Kreditanstalt Fur Wiederaufbau, guaranteeing financing contracts of GalvaSud.

Other commitments

The Company makes investments through participation in consortia formed for the development or operation of concessions granted by government entities. Under Brazilian law, each member of such a consortium is jointly and severally liable for the obligations arising from the concession.

18 Segment and geographical information

The Company has adopted SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information (SFAS 131) with respect to the information it presents about its operating segments. SFAS 131 introduces a management approach concept for reporting segment information, whereby financial information is required to be reported on the same basis that the top decision-maker uses such information internally for evaluating segment performance and deciding how to allocate resources to segments.

In 1996, the Company reorganized its corporate structure in order to focus managerial decisions, establishing four sectors: Corporate Center, Steel, Energy and Infrastructure. Each sector was headed by a chief executive officer who reported to the Board of Directors. In April 1999, the Company changed the existing corporate structure by creating the position of a Chief Executive Officer of the Company, who reports to the Board of Directors, and consolidated the existing four sectors into three: Corporate Center, Steel sector and Infrastructure/Energy sector. In addition, the Company created a new sector New Businesses. In November 2000, CSN divided the Steel sector into two new sectors Operations and Commercial. Each sector is headed by an Executive Officer, who reports to the Chief Executive Officer of the Company.

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

Information presented to top management with respect to the performance of each

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

segment is generally derived directly from the accounting records maintained in accordance with the Brazilian Corporate Law together with certain relatively minor intersegment allocations.

Information for the Steel Operations, Steel Commercial and New Businesses segments are being presented aggregated, as they are all related to the steel business.

The eliminations column refers basically to intersegment operations.

Sales by geographic area are determined based on the location of the customers.

The majority of the Company's long-term assets are located in Brazil.

| | Year ended December 31, 2000 | | | | |
|---|--------------------------------|-------------------------------------|---------------------|--------------|------------|
| | Steel and New Businesses | Corporate Infrastructure/ Center | Energy Eliminations | Consolidated | |
| Results | | | | | |
| Domestic sales | 2,142 | | 17 | (130) | 2,029 |
| Export sales | 675 | | | (321) | 354 |
| Sales taxes, discounts, returns and allowances | (436) | | (1) | | (437) |
| Cost and operating expenses | (1,519) | (181) | (10) | 277 | (1,433) |
| Financial income | 2 | 235 | | (116) | 121 |
| Financial expenses | (6) | (396) | | 124 | (278) |
| Foreign exchange and monetary loss | (6) | (115) | | (6) | (127) |
| Other non-operating expenses | (19) | | | | (19) |
| Income taxes | | (20) | | 3 | (17) |
| Equity in results of affiliated companies | (3) | 72 | 11 | | 80 |
| Net income (loss) | 830 | (405) | 17 | (169) | 273 |
| Assets | | | | | |
| Cash and cash equivalents | 36 | 650 | 2 | | 688 |
| Investments for sale | | 689 | 160 | | 849 |
| Property, plant and equipment, net | 2,017 | 6 | 2 | | 2,025 |
| Capital expenditures | 354 | 5 | 18 | | 377 |
| Investments in affiliated companies and other investments | 19 | 3 | 223 | | 245 |
| Sales by geographic area | | | | | |
| Export sales | | | | | |
| Asia | 90 | | | (43) | 47 |
| North America | 172 | | | (82) | 90 |
| Latin America | 168 | | | (80) | 88 |
| Europe | 160 | | | (76) | 84 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | |
|----------------|--------------|-----------|--------------|--------------|
| Others | 85 | | (40) | 45 |
| | 675 | | (321) | 354 |
| Domestic sales | 2,142 | 17 | (130) | 2,029 |
| Total | 2,817 | 17 | (451) | 2,383 |

Year ended December 31, 2001

| | Steel and New Businesses | Corporate Infrastructure/ Center | Energy Eliminations | Consolidated | |
|---|---|---|----------------------------|---------------------|------------|
| Results | | | | | |
| Domestic sales | 1,726 | | 230 | (96) | 1,860 |
| Export sales | 405 | | | (187) | 218 |
| Sales taxes, discounts, returns and allowances | (353) | | (9) | | (362) |
| Cost and operating expenses | (1,463) | | (50) | 291 | (1,222) |
| Financial income | | 79 | | 13 | 92 |
| Financial expenses | | (366) | | (15) | (381) |
| Foreign exchange and monetary loss | | (398) | | 2 | (396) |
| Gain on sale of investments | 24 | 458 | 161 | | 643 |
| Other non-operating income | | 36 | | | 36 |
| Income taxes | | 52 | | (2) | 50 |
| Equity in results of affiliated companies | (16) | (2) | (12) | | (30) |
| Extraordinary item, net of income taxes | | 13 | | | 13 |
| Cumulative effect of a change in accounting principle, net of income taxes | | 6 | | | 6 |
| Net income (loss) | 323 | (122) | 320 | 6 | 527 |
| Assets | | | | | |
| Cash and cash equivalents | 70 | 242 | 18 | | 330 |
| Property, plant and equipment, net | 1,935 | 35 | 92 | | 2,062 |
| Capital expenditures | 478 | 1 | 2 | | 481 |
| Investments in affiliated companies and other investments | 10 | | 69 | | 79 |
| Sales by geographic area | | | | | |
| Export sales | | | | | |
| Asia | 47 | | | (22) | 25 |
| North America | 147 | | | (68) | 79 |
| Latin America | 69 | | | (32) | 37 |
| Europe | 105 | | | (48) | 57 |
| Others | 37 | | | (17) | 20 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | |
|---|---|---|----------------------------|---------------------|
| | 405 | | (187) | 218 |
| Domestic sales | 1,726 | 230 | (96) | 1,860 |
| Total | 2,131 | 230 | (283) | 2,078 |
| Year ended December 31, 2002 | | | | |
| | Steel and New Businesses | Corporate Infrastructure/ Center | Energy Eliminations | Consolidated |
| Results | | | | |
| Domestic sales | 1,747 | | 36 | (213) |
| Export sales | 895 | | | (296) |
| Sales taxes, discounts, returns and allowances | (327) | | | (327) |
| Cost and operating expenses | (1,768) | (2) | (28) | 520 |
| Financial income | | 573 | | (107) |
| Financial expenses | | (323) | | 104 |
| Foreign exchange and monetary loss | | (1,091) | | 4 |
| Other non-operating income | | (30) | | (30) |
| Income taxes | | 218 | | (3) |
| Equity in results of affiliated companies | (12) | 58 | (14) | (103) |
| Net income (loss) | 535 | (597) | (6) | (94) |
| Assets | | | | |
| Cash and cash equivalents | 30 | 300 | 26 | 356 |
| Derivative assets | | 400 | | 400 |
| Property, plant and equipment, net | 1,527 | | | 1,527 |
| Capital expenditures | 256 | 1 | 7 | 264 |
| Investments in affiliated companies and other investments | | | 8 | 8 |
| Sales by geographic area | | | | |
| Export sales | | | | |
| Asia | 104 | | | (34) |
| North America | 323 | | | (107) |
| Latin America | 153 | | | (51) |
| Europe | 232 | | | (77) |
| Others | 83 | | | (27) |
| Domestic sales | 895 | | | (296) |
| Domestic sales | 1,747 | | 36 | (213) |
| Total | 2,642 | | 36 | (509) |

19 Related parties

Transactions with major related parties, relating primarily to purchases and sales in the ordinary course of business and other intercompany operations,

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

resulted in the following balance sheet and income statement amounts.

Balances at December 31 relate to the following related parties:

| | 2001 | | |
|-----------------------------------|-----------|-------------|------------------------|
| | Assets | Liabilities | Expenses (Revenues) |
| Sepetiba Tecon S.A. (1) | 8 | | |
| MRS Logística S.A.(2) | 5 | | 34 |
| Companhia Ferroviária do Nordeste | 1 | | |
| GalvaSud S.A.(3) | 12 | | (46) |
| CSN Employees Pension Fund | | 273 | 7 |
| CSN Foundation | | | 1 |
| Metalic S.A. (3) | 4 | | (4) |
| Total | 30 | 273 | (8) |

(1) Refers to issuance of debentures.

(2) Trade accounts receivable.

(3) Steel products sales.

| | 2002 | | |
|----------------------------|-----------|-------------|------------------------|
| | Assets | Liabilities | Expenses (Revenues) |
| Sepetiba Tecon S.A. | 5 | | 6 |
| MRS Logística S.A. | 1 | 15 | 40 |
| Ferrovias Centro-Atlântica | | | 11 |
| GalvaSud S.A. | 7 | | (39) |
| CSN Employees Pension Fund | | 179 | 12 |
| CSN Foundation | | | 1 |
| Bank Fibra | 67 | 18 | (39) |
| Total | 80 | 212 | (8) |

20 Derivatives

20.1 General description and accounting practices

Although most of the Company's revenues are denominated in Brazilian reais, as of December 31, 2001 and December 31, 2002, US\$2,427 and US\$1,694, respectively of the Company's total debt was denominated in foreign currencies. Accordingly, the Company is exposed to market risk from changes in foreign exchange rates and interest rates. The Company manages risk arising from fluctuations in currency exchange rates, which affect the amount of Brazilian reais necessary to pay foreign currency denominated obligations, by using derivative financial instruments, primarily futures contracts, swaps, forwards and option agreements with banks.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

While such instruments reduce the Company's foreign exchange risks, they do not eliminate them. Credit risk exposure is managed by restricting the counterparties on such derivative instruments to major financial institutions with high credit quality. Therefore, management believes that the risk of nonperformance by the counterparties is remote. The Company does not hold or issue financial instruments for trading purposes. Effective January 1, 2001, the Company adopted SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. Previously, under SFAS No. 80 Accounting for Futures Contracts and now under SFAS No. 133, the Company's contracts do not meet the criteria to qualify as the hedge of an exposure to foreign currency or interest rate risk. Therefore, the Company has accounted for the derivative transactions by calculating the unrealized gain or loss at each balance sheet date, and changes in the fair value of all derivatives are recorded in current operations. The effect of adopting SFAS No. 133 as of January 1, 2001 was a gain of US\$6 (net of income tax effects of US\$3), which is recorded under cumulative effect of a change in accounting principle, net of income taxes in the statement of income for the year ended December 31, 2001.

For the year ended December 31, 2002, a net unrealized loss of US\$7 (net of income tax effects of US\$4) was recorded in the statements of income under others within non-operating income (expenses), net, as a consequence of changes in the fair value of derivative financial instruments.

The Company's affiliate Itá Energética S.A. recorded a loss of US\$1 as of December 31, 2002, as a consequence of adopting the Derivatives Implementation Group's issue interpretation on Issue C-11 Interpretation of Clearly and Closely Related in Contracts that Qualify for the Normal Purchases and Normal Sales Exception. The Company's equity in this loss is reflected in equity in results of affiliated companies in the statement of income for the year ended December 31, 2002.

The table below shows the fair value of the Company's derivatives as of December 31, 2002:

| | Expiration date | Notional amount | Fair value | Unrealized gain (loss) |
|--|----------------------|-----------------|------------|------------------------|
| Exchange rate options | 01/02/03 to 01/03/03 | US\$713 | (US\$9.8) | (US\$69.6) |
| Interest rate swap agreements USD | 02/01/03 to 07/01/04 | US\$785.5 | US\$111.2 | US\$111.2 |
| Currency forward USD | 01/02/03 | US\$5.0 | US\$0.6 | US\$0.6 |
| Interest rate cap and floor agreements | 12/31/03 to 12/31/04 | US\$600 | US\$0.1 | US\$0.1 |

20.2 Detailed transactions

a) Exchange rate options

The contracts outstanding at December 31, 2002 were as follows:

| Description | Position | Strike price | Premium (paid) received | Date of contract | Expiration date | Notional amount |
|-------------|----------|--------------|-------------------------|------------------|-----------------|-----------------|
| Dollar call | Short | US\$2.90 | 0.4 | 01/07/02 | 01/02/03 | US\$13.0 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | |
|-------------|-------|----------|--------|----------|----------|-----------|
| Dollar put | Short | US\$2.35 | 0.5 | 01/03/02 | 01/02/03 | US\$50.0 |
| Dollar put | Short | US\$2.35 | 0.6 | 01/04/02 | 01/02/03 | US\$50.0 |
| Dollar put | Short | US\$2.40 | 0.6 | 01/08/02 | 01/02/03 | US\$50.0 |
| Dollar call | Short | US\$2.91 | 1.0 | 03/28/02 | 01/02/03 | US\$100.0 |
| Dollar call | Short | US\$2.91 | 2.0 | 03/28/02 | 01/02/03 | US\$150.0 |
| Dollar call | Short | US\$2.91 | 2.0 | 03/28/02 | 01/02/03 | US\$150.0 |
| Dollar call | Short | US\$2.91 | 2.4 | 03/28/02 | 01/03/03 | US\$200.0 |
| Dollar call | Long | US\$2.91 | (3.0) | 06/04/02 | 01/02/03 | US\$100.0 |
| Dollar call | Short | US\$3.00 | 2.3 | 06/04/02 | 01/02/03 | US\$100.0 |
| Dollar call | Long | US\$2.91 | (6.0) | 06/04/02 | 01/02/03 | US\$200.0 |
| Dollar call | Short | US\$3.00 | 5.0 | 06/04/02 | 01/02/03 | US\$200.0 |
| Dollar put | Short | US\$2.41 | 0.5 | 06/21/02 | 01/02/03 | US\$100.0 |
| Dollar put | Short | US\$2.41 | 1.1 | 06/21/02 | 01/02/03 | US\$200.0 |
| Dollar put | Short | US\$2.41 | 0.8 | 06/21/02 | 01/03/03 | US\$150.0 |
| Dollar call | Long | US\$2.91 | (24.3) | 06/27/02 | 01/03/03 | US\$313.0 |
| Dollar call | Short | US\$3.10 | 17.2 | 06/27/02 | 01/03/03 | US\$313.0 |
| Dollar call | Long | US\$2.65 | (18.3) | 09/28/02 | 01/03/03 | US\$100.0 |
| Dollar call | Long | US\$2.70 | (8.7) | 09/28/02 | 01/03/03 | US\$50.0 |
| Dollar call | Long | US\$2.91 | (25.0) | 11/19/02 | 01/02/03 | US\$150.0 |
| Dollar call | Long | US\$2.91 | (33.3) | 11/19/02 | 01/03/03 | US\$200.0 |
| Dollar call | Long | US\$2.91 | 36.5 | 11/27/02 | 01/03/03 | US\$200.0 |
| Dollar call | Long | US\$2.91 | 18.2 | 11/27/02 | 01/02/03 | US\$100.0 |
| Dollar call | Long | US\$2.91 | 57.1 | 11/27/02 | 01/03/03 | US\$313.0 |
| Dollar call | Long | US\$3.00 | (31.7) | 11/27/02 | 01/03/03 | US\$200.0 |
| Dollar call | Long | US\$3.00 | (16.0) | 11/27/02 | 01/02/03 | US\$100.0 |
| Dollar call | Long | US\$3.10 | (41.7) | 11/27/02 | 01/03/03 | US\$313.0 |

Given that CSN paid US\$59.8 for the foreign exchange options traded, and that the market value of these contracts amounted to a loss of US\$9.8, the net unrealized loss related to these contracts amounted to US\$69.6 as of December 31, 2002.

b) Interest rate swap agreements - USD

In 2002, the Company also entered into interest rate swap agreements which are intended to protect its foreign currency denominated obligations against fluctuations in currency exchange rates. Basically, the Company swapped its indebtedness index from the U.S. dollar to the Interbank deposit certificate CDI. The notional amount of these swaps aggregated US\$785.5.

The contracts outstanding at December 31, 2002 were as follows:

| Date of contract | Expiration date | Market value | Date of contract | Expiration date | Market value |
|------------------|-----------------|--------------|------------------|-----------------|--------------|
| 04/18/02 | 04/29/03 | 2.1 | 07/26/02 | 02/25/03 | 0.8 |
| 04/18/02 | 04/29/03 | 5.4 | 07/26/02 | 06/27/03 | 0.8 |
| 04/19/02 | 04/29/03 | 2.2 | 07/26/02 | 04/15/03 | 8.8 |
| 04/22/02 | 01/20/03 | 1.3 | 07/26/02 | 04/15/03 | 1.8 |
| 04/24/02 | 04/29/03 | 3.1 | 07/26/02 | 04/01/03 | 9.1 |
| 04/25/02 | 04/29/03 | 6.2 | 07/26/02 | 04/01/03 | 1.8 |
| 04/25/02 | 03/25/03 | 4.3 | 07/26/02 | 04/29/03 | 0.9 |
| 04/29/02 | 02/25/03 | 2.2 | 07/26/02 | 03/25/03 | 0.9 |
| 05/15/02 | 05/09/03 | 0.7 | 07/26/02 | 03/18/03 | 12.1 |
| 06/06/02 | 06/02/03 | 0.6 | 07/26/02 | 02/25/03 | 1.7 |
| 06/26/02 | 01/02/03 | 0.3 | 07/26/02 | 02/25/03 | 3.5 |
| 07/02/02 | 06/27/03 | 0.8 | 08/07/02 | 08/04/03 | 0.6 |
| 07/03/02 | 05/29/03 | 0.8 | 08/29/02 | 02/24/03 | 0.3 |
| 07/25/02 | 07/21/03 | 4.1 | 09/03/02 | 08/08/03 | 0.4 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | |
|----------|----------|-----|----------|----------|-------|
| 07/25/02 | 07/18/03 | 1.4 | 09/11/02 | 03/10/03 | 7.8 |
| 07/26/02 | 04/01/03 | 3.5 | 09/11/02 | 03/10/03 | 0.7 |
| 07/26/02 | 04/01/03 | 1.7 | 09/11/02 | 03/10/03 | 1.0 |
| 07/26/02 | 04/15/03 | 1.7 | 10/09/02 | 03/25/03 | (0.1) |
| 07/26/02 | 04/15/03 | 2.6 | 11/01/02 | 10/27/03 | (0.6) |
| 07/26/02 | 04/15/03 | 1.7 | 11/29/02 | 07/01/04 | 2.8 |
| 07/26/02 | 04/15/03 | 2.6 | 12/02/02 | 02/03/03 | (0.2) |
| 07/26/02 | 04/01/03 | 3.5 | 12/02/02 | 02/03/03 | (0.4) |
| 07/26/02 | 03/25/03 | 1.7 | 12/02/02 | 06/02/03 | (0.9) |
| 07/26/02 | 03/25/03 | 1.7 | 12/03/02 | 06/02/03 | (0.4) |
| 07/26/02 | 03/25/03 | 0.9 | 12/03/02 | 06/02/03 | (0.4) |
| 07/26/02 | 02/25/03 | 1.7 | 12/12/02 | 06/10/03 | (0.4) |

The net unrealized gain on interest rate swap agreements amounted to US\$111.2 as of December 31, 2002.

c) Currency forward USD

| Date of Contract | Expiration date | Notional amount | Forward rate contracted |
|------------------|-----------------|-----------------|-------------------------|
| 08/05/02 | 01/02/03 | US\$ 5.0 | 3.0900 |
| 10/31/02 | 01/02/03 | (US\$ 5.0) | 3.5300 |

The net unrealized gain related to these contracts amounted to US\$0.6 as of December 31, 2002.

d) Interest rate cap and floor agreements

In 1999, the Company entered into interest rate cap and floor agreements to reduce the impact of changes in interest rates on a portion of its floating-rate debt. These contracts became effective at December 31, 1999 and they will expire at December 30, 2003.

The interest rate cap agreements on the six-month USD LIBOR reference rate published by the British Bankers Association have a strike rate at 6% and knock out at 8.25%. The Company paid a premium of US\$5.2 for these agreements, which have a notional amount of US\$500.

Originally, in order to partially finance the purchase of the interest rate cap agreements, the Company sold US\$500 of interest-rate floor agreements with a strike rate at 5% and knock in at 4.50%, and received a premium of US\$2.2 for these agreements. During 2000, the Company decided to purchase US\$500 in agreements with the same characteristics and paid a premium of US\$0.4, for the period from June 2001 to December 2003.

In 2001, the Company decided to increase its protection against interest rate volatility and entered into a US\$100, six-month LIBOR interest-rate cap agreement with strike rate at 5.50% and knock out at 7.50%, and paid a premium of US\$0.8 for the period from December 2001 to December 2004.

| Description | Date of contract | Expiration date | Notional amount | Knock in | Knock out |
|-------------|------------------|-----------------|-----------------|----------|-----------|
| Cap | 08/05/99 | 12/30/03 | 50.0 | 8.25% | |
| Cap | 09/28/99 | 12/30/03 | 50.0 | 8.25% | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | |
|-------|----------|----------|-------|-------|-------|
| Cap | 10/05/99 | 12/30/03 | 150.0 | 8.25% | |
| Cap | 07/09/99 | 12/30/03 | 50.0 | 8.25% | |
| Cap | 07/13/99 | 12/30/03 | 50.0 | 8.25% | |
| Cap | 07/21/99 | 12/30/03 | 100.0 | 8.25% | |
| Cap | 08/09/99 | 12/30/03 | 50.0 | 8.25% | |
| Cap | 05/19/00 | 12/30/03 | 500.0 | 4.50% | |
| Cap | 03/28/01 | 12/31/04 | 100.0 | | 7.50% |
| Floor | 08/05/99 | 12/30/03 | 50.0 | | 4.50% |
| Floor | 09/28/99 | 12/30/03 | 50.0 | | 4.50% |
| Floor | 10/05/99 | 12/30/03 | 150.0 | | 4.50% |
| Floor | 07/09/99 | 12/30/03 | 50.0 | | 4.50% |
| Floor | 07/13/99 | 12/30/03 | 50.0 | | 4.50% |
| Floor | 07/21/99 | 12/30/03 | 100.0 | | 4.50% |
| Floor | 08/09/99 | 12/30/03 | 50.0 | | 4.50% |

The net unrealized gain on the interest rate cap and floor agreements amounted to US\$0.1 as of December 31, 2002.

21 Fair value of financial instruments, other than derivatives

Excluding the financial instruments presented in the table below, the Company considers that the carrying amount of its financial instruments generally approximate fair market value because of the short-term maturity or frequent repricing of these instruments, and the fact that non-indexed instruments are stated at present value.

Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair market value of the Company's financial instruments is estimated as follows:

| | As of December 31, 2001 | | As of December 31, 2002 | |
|--|-------------------------|----------------|-------------------------|----------------|
| | Fair market Value | Carrying Value | Fair market Value | Carrying Value |

Short and long-term debt,
including

| | | | | |
|-------------------------|-------|-------|-------|-------|
| accrued finance charges | 2,513 | 2,504 | 2,052 | 2,061 |
|-------------------------|-------|-------|-------|-------|

Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

22 Restatement

The Company's lower tier equity method affiliate CVRD restated its consolidated financial statements for the year ended December 31, 2000 to recognize the effect of changes in accounting principles, as follows:

- CVRD has concluded that the loss in value in two of its investees was other than temporary, and that their carrying value should be reduced to the quoted market price of the applicable shares;
- CVRD has recognized amortization expense of goodwill relating to the acquisition of two investees in May 2000 from the date of the acquisition

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

on a straight-line basis at 16.67% per annum. Previously, CVRD had not commenced amortization of goodwill;

- Previously, CVRD accounted for its development stage subsidiaries under the equity method of accounting. CVRD consolidated this entity for the period presented, which did not result in any change to its net income.

Since those changes also affected years prior to the acquisition by the Company of its investment in CVRD, those changes affected the purchase price allocation made during the year ended December 31, 1997, as well as the computation of the equity in earnings (losses) in that affiliate from years 1997 through 2000. As a result, the Company's consolidated financial statements for the year ended December 31, 2000 have been restated from previously reported amounts. A summary of the effects of the restatement is as follows:

Consolidated Statement of Income

| Caption | Year ended December 31, 2000 | |
|--|------------------------------|-------------|
| | As Previously Reported | As Restated |
| Income taxes deferred | 86 | 87 |
| Equity in results of affiliated companies | 82 | 80 |
| Income before extraordinary item and cumulative effect of a change in accounting principle | 274 | 273 |
| Net income for the year | 274 | 273 |
| Basic and diluted earnings per thousand common shares (in U.S. dollars) - | | |
| Income before extraordinary item and cumulative effect of a change in accounting principle | 3.82 | 3.81 |
| Net income | 3.82 | 3.81 |
| 23 Subsequent events | | |

(a) Sepetiba coal terminal

On January 10, 2003, an accident with the ship unloader number 1 took place at the coal terminal at Sepetiba port in Rio de Janeiro state, which is leased and operated by CSN. The accident caused no personal or environmental damage. The accident did not result in any loss to CSN's operations, as the Company's coal inventories were sufficient for 40 days of operation of the Presidente Vargas Steelworks under normal conditions. At the time of the accident, all installations and equipment affected were duly insured and the terminal resumed operations on January 28, 2003. During the period of interruption, the Company's imported raw materials were unloaded at Espirito Santo terminal in Praia Mole and at the Cosipa terminal in São Paulo.

(b) Offerings

Since December 31, 2002, subsidiaries of the Company have issued the following Notes, all of which were guaranteed by CSN, in the principal amounts, bearing interest and maturing as indicated: March 2003 - US\$85, bearing interest at

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

9.5% per annum and maturing in one year; April 2003 - US\$75, bearing interest at 9.75% per annum and maturing in two years; and May 2003 - US\$100, bearing interest at 6.95% per annum and maturing in one year. The Notes were issued for working capital purposes, increasing the Company's liquidity.

(c) CISA

The spin-off of CISA's plant to CSN was approved in the Extraordinary General Shareholders Meeting on February 28, 2003.

(d) Tax Assessment

On February 25, 2003, the Company was assessed by tax authorities with respect to the determination of the income tax and social contribution on the prior years' net income. The tax claim aggregated R\$328 million (US\$93) and the Company is contesting the tax claim. The preliminary evaluation of the Company's legal adviser is that success is possible. Accordingly, no provision for contingency was recognized in the Company's financial statements as of December 31, 2002.

(e) Lusosider

The Company has agreed, in accordance with its globalization strategy, to acquire a 50% stake in Lusosider Projetos Siderúrgicos S.A., a Portuguese steel company producing dipped galvanized products and tin mill products, for EUR10.84 million (US\$11.8). The Company expects to complete the acquisition of Lusosider by the end of June 2003.

(f) FCA - CFN - Sepetiba Tecon S.A.

In April 2003, the Company announced its intention:

- to sell its stake in FCA to CVRD for US\$0.3 and enter into a 10-year contract with FCA to transport limestone and dolomite from its mines to the Presidente Vargas Steelworks;
- to acquire, together with Taquari Participações S.A., CVRD's stake in CFN, which would involve a US\$33 disbursement by CVRD; and
- to acquire CVRD's stake in Sepetiba Tecon S.A. for US\$26.

(g) Payment of U.S. Commercial Paper

On April 18, 2003, the Company paid at maturity U.S. Commercial Paper notes in the amount of US\$250, through its subsidiary CSN Overseas. The notes were issued in 2001 at an approximate cost of 5.9% per annum.

(h) Environmental fines

On May 6, 2003, FEEMA declared that the Company had completed all of its obligations under the FEEMA Accord, including 130 actions and expenditures of R\$250 million (US\$121 based on the average exchange rate of cash disbursement). Accordingly, management expects FEEMA to cancel environmental fines imposed on

the Presidente Vargas Steelworks of R\$36 million (US\$20) in the coming months, when it completes its administrative procedures.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Companhia Vale do Rio Doce

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity, present fairly, in all material respects, the financial position of Companhia Vale do Rio Doce and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain affiliates, the investments in which total US\$1,188 million and US\$929 million at December 31, 2000 and 1999, respectively, and equity in earnings of US\$213 million, US\$42 million and US\$21 million for 2000, 1999 and 1998, respectively. Also, we did not audit the financial statements of the majority-owned shipping and ferrous alloys subsidiaries as at and for the years ended December 31, 2000, 1999 and 1998, which statements reflect total assets of US\$584 million and US\$569 million at December 31, 2000 and 1999, respectively, and total revenues of US\$480 million, US\$177 million and US\$222 million for 2000, 1999 and 1998, respectively. The financial statements of these affiliates and subsidiaries were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts for these affiliates and subsidiaries, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for the opinion expressed above.

As discussed in Note 21 to the financial statements, the Company has made changes in the application of certain accounting principles.

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil February 21, 2001, except for the accounting changes described in Note 21 and the information on subsequent events contained in Note 22 which are as of February 22, 2002 and March 8, 2002, respectively.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Consolidated Balance Sheets
Expressed in millions of United States dollars

| | As of December 31 | |
|--|-------------------|--------------|
| | 2000 | 1999 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 1,211 | 1,453 |
| Accounts receivable | | |
| Related parties | 125 | 107 |
| Unrelated parties | 365 | 350 |
| Loans and advances to related parties | 121 | 93 |
| Inventories | 306 | 244 |
| Deferred income tax | 89 | 60 |
| Others | 285 | 183 |
| | 2,502 | 2,490 |
| Property, plant and equipment, net | 3,955 | 3,943 |
| Investments in affiliated companies and joint ventures and other investments | 2,216 | 1,707 |
| Provision for losses and write-downs on equity investments | (421) | (504) |
| Other assets | | |
| Goodwill on acquisition of consolidated subsidiaries | 175 | - |
| Loans and advances | | |
| Related parties | 704 | 601 |
| Unrelated parties | 52 | 66 |
| Unrecognized pension obligation | 125 | 64 |
| Deferred income tax | 255 | 192 |
| Judicial deposits | 119 | 72 |
| Others | 113 | 57 |
| | 9,795 | 8,688 |
| TOTAL | | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Consolidated Balance Sheets

Expressed in millions of United States dollars

(Continued)

As of December 31

| | 2000 | 1999 |
|---|--------------|--------------|
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Suppliers | 321 | 251 |
| Payroll and related charges | 51 | 48 |
| Interest attributed to stockholders | 657 | 254 |
| Current portion of long-term debt | | |
| Related parties | 30 | 30 |
| Unrelated parties | 250 | 458 |
| Short-term debt | 465 | 690 |
| Loans from related parties | 152 | 190 |
| Others | 210 | 151 |
| | 2,136 | 2,072 |
| Long-term liabilities | | |
| Employees postretirement benefits | 591 | 314 |
| Long-term debt | | |
| Related parties | 128 | 121 |
| Unrelated parties | 1,892 | 1,200 |
| Loans from related parties | 21 | 4 |
| Provisions for contingencies (Note 15) | 338 | 185 |
| Others | 111 | 98 |
| | 3,081 | 1,922 |
| Minority interest | 9 | 3 |
| Stockholders' equity | | |
| Preferred class A stock - 600,000,000 no-par-value shares authorized and 138,575,913 issued | 709 | 709 |
| Common stock - 300,000,000 no-par-value shares authorized and 249,983,143 issued | 1,279 | 1,279 |
| Treasury stock - 3,659,311 (1999 - 3,659,311) preferred and 7,300 common shares | (61) | (61) |
| Additional paid-in capital | 498 | 498 |
| Other cumulative comprehensive income | (3,040) | (2,487) |
| Appropriated retained earnings | 3,537 | 3,567 |
| Unappropriated retained earnings | 1,647 | 1,186 |
| | 4,569 | 4,691 |
| TOTAL | 9,795 | 8,688 |

See notes to consolidated financial statements

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Consolidated Statements of Income
 Expressed in millions of United States dollars
 (except number of shares and per-share amounts)

| | Year ended December 31 | | |
|--|------------------------|----------------|----------------|
| | 2000 | 1999 | 1998 |
| Operating revenues, net of discounts, returns and allowances | | | |
| Sales of ores and metals | | | |
| Iron ore and pellets | 2,177 | 1,694 | 1,930 |
| Gold | 156 | 155 | 168 |
| Others | 412 | 175 | 200 |
| | 2,745 | 2,024 | 2,298 |
| Revenues from transportation services | 760 | 642 | 848 |
| Aluminum products | 362 | 363 | 407 |
| Other products and services | 202 | 128 | 105 |
| | 4,069 | 3,157 | 3,658 |
| Value-added tax | (134) | (81) | (105) |
| Net operating revenues | 3,935 | 3,076 | 3,553 |
| Operating costs and expenses | | | |
| Cost of ores and metals sold | (1,423) | (996) | (1,348) |
| Cost of transportation services | (481) | (368) | (440) |
| Cost of aluminum products | (334) | (323) | (387) |
| Others | (191) | (119) | (97) |
| | (2,429) | (1,806) | (2,272) |
| Selling, general and administrative expenses | (225) | (138) | (171) |
| Research and development | (48) | (27) | (48) |
| Employee profit sharing plan | (29) | (24) | (29) |
| Other | (220) | (161) | (179) |
| | (2,951) | (2,156) | (2,699) |
| Operating income | 984 | 920 | 854 |
| Non-operating income (expenses) | | | |
| Financial income | 208 | 200 | 394 |
| Financial expenses | (315) | (233) | (243) |
| Foreign exchange and monetary gains (losses), net | (142) | (213) | (108) |
| Others | (4) | (4) | (5) |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | (253) | (250) | 38 |
|--|--------------|-------------|-------------|
| Income before income taxes, equity results and minority interests | 731 | 670 | 892 |
| Income taxes | | | |
| Current | (10) | - | (28) |
| Deferred | 42 | (33) | 28 |
| | 32 | (33) | 0 |
| Equity in results of affiliates and joint ventures | 260 | 41 | 80 |
| Change in provision for losses and write-downs on equity investments | 62 | (268) | (273) |
| Minority interests | 1 | 2 | (1) |
| Net income | 1,086 | 412 | 698 |
| Basic earnings per Common Share | 2.82 | 1.07 | 1.80 |
| Basic earnings per Preferred Class A Share | 2.82 | 1.07 | 1.80 |
| Weighted average number of shares outstanding (thousands of shares) | | | |
| Common shares | 249,983 | 249,983 | 249,983 |
| Preferred Class A shares | 134,917 | 134,917 | 137,965 |

See notes to consolidated financial statements

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Consolidated Statements of Cash Flows
Expressed in millions of United States dollars

| | Year ended December 31 | | |
|---|------------------------|--------------|--------------|
| | 2000 | 1999 | 1998 |
| Cash flows from operating activities: | | | |
| Net income | 1,086 | 412 | 698 |
| Adjustments to reconcile net income with cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | 195 | 163 | 231 |
| Equity in results of affiliates and joint ventures, net of dividends received | (127) | 23 | 36 |
| Change in provision for losses and write-downs on equity investments | (62) | 268 | 273 |
| Deferred income taxes | (42) | 33 | (28) |
| Provisions for contingencies | 101 | 57 | 78 |
| Loss on disposals of property, plant and equipment | 47 | 23 | 64 |
| Gain on Alunorte/MRN transaction | (54) | - | - |
| Pension plan | 105 | 55 | 88 |
| Foreign exchange and monetary losses | 208 | 399 | 135 |
| Others | 54 | 61 | (50) |
| Decrease (increase) in assets: | | | |
| Accounts receivable | (63) | (135) | (69) |
| Inventories | (50) | (6) | (58) |
| Others | (103) | (25) | (2) |
| Increase (decrease) in liabilities: | | | |
| Suppliers | 84 | 49 | (2) |
| Payroll and related charges | (1) | 2 | (20) |
| Others | 46 | (43) | (2) |
| Net cash provided by operating activities | 1,424 | 1,336 | 1,372 |
| Cash flows from investing activities: | | | |
| Loans and advances receivable | | | |
| Related parties | | | |
| Additions | (168) | (202) | (399) |
| Repayments | 32 | 42 | 230 |
| Others | 8 | 5 | 6 |
| Guarantees and deposits | (98) | (4) | (47) |
| Additions to investments | (538) | (49) | (36) |
| Additions to property, plant and equipment | (447) | (265) | (412) |
| Proceeds from disposal of property, plant and equipment | 1 | 1 | 12 |
| Proceeds from disposal of investments | 44 | - | - |
| Net cash used to acquire subsidiaries | (323) | - | - |
| Others | - | 3 | 15 |
| Net cash used in investing activities | (1,489) | (469) | (631) |
| Cash flows from financing activities: | | | |
| Short-term debt, net issuances | (278) | (110) | 60 |
| Loans | | | |
| Related parties | | | |
| Additions | 8 | 223 | 46 |
| Repayments | (42) | (42) | (38) |
| Perpetual notes | 120 | - | - |
| Long-term debt | | | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|--|--------------|--------------|--------------|
| Related parties | 62 | 60 | 38 |
| Unrelated parties | 750 | 175 | 288 |
| Repayments of long-term debt | | | |
| Related parties | (25) | (48) | (87) |
| Unrelated parties | (419) | (299) | (239) |
| Interest attributed to stockholders | (246) | (452) | (607) |
| Treasury stock | - | - | (36) |
| | | | |
| Net cash used in financing activities | (70) | (493) | (575) |
| | | | |
| Increase (decrease) in cash and cash equivalents | (135) | 374 | 166 |
| Effect of exchange rate changes on cash and cash equivalents | (107) | (110) | (85) |
| Cash and cash equivalents, beginning of year | 1,453 | 1,189 | 1,108 |
| | | | |
| Cash and cash equivalents, end of year | 1,211 | 1,453 | 1,189 |
| | | | |
| Cash paid during the year for: | | | |
| Interest on short-term debt | (48) | (55) | (68) |
| Interest on long-term debt, net of interest capitalized of \$12 in 2000, \$12 in 1999 and \$23 in 1998 | (128) | (107) | (98) |
| Income tax | (6) | - | - |
| Non-cash transactions | | | |
| Exchange of loans receivable for investments | 7 | 241 | 240 |
| Transfer of credits from related parties at fair value | - | 126 | - |

See notes to consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity
Expressed in millions of United States dollars
(except number of shares and per-share amounts)

| | Year ended December 31 | | | |
|---|------------------------|--------------|--------------|--------------|
| | Shares | 2000 | 1999 | 1998 |
| Preferred class A stock (including one special share) | | | | |
| Balance January 1, 1998, 1999 and 2000 | 138,575,913 | 709 | 642 | 468 |
| Transfer from appropriated retained earnings | | - | 67 | 174 |
| | | | | |
| Balance December 31, 1998, 1999 and 2000 | 138,575,913 | 709 | 709 | 642 |
| | | | | |
| Common stock | | | | |
| Balance January 1, 1998, 1999 and 2000 | 249,983,143 | 1,279 | 1,159 | 845 |
| Transfer from appropriated retained earnings | | - | 120 | 314 |
| | | | | |
| Balance December 31, 1998, 1999 and 2000 | 249,983,143 | 1,279 | 1,279 | 1,159 |
| | | | | |
| Treasury stock | | | | |
| Balance January 1 | (1,347,500) | (61) | (61) | (25) |
| Acquisitions in 1998 | (2,311,500) | - | - | (36) |
| Acquisitions in 1999 | (311) | - | - | - |
| Acquisitions in 2000 | (7,300) | - | - | - |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | |
|--|----------------------|-----------------|-----------------|---------------|
| Balance December 31 | (3, 666, 611) | (61) | (61) | (61) |
| Additional paid-in capital | | | | |
| Balance January 1 and December 31 | | 498 | 498 | 498 |
| Other cumulative comprehensive income | | | | |
| Amounts not recognized as net periodic pension cost | | | | |
| Balance January 1 | | - | (153) | (77) |
| Excess of additional minimum liability | (151) | | 229 | (115) |
| Tax effect on above | | 51 | (76) | 39 |
| Balance December 31 | | (100) | - | (153) |
| Cumulative translation adjustments | | | | |
| Balance January 1 | (2, 513) | | (731) | (218) |
| Change in the year | (459) | | (1, 804) | (517) |
| Balance December 31 | | (2, 972) | (2, 535) | (735) |
| Unrealized gain on available-for-sale securities | | | | |
| Balance January 1 | | 54 | 30 | - |
| Unrealized gain (loss) in the year | (30) | | 24 | 30 |
| Balance December 31 | | 24 | 54 | 30 |
| Adjustments relating to investments in affiliates | | | | |
| Balance January 1 | (6) | | (7) | - |
| Change in adjustments relating to investments in affiliates | 14 | | 1 | (7) |
| Balance December 31 | | 8 | (6) | (7) |
| Total other cumulative comprehensive income | | (3, 040) | (2, 487) | (865) |
| Appropriated retained earnings | | | | |
| Balance January 1 | 3, 567 | | 5, 212 | 5, 806 |
| Transfer to retained earnings | (30) | | (1, 458) | (106) |
| Transfer to capital stock | - | | (187) | (488) |
| Balance December 31 | | 3, 537 | 3, 567 | 5, 212 |
| Retained earnings | | | | |
| Balance January 1 | 1, 186 | | (193) | (391) |
| Net income | 1, 086 | | 412 | 698 |
| Interest attributed to stockholders | | | | |
| Preferred class A stock (\$1.70, \$1.28 and \$1.58 per share in 2000, 1999 and 1998) | (230) | | (172) | (212) |
| Common stock (\$1.70, \$1.28 and \$1.58 per share in 2000, 1999 and 1998) | (425) | | (319) | (394) |
| Appropriation from reserves | 30 | | 1, 458 | 106 |
| Balance December 31 | | 1, 647 | 1, 186 | (193) |
| Total stockholders' equity | 384, 892, 445 | 4, 569 | 4, 691 | 6, 392 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Comprehensive income is comprised as follows:

| | | | |
|---|------------|----------------|------------|
| Net income | 1,086 | 412 | 698 |
| Amounts not recognized as net periodic pension cost | (100) | 153 | (76) |
| Cumulative translation adjustments | (459) | (1,804) | (517) |
| Unrealized gain (loss) on available-for-sale securities | (30) | 24 | 30 |
| Adjustments relating to investments in affiliates | 14 | 1 | (7) |
| Total comprehensive income (loss) | 511 | (1,214) | 128 |

See notes to consolidated financial statements

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Notes to Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

Companhia Vale do Rio Doce (CVRD) is a limited liability company, duly organized and existing under the laws of the Federative Republic of Brazil. Our operations are carried out through CVRD and its subsidiary companies, joint ventures and affiliates, and mainly consist of mining, non-ferrous metal production and logistics, as well as pulp and paper, aluminum and steel activities. Further details of our operations and those of our joint ventures and affiliates are described in Note 16.

The main operating subsidiaries we consolidate are as follows:

| Subsidiary | % ownership | Head office location | Principal activity |
|--|-------------|----------------------|-----------------------|
| S.A Mineração da Trindade - SAMITRI | 100 | Brazil | Iron ore and pellets |
| Pará Pigmentos S.A | 76 | Brazil | Kaolin |
| SIBRA - Eletrosiderúrgica Brasileira S.A | 98 | Brazil | Ferrous alloys |
| Navegação Vale do Rio Doce S.A - DOCENAVE | 100 | Brazil | Shipping |
| Vale do Rio Doce Alumínio S.A - ALUVALE | 100 | Brazil | Aluminum |
| Itabira Rio Doce Company Ltd. - ITACO | 100 | Cayman Island | Trading |
| Rio Doce International Finance Ltd. - RDIF | 100 | Bahamas | International finance |

2 Summary of significant accounting policies

In preparing the consolidated financial statements, we are required to use estimates to account for certain assets, liabilities, revenues and expenses. Our consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee postretirement benefits and other similar evaluations; actual results may vary from our estimates.

(a) Basis of presentation

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), which differ in certain respects from the Brazilian accounting principles that we use in preparing our statutory financial information.

The U.S. dollar amounts for the years presented have been remeasured (translated) from the Brazilian currency amounts in accordance with the

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

criteria set forth in Statement of Financial Accounting Standards 52 Foreign Currency Translation (SFAS 52).

Prior to July 1, 1997, Brazil was considered under SFAS 52 to have a highly inflationary economy, defined as an economy in which the cumulative inflation rate over the latest thirty-six month period has exceeded 100%. Accordingly, up to June 30, 1997, we adopted the U.S. dollar as both our functional currency and reporting currency.

As from July 1, 1997, we concluded that the Brazilian economy had ceased to be highly inflationary and changed our functional currency from the reporting currency (U.S. dollars) to the local currency (Brazilian reais). Accordingly, at July 1, 1997, we translated the U.S. dollar amounts of non-monetary assets and liabilities into reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes associated with the differences between the new functional currency bases and the tax bases, including those relating to affiliates and joint ventures, net of related valuation allowances, were reflected in the cumulative translation adjustments component of stockholders equity.

We have remeasured all assets and liabilities into U.S. dollars at the current exchange rate at each balance sheet date (R\$1.9554 and R\$1.7890 to US\$1.00 at December 31, 2000 and 1999, respectively), and all accounts in the statements of income (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The translation gain or loss resulting from this remeasurement process is included in the cumulative translation adjustments account in stockholders equity.

The net transaction loss included in our statement of income was \$115, \$265 and \$114 in 2000, 1999 and 1998, respectively.

(b) Basis of consolidation

All majority-owned subsidiaries where we have both share and management control are consolidated with elimination of all significant intercompany accounts and transactions. Investments in unconsolidated affiliates and joint ventures are reported at cost less amortized goodwill plus our equity in undistributed earnings or losses. Included in this category are certain joint ventures in which we have majority ownership but, by force of shareholders agreements, do not have effective management control. We provide for losses on equity investments with negative stockholders equity and for other than temporary decreases in market value below carrying value where applicable (see Notes 10 and 21).

We evaluate the carrying value of our listed equity investments, as at year end, relative to publicly available quoted market prices. If the quoted market price is below book value and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall management thereof, based on a shareholders agreement. We define affiliates as businesses in which we participate as a minority stockholder but with significant influence over the operating and financial policies of the investee.

(c) Business combinations

We adopt the procedures determined by Accounting Principles Board Opinion 16 Business Combinations (APB 16) to recognize acquisitions of interests in other companies. The method of accounting normally used in our business combination transactions is the purchase method, which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase to be recognized as an intangible asset. On the acquisition of assets which include the rights to mine reserves of natural resources, the establishment of values for these assets includes the placing of fair values on purchased reserves, which are classified in the balance sheet as property, plant and equipment.

Goodwill recorded in our business combination transactions is amortized in a systematic manner over the periods estimated to be benefited.

(d) Inventories

Inventories are stated at the average cost of purchase or production, lower than replacement or realizable values. We record allowances for slow-moving or obsolete inventories when considered appropriate, reflecting our periodic assessment of recoverability. A write-down of inventory utilizing the allowance establishes a new cost basis for the related inventory.

Finished goods inventories include all related materials, labor and direct production expenditures, and exclude general and administrative expenses.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line basis at rates which take into consideration the useful lives of the items, principally an average of 80 years for the railroads, 20 years for ships, 25 years for buildings and improvements and between 10 to 20 years for mining and other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed until viability of mining activities is established; subsequently such costs are capitalized together with further exploration costs. We capitalize mine development costs as from

the time we actually begin such development.

(f) Available-for-sale equity securities

Equity securities classified as available-for-sale are recorded in accordance with SFAS 115 Accounting for Certain Investments in Debt and Equity Securities . Accordingly, we exclude unrealized holding gains and losses, net of taxes, if applicable, from income and recognize them as a separate component of stockholders equity until realized.

(g) Revenues and expenses

Revenues are recognized when title has transferred to the customer or services are rendered. Expenses and costs are recognized on the accrual basis. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from transportation services, other than shipping operations, is recognized when the service order has been fulfilled. Shipping operations are recorded on the completed voyage basis and net revenue, costs and expenses of voyages not completed at period-end are deferred. Anticipated losses on voyages are provided when probable and can be reasonably estimated.

(h) Environmental and site reclamation and restoration costs

Expenditures relating to ongoing compliance with environmental regulations are charged against earnings or capitalized as appropriate. These ongoing programs are designed to minimize the environmental impact of our activities. With respect to our two major iron ore mines at Itabira and Carajás, which have extensive remaining reserves, liabilities for final site reclamation and restoration costs will be recorded when the respective reclamation and restoration strategies can be reasonably determined and the related costs can be reasonably estimated. At December 31, 2000 we have recorded provisions of \$14.

(i) Compensated absences

We fully accrue the liability for future compensation to employees for vacations vested during the year.

(j) Income taxes

In accordance with SFAS 109 Accounting for Income Taxes , the deferred tax effects of temporary differences have been recognized in the consolidated financial statements. A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recoverable in the future.

(k) Statement of cash flows

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Cash flows relating to overnight financing and investment are reported net. Short-term investments that have a ready market and maturity to us, when purchased, of 90 days or less are considered cash equivalents.

In 2000, dividends of \$133 received from equity method affiliates and joint ventures have been netted against the equity in results of these entities in the statement of cash flows. For comparative purposes dividends received in 1999 and 1998 of \$64 and \$116, respectively, have been reclassified from investing activities to reflect the same presentation.

(l) Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the year.

(m) Interest attributed to stockholders

As from January 1, 1996 Brazilian corporations are permitted to attribute interest on stockholders equity. The calculation is based on the stockholders equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves.

The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge equivalent to the statutory tax rate applied to such amount. Income tax is withheld from the stockholders relative to interest at the rate of 15%, except for interest due to the Brazilian Government which is exempt from tax withholdings.

We have opted to pay such tax-deductible interest to our stockholders and have therefore accrued the amounts due as of December 31, 2000 and 1999, with a direct charge to stockholders' equity.

Under Brazilian law interest attributable to stockholders is considered as part of the annual minimum dividend (See Note 13). Accordingly such distributions are treated as dividends for accounting purposes.

(n) Accounting for derivatives and hedging activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 Accounting for Derivative Financial Instruments and Hedging Activities (SFAS 133). The standard, as amended by SFAS 137 Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB 133, and amendment of FASB Statement No. 133 and SFAS 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133 (referred to hereafter as FAS 133), is effective for us as from January 1, 2001. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair

value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and , if it is, depending on the type of hedge relationship. The ineffective portion of all hedges is recognized in current period earnings. We currently believe that the initial impact of the adoption of SFAS 133 will not be significant.

(o) Comprehensive income

We have disclosed comprehensive income as part of the Statement of Changes in Stockholders Equity, in compliance with SFAS 130 Reporting Comprehensive Income .

3 Our privatization

In May 1997, we were privatized by the Brazilian Government, which transferred voting control to Valepar S.A. (Valepar). The Brazilian Government has retained certain rights with respect to our future decisions and those of Valepar and has also caused us to enter into agreements which may affect our activities and results of operations in the future. These rights and agreements are:

. Preferred Special Share. The Brazilian Government holds a preferred special share of CVRD which confers upon it permanent veto rights over changes in our (i) name, (ii) headquarters location, (iii) corporate purpose with respect to mineral exploration, (iv) continued operation of our integrated iron ore mining systems and (v) certain other matters.

. Preferred Class A Share of Valepar. The Brazilian Government holds a preferred class A share of Valepar which confers upon it approval rights for a period of five years in respect of (i) concentration of ownership of Valepar by particular types of investors in excess of prescribed limitations and (ii) changes in the Valepar holding company structure relating to ownership of our common shares.

. Shareholder revenue interests. On July 7, 1997, we issued to shareholders of record on April 18, 1997 (including the Brazilian Government) revenue interests providing holders thereof with the right to receive semi-annual payments based on a percentage of our net revenues above threshold production volumes from identified mining resources. These instruments are not secured by the corresponding mineral reserves and deposits.

In addition to the preferred special share mentioned above, the National Treasury and the Banco Nacional de Desenvolvimento Econômico e Social BNDES, the Government owned development bank, together currently own 32% of our common shares and 4% of our preferred shares, which in aggregate represents 22% of our total capital.

4 Major acquisitions

We made the following acquisitions during the year ended December 31, 2000. Pro forma information with respect to results of operations is not presented since

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

the effects are not considered material to an understanding of our consolidated financial statements.

(a) On May 11, 2000, we acquired the entire capital of Mineração SOCOIMEX S.A., a non-public company whose main activity is production and commercialization of iron ore, for the total price of \$55, being an initial cash payment of \$47 and two further cash payments of \$3 and \$5, in 2001 and 2002, respectively, plus interest based on 89% of the Brazilian Interbank Rate through the payment date. The increment of the fair value over the book value of SOCOIMEX at the date of purchase was entirely attributable to its mineral reserves, which are included in the property, plant and equipment. In August 2000 SOCOIMEX was merged into CVRD.

(b) On May 30, 2000, we acquired 4,026,694,190 common shares and 4,231,324,374 preferred shares of S.A. Mineração Trindade SAMITRI, representing 79.27% of the voting capital and 63.06% of the total capital for \$520 in cash becoming the controlling stockholder. At the date of the purchase, SAMITRI was a publicly listed Brazilian iron ore mining company, which also owned a 51% interest in the voting capital of SAMARCO Mineração S.A., a large iron ore pellets producer (see Note 10). On June 29, 2000, we sold 1% of the share capital of SAMARCO to BHP Brasil Ltda. (BHP), a subsidiary of The Broken Hill Proprietary Company Limited of Australia, for \$8, to equalize our shareholdings in the joint venture.

(c) The assets and liabilities acquired as a result of the above transactions and corresponding goodwill were as follows:

| | <u>Consolidated Subsidiaries</u> | | |
|--|----------------------------------|----------------|-----------------|
| <u>Unconsolidated joint venture</u> | <u>SAMARCO</u> | <u>SAMITRI</u> | <u>SOCOIMEX</u> |
| Fair value of assets | 1,006 | 293 | 77 |
| Fair value of liabilities | (450) | (144) | (22) |
| Net assets at fair value | 556 | 149 | 55 |
| Interest acquired | 50.00% | 63.06% | 100.00% |
| Fair value of net assets acquired | 278 | 94 | 55 |
| Attributable to minority stockholders of SAMITRI (36.94%) | (103) | - | - |
| Tax benefits | 31 | - | - |
| Effective interest acquired | 206 | 94 | 55 |
| Purchase price | 252 | 268 | 55 |
| Goodwill | 46 | 174 | - |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The main assets for which fair values differ from book values are inventories and property, plant and equipment. We determined the fair values of inventories based on the current replacement costs for raw materials and the estimated selling prices for finished goods, net of disposal costs and a selling margin. The fair values of property, plant and equipment were determined based on current replacement costs for similar capacity and the estimated market value of purchased reserves. Deferred taxes were recorded for the differences between fair values and tax bases.

For SAMARCO, SAMITRI and SOCOIMEX inventories were valued at \$36, \$38 and \$9, respectively, property, plant and equipment were valued at \$830, \$161 and \$58, respectively, and the deferred tax liability was \$60, \$49 and \$15, respectively.

We amortize the goodwill on the SAMITRI and SAMARCO purchases on the straight-line basis over a period of 6 years starting on the date of acquisition.

(d) On September 22, 2000 we acquired via public tender a further 1,014,529,197 common shares and 3,716,344,366 preferred shares of SAMITRI bringing our ownership to 99.25% of the voting capital and 99.19% of the total capital. The cash cost of this purchase was \$180 and resulted in additional goodwill of \$27, all attributed to SAMARCO.

(e) In October 2000, we acquired 50% of Gulf Industrial Investment Company (GIIC), a pelletizing company located in Bahrain, for \$91, including goodwill of \$20.

5 Income taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory enacted tax rates applicable in the years presented are as follows:

| | Year ended December 31 - % | | |
|-------------------------|----------------------------|-----------------------|--------------|
| | 2000 | 1999 | 1998 |
| Federal income tax | 25.00 | 25.00 | 25.00 |
| Social contribution (*) | 9.00 to 12.00 | 8.00 to 12.00 | 8.00 |
| Composite tax rate | 34.00 to 37.00 | 33.00 to 37.00 | 33.00 |

(*) As from May 1, 1999 through January 31, 2000, the social contribution rate has been increased from 8% to 12% (not enacted). Pursuant to a provisional measure, which is valid only for 30 days unless approved by the Congress, the social contribution rate will be 9% from February 1, 2000 to December 31, 2002 and will be reduced to 8% as from January 1, 2003. Since the provisional measure is not enacted, the social contribution rate of 8% was used to calculate deferred taxes at December 31, 2000.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The amount reported as income tax expense in these consolidated financial statements is reconciled to the statutory rates as follows:

| | Year ended December 31 | | |
|---|------------------------|-------|-------|
| | 2000 | 1999 | 1998 |
| Income before income taxes, equity results and minority interests | 731 | 670 | 892 |
| Federal income tax and social contribution expense at statutory enacted rates | (249) | (248) | (294) |
| Adjustments to derive effective tax rate: | | | |
| Tax benefit on interest attributed to stockholders | 222 | 181 | 200 |
| Tax incentives | 31 | - | - |
| Exempt foreign income (losses) | 69 | (4) | 23 |
| Impairment write-downs on investments | - | - | 96 |
| Valuation allowance reversal (provision) | (51) | 37 | (2) |
| Other non-taxable gains (loss) | 10 | 1 | (23) |
| Federal income tax and social contribution benefit (expense) in consolidated financial statements | 32 | (33) | - |

In 2000, we obtained government approval of certain tax incentives relative to our iron ore and manganese operations in Carajás. The incentives comprise full income tax exemption on defined production levels up to 2005 and partial exemption thereafter up to 2013. An amount equal to the tax saving must be appropriated to a reserve account within stockholders equity (Note 13) and may not be distributed in the form of cash dividends.

The major components of the deferred tax accounts in the balance sheet are as follows:

| | As of December 31 | |
|--|-------------------|------|
| | 2000 | 1999 |
| Net current deferred tax assets | | |
| Accrued expenses deductible only when disbursed | 89 | 58 |
| Tax loss carryforwards | - | 2 |
| | 89 | 60 |
| Long-term deferred tax Assets | | |
| Deferred tax relative to temporary differences : | | |
| Established on the July 1, 1997 change in functional currency, less reversals | 16 | 23 |
| Relative to investments acquired | 15 | - |
| Tax-deductible goodwill in business combinations | 103 | - |
| Write-downs of investments | 61 | 76 |
| Additional retirement benefits provision, net of unrecognized pension obligation | 158 | 84 |
| Tax loss carryforwards | 190 | 214 |
| Other temporary differences | 6 | 1 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | |
|--|--------------|--------------|
| | 549 | 398 |
| Liabilities | | |
| Inflationary income | (32) | (28) |
| Fair value adjustments in business combinations | (61) | - |
| | (93) | (28) |
| Valuation allowance | | |
| Beginning balance | (178) | (54) |
| Translation adjustments | 15 | 17 |
| Additions | (51) | - |
| Valuation allowance of ferro alloys subsidiaries | 13 | (158) |
| Reversals | - | 17 |
| Ending balance | (201) | (178) |
| Net long-term deferred tax assets | 255 | 192 |

6 Cash and cash equivalents

| | | |
|-----------------------------------|--------------------------|--------------|
| | As of December 31 | |
| | 2000 | 1999 |
| Cash | 28 | 20 |
| Deposits in local currency | 694 | 338 |
| Deposits in United States dollars | 489 | 1,095 |
| | 1,211 | 1,453 |

7 Accounts receivable

| | | |
|--|--------------------------|-------------|
| | As of December 31 | |
| | 2000 | 1999 |
| Customers | | |
| Domestic | 198 | 195 |
| Export, all denominated in United States dollars | 312 | 280 |
| | 510 | 475 |
| Allowance for doubtful accounts | (14) | (13) |
| Allowance for ore weight credits | (6) | (5) |
| Total | 490 | 457 |

Accounts receivable from customers in the steel industry amount to 16.3% and 14.5% of domestic receivables (export receivables 78.8% and 80.8%) at December 31, 2000 and 1999, respectively. No single customer accounted for more than 10% of total revenues in any of the years presented.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

8 Inventories

| | As of December 31 | |
|--------------------------------------|-------------------|------------|
| | 2000 | 1999 |
| Finished products | | |
| Iron ore | 100 | 57 |
| Gold | 4 | 9 |
| Manganese | 7 | 22 |
| Ferro alloys | 32 | 31 |
| Others | 34 | 20 |
| Spare parts and maintenance supplies | 129 | 105 |
| | 306 | 244 |

9 Property, plant and equipment

a) Per business area:

| | As of December 31, 2000 | | | As of December 31, 1999 | | |
|---------------------------|-------------------------|--------------|--------------|-------------------------|--------------|--------------|
| | Accumulated | | Net | Accumulated | | Net |
| | Cost | depreciation | | Cost | depreciation | |
| Ferrous | | | | | | |
| Ferrous - Southern System | | | | | | |
| Mining | 1,096 | 533 | 563 | 969 | 560 | 409 |
| Railroads | 1,022 | 513 | 509 | 1,110 | 574 | 536 |
| Marine terminals | 157 | 102 | 55 | 184 | 115 | 69 |
| | 2,275 | 1,148 | 1,127 | 2,263 | 1,249 | 1,014 |
| Ferrous - Northern System | | | | | | |
| Mining | 691 | 310 | 381 | 783 | 333 | 450 |
| Railroads | 1,206 | 439 | 767 | 1,289 | 457 | 832 |
| Marine terminals | 222 | 108 | 114 | 229 | 112 | 117 |
| | 2,119 | 857 | 1,262 | 2,301 | 902 | 1,399 |
| Pelletizing | 194 | 123 | 71 | 190 | 125 | 65 |
| Ferro alloys | 278 | 140 | 138 | 295 | 152 | 143 |
| Energy | 77 | 4 | 73 | 81 | 2 | 79 |
| Construction in progress | 406 | - | 406 | 250 | - | 250 |
| | 5,349 | 2,272 | 3,077 | 5,380 | 2,430 | 2,950 |
| Non-Ferrous | | | | | | |
| Potash | 47 | 16 | 31 | 48 | 14 | 34 |
| Gold | 295 | 132 | 163 | 323 | 134 | 189 |
| Kaolin | 91 | 12 | 79 | 153 | 18 | 135 |
| Research and projects | 19 | 10 | 9 | 21 | 10 | 11 |
| Construction in progress | 43 | - | 43 | 31 | - | 31 |
| | 495 | 170 | 325 | 576 | 176 | 400 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Logistics

| | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|------------|
| General cargo | 349 | 173 | 176 | 371 | 177 | 194 |
| Maritime transportation | 351 | 167 | 184 | 361 | 158 | 203 |
| Construction in progress | 14 | - | 14 | 7 | - | 7 |
| | 714 | 340 | 374 | 739 | 335 | 404 |

Holdings

| | | | | | | |
|----------------|-----|----|-----|-----|----|-----|
| Pulp and paper | 175 | 26 | 149 | 191 | 33 | 158 |
|----------------|-----|----|-----|-----|----|-----|

Corporate Center

| | | | | | | |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Corporate | 41 | 15 | 26 | 35 | 14 | 21 |
| Construction in progress | 4 | - | 4 | 10 | - | 10 |
| | 45 | 15 | 30 | 45 | 14 | 31 |

| | | | | | | |
|-------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total | 6,778 | 2,823 | 3,955 | 6,931 | 2,988 | 3,943 |
|-------|--------------|--------------|--------------|--------------|--------------|--------------|

b) Per type of assets:

| | As of December 31, 2000 | | | As of December 31, 1999 | | |
|--------------------------|-------------------------|--------------|--------------|-------------------------|--------------|--------------|
| | Accumulated Cost | depreciation | Net | Accumulated Cost | depreciation | Net |
| Land and buildings | 824 | 289 | 535 | 899 | 317 | 582 |
| Installations | 1,634 | 885 | 749 | 1,806 | 976 | 830 |
| Equipment | 597 | 290 | 307 | 519 | 259 | 260 |
| Ships | 348 | 165 | 183 | 358 | 156 | 202 |
| Railroads | 1,741 | 770 | 971 | 2,043 | 947 | 1,096 |
| Mine development costs | 326 | 83 | 243 | 303 | 64 | 239 |
| Others | 841 | 341 | 500 | 705 | 269 | 436 |
| | 6,311 | 2,823 | 3,488 | 6,633 | 2,988 | 3,645 |
| Construction in progress | 467 | - | 467 | 298 | - | 298 |
| Total | 6,778 | 2,823 | 3,955 | 6,931 | 2,988 | 3,943 |

Losses on disposals of property, plant and equipment totaled \$47, \$23 and \$64 in 2000, 1999 and 1998, respectively. In 2000 and 1999, disposals mainly relate to sales of trucks, locomotives and other equipment which were replaced in the normal course of business. In 1998, additional losses of \$28 were incurred with respect to closure of the Serra Leste gold mine and \$13 on sale of two ships.

10 Investments

As of December 31

| Participation in capital (%) | (1)Net equity | (1)Net income (loss) | 2000 Investments | | Equity Adjustments | | |
|------------------------------------|------------------|----------------------------|------------------|------|--------------------|------|------|
| | | | 2000 | 1999 | 2000 | 1999 | 1998 |
| | | | | | | | |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | <u>year</u> | | | | | | |
|---|---------------|--------------|-------------|------|--------------|--------------|------------|--------------|--------------|
| | <u>voting</u> | <u>total</u> | | | | | | | |
| Investments in affiliated companies and joint ventures | | | | | | | | | |
| Steel | | | | | | | | | |
| Usinas Siderúrgicas de Minas Gerais S.A - USIMINAS (2) | 22.99 | 11.46 | 1,213 | 61 | 225 | 255 | 7 | (13) | 10 |
| Companhia Siderúrgica Nacional - CSN (3) (7) | 10.33 | 10.33 | 1,621 | 129 | 167 | 134 | 13 | 3 | 39 |
| Companhia Siderúrgica de Tubarão - CST(4) | 20.51 | 22.85 | 1,096 | 100 | 250 | 233 | 22 | (5) | 19 |
| California Steel Industries Inc - CSI | 50.00 | 50.00 | 238 | 34 | 119 | 110 | 17 | 22 | 14 |
| Paper and pulp | | | | | | | | | |
| Celulose Nipo-Brasileira S.A - CENIBRA | 50.67 | 51.48 | 407 | 129 | 210 | 177 | 66 | (4) | 6 |
| Bahia-Sul Celulose S.A - BSC | 50.00 | 32.00 | 506 | 131 | 162 | 141 | 42 | 13 | (28) |
| Aluminum and bauxite | | | | | | | | | |
| Mineração Rio do Norte S.A - MRN | 40.00 | 40.00 | 383 | 91 | 153 | 145 | 36 | 10 | 28 |
| Valesul Alumínio S.A VALESUL | 54.51 | 54.51 | 80 | 21 | 44 | 41 | 12 | - | 16 |
| Alumínio Brasileiro S.A - ALBRAS | 51.00 | 51.00 | - | - | - | - | - | - | (25) |
| Alumina do Norte do Brasil S.A - ALUNORTE | 50.28 | 49.29 | 102 | 23 | 80 | 105 | 11 | - | - |
| Pellets | | | | | | | | | |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO | 51.11 | 51.00 | 54 | 22 | 28 | 39 | 11 | 10 | 11 |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS | 51.00 | 50.89 | 42 | 17 | 21 | 21 | 9 | 7 | 9 |
| Companhia Coreano Brasileira de Pelotização - KOBRASCO | 50.00 | 50.00 | 24 | 3 | 12 | 12 | 2 | (11) | (5) |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO | 51.00 | 50.90 | 32 | 13 | 16 | 17 | 7 | 7 | 5 |
| Gulf Industrial Investment Company - GIIC | 50.00 | 50.00 | 186 | 2 | 93 | - | 1 | - | - |
| SAMARCO Mineração S.A | 50.00 | 50.00 | 519 | 30 | 318 | - | 8 | - | - |
| Others | | | | | | | | | |
| Fertilizantes Fosfatos S.A - FOSFERTIL (6) | 10.96 | 10.96 | 281 | 48 | 31 | 33 | 5 | 7 | 6 |
| Salobo Metais S.A (5) | 50.00 | 50.00 | 50 | - | 25 | 27 | - | - | - |
| Ferrovias Centro-Atlântica S.A - FCA | 20.00 | 45.65 | 131 | (67) | 82 | - | (30) | - | 0 |
| Vale Usiminas Participações S.A - VUPSA (8) | | | | - | - | - | - | - | (15) |
| Pará Pigmentos S.A (8) | | | | - | - | - | - | - | (8) |
| | | | | | 131 | 111 | 21 | (5) | (2) |
| Others | | | | | | | | | |
| | | | | | 2,167 | 1,601 | 260 | 41 | 80 |
| Investments at cost | | | | | | | | | |
| AÇOMINAS | 2.28 | 2.28 | | | - | 29 | - | - | - |
| SIDERAR (market value \$42 in 2000 - \$69 in 1999) | 4.85 | 4.85 | | | 15 | 15 | - | - | - |
| Unrealized holding gains on equity security | | | | | 27 | 54 | - | - | - |
| Others | | | | | 7 | 8 | - | - | - |
| | | | | | 2,216 | 1,707 | 260 | 41 | 80 |
| Change in provision for losses and write-downs on equity investments: | | | | | | | | | |
| Usinas Siderúrgicas de Minas Gerais S.A - USIMINAS (2) | | | | | | | | | (174) |
| Companhia Siderúrgica de Tubarão - CST(4) | | | | | | | | | (120) |
| Pará Pigmentos S.A (8) | | | | | | | - | (15) | - |
| Cia Ferroviária do Nordeste | | | | | | | (4) | (4) | - |
| Vale Usiminas Participações S.A - VUPSA (8) | | | | | | | - | (56) | - |
| Alumínio Brasileiro S.A - ALBRAS | | | | | | | 66 | (104) | - |
| Alumina do Norte do Brasil S.A - ALUNORTE | | | | | | | - | (89) | 21 |
| | | | | | | | 62 | (268) | (273) |

(1) Based on US GAAP financial statements.

(2) Value based on quoted market price at December 31, 2000 is \$75 compared to net book value of \$40.

(3) Value based on quoted market price at December 31, 2000 is \$218.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

(4) Value based on quoted market price at December 31, 2000 is \$129 compared to net book value of \$35.

(5) Development stage enterprises.

(6) Value based on quoted market price at December 31, 2000 is \$47.

(7) In 2000, based on September 30 financial statements.

(8) Consolidated as from 1999 upon increase in ownership to over 50%.

Goodwill included in the above investments is as follows:

| Investee | Original term of amortization | Remaining amortization | As of December 31 | |
|--|-------------------------------------|---------------------------|-------------------|-----------|
| | (years) | (years) | 2000 | 1999 |
| Alumina do Norte do Brasil S.A - ALUNORTE | 35 | 35 | 30 | 78 |
| SAMARCO Mineração S.A | 6 | 5 | 59 | - |
| Ferrovias Centro Atlântica S.A - FCA | 30 | 26 | 22 | - |
| Gulf Industrial Investment Company - GIIC | 20 | 20 | 20 | - |
| | | | 131 | 78 |

The combined financial position and results of operations of the Company's affiliates in the steel sector is as follows:

| | Steel sector affiliates (Combined) | |
|---------------------------------|---------------------------------------|--------------|
| | As of December 31 | |
| | 2000 | 1999 |
| Balance sheet | | |
| Current assets | 3,094 | 3,013 |
| Noncurrent assets | 10,231 | 10,542 |
| Current liabilities | (2,695) | (3,626) |
| Noncurrent liabilities | (5,094) | (4,314) |
| Purchase accounting adjustments | (1,368) | (1,681) |
| Stockholders' equity | 4,168 | 3,934 |
| Investments | 761 | 732 |

Steel sector affiliates (Combined)

Year ended December 31

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | 2000 | 1999 | 1998 |
|---------------------------------|------------|--------------|------------|
| Statement of operations | | | |
| Net sales | 4,581 | 4,174 | 5,095 |
| Cost and expenses | (4,082) | (4,790) | (4,351) |
| Purchase accounting adjustments | 24 | 83 | 26 |
| Income before income taxes | 523 | (533) | 770 |
| Income taxes | (199) | 556 | (58) |
| Net income | 324 | 23 | 712 |
| Equity adjustments | 59 | 7 | 82 |

Information with respect to other major affiliates financial position and results of operations is as follows:

| | As of December 31 | | | | | | | |
|-------------------------|-------------------|-----------|-------------|--------------|------------|------------|------------|------------|
| | ALUNORTE | | ALBRAS | | MRN | | BSC | |
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Balance Sheet | | | | | | | | |
| Current assets | 130 | 74 | 128 | 145 | 90 | 99 | 164 | 144 |
| Noncurrent assets | 505 | 531 | 627 | 632 | 349 | 346 | 857 | 923 |
| Current liabilities | (79) | (123) | (247) | (321) | (19) | (33) | (232) | (299) |
| Noncurrent liabilities | (454) | (446) | (538) | (620) | (37) | (49) | (283) | (328) |
| Stockholders' equity | 102 | 36 | (30) | (164) | 383 | 363 | 506 | 440 |
| Company's participation | 49.29% | 74.06% | 51.00% | 51.00% | 40.00% | 40.00% | 32.00% | 32.00% |
| Investments | 50 | 27 | (15) | (84) | 153 | 145 | 162 | 141 |

| | Year ended December 31 | | | | | | | | | | | |
|-----------------------------------|------------------------|-----------|-------|--------|-----------|-------|-------|-------|-------|-------|-----------|-------|
| | ALUNORTE | | | ALBRAS | | | MRN | | | BSC | | |
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Statement of Operations | | | | | | | | | | | | |
| Net sales | 322 | 253 | 268 | 551 | 459 | 452 | 217 | 205 | 224 | 402 | 326 | 288 |
| Costs and expenses | (327) | (446) (*) | (286) | (452) | (755) (*) | (535) | (109) | (156) | (136) | (274) | (397) (*) | (380) |
| Income (loss) before income taxes | (5) | (193) | (18) | 99 | (296) | (83) | 108 | 49 | 88 | 128 | (71) | (92) |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | | | | | |
|--------------------------------|-----------|--------------|-----------|------------|--------------|-------------|-----------|-----------|-----------|------------|-----------|-------------|
| Income taxes | 28 | 56 | 57 | 30 | 93 | 33 | (17) | (23) | (19) | 3 | 112 (**) | - |
| Net income (loss) | 23 | (137) | 39 | 129 | (203) | (50) | 91 | 26 | 69 | 131 | 41 | (92) |
| Company's participation | 49.29% | 65.82% | 53.61% | 51.00% | 51.00% | 51.00% | 40.00% | 40.00% | 40.00% | 32.00% | 32.00% | 30.48% |
| Participation in results | 11 | (89) | 21 | 66 | (104) | (25) | 36 | 10 | 28 | 42 | 13 | (28) |
| Change in provision for losses | - | 89 | (21) | (66) | 104 | - | - | - | - | - | - | - |
| Equity adjustments | 11 | - | - | - | - | (25) | 36 | 10 | 28 | 42 | 13 | (28) |

(*) Includes exchange losses of \$213 (ALUNORTE), \$378 (ALBRAS), and \$127 (BSC) for the year ended December 31, 1999 - see Note 20

(**) Includes \$19 of tax benefit on 1999 losses and \$93 of valuation allowance reversal relative to prior year losses

The provision for losses and write-downs on equity investments of \$421 and \$504 at December 31, 2000 and 1999, respectively, relates to other than temporary declines to the public quoted market price below carrying value of our affiliates' equity securities and to our investments in affiliates which have reported negative stockholders equity in their financial statements prepared in accordance with US GAAP and in circumstances where we have assumed commitments to fund our share of the accumulated losses, if necessary, through additional capital contributions or other means. Accordingly we (a) first reduce the value of the investment to zero and (b) subsequently provide for our portion of negative equity. The provision is comprised as follows:

| | As of December 31 | | | | | | | |
|--|-------------------|--------------|-------------|-------------|-------------|--------------|-------------|--------------|
| | Cia | | | | | | | |
| | Pará | | Ferroviário | | | | | |
| | CST | Usiminas | Pigmentos | do Nordeste | VUPSA | ALBRAS | ALUNORTE | TOTAL |
| Provision at January 1, 1999 | (250) | (224) | - | - | - | - | (9) | (483) |
| Change in provision - results | - | - | (15) | (4) | (56) | (104) | (89) | (268) |
| | (250) | (224) | (15) | (4) | (56) | (104) | (98) | (751) |
| Cumulative translation adjustment | 27 | 30 | - | - | 10 | 21 | (7) | 81 |
| Payment of capital | - | - | - | - | - | - | 76 | 76 |
| Elimination upon consolidation in 1999 | - | - | 15 | - | 46 | - | - | 61 |
| Effect of capitalization of interest-free debentures | - | - | - | - | - | - | 29 | 29 |
| Provision at December 31, 1999 | (223) | (194) | - | (4) | - | (83) | - | (504) |
| Change in provision - results | - | - | - | (4) | - | 66 | - | 62 |
| | (223) | (194) | - | (8) | - | (17) | - | (442) |
| Cumulative translation adjustment | 8 | 9 | - | 1 | - | 2 | - | 20 |
| Payment of capital | - | - | - | 1 | - | - | - | 1 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | |
|--------------------------------|-------|-------|---|-----|---|------|---|-------|
| Provision at December 31, 2000 | (215) | (185) | - | (6) | - | (15) | - | (421) |
|--------------------------------|-------|-------|---|-----|---|------|---|-------|

Our participation in ALUNORTE (49.29% at December 31, 2000) changed several times during the periods presented, but we did not consolidate the financial statements of this investee due to the temporary nature of our increased holding. Movements on the investment account and related provision during 1999 and 2000 are as follows:

| | ALUNORTE | | Investment | Goodwill | Provision | Net |
|--|---|-------------------------------------|------------|-----------|-----------|------------|
| | Total shares of ALUNORTE (in thousands) | shares owned by CVRD (in thousands) | | | | |
| Balance January 1, 1999 | 325,107 | 174,279 | - | - | (9) | (9) |
| Purchase of additional participation: | | | | | | - |
| January 1999 | 453,921 | 124,491 | 68 | 48 | 9 | 125 |
| December 1999 | 598,184 | 144,263 | 55 | 30 | - | 85 |
| Participation in 1999 losses | | | (89) | | | (89) |
| Translation adjustment | | | (7) | | | (7) |
| Balance December 31, 1999 | 598,184 | 443,033 | 27 | 78 | - | 105 |
| Sale of participation in January 2000 | 598,184 | (124,491) | (7) | (48) | - | (55) |
| Changes in participation-subscriptions by other shareholders | | | 19 | | - | 19 |
| Capital call | 673,494 | 13,437 | 5 | | | 5 |
| Participation in 2000 net income | | | 11 | | | 11 |
| Translation adjustment | | | (5) | | | (5) |
| Balance December 31, 2000 | 673,494 | 331,979 | 50 | 30 | - | 80 |

On January 14, 2000 we entered into a structured transaction with an unrelated party to sell both a 20.81% of the capital of ALUNORTE and a beneficial interest in 8% of the capital of MRN owned by us for a total of \$164, resulting in a net gain to us of \$54, recorded in other operating income, as follows:

| | |
|--|-------------|
| Book value of 124,491 thousand shares of ALUNORTE sold | (7) |
| Goodwill amortized | (48) |
| Book value of beneficial interest in 8% of MRN | - |
| | (55) |
| Cash received by us | |
| On transfer of ALUNORTE shares | 44 |
| On issue and sale of Perpetual Notes | 120 |
| Fair value of Perpetual Notes | (55) |
| | 54 |

The Perpetual Notes are exchangeable for 48 billion preferred shares of the affiliate MRN (initially equivalent to 8% of the total number of shares of MRN owned by us). Interest is payable on the Notes in an amount equal to dividends paid on the underlying preferred shares, relative to periods starting as from

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

the 2000 fiscal year. The Notes may be redeemed at our option or the Noteholders at any time by transfer of the underlying preferred shares to the Noteholders, providing the rights of pre-emption of the existing shareholders of MRN have been waived or have expired. Redemption by transfer of the underlying net assets of MRN is compulsory if certain events occur, including the liquidation or merger of MRN or the transfer of MRN's asset and liabilities to a consortium formed by its shareholders to take over the operations of MRN. In the event of early termination the Notes may be redeemed, at the option the Noteholders, in lieu of transfer of the shares, for a cash sum equal to \$48 plus the net present value of average annual earnings declared and paid by MRN for the three years immediately preceding such termination multiplied by 20 and discounted by 10% per year. This latter amount represents a fair value of \$55.

On October 6, 2000, with the objective of financing part of the expansion in its alumina production capacity from 1.5 million tons to 2.3 million tons per year, ALUNORTE called a capital increase of \$126, to be paid up in 6 installments. ALUVALE contributed only \$5 to the first of these installments (\$15), changing its stockholding interest to 49.29%.

During 1999 our 50%-owned affiliate VUPSA incurred significant losses, of which we recognized our portion of \$56 through the provision for losses on equity investments. In December 1999 we acquired the remaining 50% of VUPSA in exchange for the transfer of amounts owed to the seller from subsidiaries of VUPSA amounting to \$126, resulting in negative goodwill of \$86. At December 31, 1999 the balance sheet of VUPSA has been consolidated and the negative goodwill used to reduce the carrying value of VUPSA's property, plant and equipment.

In 2000, we acquired a further 34.41% of Ferrovia Centro-Atlântica S.A., for \$25, bringing our participation to 45.65%.

Dividends received from investees aggregated \$133, \$64 and \$116 in 2000, 1999 and 1998 respectively.

11 Short-term debt

Our short-term borrowings are principally from commercial banks and include import and export financing denominated in United States dollars, as follows:

| | As of December 31 | |
|-----------------|--------------------------|-------------|
| | 2000 | 1999 |
| Export | 386 | 655 |
| Import | 11 | 21 |
| Working Capital | 68 | 14 |
| | 465 | 690 |

Average annual interest rates on short-term borrowings were 8.18% and 7.13% in 2000 and 1999, respectively.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

12 Long-term debt

| | As of December 31 | | | |
|---|---------------------|------------|-----------------------|--------------|
| | Current liabilities | | Long-Term liabilities | |
| | 2000 | 1999 | 2000 | 1999 |
| Foreign debt | | | | |
| Loans and financing contracted in the following currencies, maturing up to 2011 : | | | | |
| United States dollars | 170 | 336 | 990 | 576 |
| Japanese Yen | 10 | 11 | 4 | 5 |
| Others | 2 | 2 | 4 | 6 |
| Fixed Rate Notes - US\$ denominated | - | - | 500 | 500 |
| Export Securitization - US\$ denominated | - | - | 300 | - |
| Perpetual Notes | - | - | 55 | - |
| Accrued charges | 41 | 28 | - | - |
| | 223 | 377 | 1,853 | 1,087 |
| Local debt | | | | |
| Indexed by Long-Term Interest Rate - TJLP maturing up to 2002 | 6 | 6 | 40 | 51 |
| Indexed by General Price Index-Market (IGPM) maturing up to 2005 | 21 | 38 | 49 | 66 |
| Basket of currencies | 15 | 9 | 51 | 52 |
| Capital Lease | 1 | 1 | - | - |
| Shareholder revenue interests (Note 2) | - | - | 3 | 4 |
| Indexed by US\$ dollars | 11 | 55 | 24 | 61 |
| Accrued charges | 3 | 2 | - | - |
| | 57 | 111 | 167 | 234 |
| Total | 280 | 488 | 2,020 | 1,321 |

The long-term portion at December 31, 2000 becomes due in the following years:

| | |
|-------------------------------|--------------|
| 2002 | 236 |
| 2003 | 625 |
| 2004 | 580 |
| 2005 | 170 |
| 2006 | 107 |
| 2007 and thereafter | 247 |
| No due date (Perpetual notes) | 55 |
| | 2,020 |

At December 31, 2000 annual interest rates on long-term debt were as follows:

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | |
|----------------------------|-------|
| Up to 7% | 410 |
| 7.1% to 9% | 1,183 |
| 9.1% to 11% | 579 |
| Over 11% | 73 |
| Variable (Perpetual notes) | 55 |
| | 2,300 |

The indexes applied to debt and respective percentage variations in each year were as follows:

| | 2000 | 1999 | 1998 |
|--------------------------------------|------|-------|------|
| TJLP - Long-Term | | | |
| Interest Rate (effective rate) | 4.56 | 6.92 | 5.41 |
| IGP-M - General Price Index - Market | 9.95 | 20.10 | 1.78 |
| United States Dollar | 9.30 | 48.01 | 8.27 |

Long-term debt at December 31, 2000 is guaranteed or secured as follows:

| | Amount of Guarantee |
|--|---------------------|
| Federal Government guarantee (for which we have provided counter-guarantees) | 353 |
| Shares and securities given in guarantee | 28 |
| Ships | 69 |

In October 2000 we issued \$300 under a US dollar - denominated export securitization program, divided into three tranches as follows:

| | Amount | Tenor (years) | Grace Period (years) | Effective rate p.a. |
|-----------|--------|---------------|----------------------|---------------------|
| Tranche 1 | 25 | 7 | 2 | 8.682% |
| Tranche 2 | 125 | 7 | 2 | Libor+0.65% |
| Tranche 3 | 150 | 10 | 3 | 8.926% |
| | 300 | | | |

Tranche 2 is guaranteed by an insurance contract with a major U.S. insurance company.

13 Stockholders' equity

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters that come before a stockholders' meeting, except for the election of the Board of Directors, which is restricted to the holders of common stock. As described in Note 3, the Brazilian Government holds a preferred special share which confers on it permanent veto rights over certain matters.

The Board of Directors authorized the acquisition of up to 9,832,691 of our own preferred class A shares, to remain in treasury for subsequent disposal or

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

cancellation. As of December 31, 2000, 3,659,311 shares had been acquired, at an average weighted unit cost of R\$20.83 (minimum cost of R\$14.02 and maximum of R\$24.19).

Both common and preferred stockholders are entitled to receive a dividend of at least 25% of annual net income, upon approval at the annual stockholders meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records. With respect to each of 2000, 1999 and 1998 we distributed dividends to preferred stockholders in excess of this limit. Interest attributed to stockholders as from January 1, 1996 is considered part of the minimum dividend.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the statutory accounting records and such payments are made in Reais. At December 31, 2000, we had no undistributed retained earnings. In addition appropriated retained earnings at December 31, 2000 includes \$2,420, related to the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders.

No withholding tax is payable on distribution of profits earned as from January 1, 1996, except for distributions in the form of interest attributed to stockholders as explained in Note 2(m).

Brazilian laws and our by-laws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis, all determined in accordance with amounts stated in the statutory accounting records, as detailed below:

| | Year ended December 31 | | |
|--------------------------------------|-------------------------------|--------------|--------------|
| | 2000 | 1999 | 1998 |
| Appropriated retained earnings | | | |
| Unrealized income reserve | | | |
| Balance January 1 | 1,062 | 1,636 | 1,850 |
| Transfer to retained earnings | (188) | (574) | (214) |
| Balance December 31 | 874 | 1,062 | 1,636 |
| Expansion reserve | | | |
| Balance January 1 | 1,367 | 1,685 | 1,936 |
| Transfer to capital stock | - | - | (469) |
| Transfer (to) from retained earnings | 179 | (318) | 218 |
| Balance December 31 | 1,546 | 1,367 | 1,685 |
| Legal reserve | | | |
| Balance January 1 | 284 | 368 | 352 |
| Transfer (to) from retained earnings | 23 | (84) | 16 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|--------------------------------------|--------------|--------------|--------------|
| Balance December 31 | 307 | 284 | 368 |
| Fiscal incentive depletion reserve | | | |
| Balance January 1 | 842 | 1,246 | 1,349 |
| Transfer to retained earnings | (71) | (404) | (103) |
| | 771 | 842 | 1,246 |
| Balance December 31 | | | |
| Fiscal incentive investment reserve | | | |
| Balance January 1 | 12 | 277 | 300 |
| Transfer to capital stock | - | (187) | - |
| Transfer to retained earnings | 27 | (78) | (23) |
| | 39 | 12 | 277 |
| Balance December 31 | | | |
| Development reserve | | | |
| Balance January 1 | - | - | 19 |
| Transfer to capital stock | - | - | (19) |
| | - | - | - |
| Balance December 31 | | | |
| Total appropriated retained earnings | 3,537 | 3,567 | 5,212 |

The purpose and basis of appropriation to such reserves is as follows:

. Unrealized income reserve - this represents principally inflationary profit up to December 31, 1995 and our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

. Expansion reserve - this is a general reserve for expansion of our activities.

. Legal reserve - this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income under Brazilian GAAP up to a limit of 20% of capital stock under Brazilian GAAP.

. Fiscal incentive depletion reserve - this represents an additional amount relative to mineral reserve depletion equivalent to 20% of the sales price of mining production, which is deductible for tax purposes providing an equivalent amount is transferred from retained earnings to the reserve account. This fiscal incentive expired in 1996.

. Fiscal incentive investment reserve - this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve also contemplates the tax incentives described in Note 5.

. Development reserve - this was a general reserve for assisting economic and social development in areas in which we operate. During 1998, this reserve was extinguished by transfer to capital stock.

14 Pension plan

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

Since 1973 we have sponsored a defined benefit pension plan (the Old Plan) covering substantially all employees, with benefits based on years of service, salary and social security benefits. This plan is administered by Fundação Vale do Rio Doce de Seguridade Social VALIA and was funded by monthly contributions made by us and our employees, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new pension plan, which is primarily a defined contribution plan with a defined benefit feature relative to service prior to May 2000 (the New Plan), and offered our active employees the opportunity of transferring to the New Plan. Over 98% of our active employees opted to transfer to the New Plan. The Old Plan will continue in existence, covering almost exclusively retired participants and their beneficiaries.

The following information details the status of the defined benefit elements of our plans in accordance with SFAS 132 - Employers Disclosure about Pensions and Other Postretirement Benefits :

(a) Change in benefit obligation

| | As of December 31 | |
|---|--------------------------|--------------|
| | 2000 | 1999 |
| Benefit obligation at beginning of year | 1,440 | 2,102 |
| Service cost | 10 | 31 |
| Interest cost | 91 | 126 |
| Benefits paid | (109) | (107) |
| Plan amendments | (13) | - |
| Effect of exchange rate changes | (65) | (734) |
| Actuarial loss | 242 | 22 |
| Benefit obligation at end of year | 1,596 | 1,440 |

The actuarial loss of \$242 in 2000 is mainly due to the adoption of a new mortality table which is considered to better reflect the current life expectancy of the plan participants.

(b) Change in plan assets

| | As of December 31 | |
|--|--------------------------|-------------|
| | 2000 | 1999 |
| Fair value of plan assets at beginning of year | 1,231 | 1,402 |
| Actual return on plan assets | 128 | 345 |
| Employer contributions | 34 | 27 |
| Employee contributions | 5 | 15 |
| Benefits paid | (109) | (107) |
| Effect of exchange rate changes | (100) | (451) |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | |
|--|--------------|--------------|
| Fair value of plan assets at end of year | 1,189 | 1,231 |
|--|--------------|--------------|

Plan assets at December 31, 2000 include \$95 of portfolio investments in our own shares (\$93 at December 31, 1999) and \$9 of shares of related parties (\$1 at December 31, 1999), as well as \$480 of Federal Government Securities (\$439 at December 31, 1999).

(c) Accrued pension cost liability

| | As of December 31 | |
|--|--------------------------|-------------|
| | 2000 | 1999 |
| Funded status, excess of benefit obligation over plan assets | 407 | 209 |
| Unrecognized net transitory obligation | (125) | (165) |
| Unrecognized net actuarial gains (loss) | (152) | 88 |
| Accrued pension cost liability | 130 | 132 |

(d) Recognition of additional minimum liability

| | As of December 31 | |
|--|--------------------------|-------------|
| | 2000 | 1999 |
| Accrued pension cost liability | 130 | 132 |
| Unrecognized pension obligation, limited to unrecognized net transitory obligation | 125 | 64 |
| Additional amount recognized in stockholders' equity | 151 | - |
| Minimum liability | 406 | 196 |

(e) Assumptions used in each period

| | 2000 | 1999 |
|--------------------------------|-------------|-------------|
| Discount rate | 6% p.a. | 6% p.a. |
| Expected return on plan assets | 6% p.a. | 6% p.a. |
| Rate of compensation increase | 1.82% p.a. | 1.82% p.a. |

Net pension cost includes the following components:

| | Year ended December 31 | | |
|--|-------------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| Service cost - benefits earned during the period | 10 | 31 | 52 |
| Interest cost on projected benefit obligation | 91 | 126 | 126 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | |
|---|-----------|-----------|------------|
| Actual return on assets | (128) | (345) | (104) |
| Amortization of initial transitory obligation | 15 | 17 | 24 |
| Net deferral | 58 | 241 | 17 |
| | 46 | 70 | 115 |
| Employee contributions | (5) | (15) | (27) |
| Net periodic pension cost | 41 | 55 | 88 |

The cost recognized in 2000 relative to the defined contribution element of the New Plan was \$3.

In addition to benefits provided under our pension plans accruals have been made relative to supplementary benefits extended in previous periods as part of early-retirement programs. Such accruals included in long-term liabilities totalled \$185 and \$118, at December 31, 2000 and 1999, respectively, plus \$30 and \$19 in current liabilities.

15 Commitments and contingencies

(a) At December 31, 2000, we had extended guarantees for borrowings obtained by affiliates and joint ventures in the amount of \$788, of which \$607 is denominated in United States dollars and the remaining \$181 in local currency. These guarantees include \$372 relative to ALBRAS and \$75 relative to ALUNORTE (see Note 10).

(b) CVRD and its subsidiaries are defendants in numerous legal actions in the normal course of business. Based on the advice of its legal counsel, management believes that the provision made against contingent losses is sufficient to cover probable losses in connection with such actions.

The provision for contingencies and the related judicial deposits are composed as follows:

| | As of December 31 | | | |
|-----------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | 2000 | | 1999 | |
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Labor claims | 114 | 60 | 72 | 52 |
| Civil claims | 137 | 4 | 88 | 3 |
| Tax - related actions | 80 | 54 | 24 | 16 |
| Others | 7 | 1 | 1 | 1 |
| | 338 | 119 | 185 | 72 |
| Current | - | - | - | - |
| Long-term | 338 | 119 | 185 | 72 |

| 338 | 119 | 185 | 72 |
|-----|-----|-----|----|
|-----|-----|-----|----|

Labor related actions principally comprise employee claims for (i) payment of time spent travelling from their residences to the work-place, (ii) additional payments for alleged dangerous or unhealthy working conditions and (iii) various other matters, often in connection with disputes about the amount of indemnities paid upon dismissal.

Civil actions principally relate to claims made against us by contractors in connection with losses alleged to have been incurred by them as a result of various past government economic plans during which full indexation of contracts for inflation was not permitted.

Tax-related actions principally comprise our challenges of changes in basis of calculation and rates of certain revenue taxes and of the tax on financial movements CPMF.

We continue to vigorously pursue our interests in all the above actions but recognize that probably we will incur some losses in the final instance, for which we have made provisions.

Our judicial deposits are made as required by the courts for us to be able to enter or continue a legal action. When judgment is favorable to us, we receive the deposits back; when unfavorable, the deposits are delivered to the prevailing party.

Contingencies settled in 2000 and 1999 aggregated \$36 and \$12, respectively, and additional provisions aggregated \$101 and \$60 in these years, respectively.

(c) We are defendant in two actions seeking substantial compensatory damages brought by the Municipality of Itabira, State of Minas Gerais, which we believe are without merit. Due to the remote likelihood that any loss will arise therefrom no provision has been made in the financial statements with respect to these two actions.

(d) We are committed under a take-or-pay agreement to take delivery of approximately 175,950 metric tons per year of aluminum from ALBRAS at market prices. This estimate is based on 51% of ALBRAS expected production and, at a market price of \$1,567.20 per metric ton at December 31, 2000, represents an annual commitment of \$275. We are also committed to take-or-pay 465,816 metric tons per year of alumina produced by ALUNORTE which at a market price of \$194.17 per metric ton at December 31, 2000, represents an annual commitment of \$90. Actual take from ALBRAS was \$260, \$222 and \$222 in 2000, 1999 and 1998, respectively, and direct from ALUNORTE was \$45 (net of take ceded to ALBRAS), \$30 and \$83 in 2000, 1999 and 1998, respectively.

(e) We and BNDES entered into a contract, known as the Mineral Risk Contract, in March 1997, relating to prospecting authorizations for mining regions where drilling and exploration are still in their early stages. The Mineral Risk

Contract provides for the joint development of certain unexplored mineral deposits in approximately two million identified hectares of land in the Carajás region, as well as proportional participation in any financial benefits earned from the development of such resources. Iron ore and manganese deposits already identified and subject to development are specifically excluded from the Mineral Risk Contract.

Pursuant to the Mineral Risk Contract, we and BNDES each agreed to provide \$205, which represents half of the \$410 in expenditures estimated as necessary to complete geological exploration and mineral resource development projects in the region over a period of five years. Under certain circumstances, this period may be extended for an additional two years. We will oversee these projects and BNDES will advance us half of our costs on a quarterly basis. Under the Mineral Risk Contract, as of December 31, 2000, each of us and BNDES had remaining commitments to contribute an additional \$93 toward exploration and development activities. We both expect to fund a portion of these contributions each year through 2001. In the event that either of us wishes to conduct further exploration and development after having spent such \$205, the contract provides that each party may either choose to match the other party's contributions, or may choose to have its financial interest proportionally diluted. If a party's participation in the project is diluted to an amount lower than 40% of the amount invested in connection with exploration and development projects, then the Mineral Risk Contract provides that the diluted party will lose (1) all the rights and benefits provided for in the Mineral Risk Contract and (2) any amount previously contributed to the project.

Under the Mineral Risk Contract, BNDES has agreed to compensate us for our contribution of existing development and ownership rights in the Carajás region through a finder's fee production royalty on mineral resources that are discovered and placed into production. This finder's fee is equal to 3.5% of the revenues derived from the sale of gold, silver and platinum group metals and 1.5% of the revenues derived from the sale of other minerals, including copper, except for gold and other minerals discovered at Serra Leste, for which the finder's fee is equal to 6.5% of revenues.

(f) At the time of our privatization in 1997, we issued shareholder revenue interests known in Brazil as "debentures" to our then-existing shareholders, including the Brazilian Government. The terms of the debentures, which are described below, were set to ensure that our pre-privatization shareholders, including the Brazilian Government, would participate alongside us in potential future financial benefits that we are able to derive from exploiting our mineral resources.

In preparation for the issuance of the debentures, we issued series B preferred shares on a one-for-one basis to all holders of our common shares and series A preferred shares. We then exchanged all of the series B shares for the debentures at par value. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. At present the debentures cannot be traded. Holders will be able to trade the debentures only after a three-month period that will commence upon completion of the sale by the Brazilian Government of its 32% stake in our

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

common shares, which will constitute the final step of our privatization. We will be required to register the debentures with the CVM in order to permit trading at this time. We cannot be sure when the final step of our privatization will take place.

Under Brazilian Central Bank regulations, pre-privatization shareholders that held their shares through our American Depositary Receipt, or ADR, program were not permitted to receive the debentures or any financial benefits relating to the debentures. We sought approval from the Central Bank to distribute the debentures to the ADR holders, but the Central Bank rejected our request. We intend to renew our request to the Central Bank, but we cannot be sure that we will succeed. If the Central Bank does not approve our request, the ADR depositary will not be able to distribute the debentures to the ADR holders and will not be able to sell the debentures. Therefore, unless the Central Bank approves our request, the debentures will not have any value for ADR holders.

Under the terms of the debentures, holders will have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned as of May 1997, to the extent that we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned as of May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted. Based on current production levels, we would begin making payments related to iron ore resources in approximately 2012, and payments related to other mineral resources in later years.

The table below summarizes the amounts we will be required to pay under the debentures based on the net revenues we earn from the identified mineral resources and the sale of mineral rights.

| Area | Mineral | Required Payments by CVRD |
|---|-----------------|--|
| Southern System | Iron ore | 1.8% of net revenue, after total production from May 1997 exceeds 1.7 billion tons. |
| Northern System | Iron ore | 1.8% of net revenue, after total production from May 1997 exceeds 1.2 billion tons. |
| Pojuca, Andorinhas, Liberdade and Sossego | Gold and copper | 2.5% of net revenue from the beginning of commercial production. |
| Igarapé Bahia and Alemão | Gold and copper | 2.5% of net revenue, after total production from the beginning of commercial production exceeds 70 tons of gold. |
| Fazenda Brasileiro | Gold | 2.5% of net revenue after total production from the beginning of commercial production exceeds 26 tons. |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | |
|---|---|--|
| Other areas, excluding Carajás/ Serra Leste | Gold | 2.5% of net revenue. |
| Other areas owned as of May 1997 | Other minerals | 1% of net revenue, 4 years after the beginning of commercial production. |
| All areas | Sale of mineral rights owned as of May 1997 | 1% of the sales price. |

(g) At December 31, 2000 we have provided \$14 for environmental liabilities. Such provisions relate to site restoration at mines already closed or which are expected to be closed in the next two years.

We use various judgments and assumptions when measuring our environmental liabilities. Changes in circumstances, law or technology may affect our estimates and we periodically review the amounts accrued and adjust them as necessary. Our accruals do not reflect unasserted claims because we are currently not aware of any such issues. Also the amounts provided are not reduced by any potential recoveries under cost sharing, insurance or indemnification arrangements because such recoveries are considered uncertain.

16 Segment and geographical information

In 1999 we adopted SFAS 131 Disclosures about Segments of an Enterprise and Related Information with respect to the information we present about our operating segments. SFAS 131 introduced a management approach concept for reporting segment information, whereby financial information is required to be reported on the basis that the top decision-maker uses such information internally for evaluating segment performance and deciding how to allocate resources to segments. Our business segments are currently organized as follows:

Ferrous products - comprises iron ore mining and pellet production, as well as the Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferro alloys are also classified in this segment.

Non-ferrous products comprises the production of gold and other non-ferrous minerals.

Logistics comprises our transportation systems as they pertain to external commercial operations, and the operations of our ships.

Holdings divided into the following sub-groups:

- Pulp and paper - comprises our forestation activities and investments in joint ventures and affiliates engaged in the manufacture of pulp and paper products.
- Aluminium - comprises aluminum trading activities and investments in joint ventures and affiliates engaged in bauxite mining, alumina refining and aluminum metal smelting.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

- Steel - comprises our investments in joint ventures and affiliates operating in the steel industry.
- Others - comprises our investments in joint ventures and affiliates engaged in other businesses.

Corporate Center - the Corporate Center is responsible for accounting and control, finance, legal matters, human resources and administration, investor and external relations and internal auditing.

Information presented to top management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with Brazilian corporate law together with certain relatively minor inter-segment allocations, and is focused primarily on return on capital employed (ROCE), net operating profit less taxes (NOPLT) as well as net income. For return on capital employed purposes we consider dividends received from affiliates and joint ventures as part of our net operating profit less taxes.

In 2000 we transferred various accounting, control, legal and information technology functions from the operating divisions to our Corporate Center. We estimate that this transfer increased the costs in our Corporate Center by approximately \$8, and reduced the costs of our ferrous, non ferrous and logistics segments by \$6, \$1 and \$1, respectively.

Consolidated net income and principal assets are reconciled as follows (certain minor reclassifications have been made to the 1999 and 1998 information to be comparable with that for 2000):

| | 2000 | | | | | | | | | |
|---|--------------|-----------|-------------|-----------|------------|----------|----------|--------------|--------------|--------------|
| | Holdings | | | | | | | | | |
| | Non | | Pulp and | | Corporate | | | | | |
| | Ferrous | ferrous | Logistics | paper | Aluminum | Steel | Others | Center | Eliminations | Consolidated |
| RESULTS | | | | | | | | | | |
| Revenues - Export | 2,849 | 198 | 195 | 121 | 351 | -- | -- | -- | (1,068) | 2,646 |
| Revenues - Domestic | 1,000 | 90 | 403 | 21 | 12 | 1 | -- | -- | (104) | 1,423 |
| Cost and expenses | (2,585) | (214) | (418) | (156) | (261) | (10) | -- | (578) | 1,196 | (3,026) |
| Interest revenue | 52 | 1 | 1 | 7 | 25 | 5 | -- | 173 | (56) | 208 |
| Interest expense | (74) | (12) | (6) | -- | (2) | (6) | -- | (247) | 32 | (315) |
| Depreciation | (115) | (30) | (22) | (22) | -- | -- | -- | (6) | -- | (195) |
| Pension plan | (7) | (2) | -- | -- | -- | -- | -- | -- | -- | (9) |
| Equity and provision for losses and write-downs | 45 | -- | (22) | 108 | 126 | 60 | 5 | -- | -- | 322 |
| Income taxes | 8 | -- | 5 | (7) | (5) | (48) | -- | 79 | -- | 32 |
| Net income | 1,173 | 31 | 136 | 72 | 246 | 2 | 5 | (579) | -- | 1,086 |

Sales classified by geographic destination:
Export market

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | | | |
|--|--------------|------------|------------|--------------|-------------|-------------|-----------|-------------|----------------|--------------|
| Latin America | 224 | -- | 30 | -- | 23 | -- | -- | -- | (91) | 186 |
| United States | 252 | 156 | 64 | 73 | 39 | -- | -- | -- | (108) | 476 |
| Europe | 969 | 35 | 75 | 48 | 237 | -- | -- | -- | (222) | 1,142 |
| Middle East | 209 | -- | 6 | -- | 16 | -- | -- | -- | (19) | 212 |
| Japan | 544 | 4 | 15 | -- | 34 | -- | -- | -- | (308) | 289 |
| Asia, other than Japan | 651 | 3 | 5 | -- | 2 | -- | -- | -- | (320) | 341 |
| | 2,849 | 198 | 195 | 121 | 351 | -- | -- | -- | (1,068) | 2,646 |
| Domestic market | 1,000 | 90 | 403 | 21 | 12 | 1 | -- | -- | (104) | 1,423 |
| | 3,849 | 288 | 598 | 142 | 363 | 1 | -- | -- | (1,172) | 4,069 |
| Assets : | | | | | | | | | | |
| Property, plant and equipment, net | 3,077 | 325 | 374 | 149 | -- | -- | -- | 30 | -- | 3,955 |
| Capital expenditures | 373 | 50 | 14 | -- | -- | -- | -- | 10 | -- | 447 |
| Investments in affiliated companies and joint ventures and other investments | 519 | 31 | 151 | 372 | 262 | 423 | 37 | -- | -- | 1,795 |
| Capital employed | 3,064 | 316 | 390 | 135 | (10) | 1 | 14 | (6) | 8 | 3,912 |
| NOPLT | 1,155 | 52 | 165 | (44) | 23 | (54) | -- | (63) | 16 | 1,250 |
| ROCE | 38% | 16% | 42% | (33%) | -- | -- | -- | -- | -- | 32% |

1999

| | Holdings | | | | | | | | | Consolidated |
|---|--------------|-------------|------------|----------------|--------------|----------|-----------|--------------|--------------|--------------|
| | Ferrous | Non ferrous | | Pulp and paper | | Steel | Corporate | | Eliminations | |
| | | Logistics | | Aluminum | | | Center | | | |
| RESULTS | | | | | | | | | | |
| Revenues - Export | 1,989 | 143 | 100 | 101 | 318 | - | - | - | (578) | 2,073 |
| Revenues - Domestic | 639 | 96 | 318 | 10 | 62 | - | - | - | (41) | 1,084 |
| Cost and expenses | (1,435) | (151) | (396) | (103) | (367) | - | - | (428) | 619 | (2,261) |
| Interest revenue | 46 | - | 8 | 4 | 9 | - | - | 170 | (37) | 200 |
| Interest expense | (50) | - | (13) | - | (6) | - | - | (201) | 37 | (233) |
| Depreciation | (120) | (16) | (21) | (6) | - | - | - | - | - | (163) |
| Pension plan | (21) | (4) | (3) | - | - | - | - | - | - | (28) |
| Equity and provision for losses and write-downs | (44) | (15) | (9) | 9 | (182) | 7 | - | 7 | - | (227) |
| Income taxes | - | - | 14 | (5) | - | - | - | (42) | - | (33) |
| Net income | 1,004 | 53 | (2) | 10 | (166) | 7 | - | (494) | - | 412 |

Sales classified by geographic destination:

| | | | | | | | | | | |
|---------------|-----|-----|----|----|-----|---|---|---|-------|-----|
| Export market | | | | | | | | | | |
| Latin America | 149 | - | 13 | - | 5 | - | - | - | (60) | 107 |
| United States | 147 | 139 | 34 | 62 | 23 | - | - | - | (71) | 334 |
| Europe | 621 | - | 31 | 39 | 146 | - | - | - | (110) | 727 |
| Middle East | 146 | - | 3 | - | - | - | - | - | (13) | 136 |
| Japan | 351 | - | 9 | - | 94 | - | - | - | (83) | 371 |
| | 575 | 4 | 9 | - | 50 | - | - | - | (241) | 397 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | | | |
|--|--------------|------------|------------|------------|-------------|-----|----|--------------|--------------|--------------|
| Asia, other than Japan | - | - | 1 | - | - | - | - | - | - | 1 |
| Others | - | - | - | - | - | - | - | - | - | - |
| | 1,989 | 143 | 100 | 101 | 318 | - | - | - | (578) | 2,073 |
| Domestic market | 639 | 96 | 318 | 10 | 62 | - | - | - | (41) | 1,084 |
| | 2,628 | 239 | 418 | 111 | 380 | - | - | - | (619) | 3,157 |
| Assets : | | | | | | | | | | |
| Property, plant and equipment, net | 2,950 | 400 | 404 | 158 | - | - | - | 31 | - | 3,943 |
| Capital expenditures | 201 | 56 | 4 | - | - | - | - | 4 | - | 265 |
| Investments in affiliated companies and joint ventures and other investments | 116 | 33 | 68 | 318 | 208 | 426 | 34 | - | - | 1,203 |
| Capital employed | 3,081 | 399 | 419 | 148 | 9 | - | - | (9) | - | 4,047 |
| NOPLT | 1,055 | 68 | 28 | 6 | 28 | - | - | (309) | 11 | 887 |
| ROCE | 34% | 17% | 7% | 4% | 311% | - | - | - | - | 22% |

1998

| | Holdings | | | | | | | | | Consolidated |
|---|--------------|----------|------------|-------------|-----------|--------------|----------|--------------|--------------|--------------|
| | Non | | | Pulp and | | Corporate | | | Eliminations | |
| | Ferrous | ferrous | Logistics | paper | Aluminum | Steel | Others | Center | | |
| RESULTS | | | | | | | | | | |
| Revenues - Export | 2,004 | 145 | 135 | 80 | 419 | - | - | - | (443) | 2,340 |
| Revenues - Domestic | 776 | 124 | 396 | 8 | 65 | - | - | - | (51) | 1,318 |
| Cost and expenses | (1,548) | (213) | (382) | (90) | (473) | - | - | (422) | 494 | (2,634) |
| Interest revenue | 20 | - | 16 | 4 | 25 | - | - | 367 | (38) | 394 |
| Interest expense | (23) | - | (25) | - | (10) | - | - | (223) | 38 | (243) |
| Depreciation | (167) | (32) | (28) | (4) | - | - | - | - | - | (231) |
| Pension plan | (46) | (7) | - | - | - | - | - | - | - | (53) |
| Equity and provision for losses and write-downs | 2 | (9) | 1 | (22) | 40 | (211) | 6 | - | - | (193) |
| Income taxes | - | - | - | - | - | - | - | - | - | - |
| Net income | 1,018 | 8 | 113 | (24) | 66 | (211) | 6 | (278) | - | 698 |

| Sales classified by geographic destination: | | | | | | | | | | |
|---|-----|-----|----|----|-----|---|---|---|-------|-------|
| Export market | | | | | | | | | | |
| Latin America | 177 | - | 5 | - | 105 | - | - | - | (121) | 166 |
| United States | 185 | 145 | 36 | 37 | 44 | - | - | - | (96) | 351 |
| Europe | 751 | - | 40 | 43 | 269 | - | - | - | (65) | 1,038 |
| Middle East | 135 | - | 2 | - | - | - | - | - | (3) | 134 |
| Japan | 299 | - | 31 | - | - | - | - | - | - | 330 |
| Asia, other than Japan | 456 | - | 15 | - | - | - | - | - | (158) | 313 |
| Others | 1 | - | 6 | - | 1 | - | - | - | - | 8 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | | | | | | | |
|--|--------------|------------|------------|-------------|------------|-----|----|--------------|--------------|--------------|
| | 2,004 | 145 | 135 | 80 | 419 | - | - | - | (443) | 2,340 |
| Domestic market | 776 | 124 | 396 | 8 | 65 | - | - | - | (51) | 1,318 |
| | 2,780 | 269 | 531 | 88 | 484 | - | - | - | (494) | 3,658 |
| Assets : | | | | | | | | | | |
| Property, plant and equipment, net | 4,132 | 392 | 508 | 203 | - | - | - | 26 | - | 5,261 |
| Capital expenditures | 366 | 32 | 1 | 8 | - | - | - | 5 | - | 412 |
| Investments in affiliated companies and joint ventures and other investments | 166 | 45 | 64 | 424 | 240 | 571 | 47 | - | - | 1,557 |
| Capital employed | 4,098 | 401 | 523 | 204 | 15 | - | - | (32) | - | 5,209 |
| NOPLT | 1,018 | 17 | 133 | (5) | 11 | - | - | (316) | (4) | 854 |
| ROCE | 25% | 4% | 25% | (2%) | 73% | - | - | - | - | 16% |

17 Related party transactions

Transactions with major related parties (including agencies of the Brazilian Federal Government) resulted in the following balances:

| | As of December 31 | | | |
|---|-------------------|-------------|------------|-------------|
| | 2000 | | 1999 | |
| | Assets | Liabilities | Assets | Liabilities |
| AFFILIATED COMPANIES AND JOINT VENTURES | | | | |
| ALUNORTE ⁽¹⁾ | 332 | 45 | 333 | 5 |
| CENIBRA ⁽²⁾ | 126 | 41 | 161 | 69 |
| Salobo Metais S.A ⁽³⁾ | 76 | - | 75 | - |
| FCA | 151 | 18 | 1 | - |
| HISPANOBRAS | 21 | 23 | 22 | 23 |
| ITABRASCO | 17 | 22 | 27 | 29 |
| NIBRASCO | 29 | 38 | 12 | 42 |
| KOBRASCO | 34 | 7 | 38 | 37 |
| Wilsea Shipping Inc | - | 34 | 9 | - |
| USIMINAS | 24 | - | 4 | - |
| ALBRAS | 1 | 24 | - | 42 |
| URUCUM | 8 | 1 | 2 | 2 |
| Others | 133 | 85 | 129 | 64 |
| EMPLOYEE FUNDS | | | | |
| Fundação Vale do Rio Doce | - | 1 | 15 | 8 |
| VALIA | - | 40 | - | 6 |
| BRAZILIAN FEDERAL GOVERNMENT | | | | |
| Banco do Brasil S.A ⁽⁴⁾ | 85 | 3 | 151 | - |
| Rede Ferroviária Federal S.A | 13 | 39 | 14 | 42 |
| BNDES | 7 | 158 | 6 | 151 |
| | 1,057 | 579 | 999 | 520 |
| Current | 337 | 378 | 378 | 360 |

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | | | | |
|-----------|-----|-----|-----|-----|
| Long-term | 720 | 201 | 621 | 160 |
|-----------|-----|-----|-----|-----|

(1) Includes onlending outstanding balance of \$204 (1999 - \$204), with identical conditions and terms, of a \$200 U.S. dollar denominated loan obtained by us from the Nippon Amazon Aluminium Company (NAAC) in January 1997 (bearing interest of 6.41% p.a. and maturing up to 2011).

(2) Includes onlending outstanding balance of \$117 (1999 - \$146), with identical conditions and terms, of a \$200 U.S. dollar denominated loan obtained by us from the Japanese Eximbank in 1996, bearing interest of 6.21% p.a. and maturing up to 2004.

(3) Convertible debentures bearing interest of IGPM plus 6.50% p.a., maturing up to 2000.

(4) Represents interest bearing deposits and investment funds.

These balances are included in the following balance sheet classifications:

| | As of December 31 | | | |
|---------------------------------------|-------------------|-------------|------------|-------------|
| | 2000 | | 1999 | |
| | Assets | Liabilities | Assets | Liabilities |
| Current assets | | | | |
| Cash and cash equivalents | 85 | - | 171 | - |
| Accounts receivable | 125 | - | 107 | - |
| Loans and advances to related parties | 121 | - | 93 | - |
| Others | 6 | - | 7 | - |
| Other assets | | | | |
| Loans and advances to related parties | 704 | - | 601 | - |
| Others | 16 | - | 20 | - |
| Current liabilities | | | | |
| Suppliers | - | 179 | - | 119 |
| Current portion of long-term debt | - | 30 | - | 30 |
| Loans from related parties | - | 152 | - | 190 |
| Others | - | 17 | - | 21 |
| Long-term liabilities | | | | |
| Long-term debt | - | 128 | - | 121 |
| Loans from related parties | - | 21 | - | 4 |
| Others | - | 52 | - | 35 |
| | 1,057 | 579 | 999 | 520 |

The principal amounts of business and financial operations carried out with major related parties are as follows:

Year ended December 31

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| | 2000 | | 1999 | | 1998 | |
|--|------------|------------|------------|------------|------------|------------|
| | Income | Expense | Income | Expense | Income | Expense |
| AFFILIATED COMPANIES AND JOINT VENTURES | | | | | | |
| CST | 166 | - | 135 | - | 132 | - |
| NIBRASCO | 172 | 205 | 44 | 58 | 101 | 108 |
| ALUNORTE | 42 | 93 | 167 | 28 | 76 | 89 |
| SIDERAR | 18 | - | 30 | - | 45 | - |
| ITABRASCO | 66 | 24 | 57 | 23 | 40 | 41 |
| HISPANOBRAS | 75 | 77 | 26 | 50 | 40 | 45 |
| KOBRASCO | 76 | 18 | 62 | 67 | 9 | 9 |
| CENIBRA | 33 | 123 | 78 | 99 | 27 | 1 |
| USIMINAS | 47 | - | 18 | - | 25 | - |
| AÇOMINAS | 7 | - | 8 | - | 12 | - |
| ALBRAS | 6 | 216 | 14 | 205 | 11 | 222 |
| VALESUL | 4 | - | - | 24 | 2 | 32 |
| MRN | 1 | 17 | - | 20 | - | 20 |
| Others | 82 | 75 | 80 | 59 | 55 | 73 |
| BRAZILIAN FEDERAL GOVERNMENT | | | | | | |
| Banco do Brasil S A | 46 | 24 | 46 | 14 | 72 | 14 |
| Petróleo Brasileiro S A - PETROBRAS | 6 | 11 | 1 | 17 | 1 | 24 |
| Centrais Elétricas Brasileiras S A | - | - | - | - | 1 | 15 |
| BNDES | 1 | 18 | 1 | 12 | 1 | 13 |
| | 848 | 901 | 767 | 676 | 650 | 706 |

These amounts are included in the following statement of income classifications:

| | Year ended December 31 | | | | | |
|---------------------------------------|------------------------|------------|------------|------------|------------|------------|
| | 2000 | | 1999 | | 1998 | |
| | Income | Expense | Income | Expense | Income | Expense |
| Sales of iron ore and pellets | 494 | 313 | 288 | 175 | 316 | 183 |
| Revenues from transportation services | 133 | - | 89 | - | 137 | - |
| Cost of aluminum products | - | 327 | - | 271 | - | 357 |
| Financial income/expenses | 117 | 79 | 101 | 59 | 162 | 62 |
| Others | 104 | 182 | 289 | 171 | 35 | 104 |
| | 848 | 901 | 767 | 676 | 650 | 706 |

18 Fair value of financial instruments

The carrying amount of our current financial instruments generally approximates fair market value because of the short-term maturity or frequent repricing of these instruments.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

The market value of long-term investments, where available, is disclosed in Note 10 to these financial statements.

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, the fair market value of long-term debt at December 31 is estimated as follows:

| | Fair Market value | Carrying value |
|------|----------------------|-------------------|
| 2000 | 1,967 | 1,965 |
| 1999 | 1,278 | 1,290 |

Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. Changes in assumptions could significantly affect the estimates.

19 Derivative financial instruments

We actively manage our positions in derivative instruments. In view of the policies and practices established for operations with derivatives, management considers the occurrence of non-measurable risk situations as unlikely. Our policy has been to settle all contracts through cash payments or receipts, without physical delivery of product.

(a) Gold

In connection with our gold mining activities, we are party to derivative financial instruments designed to manage the risks associated with gold price fluctuations, to provide stable cash flows and gross margins for the gold business. At December 31, 2000, such operations can be summarized as follows:

| Type | Quantity (oz.) | Final maturity | Unrealized gain (loss) |
|--------------------|----------------|----------------|---------------------------|
| Puts | 479,500 | December 2004 | 13 |
| Calls | 999,800 | December 2004 | (5) |
| Collar conditional | 30,000 | November 2002 | 1 |
| | | | 9 |

The unrealized gain in the amount of \$9 represents the amount receivable if all transactions had been settled on December 31, 2000.

Realized net gains (losses) were \$7, \$3 and \$14 in 2000, 1999 and 1998, respectively.

(b) Interest rates (6-month Libor)

We carry out derivative operations seeking to manage our exposure to the 6-month Libor rate, arising from our trade finance operations. At December 31, 2000 such operations were as follows:

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

| Type | Notional Value | Final maturity | Unrealized gain (loss) |
|-------|----------------|----------------|------------------------|
| Cap | 1.200 | December 2004 | 3 |
| Floor | 850 | December 2004 | (7) |
| Swap | 125 | October 2007 | (4) |
| | | | (8) |

The unrealized loss in the amount of \$8 represents the amount payable if all transactions had been settled on December 31, 2000.

Realized net gains (losses) were \$3, \$0 and \$(1) in 2000, 1999 and 1998, respectively.

(c) Currency

We also carry out derivative operations seeking to manage our exposure to currencies, arising from our indebtedness in EURO and YEN. At December 31, 2000 such operations were as follows:

| Type | Notional Value | Final maturity | Unrealized gain (loss) |
|------|----------------|----------------|------------------------|
| Yen | 15 | April 2005 | (2) |
| EURO | 12 | April 2005 | (2) |
| | | | (4) |

The unrealized loss in the amount of \$4 represents the amount payable if all transactions had been settled on December 31, 2000.

Realized net gains (losses) were \$(7), \$54 and \$(20) in 2000, 1999 and 1998, respectively.

20 Effects of currency devaluation

On January 13 and 15, 1999, certain significant changes occurred in the exchange rate policy until then adopted by the Brazilian government, which resulted in the elimination of certain exchange controls, previously carried out by means of a system of trading bands, from the moment the Central Bank decided to no longer intervene in the foreign exchange market. As result of this decision and the market reaction, our functional currency (Real) devalued to US\$1: R\$1.7890 on December 31, 1999 from US\$1: R\$1.2087 at December 31, 1998 (US\$1: R\$1.9554 at December 31, 2000).

21 Accounting changes

These financial statements have been restated to reflect the following accounting changes:

(a) Changes which effect net income and stockholders' equity

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

(a.1) Impairment provision for equity investments in CST and Usiminas.

The Company has concluded that the loss in value in its investment in CST and Usiminas was other than temporary, and that the carrying value should be reduced to the quoted market price of the applicable shares. This methodology has been applied retroactively resulting in a write-down provision of \$180 as at December 31, 1997 (with write-down changes of \$50, \$24 and \$106 recorded for the years ended December 31, 1997, 1996 and 1995, respectively).

(a.2) Amortization of goodwill related to Samarco and Samitri.

The Company has recognized amortization expense of goodwill relating to the acquisition of Samarco and Samitri in May 2000 from the date of the acquisition on a straight line basis at 16,67% per annum. Previously, the Company had not commenced amortization of goodwill.

The impact of the above alterations is shown below:

| | Year ended December 31 | | |
|--|------------------------|--------------|--------------|
| | 2000 | 1999 | 1998 |
| Net income previously reported | 1,100 | 412 | 896 |
| Impairment of CST and Usiminas | - | - | (294) |
| Goodwill amortization | (21) | - | - |
| Deferred tax effects | 7 | - | 96 |
| Restated net income | 1,086 | 412 | 698 |
| Earnings per share previously reported | 2.86 | 1.07 | 2.31 |
| Restated earnings per share | 2.83 | 1.07 | 1.80 |
| Shareholders' equity previously reported | 4,922 | 5,032 | 6,715 |
| Write-off of Usiminas goodwill | | | |
| Impairment of CST and Usiminas | (400) | (417) | (474) |
| Goodwill amortization | (21) | - | - |
| Deferred tax effects | 68 | 76 | 151 |
| Restated shareholders' equity | 4,569 | 4,691 | 6,392 |

(b) Change that does not affect net income and stockholders' equity - consolidation of Celmar S.A.

Previously we accounted for our development stage subsidiary, Celmar S.A., under the equity method of accounting. We now consolidate this entity for all periods presented which has not resulted in any change to our net income or stockholders' equity. The effects on our consolidated current assets and current liabilities is less than 1% while consolidated long-term liabilities increased by 1.8%.

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

22 Subsequent events

(a) On February 22, 2001 we agreed to sell our 32.00% interest in Bahia Sul Celulose S.A. - BSC for \$318.

(b) On March 9, 2001 we transferred our 10.33% interest in Companhia Siderúrgica Nacional - CSN to VALIA as a special pension plan contribution for \$249 (fair market valued determined based on the weighted average price of the last 30 (thirty) trading sessions at the São Paulo stock exchange in the period ended on March 9, 2001).

(c) On March 8, 2002, our wholly-owned subsidiary, Vale Overseas Limited, issued US\$ 300,000,000 of 8.625% Enhanced Guaranteed Notes due March 8, 2007 Unconditionally Guaranteed by us.

23 Information about independent accountants

Our consolidated financial statements are audited by PricewaterhouseCoopers Auditores Independentes. The financial statements of certain of our subsidiaries and affiliates have been audited by independent accountants other than PricewaterhouseCoopers Auditores Independentes and, as mentioned in their report, PricewaterhouseCoopers Auditores Independentes has relied on such audits when expressing their opinion on our consolidated financial statements.

The following entities prepare financial statements in US GAAP which are audited in accordance with auditing standards generally accepted in the United States of America:

| | Auditors | Years Audited | City | State | Country |
|---|-----------------|----------------------|-------------|--------------|----------------|
| Alumínio Brasileiro S.A. - ALBRAS | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Alumina do Norte do Brasil S.A. - ALUNORTE | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Vale do Rio Doce Alumínio S.A. - ALUVALE | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Bahia Sul Celulose S.A. | KPMG | 2000, 1999, 1998 | SP | SP | Brazil |
| | | | Orange | | |
| California Steel Industries, Inc. | KPMG LLP | 2000, 1999, 1998 | Country | CA | USA |
| Celulose Nipo-Brasileira S.A. - CENIBRA ⁽¹⁾ | DTT | 2000 and 1999 | BH | MG | Brazil |
| Navegação Vale do Rio Doce S.A. - DOCENAVE | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| DOCEPAR S.A. ⁽¹⁾ | DTT | 2000, 1999 | RJ | RJ | Brazil |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRAS | AA | 2000, 1999, 1998 | Vitória | ES | Brazil |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO | AA | 2000, 1999, 1998 | Vitória | ES | Brazil |
| Companhia Coreano Brasileira de Pelotização - KOBRASCO ⁽²⁾ | DTT | 2000 | RJ | RJ | Brazil |
| Mineração Rio do Norte S.A. | AA | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Valesul Alumínio S.A. | KPMG | 2000, 1999 | RJ | RJ | Brazil |
| Valesul Alumínio S.A. | DTT | 1998 | RJ | RJ | Brazil |
| Companhia Siderúrgica Nacional ⁽¹⁾ | AA | 2000, 1999 | RJ | RJ | Brazil |

In addition to the above the following entities prepare financial statements in Brazilian GAAP which are audited in accordance with auditing standards generally accepted in Brazil. PricewaterhouseCoopers Auditores Independentes

Edgar Filing: NATIONAL STEEL CO - Form 20-F/A

relies on such audits but is responsible for reviewing the US GAAP translation and, if applicable, US GAAP adjustments.

| | Auditors | Years Audited | City | State | Country |
|--|-----------------|----------------------|-------------|--------------|----------------|
| Terminal Vila Velha S.A. | DTT | 2000, 1999, 1998 | RJ | RJ | Brazil |
| Nova Era Silicon S.A. | DTT | 2000 | BH | MG | Brazil |
| Nova Era Silicon S.A. | Trevisan | 1999, 1998 | BH | MG | Brazil |
| Celmar S.A. - Indústria de Celulose e Papel ⁽²⁾ | DTT | 2000 | RJ | RJ | Brazil |
| SIBRA Eletrosiderúrgica Brasileira S.A. ⁽³⁾ | DTT | 2000 | Salvador | BA | Brazil |
| AA - Arthur Andersen S/C | | | | | |
| DTT - Deloitte Touche Tohmatsu | | | | | |
| RJ - Rio de Janeiro | | | | | |
| MG - Minas Gerais | | | | | |
| BH - Belo Horizonte | | | | | |
| SP - São Paulo | | | | | |
| ES - Espírito Santo | | | | | |
| BA - Bahia | | | | | |

(1) Audited by PricewaterhouseCoopers in 1998.

(2) Audited by PricewaterhouseCoopers in 1999 and 1998.

(3) Consolidated as from 2000.