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

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

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

None

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

None

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

Common Shares, without par value. 1,457,970,108. For further information, see "Item 7A. Major Shareholders," "Item 9A. Offer and Listing Details" and "Item 10B. Memorandum and Articles of Association."

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

**R** Yes **1** No

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

**1** Yes **R** No

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

**R** Yes **1** No

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

**1** Yes **1** No

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

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

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

**U.S. GAAP** **1**      **Other** **1**

**International Financial Reporting  
Standards as issued by the  
International Accounting Standards  
Board R**

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

Item 17  Item 18

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

Yes  No

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## Introduction

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

“we,” “us,” “our” or “CSN” are to Companhia Siderúrgica Nacional and its consolidated subsidiaries;

“Brazilian government” are to the federal government of the Federative Republic of Brazil;

“*real*,” “*reais*” or “R\$” are to Brazilian *reais*, the official currency of Brazil;

“U.S. dollars,” “\$,” “US\$” or “USD” are to United States dollars;

“billions” are to thousands of millions, “km” are to kilometers, “m” are to meters, “mt” or “tons” are to metric tons, “mtpy” are to metric tons per year and “MW” are to megawatts;

“TEUs” are to twenty-foot equivalent units;

“consolidated financial statements” are to the consolidated financial statements of Companhia Siderúrgica Nacional and its consolidated subsidiaries reported in International Financial Reporting Standards as issued by the IASB – IFRS as of December 31, 2011 and 2012 and for the years ended December 31, 2010, 2011 and 2012, together with the corresponding Reports of Independent Registered Public Accounting Firm;

“ADSs” are to CSN’s American Depositary Shares and “ADRs” are to CSN’s American Depositary Receipts; and

“Brazil” is to the Federative Republic of Brazil.



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## Forward-Looking Statements

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

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

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



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**Presentation of Financial and Other Information**

Our consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 contained in “Item 18. Financial Statements” have been presented in thousands of *reais* (R\$) and prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). See Note 2(a) to our consolidated financial statements.

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

**PART I****Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****3A. Selected Financial Data**

We present in this section the summary financial and operating data derived from our audited consolidated financial statements as of and for the year ended December 31, 2012, 2011, 2010 and 2009.

The consolidated financial statements included in this annual report have been prepared in accordance with IFRS, as issued by the IASB, in *reais*. However, we have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2012 was R\$2.0435 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2012, as reported by the Central Bank of Brazil, or the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. See “Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

*IFRS Summary and Financial Data*

The following tables present summary historical consolidated financial and operating data for us for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2012 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2012 as reported by the Central Bank of R\$2.0435 to US\$1.00. The selected financial data below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects.”

<b>Income Statement Data:</b>	<b>2012</b> <i>(in million of US\$, except per share data)</i>	<b>Year Ended December 31,</b>			
		<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
		<i>(in million of R\$, except per share data)</i>			
<b>Net operating revenues</b>	<b>8,268</b>	<b>16,896</b>	<b>16,520</b>	<b>14,451</b>	<b>10,978</b>
Cost of products sold	(5,908)	(12,072)	(9,801)	(7,883)	(7,211)
<b>Gross Profit</b>	<b>2,361</b>	<b>4,824</b>	<b>6,719</b>	<b>6,568</b>	<b>3,768</b>



<b>Operating expenses</b>					
Selling	(456)	(932)	(604)	(482)	(447)
General and Administrative	(282)	(577)	(576)	(537)	(480)
Share of profit (losses) of investees		(1)			
Other Expenses	(1,331)	(2,719)	(501)	(599)	(648)
Other Income	23	47	719	49	1,369
<b>Total</b>	<b>(2,047)</b>	<b>(4,182)</b>	<b>(962)</b>	<b>(1,569)</b>	<b>(206)</b>
<b>Operating income</b>	<b>314</b>	<b>642</b>	<b>5,757</b>	<b>4,998</b>	<b>3,561</b>
Financial Income (expenses), net	(975)	(1,992)	(2,006)	(1,911)	(246)
<b>Income (loss) Before Taxes</b>	<b>(661)</b>	<b>(1,351)</b>	<b>3,751</b>	<b>3,087</b>	<b>3,315</b>
<b>Income Tax</b>					
Current	(100)	(205)	(136)	(363)	(577)
Deferred	526	1,075	52	(207)	(123)
<b>Total</b>	<b>(235)</b>	<b>(481)</b>	<b>3,667</b>	<b>2,516</b>	<b>2,615</b>
<b>Net income (loss)</b>	<b>(235)</b>	<b>(481)</b>	<b>3,667</b>	<b>2,516</b>	<b>2,615</b>
<b>Loss attributable to noncontrolling interest</b>	<b>(29)</b>	<b>(60)</b>	<b>(39)</b>	<b>-</b>	<b>(4)</b>
<b>Net income (loss) attributable to Companhia Siderúrgica Nacional</b>	<b>(206)</b>	<b>(420)</b>	<b>3,706</b>	<b>2,516</b>	<b>2,619</b>
Basic earnings per common share	(0.14101)	(0.28815)	2.54191	1.72594	1.75478
Diluted earnings per common share	(0.14101)	(0.28815)	2.54191	1.72594	1.75478

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<b>Balance Sheet Data:</b>	<b>2012</b> <i>(in million of US\$)</i>	<b>As of December 31,</b>			<b>2009</b>
		<b>2012</b>	<b>2011</b>	<b>2010</b>	
Current assets	10,336	21,122	21,945	15,794	12,835
Investments	1,151	2,352	2,088	2,104	322
Property, plant and equipment	9,987	20,409	17,377	13,777	11,133
Other assets	2,648	5,412	5,460	6,380	6,436
<b>Total assets</b>	<b>24,123</b>	<b>49,295</b>	<b>46,870</b>	<b>38,055</b>	<b>30,726</b>
Current liabilities	3,136	6,408	6,497	4,456	3,998
Non-current liabilities	16,579	33,880	31,956	25,776	20,139
Shareholders' equity	4,408	9,007	8,417	7,823	6,589
<b>Total liabilities and shareholders' equity</b>	<b>24,123</b>	<b>49,295</b>	<b>46,870</b>	<b>38,055</b>	<b>30,726</b>
Paid-in capital (in millions of <i>reais</i> )	2,222	4,540	1,681	1,681	1,681
Common shares (in million)	1,457	1,457	1,457	1,457	1,457
Dividends declared and interest on shareholders' equity <sup>1</sup>	147	300	1,200	1,856	1,819
Dividends declared and interest on shareholders' equity per common share (in <i>reais</i> ) <sup>1</sup>	0.10	0.21	0.82	1.27	1.25

(1) Amounts consist of dividends declared and accrued interest on shareholders' equity during the year. For a discussion of our dividend policy and dividend and interest payments made in 2012, see "Item 8A. Consolidated Statements and Other Financial Information-Dividend Policy."

**Exchange Rates**

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

Between 2000 and 2008, the *real* fluctuated significantly against the U.S. dollar, reaching a peak of R\$3.53 per US\$1.00 at the end of 2002 and a low of R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar throughout 2008, reaching R\$2.34 per US\$1.00 on December 31, 2008. From 2009 to 2011, the *real* appreciated 19.7% against the U.S. dollar and reached R\$1.88 per US\$1.00 at year end 2011. In 2012, the *real* depreciated 17.6% and on December 31, 2012 the exchange rate was R\$2.04 per US\$1.00. On April 29, 2013 the exchange rate was R\$2.00 per US\$1.00. The Central Bank has intervened occasionally to mitigate volatility in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

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

<b>Year ended</b>	<b>Low</b>	<b>High</b>	<b>Average <sup>(1)</sup></b>	<b>Period-end</b>
December 31, 2008	1.559	2.500	1.837	2.337
December 31, 2009	1.702	2.422	1.994	1.741
December 31, 2010	1.655	1.881	1.759	1.666
December 31, 2011	1.535	1.902	1.675	1.876
December 31, 2012	1.702	2.112	1.955	2.044

<b>Month ended</b>	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>Period-end</b>
October 2012	2.022	2.038	2.030	2.031
November 2012	2.031	2.107	2.068	2.107
December 2012	2.044	2.112	2.078	2.044
January 2013	1.988	2.047	2.031	1.988
February 2013	1.957	1.989	1.973	1.975
March 2013	1.953	2.019	1.983	2.014
April 2013 (through April 29, 2013)	1.974	2.024	2.002	2.000

Source: Central Bank.

<sup>(1)</sup>Represents the daily average of the close exchange rates during the period.

We will pay any cash dividends and make any other cash distributions with respect to our common shares in Brazilian currency. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by ADS holders on

conversion into U.S. dollars of such distributions for payment by the depositary. Fluctuations in the exchange rate between the *real* and the U.S. dollar may also affect the U.S. dollar equivalent of the *real* price of our common shares on BM&FBOVESPA.

**3B. Capitalization and Indebtedness**

Not applicable.

**3C. Reasons for the Offer and Use of Proceeds**

Not applicable.

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### 3D. Risk Factors

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

#### **Risks Relating to Brazil**

*The Brazilian government exercises significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could materially and adversely affect us.*

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulation. See “—Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm our business” and “Item 5A. Operating Results—Brazilian Macro-Economic Scenario, Effects of Exchange Rate Fluctuations.” The Brazilian government’s actions, policies and regulations have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by political, social, and economic developments in or affecting Brazil, and by changes in policy or regulations at the federal, state or municipal levels involving or affecting factors such as:

- interest rates;
- exchange controls;
- currency fluctuations;
- inflation;
- price volatility of raw materials and our final products;
- lack of infrastructure in Brazil;
- energy shortages and rationing programs;
- liquidity of the domestic capital and lending markets;
- regulatory policy for the mining and steel industries;
- environmental policies and regulations;
- tax policies and regulations; and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will make changes affecting these and other factors may create instability. This may also adversely affect our business, financial condition and results of operations.

***Exchange rate instability may adversely affect us and the market price of our common shares and ADSs.***

The Brazilian currency has long experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. For example, the *real* was R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated 31.9% against the U.S. dollar and reached R\$2.34 per US\$1.00 at December 31, 2008. Since then, the *real* appreciated against the U.S. dollar and reached R\$1.88 per US\$1.00 at year end 2011. In 2012, the *real* depreciated 17.6% and on December 31, 2012, the exchange rate was R\$2.04 per US\$1.00. On April 29, 2013 the exchange rate was R\$2.00 per US\$1.00.

Depreciation of the *real* against major foreign currencies could create inflationary pressures in Brazil and contribute to Central Bank increases in interest rates, which could negatively affect us and the growth of the Brazilian economy, may curtail access to foreign financial markets and may prompt government intervention, which could include recessionary measures. Depreciation of the *real* can also, as in the context of an economic slowdown, lead to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole.

On the other hand, appreciation of the *real* relative to major foreign currencies could lead to a deterioration of Brazilian foreign exchange current accounts, as well as affect export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and us as well as impact the U.S. dollar value of distributions and dividends on, and the U.S. dollar equivalent of the market price of, our common shares and our ADSs.

In the event the *real* depreciates in relation to the U.S. dollar, the cost in *reais* of our foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke, will increase. On the other hand, if the *real* appreciates in relation to the U.S. dollar, it will cause *real*-denominated production costs to increase as a percentage of total production costs and cause our exports to be less competitive. We had total U.S. dollar-denominated or -linked indebtedness of R\$10,829 million, or 35.76% of our total indebtedness, as of December 31, 2012.

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

Brazil has in the past experienced extremely high rates of inflation, which has led the government to pursue monetary policies that have contributed to one of the highest real interest rates in the world. Since the implementation of the *Real* Plan in 1994, the annual rate of inflation in Brazil has decreased significantly, as measured by the National Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA). Inflation measured by the IPCA index was 5.9%, 6.5% and 5.8% in 2010, 2011 and 2012, respectively. Inflation and the Brazilian government's inflation containment measures, mainly through monetary policies, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient policies and interest rate decreases may trigger increases in inflation, with the consequent reaction of sudden and significant interest rate increases, which could negatively affect Brazilian economic growth and us. In addition, we may not be able to adjust the price of our products in the foreign markets to offset the effects of inflation in Brazil on our cost structure, given that most of our costs are incurred in *reais*.

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

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

operations on acceptable terms.

### **Risks Relating to Us and the Industries in Which We Operate**

*We are exposed to substantial changes in the demand for steel and iron ore, which has a substantial impact in the prices of our products and may adversely affect our results of operations.*

The steel and mining industries are highly cyclical, both in Brazil and abroad. The demand for steel and mining products and, thus, the financial condition and results of operations of companies in the steel and mining industries, including us, are generally affected by macroeconomic fluctuations in the world economy and the economies of steel-producing countries, including trends in the automotive, construction, home appliances and packaging industries, as well as other industries which rely on steel distributors. A worldwide recession, an extended period of below-trend growth in developed countries or a slowdown in the emerging markets that are large consumers of our products (such as the domestic Brazilian market for our steel products and the Chinese market for iron ore) could sharply reduce demand for our products. Reduced demand can lead to overcapacity and excessive downtime, lower utilization of our significant fixed assets and therefore reduced operating profitability. In addition, steel competes with other materials that may be used as substitutes, such as aluminum (particularly in the automobile industry), cement, composites, glass, plastic and wood. Government regulatory initiatives mandating the use of such materials in lieu of steel, whether for environmental or other reasons, as well as the development of other new substitutes for steel products, could also significantly reduce market prices and demand for steel products and thereby reduce our cash flow and profitability. Any material decrease in demand for steel and iron ore in the domestic or export markets served by us could have a material adverse effect on us.



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

In 2012 and 2011, raw material costs accounted for 51.2% and 53.9%, respectively, of our total production costs. Our main raw materials include iron ore, coal, coke, limestone, dolomite, manganese, zinc, tin and aluminum. We depend on third parties for some of our raw material requirements, including importing all of the coal required to produce coke and approximately 33% of our coke requirements. In addition, we require significant amounts of energy, in the form of natural gas and electricity, to power our plants and equipment.

Any prolonged interruption in the supply of raw materials, natural gas or electricity, or substantial increases in their prices, could materially and adversely affect us. These interruptions and price increases may be a result of changes in laws or trade regulations, the availability and cost of transportation, suppliers' allocations to other purchasers, interruptions in production by suppliers or accidents or similar events on suppliers' premises or along the supply chain. Our inability to pass those cost increases on to our customers or to meet our customers' demands because of non-availability of key raw materials could also have a material and adverse effect on us.

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

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

The steel industry has historically suffered from structural over-capacity which has recently worsened due to a substantial increase in production capacity in the developing world and particularly in China and India as well as other emerging markets. China is now the largest global steel producer by a large margin and Chinese and other countries' steel exports, or conditions favorable to them (excess steel capacity, undervalued currency or higher market prices for steel in markets outside of such countries) can have a significant impact on steel prices in other markets. If we are not able to remain competitive in relation to China or other steel-producing countries, our results may be adversely affected in the future.

In 2010, steel companies in Brazil faced strong competition from imported products, mainly as a result of the reduction in demand for steel products in mature markets, the exchange rate appreciation and tax incentives. The Brazilian government adopted measures to contain imported products and, as a result, prices of imported products stabilized as compared to local products. These measures had a positive effect in 2011, when imports were consistently reduced. In 2012, imports remained in line with the number recorded in 2011. Apart from direct steel imports, the Brazilian industry has also been facing competition from imported finished goods, which affects the whole steel chain. If the Brazilian Government were to remove the current protective measures or fail to act against

cheap subsidized steel imports, our results of operation may also be materially and adversely affected.

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***The shift in iron ore pricing and increase in price volatility could adversely affect our iron ore business.***

The previous annual benchmark price system for iron ore adopted by the main iron ore producers, including us, was replaced in the last couple of years by different pricing systems, and is now more sensitive to spot price volatility. Fluctuations in supply and demand could increase price volatility, mainly in spot prices, which could adversely affect our mining business and, consequently, our cash flow. See “Item 5A—Operating Results—Overview—Macro-Economic Scenario—Mining.”

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

In response to the increased production and export of steel by many countries, anti-dumping and countervailing duties and safeguard measures were imposed in the late 1990s and early 2000s by foreign governments representing the main markets for our exports. In 2011, both the anti-dumping duties imposed by Argentina and the anti-dumping and countervailing duties imposed by the United States were terminated, although such decision in the United States remains suspended due to appeals filed on behalf of the U.S. steel industry. We have also adapted to the restrictions imposed by the European Union on imports of certain chemical substances contained either in products used to protect the steel products or in products used to pack them. Restrictions imposed by Canada on imports of hot-rolled products from Brazil remain in effect. The imposition of these and other protectionist measures by foreign countries may materially and adversely affect our export sales.

***Our activities depend on authorizations, concessions, permits and licenses. Changes of laws and regulations and government measures could adversely affect us.***

Our activities depend on authorizations, permits and licenses from, and concessions by, governmental regulatory agencies of the countries in which we operate. If laws and regulations applicable to these authorizations, concessions, permits or licenses change, modifications to our technologies and operations could be required, and we may need to make unexpected capital expenditures. These changes and additional costs may have a negative impact on the profitability of our projects or even make certain projects economically or otherwise unfeasible. Also, we cannot guarantee that we will be able to maintain, renew or obtain any required authorization, concession, permit or license. Our authorizations, concessions, permits and licenses may require that we meet certain performance thresholds or completion milestones. In case we are unable to meet these thresholds or milestones we may lose our authorizations, concessions, permits and licenses. The loss or inability to obtain any authorization, concession, permit or license, or changes in the regulatory framework we operate in, may materially and adversely affect us.

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

***Malfunctioning equipment or accidents on our premises, railways or ports may decrease or interrupt production, internal logistics or distribution of our products.***

The steel and iron ore production processes depend on certain critical equipment, such as blast furnaces, steel converters, continuous casting machines, drillers, crushing and screening equipment and shiploaders, as well as on internal logistics and distribution channels, such as railways and seaports. This equipment and infrastructure may be affected in the case of malfunction or damage. In 2006, there was an accident involving the gas cleaning system adjacent to Blast Furnace No. 3 at the Presidente Vargas Steelworks, which prevented us from operating this blast

furnace for approximately six months. Similar or any other significant interruptions in our production process, internal logistics or distribution channels (including our ports and railways) could materially and adversely affect us.

***Our insurance policies may not be sufficient to cover all our losses***

We maintain several types of insurance policies, in line with the risk management of our businesses, which attempt to follow industry market practices for similar activities. Coverage in such policies encompasses domestic and international (import and export) cargo transportation (road, rail, sea or air), carrier liability, life insurance, personal accidents, health, auto insurance, D&O, general liability, erection risks, boiler and machinery coverage, export credit insurance, guarantee, ports and terminal liabilities. We also have an operational risks policy for the Presidente Vargas Steelworks and some of our branches and subsidiaries for a total insured value of US\$ 500 million out of a total risk amount of US\$ 17.7 billion. Under the terms of this policy we remain responsible for the first US\$ 300 million in losses (material damages and loss of profits). The coverage obtained in these insurance policies may not be sufficient to cover all risks we are exposed to. Additionally, we may not be able to successfully contract or renew our insurance policies in terms satisfactory to us, which may adversely affect our financial position.

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

We are investing to further increase our steel, mining and cement production capacity, as well as our logistics capabilities. See “Item 4D. Property, Plant and Equipment—Capital Expenditures—Planned Investments.” These projects are subject to a number of risks that may adversely affect our growth prospects and profitability, including the following:

- we may encounter delays, availability problems or higher than expected costs in obtaining the necessary equipment, services and materials to build and operate a project;
- our efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including availability of overburden and waste disposal areas as well as reliable power and water supplies;
- we may fail to obtain, lose, or experience delays or higher than expected costs in obtaining or renewing the required permits, authorizations, licenses, concessions and/or regulatory approvals to build or continue a project; and
- changes in market conditions, laws or regulations may make a project less profitable than expected or economically or otherwise unfeasible.

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

***Current, new or more stringent environmental, safety and health regulations imposed on us may result in increased liabilities and increased capital expenditures.***

Our steel making, mining, cement and logistics facilities are subject to a broad range of laws, regulations and permit requirements in Brazil relating mainly to the protection of health, safety and the environment.

Brazilian pollution standards are expected to continue to change, including the introduction of new effluent and air emission standards, solid waste-handling regulations, and native forest preservation requirements in rural land. The Brazilian government has adopted a decree under the national policy for climate change (*Política Nacional de Mudanças Climáticas*) that contemplates a 5% reduction in carbon emissions projected for 2020 for the industrial sector (including steel making and cement sectors) and an action plan for the sector is being developed by a technical committee composed of representatives from the government, industry associations and academia. The target reduction for the mining sector is yet to be established. In addition, the state of Rio de Janeiro, through its State Environmental Agency (*Instituto Estadual do Ambiente*), or INEA, issued a law in effect from 2013 onwards that requires steel making and cement facilities to present action plans to reduce greenhouse gas emissions when renewing or applying for operational licenses.

New or more stringent environmental, safety and health standards imposed on us could require us to make increased capital expenditures, create additional legal preservation areas in our properties, or make modifications in operating practices or projects. As a result, the amount and timing of future environmental and related expenditures may vary substantially from those currently anticipated. These additional costs may also have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible. We could also be exposed to civil penalties, criminal sanctions and closure orders for non-compliance with these regulations. Waste disposal and emission practices may result in the need for us to clean up or retrofit our facilities at substantial costs and/or could result in substantial liabilities. Environmental legislation restrictions imposed by foreign markets to which we export our products may also materially and adversely affect our export sales and us.



In addition, we may be requested to enter into Terms of Undertaking, or TACs, with Brazilian regulators and agencies that require us to minimize or eliminate the risk of environmental damages in the areas where we operate. If we are unable to comply with a Term of Undertaking in a timely manner, we may be exposed to penalties, such as fines, revocation of permits, or closure of facilities. See “Item 4B. Government Regulation and Other Legal Matters – Environmental Expenditures and Claims.”

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

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

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

We currently operate parts of our business through joint-ventures and consortia with other companies. We have, among others, established a joint-venture with an Asian consortium at our 60% consolidated investee Nacional Minérios S.A., or Namisa, to mine iron ore; a joint-venture with other Brazilian steel and mining companies at MRS Logística S.A., or MRS, to explore railway transportation in the Southeastern region of Brazil, a joint-venture with Tractebel Energia S.A. and Cia. de Cimento Itambé at Itá Energética S.A., or ITASA, to produce electricity, and a consortium with Vale S.A., Votorantim Metais Zinco S.A., CEMIG Geração e Transmissão S.A. and Anglo Gold Ashant Córrego do Sítio Mineração S.A. at Igarapava Hydroelectric Power Plant to produce electricity.

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

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

Our reported ore reserves are estimated quantities of ore and minerals that we have determined can be economically mined and processed under present and anticipated conditions to extract their mineral content. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including many factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. As a result, no assurance can be given that

the indicated amount of ore will be recovered or that it will be recovered at the rates we anticipate. Estimates of different engineers may vary, and results of our mining and production subsequent to the date of an estimate may lead to revision of estimates. Reserve estimates and estimates of mine life may require revision based on actual production experience and other factors. For example, fluctuations in the market prices of minerals and metals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates or other factors may render proven and probable reserves uneconomic to exploit and may ultimately result in a restatement of reserves. See “Item 4B—Business Overview—Our Mining Segment—Mineral Reserves.”



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

Revenues from our mining business represented in 2010, 2011 and 2012, respectively, 24%, 35% and 26% of our total net revenues. Our ability to rapidly increase production capacity is limited, which could render us unable to fully satisfy demand for our products. When demand exceeds our production capacity, we may meet excess customer demand by purchasing iron ore from unrelated parties and reselling it, which would increase our costs and narrow our operating margins. If we are unable to satisfy excess customer demand in this way, we may lose customers. In addition, operating close to full capacity may expose us to higher costs, including demurrage fees due to capacity restraints in our logistics systems.

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

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

China has been the main driver of global demand for minerals and metals over the last few years. In 2012, China accounted for 66% of the global seaborne iron ore trade. The percentage of our iron ore sales volume to consumers in China was 22% in 2012. A contraction of China's economic growth could result in lower demand for our products, leading to lower revenues, cash flow and profitability. Poor performance in the Chinese real estate sector, one of the largest consumers of carbon steel in China, could also negatively impact our results.

***Drilling and production risks could adversely affect the mining process.***

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

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

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

***Natural and other disasters could disrupt our operations.***

Our business and operating results could be negatively impacted by social, technical and/or physical risks such as flooding, fire, power loss, loss of water supply, leakages, telecommunications and information technology system failures, and political instability, including a global economic slowdown. For example, flooding in Australia at the end of 2010 affected global coal supply and consequently increased our raw material costs. In addition, heavy rainfall in the Southeast Region of Brazil could affect our iron ore and logistics operations and consequently our revenues. Such events could affect our ability to conduct our business operations and, as a result, reduce our operating results and materially and adversely affect us.

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

From time to time, we may evaluate acquisition opportunities that would strategically fit our business objectives. If we are unable to complete acquisitions, or integrate successfully and develop these businesses to realize revenue growth and cost savings, our financial results could be adversely affected. Acquisitions also pose the risk that we may be exposed to successor liability involving an acquired company. Due diligence conducted in connection with an acquisition, and any contractual guarantees or indemnities that we receive, may not be sufficient to protect us from, or compensate us for, actual liabilities. A material liability associated with an acquisition, such as labor- or environmental-related, could adversely affect our reputation and financial performance and reduce the benefits of the acquisition.

In addition, we may incur asset impairment charges related to acquisitions, which may reduce our profitability. Finally, our acquisition activities may present financial, managerial and operational risks, including diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these activities could affect our product sales, financial condition and results of operations.

***We have a substantial amount of indebtedness, which could make it more difficult or expensive to refinance our maturing debt and /or incur new debt.***

As of December 31, 2012, our total debt outstanding amounted to R\$30,284 million, consisting of R\$2,326 million of short-term debt and R\$27,958 million of long-term debt. See “Item 5B. Liquidity and Capital Resources” and “Item 18. Financial Statements.” Although we had R\$14,445 million of cash and cash equivalents as of December 31, 2012, our planned investments in all of our business segments will require a significant amount of cash over the course of 2013 and following years. See “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments.”

The level of our indebtedness could affect our credit rating and ability to obtain any necessary financing in the future and increase our cost of borrowing. In these and other circumstances, servicing our indebtedness may use a substantial portion of our cash flow from operations, which could make it more difficult for us to make payments of dividends and other distributions to our shareholders, including the holders of our ADSs, and adversely affect our financial condition and results of operations.

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

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

***We are exposed to the risk of litigation***

We are currently and may in the future be party to legal proceedings and claims. For some of these legal proceedings and claims, we have not established any provision on our balance sheet or have only established provisions for part of the amounts in question, based on our and our external counsel's judgment as to the likelihood of an outcome favorable to us.

Although we are contesting such proceedings and claims, the outcome of each specific proceeding and claim is uncertain and may result in obligations that could materially and adversely affect our business and the value of our shares and ADSs. See "Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings" for additional information.

**Risks Relating to our Common Shares and ADSs**

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

Our controlling shareholder has the power to, among other things, elect a majority of our directors and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions, dispositions, and the timing and payment of any future dividends, subject to minimum dividend payment requirements imposed under Brazilian Corporate Law. Our controlling shareholder may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with your interests as a holder of our common shares and ADSs. For a description of our ownership structure, see “Item 7A. Major Shareholders.”

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

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our common shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the common shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw common shares, you will be entitled to continue to rely on the custodian’s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of, or distributions relating to, the common shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our common shares. For more information regarding exchange controls, see “Item 10.D. Exchange Controls.” If you seek to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our common shares or the return of your capital in a timely manner. The depository’s electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

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

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

respect to any specific matter. As a result, holders of ADSs may not be able to exercise their voting rights.

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. The ten largest companies in terms of market capitalization represented 51.8% of the total market capitalization of the BM&FBOVESPA as of December 31, 2012. The top ten stocks in terms of trading volume accounted for 43.0%, 47.2% and 48.8% of all shares traded on the BM&FBOVESPA in 2012, 2011 and 2010, respectively. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited.

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

We may not be able to offer our common shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our common shares in connection with any future issuance of our common shares unless a registration statement under the Securities Act is effective with respect to such common shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our common shares or to undertake steps that may be needed to find exemptions from registration available, and we cannot assure you that we will file any such registration statement or take any such steps. If such a registration statement is not filed and an exemption from registration does not exist, The JP Morgan Chase Bank, N.A., as depositary, may attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depositary does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights. For a more complete description of preemptive rights with respect to the underlying shares, see “Item 10B. Memorandum and Articles of Association—Preemptive Rights.”

**Item 4. Information on the Company****4A. History and Development of the Company****History**

Companhia Siderúrgica Nacional is a Brazilian corporation (*sociedade por ações*) incorporated in 1941 pursuant to a decree of the Brazilian President at the time, Getúlio Vargas. The Presidente Vargas Steelworks, located in the city of Volta Redonda, in the State of Rio de Janeiro, started the production of coke, pig iron and steel products in 1946. Also in 1946, we incorporated both the Casa de Pedra Mine, located in Congonhas, Minas Gerais, and the Arcos Mine, located in Arcos, Minas Gerais. The Casa de Pedra Mine assures us self-sufficiency in iron ore, whereas the Arcos Mine meets all our needs for flux, limestone and dolomite.

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

Between 1993 and 2002, we implemented a capital improvement program aimed at increasing our annual production of crude steel, improving the quality of our products and enhancing our environmental protection and cleanup programs. As part of the investments, since February 1996, all our production has been based on the continuous casting process, rather than ingot casting, which involved an alternative method that resulted in higher energy use and metal loss. From 1996 until 2002, we spent the equivalent of US\$2.4 billion on the capital improvement program and on maintaining our operational capacity, culminating with the renovation of Blast Furnace No. 3 and Hot Strip Mill No. 2 in 2001. These measures resulted in the increase of our annual production capacity to 5.6 million tons of crude steel and 5.1 million tons of rolled products.

In 2007, CSN started to sell iron ore in the seaborne market. We are now Brazil’s second largest exporter of iron ore, drawing from our high quality iron ore reserves in the Casa de Pedra and Namisa mines, located in the state of Minas Gerais. We also own the concession to operate TECAR, a solid bulks terminal from which we export this iron ore.

In 2009, we entered the cement market with our first grinding mill, next to the Presidente Vargas Steel Mill in Volta Redonda, Rio de Janeiro, taking advantage of the synergies with our steel business.

In order to diversify our product portfolio, we entered in the long steel market in 2012, with the acquisition of Stahlwerk Thüringen GmbH, or SWT, a long steel manufacturer located in Unterwellenborn, Germany.

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**General**

We are one of the largest fully integrated steel producers in Brazil and Latin America in terms of crude steel production. Our current annual crude steel capacity and rolled product capacity at the Presidente Vargas Steelworks is 5.6 million and 5.1 million tons, respectively. At the Presidente Vargas Steelworks, production of crude steel increased by 2% as compared to 2011, while the production of rolled steel products remained stable when compared to 2011. We also operate in the mining, cement, logistics and energy businesses, which have become increasingly important to our operations and growth.

***Steel***

Our fully integrated manufacturing facilities at the Presidente Vargas Steelworks produce a broad line of steel products, including slabs, hot- and cold-rolled, galvanized and tin mill products for the distribution, packaging, automotive, home appliance and construction industries. In 2011, we accounted for approximately 55% of the coated steel products market in Brazil. We are one of the world's leading producers of tin mill products for packaging containers, and were responsible for approximately 98% of the market share in Brazil in 2011, according to IABr data and our sales information. Market share information for 2012 was not yet available as of the date of this annual report.

Our production process is based on the integrated steelworks concept. Below is a brief summary of the steel making process at our Presidente Vargas Steelworks:

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

We currently obtain all of our iron ore, limestone and dolomite requirements, and a portion of our tin requirements from our own mines. Using imported coal, we produce approximately 67% of our coke requirements at current production levels in our own coke batteries at Volta Redonda. Imported coal is also pulverized and used directly in the pig iron production process. Zinc, manganese ore, aluminum and a portion of our tin requirements are purchased in local markets. Our steel production and distribution processes also require water, industrial gases, electricity, rail and road transportation, and port facilities.

In addition to the production of flat steel, we are investing in our long steel production capacity. We are currently building a long steel plant in Volta Redonda with a planned capacity of 500 Kt per year. This plant will also use our existing infrastructure in the Presidente Vargas Steelworks. On January 31, 2012, in an effort to strengthen our position in the long steel segment, we acquired SWT for €483.4 million. SWT is a long steel producer in Germany with annual production capacity of approximately 1.1 million tons of steel profiles.

***Mining***

We own a number of high quality iron ore mines, all located within Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), in the state of Minas Gerais, including the Casa de Pedra mine, located in Congonhas, and Namisa – Nacional Minérios S.A. mines (Fernandinho, located in Itabirito and Engenho, also located in Congonhas). Our mining assets also include TECAR, a solid bulks seaport terminal, located in Itaguaí Port in the state of Rio de

Janeiro, Mineração Bocaina, located in Arcos, in the state of Minas Gerais, which produces dolomite and limestone, and Estanho de Rondônia S.A. (ERSA), which mines and casts tin, located in Ariquemes, in the state of Rondônia.

***Logistics***

Our verticalization strategy and intense synergies among the Company's business units are strongly dependent on the logistics created to guarantee the transportation of the inputs at a low operating cost. A number of railroads and port terminals make up the logistics system integrating CSN's mining, steelmaking and cement units.

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CSN manages two port terminals at Itaguaí, in Rio de Janeiro, one for bulk solids (TECAR) and one for containers (Sepetiba Tecon).

CSN also has interests in two railways: MRS Logística, in which we share control and that operates the former Southeast Network of the Federal Railroad Network, along the Rio de Janeiro-São Paulo-Belo Horizonte axis, and our controlled subsidiary Transnordestina Logística S.A., whose Nova Transnordestina project will connect the interior of Northeast Brazil to Pecém and Suape Ports, with an extension of 1,728 km of track.

***Cement***

CSN entered the cement market in May 2009, driven by the high synergy with its current business. This segment takes advantage of the slag generated by our blast furnaces and of our limestone reserves, located in the city of Arcos, in the state of Minas Gerais. Limestone, used to produce clinker, and slag account for approximately 95% of the cost of inputs in cement production.

CSN plans to increase its market share in the cement segment in Brazil in order to diversify its product mix and markets, reducing risks and adding value for its shareholders.

***Energy***

CSN is one of Brazil's largest industrial electric power consumers. Since 1999, we have invested in power generation projects in order to ensure self-sufficiency. Our electrical assets include: (i) CSN's 29.5% stake in the Itá Hydroelectric Power Plant, in Santa Catarina, corresponding to 167 MW, through a 48.75% equity interest in Itá Energética S.A.; (ii) CSN's 17.9% interest in the 210-MW Igarapava Hydroelectric Power Plant in Minas Gerais, corresponding to 23 MW; and (iii) a 238 MW cogeneration thermoelectric power plant in Presidente Vargas Steelworks, which is fueled by the waste gases from the steel production process. These three plants give CSN an average generation capacity of 428 MW, supplying the group's total need for power.

**Other Information**

CSN's legal and commercial name is Companhia Siderúrgica Nacional. CSN is organized for an unlimited period of time under the laws of the Federative Republic of Brazil. Our head offices are located at Av. Brigadeiro Faria Lima, 3400, 19th and 20th floors and 15th floor - part, Itaim Bibi, São Paulo, Brazil, CEP 04538-132, and our telephone number is +55-11-3049-7100. CSN's agent for service of process in the United States is CT Corporation, with offices at 111 Eighth Avenue, New York, New York 10011.

**4B. Business Overview**

***Competitive Strengths***

We believe that we have the following competitive strengths:

***Fully integrated business model.*** We believe we are one of the most fully integrated steelmakers in the world. This is due to our captive sources of raw materials, especially iron ore, and access to owned infrastructure, such as railroads and deep-sea water port facilities. We own a number of high quality iron ore mines, all located within Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), in the State of Minas Gerais, which differentiates us from our main competitors in Brazil that purchase their iron ore from mining companies such as Vale S.A., or Vale. In addition to our iron ore

reserves, we have captive dolomite and limestone mines that supply our Presidente Vargas Steelworks. Our steelworks are close to the main steel consumer centers in Brazil, with easy access to port facilities and railroads. See “Item 4B. Business Overview—Our mining segment” and “Item 4D—Property Plant and Equipment.”

***Profitable mining business.*** Our mining business has received investments in recent years, placing CSN in a prominent position among the country’s leading mining firms. Additional investments will increase capacity to approximately 89 mtpy, including third party purchases, thereby strengthening CSN’s position as an important player in the global iron ore market. The Company has high-quality iron ore reserves through Casa de Pedra mine and Namisa mines (Engenho and Fernandinho), both located in Minas Gerais. Our mining activities provide strong revenue generation. We sold 10.5 million tons in 2007, 18.5 million tons in 2008, 17.5 million tons in 2009, 18.6 million tons in 2010, 23.8 million tons in 2011 and 20.2 million tons in 2012 (considering our proportional interest in Namisa throughout this period). The company’s mining assets also include TECAR, a solid bulks seaport terminal, with a capacity for 30 mtpy, located in Itaguaí Port (RJ), Mineração Bocaina, located in Arcos (MG), which produces dolomite and limestone, and Estanho de Rondônia SA (ERSA), which mines and casts tin.

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

***Self-sufficiency in energy generation.*** We are self-sufficient in energy, through our interests in the hydroelectric plants of Itá and Igarapava, and our own thermoelectric plant inside the Presidente Vargas Steelworks. We also sell the excess energy we generate in the energy market. Our 238 MW thermoelectric cogeneration plant provides the Presidente Vargas Steelworks with approximately 60% of its energy needs in its steel mills, using as its primary fuel the waste gases generated by our coke ovens, blast furnaces and steel processing facilities. We hold a 29.5% stake in the Itá Hydroelectric Power Plant, in Santa Catarina, through a 48.75% equity interest in Itá Enérgica S.A., or ITASA. This ownership grants us an assured energy of 167 MW, proportional to our interests in the project, pursuant to 30-year power purchase agreements at a fixed price per megawatt hour, adjusted annually for inflation. In addition, we own 17.9% of the Igarapava hydroelectric plant, with 210 MW fully installed capacity. We have been using part of our 23 MW of assured energy from Igarapava to supply energy to the Casa de Pedra and Arcos mines.

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

***Diverse product portfolio and product mix.*** We have a diversified flat steel product mix that includes hot-rolled, cold-rolled, galvanized and steel tin mill products, in order to meet a wide range of customer needs across all steel consuming industries. We focus on selling high margin products, such as tin plate, pre-painted, galvalume and galvanized products in our product mix. Our galvanized product provides material for exposed auto parts, using hot-dip galvanized steel and laser-welded blanks. Our CSN Paraná branch provides us with additional capacity to produce high-quality galvanized, galvalume and pre-painted steel products for the construction and home appliance industries. In addition, our subsidiary Prada, one of the largest flat steel distributors in Brazil, offers a strong sales channel in the domestic market, enabling us to meet demand from smaller customers, thus creating a strong presence in this market.

***Strong presence in domestic market and strategic international exposure for steel products.*** We have a strong presence in the domestic market for steel products, with 77% of our steel sales in the domestic market. In 2011, we accounted for approximately 55% of the market in Brazil for coated steel products, of which we had 98% of the market share in Brazil for tin mill products. Market share information for 2012 was not yet available as of the date of this annual report. In addition, we use our subsidiaries CSN LLC and Lusosider also as sales channels for our flat steel products in the United States and in Europe, with 8% of our total sales in 2012. Direct exports accounted for 3% of our total sales in 2012. In 2012 we acquired SWT, a long steel producer in Germany with annual production capacity of approximately 1.1 million tons of steel profiles, strengthening our steel products mix and geographical diversification. In 2012, SWT accounted for 12% of our total sales.



## **Strategies**

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

### *Steel*

The strategy for our steel business involves:

- ü A focus on the domestic market, in which we have historically recorded higher profit margins and increased competitiveness, by expanding our market share in flat steels and entering in the Brazilian long steel market;
- ü Constant pursuit of operational excellence, by implementing cost reduction projects (e.g. pellet plant and energy efficiency) and programs (e.g. internal logistic optimization, inventory reduction, project development and implementation disciplines);
- ü Emphasis on high value-added steel products, such as galvanized, pre-painted and tin-coated steel;
- ü Exploring synergies by using our flat steel distribution network and product portfolio to accelerate entrance into the domestic long steel market; and
- ü Increase market share by expanding our services and distribution network.

For information on planned investments relating to our steel activities, see “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments”

### *Mining*

In order to strengthen our position in the iron ore market, we plan to expand our mining assets, Casa de Pedra and Namisa, and search for investment opportunities, primarily in mines in operation or in an advanced stage of development.

In the coming years, we expect to reach an annual sales level of approximately 89 mtpy of iron ore products, including third party purchases, by increasing capacity in Casa de Pedra and Namisa mines, thereby strengthening our position as an important player in the iron ore worldwide market.

To sustain this growth, we will increase capacity in TECAR, our solid bulks terminal in Itaguai Port to 84 mtpy. We are also studying seaborne shipping opportunities, focused on increasing our competitiveness in the Asian market.

In order to maximize the profitability of our product portfolio, we will also focus on pellet and pellet-feed, by using Itabirito's deposits and investing with strategic partners and clients in pellet capacity.

For information on planned investments relating to our mining activities, see “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments”.

*Logistics*

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

In addition to investments in TECAR, we will strengthen Sepetiba TECON, our container terminal, in order to accommodate larger ships, increasing its capacity and competitiveness by adding services to develop client loyalty.



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

We intend to continue to improve the delivery of our products in the domestic market (mainly steel and cement), with low cost and efficiency by integrating and increasing the use of rail transportation, and by providing more distribution centers.

*Cement*

Our cement business strategy involves the utilization of the limestone reserves in our Arcos mine and the slag generated by CSN's blast furnaces in our cement plant in Volta Redonda, inaugurated in 2009, with capacity to produce 2.4 million tons per year. In 2011, CSN began producing clinker in the Arcos plant with the aim of reducing its production costs. We are evaluating other organic growth initiatives to expand our annual capacity to 5.4 million tons in order to capture the strong growth expected in construction of new housing units and infrastructure projects. For information on planned investments relating to our cement activities, see "Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments".

***Additional Investments***

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

**Our Steel Segment**

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

**Flat Steel**

The following chart reflects our flat steel production cycle in general terms.

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

***Slabs***

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

***Hot-Rolled Products***

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

***Cold-Rolled Products***

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

***Galvanized Products***

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

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

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

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

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

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

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

***Tin Mill Products***

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

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

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

***Production Process***

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

We import all the coal required for coke production because Brazil lacks quality coking coals. The coal is then charged in coke batteries to produce coke through a distillation process. See “—Raw Materials and Suppliers—Raw Materials and Energy Requirements.” This coal distillation process also produces coke oven gas as a byproduct, which we use as a main source of fuel for our thermoelectric co-generation power plant. After being screened, coke is transported to blast furnaces, where it is used as a combustion source and as a component for transforming iron ore into pig iron. In 2012, we produced approximately 67% of our coke needs and imported the balance, compared to 62% in 2011.

At sintering plants, fine-sized iron ore and coke or other fine-sized solid fuels are mixed with fluxes (limestone and dolomite) to produce sinter. The sinter, lump iron ore, fluxing materials and coke are then loaded into our two operational blast furnaces for smelting. We operate a pulverized coal injection, or PCI, facility, which injects low-cost pulverized coal directly into the blast furnaces as a substitute for approximately one-third of the coke otherwise required.

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

The molten pig iron is transported to the steelmaking shop by 350-ton capacity torpedo cars and charged in basic oxygen furnaces together with scrap and fluxes. In the basic oxygen furnaces, oxygen is blown onto the liquid burden to oxidize its remaining impurities and to lower its carbon content, thus producing liquid steel. The molten steel is conveyed from the basic oxygen furnaces to the secondary refining equipment (degasser, ladle furnace and Argon

Stirring Station). After adjusting the chemical composition, the molten steel is transferred to the continuous casting machines from which crude steel (i.e., rectangular shaped slabs) is produced. A portion of the slab products is sold directly in the export market.

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In the hot rolling process, reheated slabs from the continuous casting machines are fed into hot strip mills to reduce the thickness of the slabs from 250 millimeters to a range of between 1.2 and 12.7 millimeters. At the end of the hot strip mill, the long, thin steel strip from each slab is coiled and conveyed to a cooling yard. Some hot-rolled coils are dispatched directly to customers in the as-rolled condition. Others are further processed in the pickling line, in a hydrochloric bath, to remove surface oxides and improve surface quality. After pickling, the hot-rolled coils selected to produce thinner materials are sent to be rolled in cold strip mills. CSN has three cold strip mills, one of which was revamped in 2011, adding 150,000 tons per year to CSN's cold rolling capacity. The better surface characteristics of cold-rolled products enhance their value to customers when compared to hot-rolled products. Additional processing related to cold-rolling may further improve surface quality. Following cold-rolling, coils may be annealed, coated (by a hot dip or electrolytic tinning process) and painted, to enhance medium-and long-term anti-corrosion performance and to add characteristics that will broaden the range of steel utilization. Coated steel products have higher profit margins than bare steel products. Of our coated steel products, tin mill and galvanized products are our highest margin products.

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

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

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

The production sector is also responsible for environment and quality consultancy, new product development, capital investment implementation for steel production and processing, and the supervision of CSN Porto Real's and CSN Paraná's operations.

***Quality Management Program***

We practice Total Quality Management, a set of techniques that have been adopted by many leading companies in our industry. We also maintain a Quality Management System that has been certified to be in compliance with the ISO 9001 standards set forth by the International Standardization Organization, or ISO. In March 1993, we were awarded the ISO 9002 certificate of compliance for the manufacture of several of our products. In April 1996, we were awarded the ISO 9001 certificate of compliance which replaced ISO 9002 and included the element of "design" in its scope. In April 1998, we were awarded certification of compliance to QS 9000 standards, requirements specific to the automotive industry. Over the years the ISO 9001 certificate has been maintained and renewed, with the most recent renewal to the ISO 9001:2008 version awarded in August 2011, for the design and manufacture of slabs, hot rolled flats, pickled and oiled steel products, cold rolled, galvanized steel products and tin mill products. In June 2004, we were also awarded the automotive industry's Technical Specification ISO/TS 16949, for the design and manufacture of hot-rolled, pickled and oiled, cold-rolled and galvanized steel products, which replaced the QS 9000 standards. The most recent renewal to the ISO/TS 16949:2009, third edition, was awarded in September 2011. Some important automotive companies, like FIAT, General Motors and Ford, require their suppliers to satisfy the ISO/TS 16949 standards.

***Production Output***

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

<b>Crude Steel Production</b>	<b>Brazil</b>	<b>CSN</b>	<b>CSN % of Brazil</b>
	<i>(In millions of tons)</i>		
2012	34.7	4.8	13.8%
2011	35.2	4.9	13.9%
2010	32.8	4.9	14.9%
2009	26.5	4.4	16.6%
2008	33.7	5.0	14.8%

Source: Brazilian Steel Institute (*Instituto Aço Brasil*), or IABr.

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

**Certain Operating Statistics**

	<b>2012</b> <i>(In millions of tons)</i>	<b>2011</b> <i>(In millions of tons)</i>	<b>2010</b> <i>(In millions of tons)</i>
Production of:			
Iron Ore *	19.8	20.1	21.6
Molten Steel	5.0	5.0	5.0
Crude Steel	4.9	4.9	4.9
Hot-Rolled Coils and Sheets	4.8	4.8	5.0
Cold-Rolled Coils and Sheets	2.6	2.4	2.5
Galvanized Products	1.2	1.4	1.1
Tin Mill Products	0.5	0.7	0.7
Consumption of Coal for Coke Batteries	1.9	2.1	2.2
Consumption of Coal for PCI	0.7	0.6	0.7
*Casa de Pedra			

***Raw Materials and Suppliers***

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

***Raw Materials and Energy Requirements***

In 2010, prices of our main raw materials increased due to larger post-crisis demand and a strengthening of the steel industry worldwide.

In the first half of 2011, prices of the main raw materials used by CSN continuously increased due to unbalanced supply and demand. In the second half of 2011, prices decreased, mainly due to the worsening of the European crisis.

In the first nine months of 2012, prices of the main raw materials used by CSN continued to fall due to the global crisis in the steel market caused mainly by the decline in China's growth rates and the European crisis. In the fourth quarter of 2012, prices increased, mainly due to the restocking of Chinese mills in preparation for the winter and Chinese holidays.

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

***Iron Ore***

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



### *Coal*

In 2012, our metallurgical coal consumption totaled 2.6 million tons. Metallurgical coal includes coking coal and PCI coal, which is a lower grade coal injected into the blast furnaces, in a pulverized form, to reduce coke consumption. The PCI system reduces CSN's need for imported coke, thus reducing production costs. In 2012, we used 717,710 tons of imported PCI coal. The sources of the coking coal consumed in our plants in 2012 were as follows: USA (55%), Australia (37%) and Canada (8%). It is important to mention that Australia's share increased when compared to 2011, due to its recovery in supply, which was strongly affected by flooding in 2011. Our sources of PCI Coal, the sources were: Russia (50%), Australia (44%) and Venezuela (6%).

In 2012, CSN's coking coal and PCI coal costs decreased significantly when compared to 2011. The quarterly benchmark price for metallurgical coal started to decline in the first quarter of 2012, ending the year at its lowest level since the quarterly pricing mechanism began in the second quarter of 2010. The decline in metallurgical coal price reflected the slowdown in demand due to the financial crisis in Europe and weaker economic growth in China.

### *Coke*

In 2012, in addition to the approximately 1.3 million tons of coke we produced, we also consumed 676,681 tons of coke bought from third parties in China, India and Colombia, an increase of 7.2% as compared to our consumption in 2011. The demand for coke has been increasing significantly since 2002 because China, a major player in the sea-borne trade, has increased its internal consumption and adopted restrictive export quotas. In addition, India has become a major consumer of coke, considerably increasing its imports in the past years. Due to logistical reasons, China supplies most of India's coke and this increase in consumption tightened even more the worldwide supply-demand balance of metallurgical coke.

During 2012, Chinese coke prices remained flat until October. In the fourth quarter, producers were fully stocked in China, leading to a reduction in demand and pushing prices down significantly.

### *Limestone and Dolomite*

Our Bocaina mine is located in Arcos, in the State of Minas Gerais, and has been supplying, since the early '70s, limestone (calcium carbonate) and dolomite (dolomitic limestone) to our Presidente Vargas Steelworks in Volta Redonda. These products are used in the process of sintering and calcination. Arcos has one of the biggest and best reserves of limestone in the world, which is used in the production of various products, including cement.

The annual production of limestone and dolomite for our steelworks is approximately 2.4 million tons.

The main products obtained from limestone and dolomite that are transferred to our steelworks in Volta Redonda are:

- Limestone and dolomite calcination: with a granulometry between 32 and 76 mm, they are used in the lime plant in Volta Redonda to produce calcitic and dolomitic lime, for further use in the steelmaking process and sintering. At the steelworks, lime is used for chemical controlling of liquid slag, in order to preserve the refractory of the converters and assist in the stabilization of the chemical reactions that occur during the steel manufacturing process. During sintering, the purpose of lime is to increase the performance of this process and the final quality of the sinter that is produced.

- Limestone and dolomite sintering: used in the production of “sinter”, in our steelworks. The sinter is composed of fine ores, solid fuel and flux, which enable semi-melting and sintering ore. The sinter is used in blast furnaces as a source of iron for the production of pig iron.

Beginning in 2009, with our entry into the cement market, the mine in Arcos also became responsible for supplying limestone for cement manufacturing in Volta Redonda.

***Aluminum, Zinc and Tin***

Aluminum is mostly used for steelmaking. Zinc and tin are important raw materials used in the production of certain higher-value steel products, such as galvanized and tin plate, respectively. We typically purchase aluminum, zinc and tin from third-party domestic suppliers under one year contracts. Specifically in relation to tin, we purchase part of our demand from CSN's subsidiary ERSA (Estanho de Rondônia S.A). We maintain approximately 26, 27 and 140 days inventory of tin, aluminum and zinc, respectively, at the Presidente Vargas Steelworks.

***Other Raw Materials***

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

We also consume significant amounts of oxygen, nitrogen, hydrogen, argon and other gases at the Presidente Vargas Steelworks. These gases are supplied by a third-party under a long-term contract from its gas production facilities located on the Presidente Vargas Steelworks site. In 2012, we used 749,244 tons of oxygen to produce 4.8 million tons of crude steel.

***Water***

Large amounts of water are also required in the production of steel. Water serves as a solvent, a catalyst and a cleaning agent. It is also used to cool, to carry away waste, to help produce and distribute heat and power, and to dilute liquids. Our source of water is the Paraíba do Sul River, which runs through the city of Volta Redonda. Over 85% of the water used in the steelmaking process is recirculated and the balance, after processing, is returned to the Paraíba do Sul River. Since March 2003, the Brazilian government has imposed a monthly tax for our use of water from the Paraíba do Sul River, based on an annual fee of approximately R\$2.5 million.

***Electricity***

Steelmaking also requires significant amounts of electricity to power rolling mills, production lines, hot metal processing, coking plants and auxiliary units. In 2012, our Presidente Vargas Steelworks consumed approximately 2.95 million MWh of electric energy or 608 kilowatt hours per ton of crude steel. This level means we are one of the largest consumers of electricity in Brazil, accounting for approximately 8% of the overall consumption of electricity in the State of Rio de Janeiro.

Our main source of electricity is our 238 MW thermoelectric co-generation power plant at the Presidente Vargas Steelworks, besides the Itá and Igarapava hydroelectric facilities, from which we have ensured energy of 167 MW and 23 MW, respectively. In addition, CSN is installing a new turbine generator at the Presidente Vargas Steelworks, which will add 21 MW to our existing installed capacity with start-up planned for 2013. This turbine will be located near our Blast Furnace No. 3, using the outlet gases from the iron making process to generate energy.

***Natural Gas***

In addition to electricity, we consume natural gas, mainly in our hot strip mill. Companhia Estadual de Gás do Rio de Janeiro S.A., or CEG Rio, which was privatized in 1997, is currently our major source of natural gas. Variations in the supply of gas can affect the level of steel production. We have not experienced any significant stoppages of production due to a shortage of natural gas. We also purchase fuel oil from Petrobras and Raízen. In 2012, the

Presidente Vargas Steelworks consumed 418,284 dam<sup>3</sup> of natural gas.

The market for natural gas is strongly correlated with the electricity market. Brazilian electricity generation is based principally on hydroelectric power, itself dependent on the level of Brazil's reservoirs. As a contingency against low levels of rainfall, there are several thermoelectric power plants which use natural gas. Due to low levels of rainfall in 2012, reservoirs reached their lowest level in the past ten years; consequently the Brazilian Electricity System Operator (*Operador Nacional do Sistema Elétrico*), or ONS, increased the utilization of thermoelectric generation.

***Diesel Oil***

In mid-October 2006 and July 2008, we entered into agreements with Companhia Brasileira de Petróleo Ipiranga, or Ipiranga, to receive diesel oil in order to supply our equipment in our mining plants in the state of Minas Gerais, which provide the iron ore, dolomite and limestone used in our steel plant in Volta Redonda. In 2012, our consumption totaled 63,028 kiloliters of diesel oil, for which we paid US\$49.8 million.

Table Of Contents**Suppliers**

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

Our main raw materials suppliers are set forth below:

<b>Main Suppliers</b>	<b>Raw Material</b>
BHP Billiton, Jim Walter Resources, Alpha Natural Resources, Rio Tinto and Marubeni	Coal
CI Milpa and ThyssenKrupp	Coke
RBA and Alubar	Aluminum
Votorantim Metais <sup>(1)</sup>	Zinc
White Solder, Coopertrading and ERSA	Tin
Sotreq, Gevisa, Continental, Distribuidora Cummins, Correias	Spare parts
Mercurio, Deva Veiculos and MTU do Brasil	Refractory bricks
Magnesita, RHI, Vesuvius and Saint Gobain	Lubricants
Daido, Ipiranga and Quaker	

(1) We depend on Votorantim Metais as it is the only supplier of zinc in Brazil

**Facilities***Flat Steel Mill*

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

Our major operational units and corresponding effective capacities as of December 31, 2012, including CSN LLC and Lusosider, are set forth in the following chart:

**Effective Capacity**

<b>Process:</b>	<b>Tons per year</b>	<b>Equipment in operation</b>
Coking plant	1,680,000	3 batteries
Sintering plant	6,930,000	3 machines

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Blast furnace	5,380,000	2 furnaces
BOF shop	5,750,000	3 converters
Continuous casting	5,600,000	3 casters
<b>Finished Products:</b>		
Hot strip mill	5,100,000	1 mill
Cold strip mill	4,700,000	6 mills
Galvanizing line	2,095,000	7 lines
Electrolytic tinning line	1,190,000	7 lines



***Downstream Facilities******CSN Paraná***

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

***Metalic***

We have a 99.99% ownership interest in Cia. Metalic Nordeste, or Metalic. Metalic is one of the few two-piece steel can producers in all the Americas. It has approximately 30% of the packaging market for carbonated drinks in the Northeastern regions of Brazil. Currently, we are Metalic's only supplier of the steel used to make two-piece cans. The development of drawn-and-wall-ironed steel for the production of two-piece cans is an important achievement in the production process at the Presidente Vargas Steelworks.

***Prada***

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

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

***Companhia Siderurgica Nacional, LLC***

CSN LLC holds the assets of former Heartland Steel, a flat-rolled steel processing facility in Terre Haute, Indiana. This facility has an annual production capacity of 800,000 tons of cold-rolled products and 315,000 tons of galvanized products. Currently, CSN LLC is obtaining hot coils by buying slabs from CSN and having them converted into hot coils by local steel companies or buying hot rolled coils directly from mills in the United States. See "Item 4B. Government Regulation and Other Legal Matters—Anti-Dumping Proceedings—United States" for a discussion about anti-dumping issues on Brazilian hot coils exports to the United States.

***Lusosider, Aços Planos, S.A.***

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

***Inal Nordeste***

Inal Nordeste, or INOR, is a distributor of laminates located in the Northeastern Region. INOR has a service center located in the city of Camaçari, in the State of Bahia, to support sales in the Northeastern and North regions. On May 30, 2011, INOR was merged into us, allowing for the optimization of processes and operations as well as the reduction of costs.

**Long Steel**

The acquisition in February 2012 of SWT, located in Unterwellenborn, Germany, marks our entrance into the long steel market. SWT specializes in the production of profiles, including IPE (European I Beams) and HE (European Wide Flange Beams) sections, channels and UPE (Channels with Parallel Flanges) sections and steel sleepers. In total, more than 200 types of sections are produced according to different German and international standards.

The following chart reflects our production cycle in general terms.

***Production Process***

Scrap arrives at the mill by rail or road. Two gantry cranes are used to transfer the scrap to a stockyard. Two remote-controlled diesel-hydraulically driven transfer wagons carry the recycled steel in containers, which also function as charging vessels to the melting shop.

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The electric arc of the DC-furnace is generated between a graphite electrode and the bottom of the furnace, which functions as the anode. This energy, supplemented by natural gas/oxygen burners, is used to convert this material into molten steel.

After the smelting process, the molten metal is tapped into the ladle in a wagon, which is then positioned under the ladle furnace. The purpose of this process is to achieve the desired composition, by the addition of alloys, and the necessary final temperature of the steel. The ladle is then transported to the casting shop with the transport wagon and is elevated onto the turret that rotates it into the casting position. The tundish distributes the steel to four strands of water-cooled copper moulds that provide the desired beam blank shape. As soon as the strands pass through the moulds they undergo an intensive cooling process. After solidification is complete, the strands pass through guides which transport and straighten the strands out of the casting arc into the horizontal plane, where they are then cut into pieces of the required length with automatic flame-cutting torches. A transfer manipulator passes the beam blanks to the roller table of the rolling mill.

The rolling mill provides facilities for both duo and universal rolling processes. In contrast to the continuous operation where the sections are rolled in strands arranged one after the other, in this reversing mill the section bar is run forwards and backwards in several passes through rolls that either have “grooves” or function according to the universal rolling principle.

The three stand assemblies in the rolling mill include, a break down stand coupled with a cropping saw, a tandem group and a finishing group. After having passed the finishing strand, the dimensional accuracy of the rolled section is measured using laser technology.

The next stage is the finishing department, where the sections, which can be up to 100m long, cool down on a walking beam cooling bed, before being straightened. The sections are then cut on a cold saw plant to lengths between 6m and 28m, as requested by customers.

***Production Output*****Certain Operating Statistics**

	<b>2012</b> <i>(In thousands of tons)</i>
Production of:	
Beam Blank	885*
Long Steel (Finished Products)	827*

\*The above operating figures cover SWT’s production during the full year of 2012. As we have consolidated SWT’s results as of February 2012, its production during this period was of 812 thousand tons of beam blank and 755 thousand tons of long steel (finished products).

***Raw Materials and Suppliers******Raw Materials and Energy Requirements***

The main raw material we use in our long steel operation is scrap. In addition, our production operations consume electricity, natural and technical gases and ancillary materials like ferroalloys, lime, dolomite and foaming coal.

***Scrap***

During 2010 and 2011, prices for scrap continuously increased due to unbalanced supply and demand in Europe and increasing globalization of scrap trading worldwide. Prices in the European market were particularly affected by prices in Turkey and Asia. In 2012, the average price decreased slightly due to lower demand for scrap as a consequence of the financial crisis. In 2012, our scrap consumption totaled approximately 960,000 million tons and accounted for nearly 60% of our production cost. We are able to obtain 80% of our scrap needs from within a 250 km vicinity.

***Ferrous alloys, lime and foaming coal***

Because we do not own any sources of alloys, lime and foaming coal we have to buy these materials from traders. Our traders are located mostly in Europe and the materials come from different producers around the world.

***Rolls***

We consume different types of rolls in our rolling mill, usually cast rolls which come from Germany, Italy, Slovenia and China.

***Graphite electrodes***

In the smelting shop (electric arc furnace), we use graphite electrodes with a diameter of 750mm and in the ladle furnace, we use electrodes with a diameter of 400mm. The electrodes come from Europe, Japan and China.

***Other raw materials***

In our production of steel we consume, on an annual basis, amounts of electrodes, rolls, refractory materials and materials for packaging and spare parts, which are mostly purchased from domestic suppliers.

***Water***

Large amounts of water are required in the production process. Our source of water is the Saale river, located 5 km from the plant. We use our own water station to pump water via pipelines to the plant.

***Electricity and Natural Gas***

Steelmaking also requires significant amounts of electricity and natural gas, for which we have supply contracts. Under normal conditions, we consume approximately 450 GWh of electric energy and an equal amount of natural gas.

***Suppliers***

We acquire the inputs necessary for the production of our products in Germany and other countries.

Our main raw materials suppliers are set forth below:

<b>Main Suppliers</b>	<b>Raw Material</b>
Scholz, TSR	Scrap
Verbund	Electric Energy
E.on Ruhrgas	Natural gas
RHI	Refractory
SGL, Graftec, NCK	Electrodes

Siemens, Schneider, Voith  
Irle, Walzengießerei Coswig

Spare parts  
Rolls

***Facilities***

SWT possesses a 28km internal railway system, and the logistics infrastructure to ensure supply of scrap and delivery of finished products. Main markets served by SWT include: non-residential construction, equipment industries, engineering and transport, in Germany and neighboring countries, including Poland and the Czech Republic.

**Effective Capacity**

	<b>Tons per year</b>	<b>Equipment in operation</b>
<b>Process:</b>		
EAF – Electric Arc Furnace	1,100,000	1 furnace
Ladle Furnace	1,100,000	1 furnace
<b>Finished Products:</b>		
Section mill	1,000,000	1 mill

**Our Mining Segment**

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

***Our Mines******Location, Access and Operation******Casa de Pedra***

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

Casa de Pedra mine is a hematite-rich iron deposit of an early proterozoic banded iron formation in Brazil's Iron Ore Quadrangle (*Quadrilátero Ferrífero*), which is located in the central part of the State of Minas Gerais in the Southeastern region of Brazil and has been one of the most important iron producing regions in Brazil for the last 50 years. It has been incorporated to CSN in 1941, but has been in operation since 1913.

Our iron ore at Casa de Pedra is currently excavated by a fleet composed of Marion 191M electric shovels, P&H 1900AL electric shovels, Komatsu PC5500 hydraulic shovels, wheel loaders (Caterpillar 994F, Komatsu WA1200 and LeTourneau 1850) and then hauled by a fleet of Terex Unit Rig MT3300AC (150 tons), Caterpillar 793D (240 tons) and Terex Unit Rig MT4400AC (240 tons).

Casa de Pedra mine is wholly-owned by us and supplies all of our iron ore needs, producing lump ore, sinter feed and pellet feed fines with high iron content. The maps below illustrate the location of our Casa de Pedra mine:





*Namisa*

We own additional iron ore assets through Namisa, our 60% consolidated investee, which acquired CFM (Companhia de Fomento Mineral e Participações) in July 2007. CFM was formed in 1996 with the purpose of utilizing and enhancing the ore treatment facilities of the Itacolomy mines, for the beneficiation of crude ore extracted from the Engenho mine.

The Engenho mine is also an open pit mine located at the Southwestern region of the Iron Ore Quadrangle, 60 km south of the city of Belo Horizonte and is accessible from the cities of Belo Horizonte or Congonhas through mostly paved roads. The map below illustrates the location of our Engenho mine:

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The Engenho mine's operation started in 1950. The ore in this mine is excavated by a fleet of wheel loaders (Komatsu WA470-6) and excavators (Komatsu PC600LC-8) and then hauled by a fleet of Iveco Trakker 410T42 trucks. The ore is then processed in Pires treatment facilities, which has an installed capacity of 7 million tons of products per year.

The Fernandinho mine, which we also hold through Namisa, is located in the city of Itabirito, in the State of Minas Gerais. This city is located in the Middle-East region of the State of Minas Gerais and approximately 40 km from the city of Belo Horizonte. Fernandinho is an open pit mine and is accessible from the cities of Belo Horizonte or Itabirito through mostly paved roads. The map below illustrates the location of our Fernandinho mine:



The Fernandinho mine's operation also started in 1950. The ore in this mine is excavated by a fleet of wheel loaders (Komatsu WA470-6) and excavators (Komatsu PC350LC-8) and then hauled by a fleet of Iveco Trakker 410T42 and Iveco Trakker 380T42 trucks. The ore is then processed in Fernandinho treatment facilities, which has an installed capacity of 750 thousand tons of products per year.

### ***Limestone and Dolomite Mine***

Our extraction and preparation of limestone and dolomite is done at our Bocaína mining facility located in the city of Arcos, in the State of Minas Gerais. This mining facility has an installed annual production capacity of approximately 4.0 million tons. We believe this mining facility has sufficient limestone and dolomite reserves to adequately supply our steel production, at current levels, for more than 37 years. The mining facility is located 455 km from the Presidente Vargas Steelworks.

### ***Tin***

We own a tin mine in Itapuã do Oeste, in the State of Rondônia, through our subsidiary Estanho de Rondônia S.A. (ERSA). This facility has an installed annual production capacity of approximately 3,600 tons of tin, which we use substantially as a raw material to produce tin plate, a coated steel product. A small part of our tin production that is not used as raw material is sold to third parties; however, the results from these sales are insignificant to our consolidated results.

### ***Mineral Rights and Ownership***

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

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

### ***Casa de Pedra***

Our mining rights for Casa de Pedra mine include the mine, a beneficiation plant, roads, a loading yard and a railway branch and are duly registered with the Brazilian Department of Mineral Production (*Departamento Nacional de Produção Mineral*), or DNPM. DNPM has also granted us easements in 19 mine areas located in the surrounding region, which are not currently part of Casa de Pedra mine.

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

Exploration undertaken at the Casa de Pedra mine is subject to mining lease restrictions, which were reflected in our iron ore reserve calculations. Quality requirements (chemical and physical) are the key “modifying factors” in the definition of ore reserves at Casa de Pedra and were properly accounted for by us.

### ***Mineral Reserves***

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

<b>Mine</b>	<b>Type</b>	<b>Operating Since</b>	<b>Projected exhaustion date</b>	<b>CSN % interest</b>
<b>Iron:</b>				
Casa de Pedra (Congonhas, Minas Gerais)	Open pit	1913	2041	100
Engenho (Congonhas, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2041	60
Fernandinho (Itabirito, Minas Gerais)	Open pit	2007 (Start of operation by Namisa)	2030	60
<b>Limestone and Dolomite:</b>				
Bocaina (Arcos, Minas Gerais)	Open pit	1946	2049	100

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The following table sets forth our estimates of proven and probable reserves and other mineral deposits at our mines reflecting the results of reserve studies. They have been calculated in accordance with the technical definitions contained in the SEC's Industry Guide 7, and estimates of mine life described herein are derived from such reserve estimates. In the case of the Engenho and Fernandinho mines, where we own 60% of interests, the mineralized materials disclosed are for the entire mine, and not just for our proportional interest in the mine.

According to the report "Audit of Ore Reserves for CSN Casa de Pedra Iron Mine", prepared by Golder Associates in May 2007, our reserve estimation process is subject to some smoothing, but does not reflect losses for mine dilution and mining recovery. We intend to perform studies regarding those losses during the preparation process for the new reserve audit. Likewise, Namisa's estimation process for the Engenho and Fernandinho mines does not reflect losses for mine dilution and mining recovery.

We are in the process of performing new reserve studies for our iron ore mines. We expect to have the new audit report for Casa de Pedra by mid-2014 and the audit report for Namisa by late 2014.

**MINERAL RESERVES AND QUANTITY ESTIMATES FOR MINERALIZED MATERIAL – As of December 31, 2012**

Mine Name and Location	Proven and Probable Reserves <sup>(1)</sup>		Rock Type	Recoverable Product <sup>(5)</sup> (millions of tons)	Quantity Estimates for Mineralized Material <sup>(2)</sup> Tonnage (millions of tons)
	Ore Tonnage <sup>(3)</sup> (millions of tons) Proven <sup>(6)</sup>	Probable <sup>(7)</sup>			
<b>Iron:</b>					
Casa de Pedra (Congonhas, Minas Gerais)	957	514	47.79% Fe	836	8,285
Engenho (Congonhas, Minas Gerais)			46.07%		852
Fernandinho (Itabirito, Minas Gerais)			40.21%		578
<b>Total Iron:</b> (Congonhas, Minas Gerais)	<b>957</b>	<b>514</b>		<b>836</b>	<b>9,715</b>
<b>Limestone and Dolomite:</b>	<b>Proven<sup>(6)</sup></b>	<b>Probable<sup>(7)</sup></b>			
Bocaina			41.3%CaO	Limestone (86%)	

(Arcos, Minas Gerais)	5.99%MgO	Dolomite (14%)	1,190
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(1) Reserves means the part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. We do not have reserve audits for the Engenho and Fernandinho. The reserves for the Casa de Pedra mine were audited in 2006 and we have reduced the amount of proven reserves by our annual production since then.

(2) Mineralization that has been sufficiently sampled at close enough intervals to reasonably assume continuity between samples within the area of influence. This material does not yet qualify as a reserve.

(3) Represents ROM material.

(4) Grade is the proportion of metal or mineral present in ore or any other host material.

(5) Represents total product tonnage after mining and processing losses.

(6) Means reserves for which: (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well- established.

(7) Means reserves for which quantity and grade and /or quality are computed from information similar to that used for proven (measure) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measure) reserves, is high enough to assume continuity between points of observation.



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We do not have audited data for resources estimates, only for reserves estimates.

The metallurgical recovery factor is the proportion of iron in the ore delivered to the processing plant that is recovered by the metallurgical process. In 2012, the metallurgical recovery factor obtained by Casa de Pedra concentration plant was 76.0%. That same factor was 39.4% for the Engenho plant and 63.0% for the Fernandinho plant.

The cutoff grade is the minimum ore percentage that determines which material will be fed in the processing plant. We also plan to perform studies to determine the cutoff grade value during the preparation process for the new audit in Casa de Pedra. In the audit performed in 2006, the Benefit Function considered the lithologies to separate iron from waste. The cutoff grade value for Namisa is also yet to be determined.

The prices used in the 2006 audit for the estimation of Casa de Pedra reserves are shown in the following table (Golder's Final Report for the Audit of Ore Reserves for CSN Casa de Pedra Iron Mine, 2007). As shown, the product price we assumed to estimate our reserves is conservative in comparison to the actual three-year average prices.

	PRICE FOR THE THREE YEARS PRIOR TO THE AUDIT				
	Price for the three years prior to the audit			Average	Product Price
	2004	2005	2006	(US\$/t) From 2004 to 2006	(US\$/t) Assumption
Lump	28.80	49.40	58.79	45.66	25.26
"Hematitinha"	12.08	28.34	35.75	25.39	18.14
Sinter Feed	21.91	37.58	44.73	34.74	20.73
Pellet Feed Fines	21.40	36.69	43.66	33.92	20.44

Namisa does not yet have a reserve audit; therefore, we have not established prices to estimate reserves for its mines.

### ***Casa de Pedra***

In 2006, we concluded an extensive, multi-year study of our iron ore reserves at Casa de Pedra. The study consisted of three phases. Phase one, which was completed in 1999, covered the ore bodies that are currently being mined or are close to the current operating open pits. Phase two, which was completed in early 2003, covered the other iron ore deposits at Casa de Pedra site. Phase three started in 2005 and involved a complete revaluation of our mineral reserves at Casa de Pedra.

We conducted extensive work throughout 2006 to document and classify all information related to both the current and future operations of the Casa de Pedra mine. In 2006, we hired Golder Associates S.A., or Golder, to undertake an independent analysis of the Casa de Pedra iron ore reserves. Golder carried out a full analysis of all available information and has independently validated our reported reserves.

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Golder accepts as appropriate the estimates regarding proven and probable reserves made by us, totaling 1,631 million tons of iron ore (as of December 31, 2006) at a grade of 47.79% Fe and 26.63% SiO<sub>2</sub>. This new estimate of our iron ore reserves at Casa de Pedra is significantly larger than our estimate of 444 million tons, contained in an appraisal report prepared in 2003.

Over the course of the Casa de Pedra Mine's life we have executed different drilling campaigns and, in total, we have drilled 91,515 meters until 2011. The last completed campaign began in May 2010 and ended in April 2011. In the course of that campaign, we drilled 11,069 meters. We are extending our drilling campaign by an additional 30,000 meters to increase and improve our knowledge about the iron ore deposits at Casa de Pedra. This campaign includes the programming of laboratory tests for approximately 1,800 samples. It started in October 2012, and by December 2012 we had drilled a total of 2,055 meters. We plan to conclude drilling by December 2013. We will use this new campaign and the 2010-2011 campaign for the new reserve audit and we expect to have the new Audit Report ready by mid-2014.

***Namisa***

An initial study was conducted at Fernandinho and Engenho mines to define the geological reserves and final pits. In 2008 and 2009, we extended our drilling campaign with an additional 5,179 meters at Engenho mine and 2,771 meters at Fernandinho mine (totaling a campaign of 7,950 meters) to increase and improve our knowledge about the iron ore deposits at these mines. In November 2012 we started a new drilling campaign with an additional 10,000 meters in the Engenho Mine. By December 2012, we had drilled a total of 404 meters and we expect to conclude this campaign by December 2013. We also intend to conduct a drilling campaign of an additional 10,000 meters in the Fernandinho Mine in 2013. We expect that, as soon as a new model and final pit are finished (approximately in December 2013), this reserve can be audited and may be incorporated into our mineral deposits. We expect to have an audit reserve ready by late 2014.

***Production******Casa de Pedra***

The Casa de Pedra facilities are located in the city of Congonhas, in the State of Minas Gerais. The Casa de Pedra mine is located 350 km from the Presidente Vargas Steelworks and supplies iron ore products to our steel mill, as well as for export through the Itaguá Port. Casa de Pedra's equipment fleet and treatment facilities have an installed annual ROM capacity of approximately 86.0 million tons and 22 million tons, respectively.

***Namisa***

Namisa has two beneficiation plants: one is the Pires Plant, which receives material from our Engenho mine (located at the northern border of the Casa de Pedra mine) and the other is the Fernandinho Plant, which receives material from our Fernandinho mine (located in the city of Itabirito). The beneficiation plant at Pires also processes crude ore acquired from other companies, which along with its own ROM, generates final products such as: lump ore, small lump ore (hematitinha), sinter feed and concentrates. The beneficiation plant at Fernandinho generates sinter feed and fines as final products.

Namisa complements our strategy to be a world leading producer of high quality iron ore. Namisa remains fully integrated with our railway and port logistics corridor, through long-term contracts, which provide sufficient railway and port logistics capacity for Namisa's current and future production. Namisa is a leading company in iron ore

mining and trading, with mining and processing operations in the State of Minas Gerais. Trading iron ore is obtained from small mining companies in the neighborhood and other trading companies.

The table below sets forth production of iron ore of our mines for the last three years:

<b>Casa de Pedra (Mt)</b>	<b>21.6</b>	<b>20.1</b>	<b>19.8</b>
Grade (%)	65.6%	65.3%	64.4%
<b>Pires<sup>(2)</sup> (Mt)</b>	<b>6.1</b>	<b>5.7</b>	<b>4.1</b>
Grade (%)	62.6%	62.3%	62.2%
<b>Fernandinho<sup>(2)</sup> (Mt)</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>
Grade (%)	59.6%	58.6%	57.4%

(1) In addition to its own production, Namisa also purchases iron ore from third parties. Third party purchase volumes totaled 5.9 million tons, 7.5 million tons and 9.3 million tons in 2010, 2011 and 2012, respectively.

(2) Production information considers 100% of the mines, not just our 60% interest.

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<b>Consolidated Sales (Mt)</b>	<b>18.6</b>	<b>23.8</b>	<b>20.2</b>
<b>Consolidated Net Revenue Per Unit (US\$/t)</b>	<b>98</b>	<b>135</b>	<b>97</b>

(1) Consolidated sales consider our proportional 60% interest in Namisa.

***Distribution***

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

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

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

**Our Logistics Segment**

Our logistics segment is comprised of railway and port facilities.

***Railways******Southeastern Railway System***

MRS has a 30-year concession to operate, through the year 2026 and renewable for an equal period of 30 years, Brazil's Southeastern railway system. As of December 31, 2012, we held 33.27% of MRS' total capital. The Brazilian Southeastern railway system, with 1,643 km of track, serves the São Paulo - Rio de Janeiro - Belo Horizonte industrial triangle in Southeast Brazil, and links our mines located in the State of Minas Gerais to the ports located in the states of São Paulo and Rio de Janeiro and to the steel mills of CSN, Companhia Siderúrgica Paulista, or Cosipa, and Gerdau Açominas. In addition to serving other customers, the line transports iron ore from our mines at Casa de Pedra in the State of Minas Gerais and coke and coal from Itaguaí Port in the

State of Rio de Janeiro to the Presidente Vargas Steelworks and transports our exports to the ports of Itaguaí and Rio de Janeiro. The railway system connects the Presidente Vargas Steelworks to the container terminal at Itaguaí Port, which handles most of our steel exports. Our transport volumes represent approximately 25% of the Brazilian Southeastern railway system's total volume. We are jointly and severally liable, along with the other principal MRS shareholders, for the full payment of the outstanding amount of its indebtedness (See "Item 5E. Off-Balance Sheet Arrangements"), however, we expect that MRS will make the lease payments through internally generated funds and proceeds from financing.

*Northeastern Railway System*

As of December 31, 2012, we hold 76.13% of the capital stock of Transnordestina Logística S.A.. Transnordestina Logística S.A. has a 30-year concession granted in 1997, renewable for an equal 30-year period, to operate Brazil's Northeastern railway system. The Northeastern railway system includes 4,534 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. It also connects with the region's leading ports, thereby offering an important competitive advantage through opportunities for intermodal transportation solutions and made-to-measure logistics projects.

For more information on Transnordestina, see "Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments."

*Port Facilities**Solid Bulks Terminal*

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

*Container Terminal*

We own 99.99% of Sepetiba Tecon S.A., or TECON, which has a concession to operate, for a 25-year term expiring in 2026 that is renewable for another 25 years, the container terminal at Itaguaí Port. As of December 31, 2012, US\$152 million of the cost of the concession remained payable over the next 14 years of the lease. For more information, see "Item 5E. Off-Balance Sheet Arrangements". The Itaguaí Port is located in Brazil's Southeast Region, with all major exporting and importing areas of the states of São Paulo, Minas Gerais and Rio de Janeiro within 500 km from the port. This area represents more than 50% of the Brazilian gross domestic product, or GDP, according to the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*). The Brazilian Federal Port Agency has spent more than US\$48 million in the past few years in port infrastructure projects such as expanding the maritime access channel and increasing its depth. In addition, significant investments were made by the Brazilian federal government in adding two extra lanes to the Rio-Santos road, and are being made in constructing the Rio de Janeiro Metropolitan Bypass (ongoing project), a beltway that will cross the Rio de Janeiro metropolitan area. These factors, combined with favorable natural conditions, like natural deep waters and a low urbanization rate around the port area, allow the operation of large vessels as well as highly competitive prices for all services rendered, resulting in the terminal being a major hub port in Brazil.



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Investments made from 2007 to 2012, mainly in two Super Post Panamax Portainers and two Rubber Tired Gantry, or RTG, cranes, 6 new Reach Stackers and 8 forklifts, among others, have shown to be successful. These investments, along with a focused marketing and sales strategy, enabled the terminal to rank first in market share among the three terminals of the state of Rio de Janeiro in 2012, with 38% of the total moves in those terminals.

We are carrying out new infrastructure and equipment investments in Sepetiba TECON, such as the Berth 301 Equalization and the acquisition of two new Super Post Panamax Portainers and four new RTG cranes to yard operations. In 2012, we carried out the dredging of Sepetiba Tecon's Berths 302/303 and access channel to 15.5 m depth. These investments will increase TECON's capacity from 320,000 containers (or 480,000 TEUs) to 410,000 containers (or 610,000 TEUs) per year and from 2.0 million tons to 6.0 million tons per year of steel products. We intend to use this port to ship all our exports of steel products. In 2012, 58% of the exported steel products (or 83,466 tons), were shipped from this port, as compared to 83% in 2011.

In 2012, the terminal continued to grow, following a 10% growth in 2011. It achieved 216,460 units handled (or 329,072 TEUs), an increase of 2% as compared to 2011, a less significant figure due to the limitations generated by the equalization work performed on Berth 301.

### **Our Cement Segment**

Our cement segment is comprised of a cement plant in Volta Redonda, in the state of Rio de Janeiro, and a clinker plant in Arcos, in the state of Minas Gerais.

#### ***Production***

The production process in CSN's cement factory in Volta Redonda begins with the influx of raw materials: clinker, limestone, gypsum and slag. We currently import clinker, but, with the startup of our clinker plant in Arcos, in mid-2011, imports are gradually being reduced. Limestone comes from Arcos by rail. Clinker is stored in a silo (capacity: 45,000 tons) and limestone in a warehouse (capacity: 10,000 tons). Slag is a by-product of iron and steel, produced in the blast furnace, and is also stored in the warehouse (capacity: 20,000 tons), arriving at the plant by road. CSN uses natural gypsum, from Ouricuri, in the state of Pernambuco, which arrives at the plant by truck and is stored in the warehouse (capacity: 10,000 tons).

All transportation of raw materials within the plant is carried out by conveyor belts, placing inputs in scales according to a predefined formula and delivering them to the mills. There are two grinding lines and each mill has a nominal capacity of 170 tons/h. Annual plant capacity is 2.4 million tons of cement. The mill has a hydropneumatic roller system, which uses pressure to grind the layer of material on the turntable. Hot gas, derived from the combustion of natural gas or petroleum coke, is pumped into the mills to maintain the proper temperature in the circuit.

The type of cement we produce is CP III-40 RS (Sulfator resistant), which is then taken through a bucket elevator to be stored in silos. The plant has four silos, two of them with 10,000 tons of capacity and two with 5,000 tons of capacity. Cement can be shipped in bagged and bulk forms. We have two baggers with 12 filling nozzles (nominal capacity of 3600 bags/hour) and two palletizers for bagging cement.

### **Our Energy Segment**

Our energy segment is comprised of generation plants and is aimed at enabling us to maintain our self-sufficiency in energy, reducing our production cost and our exposure to fluctuations or availability of certain energy sources.



Our energy related assets include:

*Thermoelectric Co-Generation Power Plant*

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

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*Itá Hydroelectric Facility*

Tractebel and CSN each own 48.75% of ITASA, a special-purpose company formed for the purpose of owning and operating, under a 30-year concession granted in 2000 and renewable for an equal term, 60.5% of the Itá hydroelectric facility on the Uruguay river in Southern Brazil. Companhia de Cimento Itambé, or Itambé, owns the remaining 2.5% of ITASA. Tractebel directly owns the remaining 39.5% of the Itá hydroelectric facility.

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

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

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

*Igarapava Hydroelectric Facility*

We own 17.9% of a consortium that built and has the right to operate for 30 years the Igarapava hydroelectric facility. Other consortium members are Vale, Companhia Mineira de Metais, Votorantim Metais Zinco, AngloGold Ashanti Mineração Ltda., and Companhia Energética de Minas Gerais, or CEMIG. The plant has an installed capacity of 210 MW, corresponding to 136 MW of firm guaranteed output as of December 31, 2012. We have been using part of our 22.8 MW take from Igarapava to supply energy to the Casa de Pedra and Arcos mines and to the Presidente Vargas Steelworks.

**Marketing Organization and Strategy***Flat Steel*

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

Our sales approach is to establish brand loyalty and achieve a reputation for quality products by developing relationships with our clients and focusing on their specific needs, providing tailor-made solutions for each of our clients.

Our commercial area is responsible for sales of all of our products. This area is divided into two major teams, one focused on international sales and the other on domestic sales. The domestic market oriented sales team is divided into seven market segments: Packaging, Distribution Network, Automotive Industry (Automakers and Auto Parts), Home Appliances, Original Equipment Manufacturer, or OEM, Construction and Pipes. The commercial area also has a team called "Special Sales" which is responsible for selling all the process residues, such as blast furnace slag, pitch and ammonia, which are widely used as inputs in chemical and cement industries.

The Distribution Network division is responsible for supplying large steel processors and distributors. Besides the independent distributors, CSN also has its own distributor, called Prada Distribuição. The Pipes division supplies oil and gas pipe manufacturers as well as some industries that produce small diameter pipe and light profiles. The Packaging unit acts in an integrated way with suppliers, representatives of the canning industry and distributors to respond to customer needs for finished-products. The Automotive unit is supplied by a specialized mill, CSN Porto Real, and also by a portion of the galvanized material produced at Presidente Vargas Steelworks, benefitting from a combined sales strategy.

In 2012, about 65% of our domestic sales were made through our own sales force directly to customers. The remaining sales were to independent distributors for subsequent resale to smaller clients.

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

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

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

*Sales by Geographic Region*

In 2012, we sold steel products to customers in Brazil as well as to customers in 25 other countries. The fluctuations in the portion of total sales assigned to domestic and international markets, which can be seen in the table below, reflect our ability to adjust sales in light of variations in the domestic and international economies, as well as steel demand and prices, both domestically and abroad.

The two main export markets for our products are North America and Europe, representing 44% and 40%, respectively, of our export sales volume in 2012.

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

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

	2012		2011		2010		2011		2010		2010	
	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total	Tons	% of Total	Net Operating Revenues <sup>(2)</sup>	% of Total
Brazil	4,495	77.1%	8,338	78.5%	4,216	86.1%	8,033	86.8%	4,135	86.2%	8,575	88.6%
Export	1,334	22.9%	2,278	21.5%	680	13.9%	1,219	13.2%	661	13.8%	1,107	11.4%
<b>Total</b>	<b>5,829</b>	<b>100.0%</b>	<b>10,616</b>	<b>100.0%</b>	<b>4,896</b>	<b>100.0%</b>	<b>9,252</b>	<b>100.0%</b>	<b>4,796</b>	<b>100.0%</b>	<b>9,682</b>	<b>100.0%</b>
<b>Exports by Region</b>												
Asia	17	1.3%	31	1.3%	21	0.4%	31	0.3%	28	0.6%	38	0.4%
North America <sup>(1)</sup>	289	21.7%	552	24.2%	270	5.5%	473	5.1%	268	5.6%	434	4.5%

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Latin America	81	6.1%	199	8.8%	58	1.2%	144	1.6%	56	1.2%	136	1.4%
Europe	942	70.6%	1,484	65.2%	312	6.4%	545	5.9%	277	5.8%	434	4.5%
All Others	5	0.3%	12	0.5%	19	0.4%	27	0.3%	32	0.7%	65	0.7%

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

(2) Net operating revenues presented above differ from amounts in our IFRS consolidated financial statements because they do not include revenues from non-steel products (non-steel products include mainly by-products, iron ore, logistics services and cement).

*Sales by Product*

The following table sets forth our market shares for steel sales in Brazil of hot-rolled, cold-rolled, galvanized and tin mill products for 2011, 2010 and 2009. Market share information for 2012 was not yet available as of the date of this annual report.

<b>CSN Domestic Market Share</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Hot-Rolled Products	66.3%	60.7%	53.4%
Cold-Rolled Products	34.8%	29.5%	30.9%
Galvanized Products	45.5%	47.1%	47.0%
Tin Mill Products	98.2%	96.8%	86.1%

Soutce: IABr and CSN data

*Sales by Industry*

We sell our steel products to manufacturers in several industries. The table below shows our domestic shipments breakdown by volume for the last three years among our market segments:

*Sales by Industrial Segment in Brazil*

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>(In percentages of total domestic volume shipped)</i>		
Distribution Network	42%	41%	41%
Packaging	8%	9%	10%
Automotive	16%	16%	19%
Home Appliances	7%	7%	7%
OEM	6%	6%	5%
Construction	21%	21%	17%

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

For further information on steel sales, see "Item 5A. Operating Results - Steel Markets and Product Mix - Sales Volume and Net Operating Revenues by Steel Products and Markets" and "Item 5A. Operating Results - Results of Operations - Year 2011 Compared to Year 2010 - Net Operating Revenues".

*Seasonality*

Steel demand is stronger in the second quarter of the year and weaker in the last quarter. Nevertheless, our production is continuous throughout the year.

***Long Steel***

Our long steel products are sold both in Germany (about 30%) and other countries, mainly in Europe (60%), for industrial, infrastructure, civil construction and engineering industries.

Our sales approach is to establish brand loyalty and to maintain our reputation of high quality products and excellent delivery performance by developing long term relationships with our clients. SWT focuses on meeting specific customer needs, developing solutions for both low temperature and high temperature resistant applications, as well as optimized section shapes for special applications.

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Our commercial area is responsible for sales of all of our products worldwide. This area is divided into the direct sales team which is organized in 13 agencies situated in Germany and our core markets in Europe, the commercial back office department (order management from entry via tracking to the final delivery and invoicing), logistics contracting (truck, rail, vessel, maritime, inventory worldwide) and a rail logistics department.

SWT does not possess its own distribution network, instead cooperating with the big steel distributors and traders in Europe and other countries. All of our sales are on an order-by-order basis. The delivery time is related to the logistics chain and varies between 2 to 6 weeks depending on Incoterm and section type. As a result, our production levels closely reflect our order log book status. We forecast sales trends in both the European and export markets based on the historical data available from the last two years and the general economic outlook for the near future. We believe that our presence in the export market outside of Europe gives us more flexibility to optimize production and maximize our profitability.

Sections are not sold based on uniform pricing in Europe, as wide differences exist in terms of size, quality and specifications. In general, exports are priced based on international spot prices of steel at the time of sale in U.S. dollars or Euros, depending on the destination. Sales are normally paid within 30 days, and, in the case of exports, usually backed by a letter of credit and an insurance policy. All SWT businesses are 100% covered by EulerHermes risk insurance, a bank guarantee or a letter of credit. Sales are made primarily on cost and freight terms.

**Iron Ore**

Iron ore products are commercialized by our commercial team located in Brazil and overseas. In Europe and Asia, our offices also include our technical assistance management. These three marketing units allow us to stay in close contact with our customers worldwide, understand the environment where they operate, monitor their requirements and provide all necessary assistance in a short period of time. Market intelligence analysis, planning and administration of sales are handled from Brazil by the staff in our São Paulo office, while our domestic sales team is located at Casa de Pedra mine, in the State of Minas Gerais.

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

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

*Iron Ore Sales*

CSN – Sales of Iron Ore Products by Destination  
(In thousands of metric tons and millions of R\$)

	2012		2011		2010	
	Tons	Net % of Operating Total Revenues	Tons	Net % of Operating Total Revenues	Tons	Net % of Operating Total Revenues
Brazil	478,626	2.4%	1,457,381	6.1%	1,519,562	8.2%
	713,445	15.9%	834,144		573,976	15.9%



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Export	19,702,695	97.6%	3,772,102	84.1%	22,392,132	93.9%	5,107,707	86.0%	17,035,422	91.8%	3,041,166	84.1%
<b>Total</b>	<b>20,181,321</b>	<b>100%</b>	<b>4,485,549</b>	<b>100%</b>	<b>23,849,513</b>	<b>100%</b>	<b>5,941,851</b>		<b>18,554,984</b>	<b>100%</b>	<b>3,615,142</b>	<b>100%</b>
<b>Exports</b>												
<b>by</b>												
<b>Region</b>												
Asia	15,230,579	77.3%	2,971,131	78.8%	18,815,484	84.0%	4,250,002	83.2%	14,140,642	83.0%	2,513,499	82.6%
North America	94,942	0.5%	16,589	0.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Europe	4,377,173	22.2%	784,384	24.1%	3,576,648	16.0%	857,705	16.8%	2,894,780	17.0%	527,667	17.4%

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

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In 2012, CSN's iron ore sales reached 20.2 million tons, a 15% decrease compared to 2011. According to our consolidated financial statements, total mining revenue decreased 23% over the past year, due to declining iron ore prices. The share of mining revenue in CSN's total net revenue decreased from 35% in 2011 to 26% in 2012.—

In 2012, 65% of our export sales went to the Asian market, mainly China, 22% were sold in the European market and the remaining 13% were sold to other countries mainly in the Middle East. Of our total sales, 78% were sinter feed, 14% pellet feed, 4% lump ore and 4% concentrated.

We expect the iron ore market to maintain a bullish trend supported by growing emerging market demand, high cost Chinese production, and infrastructure bottlenecks for low cost producers. The continued urbanization process in regions such as India, the Middle East, Latin America and China should support this tendency.

As global iron ore markets are highly competitive, we focus on our flexibility, reliability and efficient manner of supplying iron ore to the world market.

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

For further information on iron ore sales, see “Item 5A. Operating Results - Results of Operations - Year 2012 Compared to Year 2011 – Net Operating Revenues.”

## **Cement**

We sell cement type CPIII 40 RS in bagged and bulk forms and import CPII F. We operate in the markets of Rio de Janeiro, Minas Gerais, São Paulo and the northeast region (with imported cement). With the purpose of expanding and increasing competitiveness, we own six distribution centers located in strategic points: three in São Paulo, two in Rio de Janeiro and one in Minas Gerais. Supply to these distribution centers is made through railways and road transport, using mainly the MRS railway.

We have a diverse client base of over 10,000 clients, including construction material stores, home centers, concrete producers, construction companies, mortar industries and cement artifact producers.

The focus of our sales strategy is on retail. In this segment, we have a strong presence in sales points, where we reinforce the quality of the product to final customers. The retail segment operates with a low level of inventory, and a significant percentage of repurchase in the month, which highlights the competitive advantage of CSN's distribution centers.

In 2012, we significantly increased our sales, reaching 1,972 thousand tons, representing a growth of 12.4% when compared to 2011. All our cement production is sold in the local market.

CSN – Sales of Cement by Destination (In thousands of metric tons and millions of R\$)					
2012		2011		2010	
Tons	Net Operating	Tons	Net Operating	Tons	Net Operating

	<b>Revenues</b>		<b>Revenues</b>		<b>Revenues</b>	
Brazil	1,972	388	1,755	333	992	202

**Insurance**

We and our subsidiaries maintain several types of insurance policies. These insurances are contracted in line with the risk management of our business and attempt to follow the market practices for similar activities. Coverage in such policies encompasses domestic and international (import and export) cargo transportation (by road, rail, sea or air), carrier liability, life insurance, personal accidents, health, auto insurance, D&O, general liability, erection risks, boiler and machinery coverage, export credit insurance, surety, ports and terminal liabilities. These policies may not be sufficient to cover all risks we are exposed to.

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We also have an insurance policy covering the operational risks, material damages and loss of profits of the following CSN's branches and subsidiaries: Presidente Vargas Steelworks, Casa de Pedra Mine, Arcos Mine, Paraná Branch, CSN Porto Real (former Galvasud), Coal Terminal TECAR, Container Terminal TECON, Namisa, CSN Handel, Namisa Handel and CSN Cimentos. This policy was negotiated with domestic and foreign insurers and reinsurers and is valid until June 30, 2013 for a total insured value of US\$500 million (out of a total risk amount of US\$17.7 billion). Under the terms of the policy, CSN remains responsible for the first tranche of US\$300 million in losses (material damages and loss of profits).

**Intellectual Property**

We possess patents and have technical cooperation agreements with universities and research institutes that provide us with special technical reports and advice related to specific products and processes. We are not dependent on any of such patents or agreements for the commercialization of our products.

**Competition in the Steel Industry**

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

***Competition in the Brazilian Steel Industry***

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

The following table sets forth the production of crude steel by Brazilian companies for the years indicated<sup>(2)</sup>:

	2011		2010		2009	
	Ranking	Production (In million tons)	Ranking	Production (In million tons)	Ranking	Production (In million tons)
Gerdau <sup>(1)</sup>	1	8.8	1	8.2	1	6.1
Usiminas	2	6.7	2	7.3	2	5.6
ArcelorMittal Tubarão	3	5.4	3	6.0	3	5.3
CSN	4	4.9	4	4.9	4	4.4
ArcelorMittal Aços						
Longos	5	3.5	5	3.4	5	3.2
Others		5.9		3.1		1.9
<b>Total</b>		<b>35.2</b>		<b>32.9</b>		<b>26.5</b>

Source: IABr

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

2. Information for 2012 was not yet available as of the date of this annual report

***Competitive Position — Global***

During 2012, Brazil maintained its place as the largest producer of crude steel in Latin America, with a production output of 34.7 million tons and a 2.3% share of total world production, according to data from the World Steel Association, or WSA. In 2012, Brazil also maintained its position as the ninth largest steel producer globally, accounting for around three-quarters of total production in Latin America, approximately twice the size of Mexico's or 40% of the U.S.' steel production, according to data from the WSA. According to IABr, Brazilian exports in 2012 amounted to 8.6 million tons of finished and semi-finished steel products.

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

### ***Competitive Advantages of the Brazilian Steel Industry***

Brazil's principal competitive advantages are its abundant supply of low-cost, high-grade iron ore and energy resources. Brazil also benefits from a vast internal market with a large growth potential, a privatized industry making investments in plant and equipment, and deep water ports allowing the operation of large ships, which facilitates access to export markets.

Brazilian domestic steel prices have historically been higher than its export prices. However, in 2010 and 2011, lower demand in mature markets, the appreciation of the *real* against the U.S. dollar, certain tax incentives, and imported steel products forced Brazilian producers to adjust prices closer to export price levels in order to maintain competitiveness. In 2012, with the slowdown of European demand and the depreciation of the real against the U.S. dollar, export prices fell and domestic prices rose again. This movement was also influenced by protective government measures which raised taxes on steel imports.

## **Government Regulation and Other Legal Matters**

### ***Environmental Regulation***

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

While the Brazilian government has authority to promulgate environmental regulations setting forth minimum standards of environmental protection, state and local governments have the power to enact more stringent environmental regulations. We are subject to regulation and supervision by the Brazilian Ministry of Environment, the Environmental National Council ("CONAMA"), which is the Federal body responsible for enacting technical regulations and environmental protection standards, and by the Brazilian Institute of Environment and Renewable Natural Resources ("IBAMA"), which is responsible for enforcing environmental laws at the federal level. The environmental regulations of the State of Rio de Janeiro, in which the Presidente Vargas Steelworks is located, are enforced by the State Institute of Environment ("INEA"). In the state of Minas Gerais, where our main mining

operation is located, we are subject to regulation and supervision by the Environmental Policy Council (“COPAM”) and the State Environmental Foundation (“FEAM”). Specific goals and standards are established in operating permits or environmental accords issued to each company or plant. These specific operation conditions complement the standards and regulations of general applicability and are required to be observed throughout the life of the permit or accord. The terms of such operating permits are subject to change and are likely to become stricter. All of our facilities currently have operating permits.

In recent years, we requested and/or obtained several emissions permits and renewals of environmental permits, both for our current operations and for the development of new projects regarding steel and cement manufacturing, iron ore and limestone mining and logistics.

***Environmental Expenditures and Claims***

Promoting responsible environmental and social management is part of our business. We prioritize processes and equipment that offer modern and reliable technologies on environmental risks monitoring and control. We operate a corporate environmental department managed under an Environmental Management System, or EMS, compliant with ISO 14001:2004 requirements. In addition, we have established (i) an internal committee for environmental management composed of professionals from different departments of CSN's units, whose goal is to regularly discuss any problems that may arise and to identify risks and aspects of the operations in which the group can act pro-actively in order to prevent possible environmental harm and (ii) a sustainability committee composed of external advisors, which provides guidelines for our strategic decisions. The environmental controls implemented since 2006 also contribute to mitigate the risks of environmental compliance of CSN's operations.

To further understand our potential social and environmental risks, we use mapping criteria in accordance with the Global Reporting Initiative, or GRI, for all of our operations. Resulting data and indicators in environmental, social and economic categories allow us to track our performance, structure and monitor action plans, in an effort to improve and enhance our results.

Finally, in response to a law enacted by the State of Rio de Janeiro in effect from 2013 requiring steel making and cement facilities to present action plans to reduce greenhouse gas emissions when renewing or applying for operational licenses, we have conducted a survey of greenhouse gas emissions at our main sites in 2012, and plan to use this information in the development of a corporate carbon management program and related strategies to reduce emissions.

Since our privatization, we have invested heavily in environmental protection and remediation programs. We had environmental expenditures (capitalized and expensed) of R\$436.2 million in 2012, of which R\$131.4 million relate to capital expenditures and R\$304.8 million relate to operational expenditures. Our environmental expenditures were R\$310.6 million in 2011 and R\$336.0 million in 2010.

Our investments in environmental projects during 2012 were mainly related to: (i) operation, maintenance and retrofitting of environmental control equipment; (ii) development of environmental studies for permit applications; (iii) studies, monitoring and remediation of environmental liabilities due to prior operations, especially before our privatization; and (iv) human resources (environmental team), Environmental Management System, sustainability projects and compliance programs.

In 2010, we signed with the Rio de Janeiro State Government a Term of Undertaking, or TAC, that required new investments and studies to retrofit our environmental control equipment at the Presidente Vargas Steelworks. The TAC initially estimated the total amount to be disbursed in connection with implementation of the required projects thereunder to be R\$216 million. This initial estimate was updated to R\$260 million as we obtained more accurate cost estimates for completion of the projects. Although we have not yet concluded the process of obtaining updates for cost estimates for all projects under the TAC, we expect that investments required may exceed our last estimates.

Our main environmental claims as of December 31, 2012 were associated with recovery services at former coal mines decommissioned in 1989 in the state of Santa Catarina, and recovery services due to previous operations in our



Presidente Vargas Steelworks.

In July 2012, the Ministério Público Estadual do Rio de Janeiro (Environmental Public Prosecutor of the State of Rio de Janeiro) filed a judicial proceeding against us claiming that we must (i) remove all waste disposed in two areas used as an industrial waste disposal site in the city of Volta Redonda and (ii) relocate 750 residences located in the adjacent neighborhood Volta Grande IV Residential, also in the city of Volta Redonda. Later in 2012, we received notices for lawsuits brought by certain home owners at Volta Grande IV Residential claiming indemnification for alleged moral and material damages. For more information, please see Item 8A. Consolidated Statements and Other Financial Information – Legal Proceedings – *Other Legal Proceedings*.

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We record a provision for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. This provision is included in our statements of income in “Other Operating (Expenses) Income”. We do not include in our reserves environmental liabilities related to ERSA, as these are contractually supported by its seller. As of December 31, 2012, we had provisions for environmental liabilities in the total amount of R\$386.1 million, which we believe are sufficient to cover all probable losses. Such amount compares to R\$312.6 million as of December 31, 2011, and R\$278.1 million as of December 31, 2010. The increase in our provisions for environmental liabilities in 2012 as compared 2011 is mainly due to receipt of new environmental notifications related to landfills and coal mines decommissioned in the state of Santa Catarina. The changes in the provision for environmental liabilities on our financial statements are as follows:

	<b>Amounts</b> <i>(in millions of R\$)</i>
<b>December 31, 2010</b>	<b>278.1</b>
Landfills <sup>(1)</sup>	6.2
Term of Undertaking (TAC) <sup>(2)</sup>	28.3
Other	-
<b>December 31, 2011</b>	<b>312.6</b>
Landfills <sup>(1)</sup>	34.9
Decommissioned Coal Mines (Santa Catarina)	32.1
Other	6.5
<b>December 31, 2012</b>	<b>386.1</b>

(1) Refers to an estimate calculation of recovery costs related to landfills remediation obligations.

(2) Refers to environmental compensation agreed in the TAC but not related to investments in equipment.

***Brazil – mining regulation***

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

- the manner in which mineral deposits must be exploited;
- the health and safety of workers and the safety of residential areas located near mining operations;
- the protection and restoration of the environment;
- the prevention of pollution; and
- the support of local communities where mines are located.

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

*Mining Concessions*

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

*Mineral Rights and Ownership*

Our mineral rights for Casa de Pedra mine include the mining concession, a beneficiation plant, roads, a loading yard and a railway branch, and are duly registered with the DNPM. We have also been granted by DNPM easements in 15 mine areas located in the surrounding region, which are not currently part of Casa de Pedra mine, with the purpose to expand our operations, and hold title to all of our proved and probable reserves.

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

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

The Brazilian government charges us a royalty known as the Financial Compensation for Exploiting Mineral Resources (*Compensação Financeira pela Exploração de Recursos Minerais*), or CFEM, on the revenues from the sale of minerals we extract, net of taxes, insurance costs and costs of transportation. DNPM is responsible for enacting regulations on CFEM and auditing the mining companies to ensure the proper payment of CFEM. The current annual rates are:

- 3% on bauxite, potash and manganese ore;
- 2% on iron ore, kaolin, copper, nickel, fertilizers and other minerals; and
- 1% on gold.

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



**Antitrust Regulation**

We are subject to various laws in Brazil which seek to maintain a competitive commercial environment. The competition law and practice in Brazil used to be governed primarily by Law No. 8,884/94, the *Lei de Defesa da Concorrência*, or Competition Defense Law, under which terms, the Brazilian Antitrust System was composed of three agencies, namely *Secretaria de Direito Econômico (SDE)* and *Conselho Administrativo de Defesa Econômica (CADE)*, both entailed to Brazil's Ministry of Justice, and *Secretaria de Acompanhamento Econômico (SEAE)*, entailed to Brazil's Ministry of Treasury. SDE had broad authority to promote economic competition among companies in Brazil, including the ability to suspend price increases and investigate collusive behavior between companies.

A new Antitrust Law was enacted in 2011 (Law No. 12,529/11) and came into force on May 30, 2012, which provided for significant changes in both structure, including the creation of the new CADE, and proceedings. The main change was the introduction of a mandatory pre-merger notification system, as opposed to the post-merger review system previously in force. The new CADE is now formed by an Administrative Tribunal of Economic Defense (*Tribunal Administrativo de Defesa Econômica*), a General-Superintendence (*Superintendência-Geral*) and a Department of Economic Studies (*Departamento de Estudos Econômicos*).

If CADE determines that certain companies have acted collusively to raise prices, it has the authority to impose fines on the offending companies, prohibit them from receiving loans from Brazilian government sources and bar them from bidding on public projects. In addition, CADE has the authority to dissolve mergers and to require a company to divest assets should it determine that the industry in which it operates is insufficiently competitive.

For further antitrust-related information, see "Item 8A. Consolidated Statements and Other Financial Information-Legal Proceedings".

**Regulation of Other Activities**

In addition to mining, environmental and antitrust regulation, we are subject to comprehensive regulatory regimes for certain of our other activities, including railroad transportation, electricity generation and ports.

Our railroad business is subject to regulation and supervision by the Brazilian Ministry of Transportation and the transportation regulatory agency *Agência Nacional de Transportes Terrestres (ANTT)*, and operates pursuant to concession contracts granted by the federal government, which impose certain limitations and obligations. As of December 31, 2012, we owned the following railroad related assets: (i) a 33.27% participation in MRS Logística S.A., which holds a concession to operate Brazil's Southeastern railway system until 2026, renewable for an additional 30 years, and (ii) a 76.13% participation in Transnordestina Logística S.A., which holds a concession to operate Brazil's Northeastern railway system until 2027, renewable for an additional 30 years.

Our electricity generation business is subject to regulation and supervision by the Brazilian Ministry of Mines and Energy, the electricity regulatory agency *Agência Nacional de Energia Elétrica (ANEEL)*, and the *Operador Nacional do Sistema Elétrico (ONS)*. As of December 31, 2012, we owned the following energy related assets: (i) a 238 MW thermoelectric co-generation power plant at our Presidente Vargas Steelworks, (ii) a 48.75% participation in Itá Energética S.A. ("Itasa"), which owns and operates 60.5% of the Itá hydroelectric facility on the Uruguay river in Southern Brazil under a renewable 30-year concession until 2030, and (iii) a 17.9% participation in the consortium that built and has the right to operate the Igarapava hydroelectric facility in Southeast Brazil under a renewable 30-year concession until 2028.

Our port business is subject to regulation and supervision by the Brazilian Ministry of Transportation and the ports and navigation agency *Agência Nacional de Transportes Aquaviários (ANTAQ)*. As of December 31, 2012, we owned the following port related assets: (i) a concession to operate the Terminal de Carvão (“TECAR”), the solid bulks terminal at Itaguaí Port, located in the State of Rio de Janeiro, which expires in 2022, renewable for an additional 25 years, and (ii) a 99.99% participation in Sepetiba Tecon S.A. (“TECON”), which has a concession to operate the container terminal at Itaguaí Port for a 25-year term until 2026, renewable for an additional 25 years.

For further information on our logistics and energy segments, see “Item 4B. Business Overview”.

*Proceedings Related to Protectionist Measures*

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

In Brazil, we are subject to regulation and supervision by the Ministry of Development, Industry and Foreign Trade, the Secretaria de Comércio Exterior (SECEX) and the Departamento de Defesa Comercial (DECOM). Worldwide, our exports are subject to the protectionist measures summarized below.

*United States*

*Anti-dumping (AD) and Countervailing Duties (CVD).* In the U.S., we are subject to regulation and supervision by the U.S. Department of Commerce (DOC), the International Trade Commission (ITC), the International Trade Administration (ITA) and the Import Administration (IA). In September 1998, U.S. authorities initiated anti-dumping and countervailing duties investigations on hot-rolled steel sheet and coil imported from Brazil and other countries. In February 1999, the DOC reached a preliminary determination on the anti-dumping and countervailing duties margins. We were found to have preliminary margins of 50.66% for anti-dumping, and of 6.62% for countervailing duties.

In July 1999, Brazil and the United States signed a five-year suspension agreement, suspending the anti-dumping investigation and establishing a minimum price of US\$ 327 per ton (delivery duty paid), subject to quarterly review by the DOC. In February 2002, the U.S. government terminated the anti-dumping suspension agreement and reinstated the anti-dumping margin of 41.27%. In April 2004, we requested the DOC to conduct an administrative review of the anti-dumping investigation. Through this review, in April 2005, we obtained a favorable preliminary determination of “zero” margin of dumping from the DOC. A final determination was issued in October 2005 and the “zero” margin of dumping preliminarily found by the DOC was confirmed. With respect to the countervailing duties investigation, the Brazilian and U.S. governments signed, in July 1999, a suspension agreement which limited exports of hot-rolled sheets and coils from Brazil to 295,000 tons per year. At the request of the Brazilian government, the agreement was terminated in September 2004. Upon termination of this agreement, countervailing duties of 6.35% became effective regarding imports of hot-rolled products from Brazil.

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

In April 2010, another anti-dumping and countervailing duties expiry review was initiated and jointly developed by the DOC and the ITC through the IA. A decision was issued by the ITC on June 6, 2011 and revoked both the anti-dumping and the countervailing duties orders. The ITC’s decision was appealed to the U.S. Court of International Trade (CIT), which, on August 14, 2012, issued its opinion upholding the ITCs decision and maintaining the revocation of both the anti-dumping and the countervailing duties orders. In September 2012, the CIT’s decision was appealed to the U.S. Court of Appeals for the Federal Circuit (CAFC), which decision is expected in 2013. As a result, both orders remain suspended until a final decision is reached by the CAFC.



*Canada*

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

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

In October 2010, the CITT initiated another expiry review of hot-rolled products, in which CSN decided not to participate. A final determination was issued in August 2011, determining the continuation of the anti-dumping order for hot-rolled products. As a result, exports of our hot-rolled products to Canada continued to be subject to anti-dumping duties of 77%.

**Overview of Steel Industry*****World Steel Industry***

The worldwide steel industry comprises hundreds of steelmaking facilities divided into two major categories, integrated steelworks and non-integrated steelworks, depending on the method used for producing steel. Integrated plants, which accounted for approximately 68% of worldwide crude steel production in 2012, typically produce steel by smelting in blast furnaces the iron oxide found in ore and refining the iron into steel, mainly through the use of basic oxygen furnaces or, more rarely, in electric arc furnaces. Non-integrated plants (sometimes referred to as mini-mills), which accounted for approximately 32% of worldwide crude steel production in 2012, produce steel by melting scrap metal, occasionally complemented with other metallic materials, such as direct reduction iron or hot-briquette iron, in electric arc furnaces. Industry experts expect that a lack of a reliable and continuous supply of quality scrap metal, as well as the high cost of electricity, may restrict the growth of mini-mills.

Steel continues to be the material of choice in the automotive, construction, machinery and other industries. Notwithstanding potential threats from substitute materials such as plastics, aluminum, glass and ceramics, especially for the automotive industry, steel continues to demonstrate its economic advantage. From 1990 through 2012, total global crude steel production averaged approximately 984 million tons per year. According to the WSA, in 2012, production reached a new record of 1.51 billion tons, which represents a 1.3% increase as compared to 2011. All major producing countries, except for Japan, Germany, Brazil and Ukraine, increased their production levels in 2012.

China's crude steel production in 2012 reached 709 million tons, an increase of 3.7% as compared to 2011. Production volume in China has more than tripled in the last ten years, from 222 million tons in 2002. China's share of world steel production increased from 45.8% in 2011 to 46.9% in 2012. In 2012, Asian countries improved their production by 3.0%, reaching 983 million tons, according to the WSA.

***Brazilian Steel Industry***

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

***A Privatized Industry***

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

operated as semi autonomous companies under the control of Siderbrás and were each individually privatized between 1991 and 1993. We believe that the privatization of the steel sector in Brazil has resulted in improved financial performance, as a result of increased efficiencies, higher levels of productivity, lower operating costs, a decline in the labor force and an increase in investment.

*Domestic Demand*

Historically, the Brazilian steel industry has been affected by substantial fluctuations in domestic demand for steel. Although national per capita consumption varies with GDP, fluctuations in steel consumption tend to be more pronounced than changes in economic activity. Crude steel consumption per capita in Brazil has increased from 104 kilograms in 1999 to 147 kilograms in 2010. It is still considered low when compared to the levels of some developed countries, such as the United States and Germany.

From 2005 to 2007, Brazilian GDP grew on average 4.4%. In 2008 and 2009, overall global economic activity slowed significantly and domestic apparent steel consumption amounted to 24.0 million tons and 19.1 million tons, respectively. In 2010, with the recovery of the global economy, domestic demand rose by 38.8% to 26.6 million tons. On the other hand, in 2011, domestic steel demand decreased 1.2% to 26.2 million tons, mainly due to high levels of inventory held by distributors and increased indirect imports. In 2012, the slowdown of the Brazilian economy led to another decrease in steel consumption of 17.6% to 21.6 million tons.

The Brazilian flat steel sector is shifting production to the higher value-added consumer durable sector. This sector is highly dependent on domestic consumer confidence, which, in turn, is affected by economic policies and certain expectations of the current government administration. Over the past years, automobile manufacturers made significant investments in Brazil. In 2009 and 2010, vehicle production recovered from the 2008 financial crisis in response to government incentives such as tax cuts. In 2012, the Brazilian market reached a record 3.8 million vehicles sold, reflecting a specific government measure, which reduced the industrialized products tax. On the other hand, exports decreased by 20.1%.

*Market Participants*

According to IABr (Instituto Aço Brasil), the Brazilian steel industry is composed of 28 mills managed by 10 corporate groups, with an installed annual capacity of approximately 45 million tons, producing a full range of flat, long, carbon, stainless and specialty steel.

*Capacity Utilization*

There were no changes in Brazilian nominal steel production capacity in 2012 compared to 2011. This capacity was estimated at 49 million tons. The local steel industry operated at approximately 70% utilization in 2012, below the level recorded in 2011.

*Exports/Imports*

Brazil has been playing an important role in the export market, primarily as an exporter of semi-finished products. The Brazilian steel industry has taken several steps towards expanding its capacity to produce value-added products. Brazil's exports of slabs and billets reached 5.3 million tons in 2010, which represented 58% of total steel exports. In 2011, the exports of semi-finished products reached 7.2 million tons, representing 66% of total exports. In 2012, exports of semi-finished products were 6.6 million tons, a 7.4% decrease in relation to the previous year, representing 68% of total exports.

In 2012, Brazilian steel exports totaled 9.7 million tons, representing 31% of total Brazilian steelmakers' sales (domestic plus exports) and accounting for US\$7.0 billion in export earnings for Brazil. Over the last 20 years, the Brazilian steel industry has been characterized by a structural need to export, which is demonstrated by the industry's

supply demand curve. The Brazilian steel industry has experienced periods of overcapacity, cyclical and intense competition during the past several years. Demand for finished steel products, as measured by domestic apparent consumption, has consistently fallen short of total supply (defined as total production plus imports). In 2012, supply totaled 38.4 million tons, as compared to apparent consumption of 25.4 million tons.

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In 2012, steel imports were 3.8 million tons, or 15% of apparent domestic consumption, in line with the figures from 2011. In 2011, steel imports decreased 35.9% as compared to the 5.93 million tons recorded in 2010 (22% of apparent domestic consumption), according to IABr.

For information on the production by the largest Brazilian steel companies, see “Item 4B. Business Overview—Competition—Competition in the Brazilian Steel Industry.”

#### 4C. Organizational Structure

We conduct our business directly and through subsidiaries. For more information on our organizational structure, see Note 2(b) to our consolidated financial statements included in “Item 18. Financial Statements.”

#### 4D. Property, Plant and Equipment

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

The table below sets forth certain material information regarding our property as of December 31, 2012.

Facility	Location	Size	Use	Productive Capacity	Title	Encumbrances
Presidente Vargas Steelworks	Volta Redonda, State of Rio de Janeiro	4.0 square km	steel mill	5.6 million tons per year	owned	None
CSN Porto Real (former GalvaSud)	Porto Real, State of Rio de Janeiro	0.27 square km	galvanized steel producer	350,000 tons per year	owned	mortgage <sup>(1)(2)</sup>
CSN Paraná	Araucária, State of Paraná	0.98 square km	galvanized and pre-painted products	100,000 tons of pre-painted product and 220,000 tons of pickled hot-rolled coils	owned	None
Metalic	Maracanaú, State of Ceará	0.10 square km	steel can manufacturer	900 million cans per year	owned	mortgage <sup>(3)</sup>
Prada	São Paulo, State of São Paulo and Uberlândia, State of Minas Gerais	SP – 0.14 square km;	steel can manufacturer	1 billion cans per year	owned	None

MG – 0.02  
square  
km;

CSN, LLC

Terre  
Haute, Indiana,  
USA

0.78  
square km

cold-rolled  
and galvanized  
products

800,000 tons  
of cold-rolled  
products and 315,000  
tons per year  
of galvanized  
products

owned

None

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Lusosider	Seixal, Portugal	0.39 square km	hot-dip galvanized, cold-rolled and tin products	240,000 tons of galvanized products and 50,000 tons of cold-rolled products per year	owned	None
Prada	Mogi das Cruzes, State of São Paulo	0.20 square km	distributor	730,000 tons per year	owned	None
Casa de Pedra mine	Congonhas, State of Minas Gerais	49.00 square km	iron ore mine	60.0 mtpy <sup>(4)</sup>	owned <sup>(5)</sup>	None
Engenho mine <sup>(6)</sup>	Congonhas, State of Minas Gerais	2.85 square km	iron ore mine	5.0 mtpy	concession	None
Fernandinho mine <sup>(6)</sup>	Itabirito, State of Minas Gerais	1.47 square km	iron ore mine	2.0 mtpy	concession	None
Bocaina mine	Arcos, State of Minas Gerais	4.11 square km	limestone and dolomite mines	4.0 mtpy	concession	None
ERSA mine	Ariquemes, State of Rondônia	0.015 square km	tin mine	1,800 tons	concession	None
Thermoelectric co-generation power plant	Volta Redonda, State of Rio de Janeiro	0.04 square km	power plant	238 MW	owned	None
Itá <sup>(7)</sup>	Uruguay River - Southern Brazil	9.87 square km	power plant	1,450 MW	concession	None
Igarapava <sup>(8)</sup>	State of Minas Gerais	5.19 square km	power plant	210 MW	concession	None
Southeastern	Southern and Southeastern regions of Brazil	1.674 km of tracks	railway	--	concession	None
Transnordestina	Northern and northeastern regions of Brazil	4.534 km of tracks	railway	--	concession	None
TECAR at Itaguaí Port	Itaguaí, State of Rio de Janeiro	0.69 square km	raw materials	4 mtpy	concession	None
Container terminal - TECON at Itaguaí port	Itaguaí, State of Rio de Janeiro	0.44 square km	containers	2 mtpy	concession	None
Namisa	State of Minas Gerais		mine	-		None



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		11.56 square km				Concession/ owned	
Land	State of Rio de Janeiro	31.02 square km	undeveloped	--		owned	pledge <sup>(9)</sup> /Coll mortgage
Land	State of Santa Catarina	6.22 square km	undeveloped	--		owned	pledge <sup>(9)</sup> /Coll
Land	State of Minas Gerais	32.68 square km	undeveloped	--		owned	None
Land	State of Piaui	618,037 square km	undeveloped			owned	None
Steel plant with rolling mill	Europa / Germany / Unterwellenborn	0.898 square km	production of sections	1 Mio t/a		Stahlwerk Thüringen GmbH	None

- (1) Pursuant to a loan agreement entered into by the State of Rio de Janeiro and Galvasud as of May 4, 2000.
- (2) Pursuant to a loan agreement entered into by Kreditanstalt Für Wiederaufbau, Galvasud and Unibanco as of August 23, 1999.
- (3) Pursuant to a loan agreement entered into by Metalic and *Banco do Nordeste do Brasil S.A* as of 2007.
- (4) Information on equipment fleet installed annual ROM capacity. For information on installed annual production of products capacity, and information on mineral reserves at our Casa de Pedra mine, see “—Reserves at Casa de Pedra Mine” and table under “—Casa de Pedra Mine” below.
- (5) Based on the *Manifesto de Mina*. See, “Item 4. Information on the Company - B. Business Overview- Government Regulation and Other Legal Matters - Mining Concessions.”
- (6) Property owned by our 60% consolidated investee Namisa.
- (7) Property 29.5% owned by us.
- (8) Property 17.9% owned by us.
- (9) Pledged pursuant to various legal proceedings, mainly related to tax claims.

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For information on environmental issues with respect to some of the facilities described above, see “Item 4B. Business Overview—Government Regulation and Other Legal Matters—Environmental Expenditures and Claims.” In addition, for information on our plans to construct, expand and improve our facilities, see “Item 4. Information on the Company - D. Property, Plant and Equipment —Planned Investments” and Note 10 to our financial statements included elsewhere in this Form 20-F.

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

## **Acquisitions and Dispositions**

### ***Riversdale***

On November 24, 2009, we concluded an initial acquisition, through our subsidiary CSN Europe, Lda, of a 14.9% minority interest in Riversdale Mining Limited (“Riversdale”), a mining company listed on the Australian Stock Exchange (ASX). In January 2010, we obtained the approval of the Australian Government to acquire further shares of Riversdale, and concluded the second tranche of the acquisition, reaching an equity participation of 16.3%. In addition, we participated on a capital increase carried out by Riversdale in July 2010, subscribing to new shares, but maintaining the same equity percentage. We also made several share purchases in February 2011 and reached a total equity participation of 19.9%. We were diluted in 2010 and 2011 due to the exercise of stock options issued in favor of the management of Riversdale and of third parties. On April 20, 2011, we adhered to a public takeover offer for the acquisition of Riversdale’s shares conducted by Rio Tinto and, as a consequence, sold 100% of our equity interest held in Riversdale’s capital stock, corresponding to 47,291,891 shares, at the price of A\$16.50 per share, totaling A\$780,316,201.50.

### ***Segregation of Mining Assets***

We are analyzing the possibility of segregating our iron ore business and correlated logistics activities into one of our subsidiaries. Such segregation would be expected to occur upon the transfer, by means of a capital increase, of assets, liabilities, rights and obligations comprising our mining and related logistics businesses as well as of investments in related operating companies, and would also depend on several aspects, including certain regulatory approvals.

### ***Stahlwerk Thüringen GmbH (SWT)***

On January 31, 2012, CSN Steel, S.L.U., one of our Spanish subsidiaries, entered into a share purchase agreement with the Spanish group Alfonso Gallardo (“AG Group”) to establish the acquisition of all the shares held by the AG Group in (i) SWT, a long steel manufacturer located in Unterwellenborn, Germany, specialized in the production of steel sections; and (ii) Gallardo Sections S.L.U., a steel distributor of SWT’s products. The total amount of the transaction was €483.4 million, without the assumption of any indebtedness.

The transaction involved an operational steel plant located in Germany, which was contemplated to be sold pursuant to a prior share purchase agreement executed on May 19, 2011 with the AG Group, amongst other assets. The transaction brought to an end the discussions between the parties regarding different interpretations of the earlier agreement, including termination of the related arbitral proceeding which was pending before the *Cámara Oficial de Comercio e Industria de Madrid*.

### ***Usiminas***

On December 31, 2012, we owned, directly and indirectly, 20.69% of the preferred shares and 14.13% of the common shares of Usinas Siderúrgicas de Minas Gerais S.A. (“Usiminas”), resulting from various acquisitions in the market since mid-2010. For more information on the value of these assets, please see Item 5A. Operating Results - Critical Accounting Estimates - Impairment of long-lived assets, intangible assets, goodwill and financial assets. We are assessing strategic alternatives in relation to our investment in Usiminas. For more information on the antitrust matters

regarding our investment in Usiminas see “Item 8. Financial Information - A. Consolidated Statements and Other Financial Information Selected Financial Data - Legal Proceedings - Antitrust.”

### **Namisa**

In 2008, a consortium of Asian shareholders that currently includes Itochu Corporation, JFE Steel Corporation, Kobe Steel, Ltd, Nisshin Steel Co. Ltd., Posco and China Steel Corporation, or the Asian consortium, made an investment in our subsidiary Namisa and currently holds a 40% interest in Namisa. We and the Asian consortium have entered into a shareholders’ agreement to govern our joint control of Namisa. In case of a dead-lock among the shareholders, a resolution process requires us to initiate mediation with our partners and, if no solution is reached, the matter is then submitted to be addressed directly by the senior executives of the companies in dispute. In the event the dead-lock remains, the shareholders’ agreement provides for put and call options, which entitles the Asian consortium to elect to sell all of its ownership interest in Namisa to us and we to elect to buy all ownership interest of the Asian consortium in Namisa, in each case for the fair market value of the respective shares.

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In addition, certain other agreements, including the share purchase agreement between us and the Asian consortium and the long-term operational agreements between Namisa and us, provide for certain obligations that, in case breached or not cured within the relevant cure period, may give rise, in certain situations, to the right of the non-breaching party to exercise a call or a put option, as the case may be, with respect to the Asian consortium's ownership interest in Namisa.

**Capital Expenditures**

We invested a total of R\$3,144 million in 2012, R\$1,517 million of which was allocated as follows: Transnordestina Logística: R\$984 million; MRS Logística: R\$328 million; Namisa: R\$77 million; TECON: R\$43 million; other projects: R\$85 million.

The remaining R\$1,627 million was expended on: construction of a brownfield long steel mill at the Volta Redonda site: R\$454 million; expansion of the Itaguaí Port (TECAR): R\$231 million; maintenance and repairs: R\$219 million; expansion of the Casa de Pedra mine: R\$150 million; expansion of our clinker plant: R\$73 million; technological improvements: R\$24 million, and others projects: R\$476 million. For further information, see "Item 5B. Liquidity and Capital Resources-Short-Term Debt and Short-Term Investments."

In 2011, we invested R\$4,401 million R\$2,382 million of which was allocated as follows: Transnordestina Logística: R\$1,691 million; CSN Cimentos: R\$61 million; MRS Logística: R\$447 million; Namisa: R\$100 million and other projects: R\$83 million.

The remaining R\$2,019 million was expended on: maintenance and repairs: R\$549 million; expansion of the Casa de Pedra mine: R\$251 million; expansion of the Port of Itaguaí: R\$238 million; technological improvements: R\$77 million; construction of a brownfield long steel mill at the Volta Redonda site: R\$220 million and others projects: R\$684 million.

In 2010, we invested R\$3,636 million, R\$2,201 million of which was allocated as follows: Transnordestina Logística: R\$1,371 million; CSN Aços Longos (merged into CSN in January 2011): R\$275 million; CSN Cimentos: R\$249 million; MRS Logística: R\$199 million and other projects: R\$107 million.

The remaining R\$1,435 million was expended on: maintenance and repairs: R\$483 million; expansion of the Casa de Pedra mine: R\$275 million; expansion of the Port of Itaguaí: R\$139 million; technological improvements: R\$125 million and other projects: R\$413 million.

In 2012, we continued to implement our strategy of developing downstream opportunities and projects based on synergies, new product lines and market niches by creating or expanding current capacity of galvanized products and services for the automotive sector, as described in "Item 4B. Business Overview—Facilities."

We also intend to increase control of our main production costs and secure reliable and high quality sources of raw materials, energy and transportation supporting our steelmaking operations and other businesses such as cement, via strategic investment programs. Our main strategic investments being implemented or already in operation are set forth in "Item 4B. Business Overview—Facilities."

**Planned Investments**

Our operating activities require regular investments in equipment maintenance, technological improvements, tools and spare parts, vehicles, buildings, and industrial plants, among others. These investments are classified as Sustaining ('Stay-in-Business') Capex.

The Company also invests to increase its operational efficiency and productivity, and expand production capacity in its traditional flat steel, mining and logistics businesses, as well as new businesses such as cement and long steel.

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Our total planned investments for the next years amount to R\$20.0 billion (ongoing and new projects), of which:

- R\$12.0 billion in our mining segment, including capacity expansion of the Casa de Pedra mine and of Namisa's mines to reach annual sales of 89 mtpy and the expansion of shipping capacity of our Solid Bulk terminal at Itaguaí (TECAR) to 84 mtpy. The planned investment reflects only the portion of our investment, which is proportional to our ownership of 100% of Casa de Pedra and 60% of Namisa;
- R\$0.5 billion in our steel segment, including the completion of our new brownfield long steel plant in Volta Redonda and completion/implementation of other flat steel projects, such as a service center for the auto industry at CSN Porto Real, along with the implementation of projects focused on maintaining operational excellence with constant focus on cost reduction (e.g., energy efficiency);
- R\$1.3 billion in our cement segment, allocated towards expansions of our grinding capacity from 2.4 million tons to 5.4 million tons and our clinker production capacity from 0.8 million tons to 2.8 million tons;
- R\$1.7 billion in our logistics segment, including the Transnordestina railway and our container terminal (TECON); investments in the MRS railway are not included in this plan nor Transnordestina Capex reviews.
- R\$4.3 billion in projects to improve performance of current productive assets ("stay-in-business").

We expect to finance these investments through our own cash, public or private financing, and/or strategic partnerships.

Our planned investments in iron ore, steel, logistics and cement are described below.

### *Steel*

We are currently constructing a brownfield long steel plant in Volta Redonda, in the State of Rio de Janeiro, with total capacity of 500 Kt per year, making use of the existent infrastructure and energy, to produce rebar and wire rods. This investment represents the entrance of CSN into the long steel market in Brazil.

We also invested in the expansion of service centers for the automotive market at our CSN Porto Real facility, in which CSN's market share has been successively expanded. The pre-painted plant at CSN Paraná currently operates at full capacity, and there are expansion projects underway, with the intention of doubling the current capacity via brownfield expansions.

Our investment portfolio also includes other important operational projects in development, such as the start-up of our blast furnace turbine project, which will add 21MW of electricity self-generation and several projects designed to increase productivity and efficiency.

In January 2012, CSN acquired SWT, which produces sections and Gallardo Sections S.L.U, both located in Germany. SWT has a capacity to produce 1.1 million tons of steel sections per year used in buildings, stadiums, bridges, viaducts, walkways, foundations, warehouses, cranes, among others. The plant is strategically located, reducing logistics costs of raw materials, such as scrap, and allowing access to both developed and emerging markets in Eastern Europe. The total transaction amount was €483.4 million.

### *Mining*

We expect to achieve an annual sales level of approximately 89 mtpy of iron ore products, including third party purchases, by increasing capacity in Casa de Pedra and Namisa.

We are also investing in the expansion of TECAR to allow for annual exports of 84 mtpy of iron ore.



***Logistics***

In August 2006, in order to enable the implementation of a major infrastructure project led by the Brazilian federal government, our Board of Directors approved the merging of Transnordestina S.A., a company that was state-owned at the time, into and with Companhia Ferroviária do Nordeste – CFN, an affiliate of CSN that holds a 30-year concession, granted in 1997, to operate the Northeastern Railroad of the RFFSA, with 4,534 km of railway track. The surviving entity was later renamed Transnordestina Logística S.A., or Nova Transnordestina. The Nova Transnordestina Project includes an additional 1,728 km of large gauge, state-of-the-art railway track. We expect this extension will allow the company to increase the transportation of various products, including, oil, fuels, soybeans, cotton, sugar cane, fertilizers, iron ore and limestone. The investments for the railroad expansion will be financed through several agencies, such as FINOR – Northeastern Investment Fund, SUDENE - the Northeastern Development Federal Agency and BNDES. Environmental, geological and land expropriation issues may result in cost overruns and delays in implementing the project, which, in turn, may adversely affect the projected return on investment.

Until 2008, Transnordestina was jointly controlled by CSN and Taquari Participações S.A., or Taquari, pursuant to a shareholders' agreement dated November 27, 1997, and amended on May 6, 1999 and November 7, 2003. During 2009, we increased the capital of Transnordestina by disbursing advances for future capital increases. Taquari decided not to participate in such capital increases, thus being diluted and relinquishing control of Transnordestina. Transnordestina is currently controlled by CSN, and has been consolidated in our financial statements since December 2009.

To meet its own demand, Transnordestina Logística S.A built the largest factory of broad gauge concrete sleepers in the world, with a daily capacity of 4,800 pieces per day. This project has been conducted by Odebrecht, through an Alliance Model formed with CSN.

***Cement***

The cement plant in Volta Redonda is close to reaching its full production capacity of 2.4 million tons per year. The use of slag generated by our steel operation and the ramp-up of our clinker plant should gradually reduce costs, a critical element in the cement business.

We are evaluating other organic growth initiatives to expand our annual capacity to 5.4 million tons in order to capture the strong growth expected in construction of new housing units and infrastructure projects.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

The following discussion should be read in conjunction with our consolidated financial statements as of December 31, 2012 and 2011 and for each of the years ended December 31, 2012, 2011 and 2010 included in “Item 18. Financial Statements”. Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are presented in thousands of *reais* (R\$), as explained in Note 2(a) to our consolidated financial statements included in “Item 18. Financial Statements.”

## **5A. Operating Results**

### **Overview**

#### *Macro-Economic Scenario*

##### *Brazil*

According to the Brazilian Institute of Geography and Statistics (IBGE), GDP increased by 0.9% in 2012, compared to an increase of 2.7% reported in 2011. This slight growth in 2012 was led by the service and construction sectors, which moved up by 1.7% and 1.4%, respectively. Once again, domestic demand was the most important growth driver, fueled by the moderate credit expansion, job creation and increased individual earnings. However, several uncertainties are still hampering investments, resulting in a reduction in Gross Fixed Capital Formation.

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The IPCA consumer price index (the main inflation rate) stood at 5.84% for the year, as compared to 6.50% for 2011. Personal expenditures were chiefly responsible for the upturn in 2012, while transport recorded the lowest increase.

The Selic base interest rate, which is set by the Monetary Policy Committee (COPOM), began 2012 at 11.00% and fell successively, until reaching 7.25% in October. Since then, COPOM has opted to maintain the basic interest rate stable.

According to the IBGE, industrial output fell by 2.7% in 2012, the first negative result since 2009, with 17 of the 27 sectors recording a decrease.

In 2012, the *real* depreciated 8.9% against the US dollar and on December 31, 2012, the exchange rate was R\$2.04 per US\$1.00.

**USA**

According to the U.S. Department of Commerce, the U.S. economy grew by 2.2% in 2012, as compared to 1.8% in 2011. The main contributors to GDP growth in 2012 were personal consumption expenditures, nonresidential fixed investment, exports, residential fixed investment and private inventory investment.

According to the latest Fed figures, industrial production edged up by 0.3% in December and 1.0% in the fourth quarter of 2012, reflecting the reconstruction after hurricane Sandy. The manufacturing PMI recorded 50.7 points in December, versus 49.5 in November.

On the monetary policy front, the Fed opted to peg interest rates to the current economic scenario, keeping them low while unemployment is above 6.5% and estimated inflation for the next two years does not exceed 2.5%.

**Europe**

The Eurozone manufacturing sector ended 2012 in recession, reflecting flagging international and domestic demand. Manufacturing PMI stood at 46.1 points in December, the 17th consecutive monthly decline.

Unemployment remained flat in December over November at 11.7%, equivalent to 18.2 million people out of work. Greece and Spain had the highest rates, with 26.8% and 26.1% respectively, while Germany recorded 5.3%.

According to Eurostat, Eurozone GDP dipped by 0.5% in 2012 over 2011 and by 0.6% in the fourth quarter of 2012 over the previous quarter, marking the bloc's worst performance since the beginning of 2009. The overall downturn in the fourth quarter of 2012 was fueled by individual decreases in the four largest economies: Germany (0.6%), France (0.3%), Italy (0.9%) and Spain (0.7%).

**Asia**

Chinese GDP grew by 7.8% in 2012 and 9.2% in 2011, according to the country's National Bureau of Statistics. The Chinese economy is currently recording steady growth, thanks to increased investments in infrastructure, the cut in interest rates and the reduction in reserve requirements since the end of 2011.

Chinese manufacturing PMI stood at 51.5 points in December, the highest figure since May 2011, while industrial output and retail sales climbed by 10% and 14.3%, respectively, in 2012. Annual inflation fell to 2.6%, less than half

the 5.4% recorded in 2011.

Japanese GDP increased by 1.9% in 2012 over 2011. Impacted by the Japanese Central Bank's aggressive monetary policy, the yen has depreciated by around 20% against the dollar since November 2012.

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## *Segments*

### *Steel*

According to the WSA global crude steel production totaled 1.5 billion tons in 2012, 1% higher than in 2011, this growth coming mainly from Asia and North America. Existing global capacity use fell from 76.1% in November to 73.2% in December, showing a continuing imbalance between production capacity and global steel product consumption.

### *Brazil*

According to the Brazilian Steel Institute (IABr), annual domestic crude steel production totaled 34.7 million tons, 1.5% less than in 2011, and 15.1 million tons of rolled flat steel, up by 8%.

Domestic flat steel sales remained stable over 2011 at 11.3 million tons, while exports fell by 10% to 1.9 million tons.

Apparent flat steel consumption came to 13.4 million tons, 1% down on 2011, while imports totaled 2.0 million tons, down by 11%.

### *Automotive*

According to ANFAVEA (the Brazilian Auto Manufacturers' Association), vehicle production totaled 3.3 million units in 2012, 2% less than in 2011. Vehicle sales totaled 3.8 million in the year, an increase of 5% in relation to 2011, spurred by government measures to encourage consumption, such as the reduction in IPI (federal VAT). Exports, on the other hand, fell by 20%, to 442,000 units.

### *Construction*

Sinduscon (Brazilian Builders' Association) estimates that the construction segment will end 2012 with growth of 4%, while FGV (Fundação Getúlio Vargas) expects the building materials industry and retail sales to expand by 1.9% and 8.2%, respectively.

According to ABRAMAT (the Brazilian Building Material Manufacturers' Association), domestic sales of building materials increased by 1.4% in 2012.

### *Distribution*

According to INDA (the Brazilian Steel Distributors' Association), domestic flat steel sales by distributors totaled 4.4 million tons in 2012, a 1.5% increase over 2011. Purchases by the associated network came to 4.3 million tons in 2012, 5.2% higher than in 2011. Inventories closed the year at 944,000 tons, a 5.7% increase over the December 2011 figure, representing 3.0 months of sales.

### *Home Appliances*

According to Eletros (Brazilian Home Appliance and Consumer Electronics Manufacturers' Association), the home appliance segment closed 2012 with 15% growth in the sales of washing machines, refrigerators and stoves.

With the extension of IPI tax exemptions on home appliances until the end of January 2013, followed by a gradual increase from February through June 2013, Eletros has reviewed its estimates and now expects sales growth of 10% in 2013.

*International*

According to the WSA, crude steel output in China totaled 708.8 million tons in 2012, a 3.6% increase as compared to 2011 and a new record, accounting for 46.3% of the global total, while Japan's crude steel production remained virtually stable, totaling 107.2 million tons in 2012. In the European Union, production reached 169.4 million tons in 2012, corresponding to a 4.5% decrease as compared to 2011, with Germany accounting for 43 million tons, a 3.7% decrease in its production as compared to 2011. In the U.S., crude steel production totaled 88.6 million tons in 2012, a 2.7% increase as compared to 2011.

***Mining***

In 2012, the seaborne iron ore market was marked by its price volatility, reflecting global economic uncertainties. After peaking at US\$151.25/dmt in April 2012, the Platts IO Fines 62% CFR China price index fell to US\$88.50/dmt in September 2012, closing the year at US\$144.50/dmt, reflecting the improved performance of the Chinese economy, decline in iron ore inventories in Chinese ports, weaker Indian exports and approach of the rainy season in Brazil and Australia.

Fueled by this scenario, the seaborne iron ore market grew by 7% in 2012, reaching 1,074 million tons, sustained by China, which accounted for 66% of total sales volume. Annual Chinese iron ore seaborne imports increased by 10% over 2011. In light of urbanization projects and infrastructure investments announced by the Chinese government in September, the country's iron ore consumption should continue to expand.

In 2012, Brazil maintained its strong position in the seaborne iron ore market, with sales of 322 million tons, despite the 1% reduction in exports due to heavy rainfall at the beginning of the year.

***Logistics******Railway logistics***

According to ABIFER (Brazilian Railway Industry Association), Brazilian rail sector revenue is expected to reach R\$4.3 billion in 2012, virtually identical to the 2011 figure.

Aiming to reduce infrastructure bottlenecks, the Brazilian government announced the construction of 15,000 km of rail track in the coming years, 5,000 km of which fall under the Growth Acceleration Program (PAC) and 10,000 km to be awarded in concessions.

***Port logistics***

According to ANTAQ (Brazilian National Waterway Transport Agency), Brazil's port installations handled approximately 904 million tons of cargo in 2012, a 2.0% increase over 2011, with bulk solids totaling 554 million tons, an increase of 2.0%. Container handling amounted to 8.2 million TEUs (Twenty Foot Equivalent Unit – transportation unit equivalent to a standard 20-foot intermodal container), 3.8% more than in the last year.

The Brazilian government announced investments of R\$54 billion in the port sector through 2017, including dredging works and projects to renovate port infrastructure and expand cargo handling capacity, in addition to R\$2.6 billion allocated to railway access routes.

***Cement***

Preliminary figures from SNIC (the Brazilian Cement Industry Association) indicate domestic cement sales of 68.3 million tons in 2012, a 6.9% increase over the year before. According to SECEX (the Brazilian Foreign Trade Secretariat), cement imports totaled 977 thousand tons in 2012, 10.4% less than in 2011.

***Energy***

According to the Brazilian Energy Research Company (EPE), in 2012 Brazilian electricity consumption increased by 3.5% over 2011, led by the commercial and residential segments, which recorded respective growth of 7.9% and 5.0%. Industrial consumption remained flat.



**Steel Markets and Product Mix*****Supply and Demand for Steel***

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

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

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

	2012 <sup>(1)</sup>	2011	2010
<b>Brazilian Market</b> (in thousands of tons) <sup>(2)</sup>			
<i>Total Flat and Long Steel</i>			
Production	26,381	25,053	25,450
Apparent Consumption	25,426	25,053	26,104
<i>Hot-Rolled Coils and Sheets</i>			
Production	-	4,086	4,592
Apparent Consumption	-	3,496	3,823
<i>Cold-Rolled Coils and Sheets</i>			
Production	-	2,738	3,159
Apparent Consumption	-	2,728	3,419
<i>Galvanized Sheets</i>			
Production	-	2,582	2,449
Apparent Consumption	-	2,789	3,243
<i>Tin Plates</i>			
Production	-	857	774
Apparent Consumption	-	593	634
<b>Global Market</b> (in millions of tons)			
Crude Steel Production	1,510	1,518	1,432
Demand	-	1,485	1,400

Source: IABr and WSA.

1. Some information for 2012 was not yet available as of the date of this annual report
2. Information about production excludes intra steel companies' sales.

***Product Mix and Prices***

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

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

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

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According to IABr, domestic flat steel apparent consumption moved from 13.5 million tons in 2011 to 13.4 million tons in 2012, therefore a reduction of 1%.

***Sales Volume and Net Operating Revenues by Steel Products and Markets***

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

	Sales Volume								
	Tons			In Market			% of Sales Volume		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<u>Domestic Sales</u>									
Slabs	2	15	51	0%	0%	1%	0%	0%	1%
Hot-Rolled	2,111	1,951	1,801	47%	46%	44%	41%	40%	38%
Cold-Rolled	832	770	707	18%	18%	17%	16%	16%	15%
Galvanized	1,105	991	1,065	25%	23%	26%	22%	20%	22%
Tin Mill	445	489	512	10%	12%	12%	9%	10%	11%
Subtotal	<b>4,495</b>	<b>4,216</b>	<b>4,135</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>88%</b>	<b>86%</b>	<b>86%</b>
<u>Sales abroad</u>									
Slabs	-	-	-	0%	0%	0%	0%	0%	0%
Hot-Rolled	16	13	1	1%	2%	0%	0%	0%	0%
Cold-Rolled	52	49	19	4%	7%	3%	1%	1%	0%
Galvanized	413	457	488	31%	67%	74%	8%	9%	10%
Tin Mill	129	161	152	10%	24%	23%	2%	3%	3%
Long Steel	724			54%					
Subtotal	<b>1,334</b>	<b>680</b>	<b>661</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>	<b>14%</b>	<b>14%</b>
Total	<b>5,829</b>	<b>4,896</b>	<b>4,796</b>				<b>100%</b>	<b>100%</b>	<b>100%</b>
<u>Total Sales</u>									
Slabs	2	15	51				0%	0%	1%
Hot-Rolled	2,127	1,965	1,803				37%	40%	38%
Cold-Rolled	884	819	726				15%	17%	15%
Galvanized	1,518	1,447	1,553				26%	30%	32%
Tin Mill	574	649	664				10%	13%	14%
Long Steel	724						12%		
Total	<b>5,829</b>	<b>4,896</b>	<b>4,796</b>				<b>100%</b>	<b>100%</b>	<b>100%</b>

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	Net Operating Revenues								
	In millions of R\$			% of Net Operating Revenues					
	2012	2011	2010	In Market			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<u>Domestic Sales</u>									
Slabs	2	13	41	0%	0%	1%	0%	0%	1%
Hot-Rolled	3,093	2,936	3,011	37%	36%	35%	28%	32%	31%
Cold-Rolled	1,474	1,412	1,387	18%	18%	16%	14%	15%	14%
Galvanized	2,350	2,178	2,559	28%	27%	30%	22%	24%	27%
Tin Plate	1,419	1,495	1,576	17%	19%	18%	13%	16%	16%
Subtotal	<b>8,338</b>	<b>8,033</b>	<b>8,575</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>79%</b>	<b>87%</b>	<b>89%</b>
<u>Sales abroad</u>									
Slabs	-	-	-	0%	0%	0%	0%	0%	0%
Hot-Rolled	24	19	2	0%	2%	0%	0%	0%	0%
Cold-Rolled	82	74	27	4%	6%	3%	1%	1%	0%
Galvanized	750	786	778	33%	64%	70%	6%	8%	8%
Tin Plate	293	340	300	13%	28%	27%	3%	4%	3%
Long steel	1,129			50%			11%		
Subtotal	<b>2,278</b>	<b>1,219</b>	<b>1,107</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>21%</b>	<b>13%</b>	<b>11%</b>
Total	<b>10,616</b>	<b>9,252</b>	<b>9,682</b>				<b>100%</b>	<b>100%</b>	<b>100%</b>
<u>Total Sales</u>									
Slabs	2	13	41						
Hot-Rolled	3,117	2,955	3,013						
Cold-Rolled	1,556	1,486	1,414						
Galvanized	3,100	2,964	3,337						
Tin Plate	1,712	1,835	1,876						
Long steel	1,129								
Subtotal	<b>10,616</b>	<b>9,252</b>	<b>9,682</b>				<b>0%</b>	<b>0%</b>	<b>0%</b>
By-Product	186	225	244				2%	2%	2%
Total	<b>10,802</b>	<b>9,477</b>	<b>9,926</b>				<b>100%</b>	<b>100%</b>	<b>100%</b>

***Brazilian Macro-Economic Scenario***

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

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



**Year ended December 31,**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
GDP growth	0.9%	2.7%	7.5%
Inflation (IPCA) <sup>(1)</sup>	5.8%	6.5%	5.9%
Inflation (IGP-M) <sup>(2)</sup>	7.8%	5.1%	11.3%
CDI <sup>(3)</sup>	8.4%	11.6%	9.7%
Appreciation (depreciation) of the <i>real</i> against the U.S. dollar	(8.9)%	(12.6)%	4.3%
Exchange rate at end of period (US\$1.00)	R\$2.044	R\$1.876	R\$1.666
Average exchange rate (US\$1.00)	R\$1.955	R\$1.675	R\$1.759

Sources: IBGE, Fundação Getúlio Vargas, Central Bank and CETIP.

(1)The IPCA is a consumer price index measured by the IBGE.

(2)The IGP-M is the general market price index measured by the Fundação Getúlio Vargas.

(3)The Interbank Deposit Rate, or CDI, represents the average interbank deposit rate performed during a given day in Brazil (accrued as of the last month of the period, annualized).

**Effects of Exchange Rate Fluctuations**

Our export revenues are substantially denominated in U.S. dollars. Our domestic revenues are denominated in Brazilian *reais*.

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

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

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

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

- Domestic revenues tend to be higher (in comparison with prior years) and this effect is magnified to the extent to which we sell more products than usual in the domestic market;

- The impact of *real* denominated costs of products sold and operating costs tends to be higher; and
- Financial income is increased to the extent to which the exposure to dollar-denominated debt is not protected.

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

**Effects of Inflation and Interest Rates**

Inflation rates in Brazil have been significantly volatile in the past. Inflation rates remained relatively stable from 2003 to 2004, decreased in 2005 and 2006 and increased in 2007 and 2008. In 2009, for the first time since its creation in 1989, the IGP-M inflation index recorded a deflation in a calendar year, equivalent to 1.71%. In 2010, the index increased 11.3% and in 2011 and 2012, the IGP-M index increased 5.1% and 7.8%, respectively.

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

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

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Inflation (IGP-M) <sup>(1)</sup>	7.8%	5.1%	11.3%
CDI <sup>(2)</sup>	8.4%	11.6%	9.7%

Source: Fundação Getúlio Vargas, or FGV, and CETIP.

(1) The IGP-M inflation is the general market price index measured by the FGV.

(2) The Interbank Deposit Rate, or CDI, represents the average interbank deposit rate performed during a given day in Brazil (accrued as of the last month of the period, annualized).

**Accounting for mining production utilized by our steel production**

We are currently self-sufficient regarding the iron ore used in our steel production. The iron ore required is extracted from our Casa de Pedra mine, which in 2012 amounted to approximately 6.1 million tons of its total iron ore production of approximately 19.8 million tons. The remainder of the iron ore production is sold to third parties in Brazil and throughout the world.

The cost of iron ore regarding our steel production is recorded on our income statement in the cost of goods sold line item as its extraction cost plus transport from the mine. In 2012, 2011 and 2010, these costs were R\$280 million, R\$283 million and R\$239 million, respectively.

**Critical Accounting Estimates**

We prepared our consolidated financial statements as of and for the year ended December 31, 2012 in accordance with IFRS, as issued by the IASB. In preparing our consolidated financial statements, we make estimates concerning a variety of matters. Some of these matters are highly uncertain, and our estimates involve judgments we make based



on the information available to us. In the discussion below, we have identified several of these matters for which our financial presentation would be materially affected if either (1) we used different estimates that we could reasonably have used or (2) in the future we change our estimates in response to changes that are reasonably likely to occur.

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

***Impairment of long-lived assets, intangible assets, goodwill and financial assets***

In accordance with IAS 36 “Impairment of assets”, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment in accordance with IAS 36 “Impairment of assets”. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill is allocated to Cash-Generating Units (CGUs) for impairment testing purposes. The allocation is made to Cash-Generating Units or groups of Cash-Generating Units that are expected to benefit from the business combination from which the goodwill arose, and the unit is not greater than the operating segment.

Financial assets are reviewed for impairment at the end of each reporting period and we assess whether there is objective evidence that a financial asset or a group of financial assets is impaired.

On December 31, 2012, we owned, directly and indirectly, 20.69% of the preferred shares (USIM5) and 14.13% of the common shares (USIM3) of Usinas Siderúrgicas de Minas Gerais S.A. (“Usiminas”), resulting from various acquisitions on the stock exchange since mid-2010. The instruments are classified as financial instruments available for sale and measured at their fair value based on their quoted market price in the Brazilian stock exchange (BOVESPA) on December 31, 2012.

Considering the decline in market value of the shares of Usiminas during 2011 and 2012, we evaluated whether, at the balance sheet date, there is objective evidence of impairment of our investments in Usiminas. The Company performed a detailed analysis of the percentage and period of decline, characteristics of the instruments, the segment in which Usiminas operates and volatility of the instruments.

The table below illustrates this index for a twelve-year period, up to December 31, 2011, a sufficiently long timeframe to eliminate volatility peaks caused by domestic and international economic crises:

<b>Period</b>	<b>Volatility</b>	
	<b>USIM3</b>	<b>USIM5</b>
January 3, 2000 - December 31, 2011	50.42%	48.57%

Based on this information, the criteria adopted by management, and the relevant accounting and legal rules, management concluded that the decline in the market value as compared to the acquisition cost of the USIM3 and USIM5 shares as of June 30, 2012, of 66.3% and 59.0%, respectively, should be considered a significant decline in the market value of these equity instruments.

Considering the quantitative and qualitative analyses above, management concluded, in its best judgment, that there is evidence of impairment of the investment in Usiminas' shares as of June 30, 2012, and, consequently, reclassified the accumulated losses recorded in other comprehensive income amounting to R\$1,335 million, net of income tax and social contribution, to profit/loss for the period, recognizing R\$2,023 million in other operating expenses and R\$688 million in deferred taxes, and this is the current position in December 31, 2012.

For a more detailed description of our policy regarding impairment of financial assets, see Note 13.II. to the consolidated financial statements included in “Item 18. Financial Statements.”

### ***Depreciation and amortization***

The basis for calculation of depreciation is the cost of the asset less the estimated residual value upon sale. While no specific depreciation method is recommended, the method chosen should be applied consistently for all significant components of assets and allocation of the depreciation should be on a systematic basis for each one of the accounting periods that best represents the realization of the economic benefits during the usable lives of assets.

In light of the necessity to review useful lives at least every financial year, in 2012 management performed the review for all the Company’s units. See further details in Note 10 to our consolidated financial statements.

### ***Fair value of business combinations***

We estimate the fair value of assets acquired and liabilities assumed of our business combinations as required by IFRS 3 “Business Combination”. Accordingly, when determining the purchase price allocations of our business acquisitions, we adjust to fair value certain items such as inventories, property, plant and equipment, mines, present value of long-term assets and liabilities, among others, which are determined by independent appraisals that perform the valuations for us.

Goodwill represents the excess of the cost of an acquisition over the Company’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. If there is any negative goodwill determined by the acquirer in the fair value of the assets, liabilities and contingent liabilities acquired in relation to the cost of acquisition, the Company should recognize it immediately in the statement of income.

### ***Derivatives***

IAS 39, “Financial Instruments: Recognition and Measurement”, requires that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in the statement of income or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge. Our derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are immediately recorded in the statements of income under “Other gains (losses), net”. Although the Company uses derivative for hedging purposes, it does not apply hedge accounting. With respect to the fair value measurement, we must make assumptions such as to future foreign currency exchange and interest rates. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk.”

### ***Pension plans***

We sponsor defined benefit pension plans covering some of our retirees. We account for these benefits in accordance with IAS 19, "Employee Benefits". The determination of the amount of our obligations for pension benefits depends on certain actuarial assumptions. These assumptions are described in Note 28 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries. In accordance with IFRS, when the benefits of a plan are increased, the portion of the increased benefit related to past services of employees is recognized under the straight-line method over the average period until the benefits become vested. When the benefits become immediately vested, the expense is immediately recognized in profit or loss. The Company has chosen to recognize all the actuarial gains and losses resulting from defined benefit plans immediately in other comprehensive income and then transferred within equity.

Some of the Company's entities offered a postretirement healthcare benefit to their employees. The right to these benefits is usually contingent upon an employee remaining in employment until the retirement age as well as the completion of the minimum length of service. The expected costs of these benefits were accumulated during the employment period, and are calculated using the same accounting method used for the defined benefit pension plans.

***Deferred taxes***

We compute and pay income taxes based on results of operations determined under Brazilian Corporate Law. A deferred income tax liability is recognized for all temporary tax differences, while a deferred income tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax assets and liabilities are classified as long-term. Tax assets and liabilities are offset if the entity has a legally enforceable right to offset them and they are related to taxes levied by the same taxing authority. If the criterion for offset of current tax assets and liabilities is met, deferred tax assets and liabilities will also be offset. The income tax related to items recognized directly in equity in the current period or in a prior period is recognized directly in the same account. We regularly review the deferred income tax assets for recoverability and will only recognize these if we believe that it is probable that the deferred income tax assets will be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or discount rates, the time period over which the underlying temporary differences become taxable or deductible, or any change in its future projections, we reduce the carrying amount of deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be realized.

***Contingencies and disputed taxes***

We record provisions for contingencies relating to legal proceedings with respect to which we deem the likelihood of an unfavorable outcome to be probable and the loss can be reasonably estimated. This determination is made based on the legal opinion of our internal and external legal counsel. We believe these contingencies are properly recognized in our financial statements in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets”. We are also involved in judicial and administrative proceedings that are aimed at obtaining or defending our legal rights with respect to taxes that we believe to be unconstitutional or otherwise not required to be paid by us. We believe that these proceedings will ultimately result in the realization of contingent tax credits or benefits that can be used to settle direct and indirect tax obligations owed to the Brazilian Federal or State Governments or to settle municipal tax obligations owed to the corresponding Municipality as per our laws. We do not recognize these contingent tax credits or benefits in our financial statements until realization of such gain contingencies has been resolved. This occurs when a final irrevocable decision is rendered by the courts in Brazil. When we use contingent tax credits or benefits based on favorable temporary court decisions that are still subject to appeal to offset current direct or indirect tax obligations, we maintain the legal obligation accrued in our financial statements until a final irrevocable judicial decision on those contingent tax credits or benefits is rendered. The accrual for the legal obligation related to the current direct or indirect tax obligations offset is not reversed until such time as the utilization of the contingent tax credits or benefits is ultimately realized. The accounting for the contingent tax credits is in accordance with accounting for contingent assets under IAS 37. Our accruals include interest on the tax obligations that we may offset with contingent tax credits or benefits at the interest rate defined in the relevant tax law. The recorded accruals for these disputed taxes and other contingencies may change in the future due to new developments in each matter, such as changes in legislation, irrevocable, final judicial decisions specific to us, or changes in approach, such as a change in settlement strategy in dealing with these matters. See “Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings” for further information on the judicial and administrative proceedings in which we are involved.

***Allowance for doubtful accounts***

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

***Property, Plant and Equipment***

In accordance with our accounting policy, the cost of maintenance in operating assets is capitalized when it does not occur annually and results in an increase in the useful life of the asset. Depreciation is recognized on an accrual basis until the next maintenance event of the relevant asset. Expenditures for maintenance and repairs in operating assets, that are necessary to maintain assets under normal conditions of use, are charged to operating costs and expenses, as incurred.

As of December 31, 2011 and 2012 the amount capitalized was R\$655 million and R\$ 273 million respectively and the amount expended was R\$969 million and R\$1,219 million, respectively.

**Recently Issued Accounting Pronouncements Adopted and Not Adopted by Us**

For a description on the recently issued accounting pronouncements, see Note 2 to our consolidated financial statements contained in “Item 18. Financial Statements”.

**Results of Operations**

The following table presents certain financial information with respect to our operating results for each of the years ended December 31, 2012, 2011 and 2010:

<b>Income Statement Data:</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>(in million of US\$, except per share data)</i>		<i>(in million of R\$, except per share data)</i>	
<b>Net operating revenues</b>	<b>8,268</b>	<b>16,896</b>	<b>16,520</b>	<b>14,451</b>
Cost of products sold	(5,908)	(12,072)	(9,801)	(7,883)
<b>Gross Profit</b>	<b>2,361</b>	<b>4,824</b>	<b>6,719</b>	<b>6,568</b>
<b>Operating expenses</b>				
Selling	(456)	(932)	(604)	(482)
General and Administrative	(282)	(577)	(576)	(537)
Share of profit (losses) of investees		(1)		
Other Expenses	(1,331)	(2,719)	(501)	(599)
Other Income	23	47	719	49
<b>Total</b>	<b>(2,047)</b>	<b>(4,182)</b>	<b>(962)</b>	<b>(1,569)</b>
<b>Operating income</b>	<b>314</b>	<b>642</b>	<b>5,757</b>	<b>4,998</b>
Financial Income (expenses), net	(975)	(1,992)	(2,006)	(1,911)
<b>Income Before Taxes</b>	<b>(661)</b>	<b>(1,351)</b>	<b>3,751</b>	<b>3,087</b>
<b>Income Tax</b>				
Current	(100)	(205)	(136)	(363)



Deferred	526	1,075	52	(207)
<b>Total</b>	<b>(235)</b>	<b>(481)</b>	<b>3,667</b>	<b>2,516</b>
<b>Net income</b>	<b>(235)</b>	<b>(481)</b>	<b>3,667</b>	<b>2,516</b>
<b>Loss attributable to noncontrolling interest</b>	<b>(29)</b>	<b>(60)</b>	<b>(39)</b>	<b>-</b>
<b>Net income attributable to Companhia Siderúrgica Nacional</b>	<b>(206)</b>	<b>(420)</b>	<b>3,706</b>	<b>2,516</b>

*Year 2012 Compared to Year 2011*

In addition to the consolidated figures reported above, the Company reports its integrated operations in five business segments: steel, mining, cement, logistics (including port and railway) and energy. The operating results of each segment are disclosed separately. The information on CSN's five business segments is derived from the consolidated financial statements.

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Our consolidated results for the years ended December 31, 2012 and 2011 by business segment are presented below:

R\$ million Consolidated Results	Steel	Mining	Logistics		Cement	Energy	Eliminations	Year Ended December 31, 2012	
			Port Logistics	Railway Logistics				Consolidated	Consolidated
<b>Net operating revenues</b>	<b>10,802</b>	<b>4,485</b>	<b>151</b>	<b>1,067</b>	<b>388</b>	<b>229</b>	<b>(226)</b>	<b>16,896</b>	
Domestic Market	8,478	713	151	1,067	388	229	(531)	10,495	
Export Market	2,324	3,772					305	6,401	
<b>Cost of goods sold</b>	<b>(8,868)</b>	<b>(2,450)</b>	<b>(82)</b>	<b>(730)</b>	<b>(286)</b>	<b>(153)</b>	<b>497</b>	<b>(12,072)</b>	
<b>Gross profit</b>	<b>1,934</b>	<b>2,035</b>	<b>69</b>	<b>337</b>	<b>102</b>	<b>76</b>	<b>271</b>	<b>4,824</b>	
<b>Adjusted EBITDA*</b>	<b>2,068</b>	<b>2,166</b>	<b>55</b>	<b>381</b>	<b>60</b>	<b>71</b>	<b>(269)</b>	<b>4,532</b>	
								<b>Year Ended December 31, 2011</b>	
R\$ million Consolidated Results	Steel	Mining	Logistics		Cement	Energy	Eliminations	Consolidated	
<b>Net operating revenues</b>	<b>9,478</b>	<b>5,856</b>	<b>143</b>	<b>1,023</b>	<b>333</b>	<b>183</b>	<b>(496)</b>	<b>16,520</b>	
Domestic Market	8,190	834	143	1,023	333	183	(565)	10,142	
Export Market	1,287	5,022					69	6,378	
<b>Cost of goods sold</b>	<b>(7,038)</b>	<b>(2,185)</b>	<b>(85)</b>	<b>(667)</b>	<b>(268)</b>	<b>(105)</b>	<b>549</b>	<b>(9,801)</b>	
<b>Gross profit</b>	<b>2,440</b>	<b>3,671</b>	<b>57</b>	<b>356</b>	<b>65</b>	<b>78</b>	<b>53</b>	<b>6,719</b>	
<b>Adjusted EBITDA*</b>	<b>2,575</b>	<b>3,768</b>	<b>45</b>	<b>371</b>	<b>20</b>	<b>75</b>	<b>(386)</b>	<b>6,468</b>	

\*For more information on Adjusted EBITDA see "Results of Operations – Adjusted EBITDA".

### Net Operating Revenues

Net operating revenues were R\$16,896 million in 2012, an increase of R\$376 million, or 2.3%, from R\$16,520 million recorded in 2011, due to an increase in revenues from our steel, cement, logistics and energy segments, partially offset by a decrease in revenues from our mining segment.

Net domestic revenues increased 3.5%, from R\$10,142 million in 2011 to R\$10,495 million in 2012 and total net revenues of exports and sales abroad increased 0.4%, from R\$6,378 million in 2011 to R\$6,401 million in 2012.

### Steel

Steel net operating revenues increased R\$1,324 million, or 14.0%, from R\$9,478 million in 2011 to R\$10,802 million in 2012, mainly due to an increase in sales volume of 19.1% from 4,896 thousand tons in 2011 to 5,829 thousand tons in 2012.

Steel net domestic revenues increased 3.5%, from R\$8,190 million in 2011 to R\$8,478 million in 2012, mainly due to an increase of 6.6% in sales volume from 4,216 thousand tons in 2011 to 4,495 thousand tons in 2012.

Steel net revenues from exports and sales abroad increased 80.5%, from R\$1,287 million in 2011 to R\$2,324 million in 2012, with sales volume increasing 96.2% to 1,334 thousand tons in 2012, from 680 thousand tons in 2011, due to the 724 thousand tons sold by SWT, which were included in our consolidated results as of February 2012.

### ***Mining***

Mining net operating revenues totaled R\$4,485 million in 2012, a decrease of R\$1,371 million, or 23.4%, from R\$5,856 million in 2011, due to the lower volume of iron ore sold, affected by an above average rainy season in the first half of the year, and a decrease in average iron ore prices in the international market.

Mining net export revenues decreased R\$1,250 million, or 24.9%, from R\$5,022 million in 2011 to R\$3,772 million in 2012, due to a decrease of 12.0% in sales volume from 22,392 thousand tons in 2011 to 19,703 thousand tons in 2012 and a decrease in average international iron ore prices.

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Mining net domestic revenues decreased R\$121 million, or 14.5%, from R\$834 million in 2011 to R\$713 million in 2012, mainly due to the decrease of sales volume from 1,457 thousand tons in 2011 to 479 thousand tons in 2012.

**Logistics**

Logistics net operating revenues in 2012 were R\$1,218 million, an increase of 4.5% as compared with the net logistics operating revenues of R\$1,166 million reported in 2011. In 2012, net revenue from railway logistics totaled R\$1,067 million and net revenue from port logistics amounted to R\$151 million, while in 2011, net revenue from railway logistics totaled R\$1,023 million and net revenue from port logistics amounted to R\$143 million.

**Cement**

Cement net revenue increased R\$55 million, or 16.5%, to R\$388 million in 2012, compared with revenue of R\$333 million in 2011, due to an increase of 12.4%, or 217 thousand tons, in sales volume from 1,755 thousand tons in 2011 to 1,972 thousand tons in 2012, as we continue the ramp up of our cement plant in Volta Redonda.

**Energy**

In 2012 our net operating revenues from the energy segment totaled R\$229 million, an increase of R\$46 million, or 25.1% as compared with net operating revenues of R\$183 million reported in 2011 in this segment.

**Cost of Products Sold**

In 2012, consolidated cost of products sold amounted to R\$12,072 million, representing a 23.2% increase as compared to R\$9,801 million recorded in 2011.

**Steel**

Consolidated steel costs of products sold were R\$8,868 million in 2012, representing a 26.0% increase as compared to the R\$7,038 million recorded in 2011, mainly due to the increase in sales volume of flat steel and its production costs and the consolidation of SWT's results as of February 2012.

Other than the periodic sale of excess inventories and the purchase by our subsidiaries of semi-finished products from third parties for further processing, our cost of products sold is comparable to our flat steel production cost.

The following table sets forth our flat steel production costs, the production costs per ton of steel and the portion of production costs attributable to the primary components of our costs of production. With the exception of coal and coke, which we import, and some metals (such as aluminum, zinc and tin) with domestic prices linked to international prices, our costs of production are mostly denominated in *reais*.

Raw Materials	2012			2011		
	R\$ million	R\$ / ton	%	R\$ million	R\$ / ton	%
Iron Ore	280	56.7	4.3%	283	56.6	4.7%
Coal	1,244	252.0	19.1%	1,249	250.5	20.9%
Coke	672	136.1	10.3%	575	115.3	9.6%

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Metals	258	52.2	4.0%	275	55.1	4.6%
Outsourced Slabs and Hot Coils	144	29.2	2.2%	221	44.3	3.7%
Pellets	366	74.1	5.6%	276	55.3	4.6%
Scrap	131	26.5	2.0%	110	22.0	1.8%
Other <sup>(1)</sup>	242	49.0	3.7%	237	47.5	4.0%
<sup>(1)</sup> Includes limestone and dolomite						
<b>Energy / Fuel</b>	<b>567</b>	<b>114.8</b>	<b>8.7%</b>	<b>565</b>	<b>113.3</b>	<b>9.5%</b>
<b>Labor</b>	<b>634</b>	<b>128.5</b>	<b>9.7%</b>	<b>607</b>	<b>121.6</b>	<b>10.2%</b>
<b>Services and Maintenance</b>	<b>911</b>	<b>184.5</b>	<b>14.0%</b>	<b>716</b>	<b>143.5</b>	<b>12.0%</b>
<b>Tools and Supplies</b>	<b>274</b>	<b>55.6</b>	<b>4.2%</b>	<b>268</b>	<b>53.8</b>	<b>4.5%</b>
<b>Depreciation</b>	<b>688</b>	<b>139.3</b>	<b>10.5%</b>	<b>562</b>	<b>112.7</b>	<b>9.4%</b>
<b>Other</b>	<b>116</b>	<b>23.5</b>	<b>1.8%</b>	<b>27</b>	<b>5.5</b>	<b>0.5%</b>
<b>Total Steel Cost Production</b>	<b>6,527</b>	<b>1,321.8</b>	<b>100.0%</b>	<b>5,970</b>	<b>1,197.1</b>	<b>100.0%</b>

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In 2012, our steel production costs were R\$6,527 million, a 9.3%, or R\$557 million, increase from the R\$5,970 million reported in 2011.

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

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

The coal and coke we consume are acquired from different international producers “See Item 4B - Raw Materials and Suppliers”.

Our coke costs increased R\$97 million or 16.9%, from R\$575 million in 2011 to R\$672 million in 2012, corresponding to 10.3% of our steel production cost, due to the increase in consumption and the depreciation of the Brazilian *real*.

The costs of pellets increased R\$90 million or 32.6%, from R\$276 million in 2011 to R\$366 million in 2012, principally due to the increase in consumption.

Our costs of services and maintenance increased 27.2% or R\$195 million, from R\$716 million in 2011 to R\$ 911 million in 2012, mainly due to preventive maintenance.

Depreciation costs increased R\$126 million or 22.4%, from R\$562 million in 2011 to R\$688 million in 2012, mainly due to asset additions.

### ***Mining***

Our mining costs of products sold totaled R\$2,450 million in 2012, an increase of R\$265 million, or 12.1%, as compared to the R\$2,185 million reported in 2011, mainly as a result of the increase in production costs.

### ***Logistics***

In 2012, cost of services attributable to our logistics segment totaled R\$812 million, representing a 7.9% increase as compared to the R\$752 million reported in 2011, mainly due to the increase in the cost of railway logistics, which totaled R\$730 million in 2012, a 9.4% increase (equivalent to R\$63 million) from the R\$667 million reported in 2011. The railway logistics represented 89.9% of the total logistics costs in 2012 and 88.7% of the total logistics costs in 2011. In addition, cost of services from port logistics totaled R\$82 million, a 3.5% decrease from the R\$85 million reported in 2011.

***Cement***

Cost of products sold attributable to our cement segment reached R\$286 million in 2012, R\$18 million, or 6.7% up from the R\$268 million reported in 2011, mainly due to the increase in sales volume.

***Energy***

In 2012, cost of products sold attributable to our energy segment was R\$153 million, an increase of R\$48 million as compared with the R\$105 million reported in 2011.

**Gross Profit**

Gross profit totaled R\$4,824 million in 2012, a decrease of 28.2% or R\$1,895 million as compared to R\$6,719 million in 2011, due to the increase of R\$2,271 million in cost of products sold, partially offset by the increase of R\$376 million in net revenues.

***Steel***

Gross profit in the steel segment totaled R\$1,934 million in 2012, a decrease of R\$506 million, or 20.7%, from R\$2,440 million in 2011, due to the increase of R\$1,830 million in the cost of steel products sold, partially offset by the increase of R\$1,324 million in steel net revenues, as discussed above.

***Mining***

Our gross profit in the mining segment decreased R\$1,636 million, or 44.5% from R\$3,671 million in 2011 to R\$2,035 million in 2012, due to the decrease of R\$1,371 million in mining net operating revenues and the increase of R\$265 million in cost of products sold.

***Logistics***

Gross profit in the logistics segment decreased 1.7% from R\$413 million in 2011 to R\$406 million in 2012, due to the increase of R\$60 million in cost of products sold, partially offset by the increase of R\$52 million in net revenues.

***Cement***

Gross profit in the cement segment increased R\$37 million or 56.9% from R\$65 million in 2011 to R\$102 million in 2012, due to the increase of R\$55 million in net revenues, partially offset by the R\$18 million increase in the cost of products sold.

***Energy***

The energy segment reported in 2012 a gross profit of R\$76 million, a decrease of R\$2.0 million, or 3.0% as compared with the R\$78 million reported in 2011.

**Selling, General and Administrative Expenses**

In 2012, we recorded selling, general and administrative expenses of R\$1,508 million, a 27.8% increase from 2011. Selling expenses increased 54.3%, from R\$604 million in 2011 to R\$932 million in 2012, mainly due to the increase in the portion of our iron ore sold with freight included (CIF) and because of the inclusion of SWT's operations in our consolidated results as of February 2012. General and administrative expenses remained largely unchanged, at R\$577 million in 2012.

**Other operating income (expenses)**

In 2012, we recorded a net expense of R\$2,673 million in the "Other Revenue and Expenses" line-item, as compared to a net income of R\$218 million in 2011. The R\$2,891 million variation was mostly due to:

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- The impairment of the investment in Usiminas' shares and consequently the reclassification of the accumulated losses recorded in shareholders' equity in the amount of R\$2,023 million to other operating expenses (income statement); and
- A positive impact of R\$698 million in 2011 from the sale of CSN's entire interest in Riversdale Mining Limited in April 2011.

**Operating Income**

Operating income totaled R\$642 million, a decrease of 88.8%, or R\$5,115 million, from R\$5,757 million in 2011. This decrease was mainly due to:

- A reduction of R\$1,895 million in gross profit;
- The R\$2,023 million reclassification of our investments in Usiminas, as discussed above;
- The positive impact of R\$698 million in the first nine months of 2011 from the sale of CSN's entire interest in Riversdale Mining Limited;
- An increase of R\$328 million in selling expenses, aforementioned.

**Financial expenses (income), net**

In 2012, our net financial expenses decreased by 0.7% or R\$14 million, from R\$2,006 million in 2011 to R\$1,992 million in 2012, mainly due to the following items:

- Interest income decreased by 41.9%, or R\$301 million, from R\$717 million in 2011 to R\$416 million in 2012 due to a reduction of R\$301 million in returns on financial investments;
- Interest expense decreased by 10.0%, or R\$289 million, from R\$2,884 million in 2011 to R\$2,595 million in 2012 mainly due to the decrease of R\$48 million in interest on loans and financing, the decrease of R\$105 million in the monetary restatement of tax payment installments and expenses of R\$77 million in 2011 relating to the Federal Tax Repayment Program, or REFIS.

**Income Taxes**

We recorded a gain for income tax and social contribution of R\$870 million in 2012, as compared to an expense of R\$84 million in 2011. Expressed as a percentage of pre-tax income, income tax moved from 2.2% in 2011 to -64.4% in 2012. Income tax expense in Brazil refers to federal income tax and social contribution tax. The statutory rates for these taxes applicable to the periods presented herein were 25% for federal income tax and 9% for the social contribution. Therefore, the balances for these periods totaled a gain of R\$459 million in 2012 and an expense of R\$1,275 million in 2011 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates in order to reach the actual tax expense for the years.

For the year ended December 31, 2012, adjustments totaled R\$411 million and were comprised of:

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- a R\$386 million adjustment related to equity income of subsidiaries at different rates or which are not taxable, which increased tax gains;
- a R\$39 million adjustment related to non taxable income from the REFIS which increased tax gains;
- R\$43 million related to tax loss and negative basis without constituted deferred tax, which decreased tax gains; and
- a R\$26 million effect related to other permanent additions, which increased tax gains.

For the year ended December 31, 2011, adjustments totaled R\$1,190 million and were comprised of:

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- a R\$1,279 million adjustment related to equity income of subsidiaries at different rates or which are not taxable, which decreased tax expenses;
- tax incentives that represented a net tax adjustment of R\$73 million, which decreased tax expenses;
- tax incentives of R\$44 million, which decreased tax expenses;
- a R\$16 million adjustment related to non taxable income from the REFIS which increased tax expenses; and
- An adjustment of R\$190 million related to the sale of non-deductible securities, which increased tax expenses.

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

**Net Income (Loss)**

In 2012, we had a net loss of R\$481 million, as compared to a net income of R\$3,667 million in 2011, basically due to the impairment of the investment in Usiminas' shares, which had an impact of R\$1,335 million on the income statement.

***Year 2011 Compared to Year 2010***

Our consolidated results for the years ended December 31, 2011 and 2010 by business segment are presented below:

R\$ million Consolidated Results	Steel	Mining	Logistics		Cement	Energy	Eliminations	Year Ended December 31, 2011	Consolidated
			Port Logistics	Railway Logistics					
<b>Net operating revenues</b>	<b>9,478</b>	<b>5,856</b>	<b>143</b>	<b>1,023</b>	<b>333</b>	<b>183</b>	<b>(496)</b>	<b>16,520</b>	
Domestic Market	8,190	834	143	1,023	333	183	(565)	10,142	
Export Market	1,287	5,022					69	6,378	
<b>Cost of goods sold</b>	<b>(7,038)</b>	<b>(2,185)</b>	<b>(85)</b>	<b>(667)</b>	<b>(268)</b>	<b>(105)</b>	<b>549</b>	<b>(9,801)</b>	
<b>Gross profit</b>	<b>2,440</b>	<b>3,671</b>	<b>57</b>	<b>356</b>	<b>65</b>	<b>78</b>	<b>53</b>	<b>6,719</b>	
<b>Adjusted EBITDA*</b>	<b>2,575</b>	<b>3,768</b>	<b>45</b>	<b>371</b>	<b>20</b>	<b>75</b>	<b>(386)</b>	<b>6,468</b>	
								<b>Year Ended December 31, 2010</b>	
R\$ million Consolidated Results	Steel	Mining	Logistics		Cement	Energy	Eliminations	Consolidated	
<b>Net operating revenues</b>	<b>9,926</b>	<b>3,615</b>	<b>119</b>	<b>838</b>	<b>202</b>	<b>114</b>	<b>(364)</b>	<b>14,451</b>	

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Domestic Market	8,763	574	119	838	202	114	(364)	10,247
Export Market	1,163	3,041						4,204
<b>Cost of goods sold</b>	<b>(6,226)</b>	<b>(1,252)</b>	<b>(70)</b>	<b>(522)</b>	<b>(164)</b>	<b>(42)</b>	<b>393</b>	<b>(7,883)</b>
<b>Gross profit</b>	<b>3,700</b>	<b>2,363</b>	<b>49</b>	<b>317</b>	<b>38</b>	<b>72</b>	<b>29</b>	<b>6,568</b>
<b>Adjusted</b>								
<b>EBITDA*</b>	<b>3,776</b>	<b>2,439</b>	<b>38</b>	<b>349</b>	<b>9</b>	<b>69</b>	<b>(325)</b>	<b>6,355</b>

For more information on Adjusted EBITDA see “Results of Operations – Adjusted EBITDA”.

### Net Operating Revenues

Net operating revenues were R\$16,520 million in 2011, an increase of R\$2,069 million, or 14.3%, from R\$14,451 million recorded in 2010, mainly due to the increase in our mining revenues, which represent 35% of our total revenues.

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Total net revenues of exports and sales abroad increased 51.7%, from R\$4,204 million in 2010 to R\$6,378 million in 2011, while net domestic revenues decreased 1.0%, from R\$10,247 million in 2010 to R\$10,142 million in 2011.

***Steel***

Steel net operating revenues decreased R\$448 million, or 4.5%, from R\$9,926 million in 2010 to R\$9,478 million in 2011, mainly due to a decrease in average steel prices, partially offset by the 2.1% increase in sales volume from 4,796 thousand tons in 2010 to 4,896 thousand tons in 2011.

Steel net domestic revenues decreased 6.5%, from R\$8,763 million in 2010 to R\$8,190 million in 2011, mainly due to a decrease in average steel prices in the domestic market, partially offset by the 1.9% increase in sales volume from 4,135 thousand tons in 2010 to 4,216 thousand tons in 2011.

Steel net revenues from exports and sales abroad increased 10.7%, from R\$1,163 million in 2010 to R\$1,287 million in 2011, with increases in average steel prices in the international market as well as an increase in sales volumes, from 661 thousand tons in 2010 to 680 thousand tons in 2011.

***Mining***

Mining net operating revenues increased R\$2,241 million, or 62.0%, from R\$3,615 million in 2010 to R\$5,856 million in 2011, primarily due to higher international prices and the increase in sales volume.

Mining net domestic revenues increased R\$260 million, or 45.3%, from R\$574 million in 2010 to R\$834 million in 2011, mainly due to the increase in average iron ore prices, partially offset by the decrease of 4.1% in sales volume from 1,520 thousand tons in 2010 to 1,457 thousand tons in 2011, a function of our strategy of increasing iron ore exports.

Mining net export revenues increased R\$1,981 million, or 65.1%, from R\$3,041 million in 2010 to R\$5,022 million in 2011, primarily due to the increase in international iron ore prices driven by the strong demand, mainly from China, and the increase of 31.4% in sales volume, from 17,035 thousand tons in 2010 to 22,392 thousand tons in 2011.

***Logistics***

Logistics net operating revenues in 2011 were R\$1,166 million, an increase of 21.8% as compared with the net logistics operating revenues of R\$957 million reported in 2010. In 2011, net revenue from railway logistics totaled R\$1,023 million and net revenue from port logistics amounted to R\$143 million, while in 2010, net revenue from railway logistics totaled R\$838 million and net revenue from port logistics amounted to R\$119 million.

***Cement***

As we continue the ramp-up of our cement plant in Volta Redonda, we significantly increased sales in 2011, reaching 1,755 thousand tons, which represents a growth of 76.9% when compared to 2010.

As a consequence, in 2011, net revenues from the cement segment totaled R\$333 million, an increase of 65.0% from 2010 net revenues of R\$202 million.

***Energy***

In 2011 our net operating revenues from the energy segment totaled R\$183 million, an increase of R\$69 million as compared with net operating revenues of R\$114 million reported in 2010 in this segment.

**Cost of Products Sold**

In 2011, consolidated cost of products sold amounted to R\$9,801 million, representing a 24.3% increase as compared to R\$7,883 million recorded in 2010.

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Consolidated steel costs were R\$7,038 million in 2011, representing a 13.0% increase as compared to the R\$6,226 million recorded in 2010, mainly due to the increase in raw materials costs.

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

The following table sets forth our steel production costs, the production costs per ton of steel and the portion of production costs attributable to the primary components of our costs of production. With the exception of coal and coke, which we import, and some metals (such as aluminum, zinc and tin) with domestic prices linked to international prices, our costs of production are mostly denominated in *reais*.

	2011			2010		
	R\$ million	R\$ / ton	%	R\$ million	R\$ / ton	%
<b>Raw Materials</b>						
Iron Ore	283	56.6	4.7%	239	47.0	4.3%
Coal	1,249	250.5	20.9%	1,239	243.7	22.1%
Coke	575	115.3	9.6%	382	75.1	6.8%
Metals	275	55.1	4.6%	244	48.0	4.3%
Outsourced Slabs and Hot Coils	221	44.3	3.7%	272	53.5	4.9%
Pellets	276	55.3	4.6%	169	33.2	3.0%
Scrap	110	22.0	1.8%	64	12.6	1.1%
Other <sup>(1)</sup>	237	47.5	4.0%	274	53.9	4.9%
<sup>(1)</sup> Includes limestone and dolomite						
<b>Energy / Fuel</b>	<b>565</b>	<b>113.3</b>	<b>9.5%</b>	<b>561</b>	<b>110.3</b>	<b>10.1%</b>
<b>Labor</b>	<b>607</b>	<b>121.6</b>	<b>10.2%</b>	<b>570</b>	<b>112.1</b>	<b>10.2%</b>
<b>Services and Maintenance</b>	<b>716</b>	<b>143.5</b>	<b>12.0%</b>	<b>743</b>	<b>146.1</b>	<b>13.3%</b>
<b>Tools and Supplies</b>	<b>268</b>	<b>53.8</b>	<b>4.5%</b>	<b>269</b>	<b>52.9</b>	<b>4.8%</b>
<b>Depreciation</b>	<b>562</b>	<b>112.7</b>	<b>9.4%</b>	<b>489</b>	<b>96.2</b>	<b>8.7%</b>
<b>Other</b>	<b>27</b>	<b>5.5</b>	<b>0.5%</b>	<b>59</b>	<b>16.5</b>	<b>1.5%</b>
<b>Total Steel Cost Production</b>	<b>5,970</b>	<b>1,197.1</b>	<b>100.0%</b>	<b>5,574</b>	<b>1,101.3</b>	<b>100.0%</b>

In 2011, our steel production costs were R\$5,970 million, a 7.1%, or R\$396 million, increase from the R\$5,574 million reported in 2010.

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

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

The coal and coke we consume are acquired from different international producers “See Item 4B - Raw Materials and Suppliers”. In the first half of 2011, given the mismatch between supply and demand, there was an increase in the price of some raw materials used in steelmaking.



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Our coke costs increased R\$193 million or 50.5%, from R\$382 million in 2010 to R\$575 million in 2011, corresponding to 9.6% of our steel production cost, due to the increase in consumption and higher average prices.

The costs of pellets increased R\$107 million or 63%, from R\$169 million in 2010 to R\$276 million in 2011, principally due to increase in consumption but also due to higher average prices.

Depreciation costs increased R\$73 million from R\$489 million in 2010 to R\$562 million in 2011, mainly due to asset additions.

***Mining***

Our mining costs of products sold totaled R\$2,185 million in 2011, an increase of R\$933 million, or 74.5%, as compared to the R\$1,252 million reported in 2010, mainly due to the increase in sales volume of iron ore.

***Logistics***

In 2011, cost of services attributable to our logistics segment totaled R\$752 million, representing a 27.0% increase as compared to the R\$592 million reported in 2010, mainly due to the increase in the cost of railway logistics, which totaled R\$667 million in 2011, a 27.8% increase (equivalent to R\$145 million) from the R\$522 million reported in 2010. The railway logistics represented 89% of the total logistics costs in 2011 and 88% of the total logistics costs in 2010. In addition, cost of services from port logistics totaled R\$85 million, a 21.4% increase from the R\$70 million reported in 2010.

***Cement***

Cost of products sold attributable to our cement segment reached R\$268 million in 2011, R\$104 million, or 63.4% up from the R\$164 million reported in 2010, mainly due to an increase in sales, as described above.

***Energy***

In 2011, cost of products sold attributable to our energy segment was R\$105 million, an increase of R\$63 million or 150.0% as compared with the R\$42 million reported in 2010.

**Gross Profit**

Gross profit totaled R\$6,719 million in 2011, an increase of 2.3% or R\$151 million as compared to R\$6,568 million in 2010, due to the increase of R\$2,069 million in net operating revenues, partially offset by the increase of R\$1,918 million in cost of products sold.

***Steel***

Gross profit in the steel segment totaled R\$2,440 million in 2011, a decrease of R\$1,260 million, or 34.1%, from R\$3,700 million in 2010, due to the increase of R\$812 million in the cost of steel products sold, in light of the increase in raw material costs, and the decrease of R\$448 million in steel net revenues due to the decrease in average steel prices.

***Mining***

Our gross profit in the mining segment increased R\$1,308 million, or 55.3% from R\$2,363 million in 2010 to R\$3,671 million in 2011, mainly due to the increase of R\$2,241 million in mining net operating revenues, caused by higher international prices and increase in sales volume, partially offset by the increase of R\$933 million in cost of products sold.

***Logistics***

Gross profit in the logistics segment increased 12.8% from R\$366 million in 2010 to R\$413 million in 2011, due to the increase of R\$209 million in net revenues, partially offset by the increase of R\$160 million in the cost of products sold.

***Cement***

Gross profit in the cement segment increased R\$27 million or 68.4% from R\$38 million in 2010 to R\$65 million in 2011, due to the increase of R\$131 million in net revenues, partially offset by the R\$104 million increase in the cost of products sold.

***Energy***

The energy segment reported in 2011 a gross profit of R\$78 million, an increase of 8.3% as compared with the R\$72 million reported in 2010.

**Selling, General and Administrative Expenses**

In 2011, we recorded selling, general and administrative expenses of R\$1,180 million, a 15.8% increase from 2010. Selling expenses increased 25.3%, from R\$482 million in 2010 to R\$604 million in 2011, mainly due to expenses relating to iron ore freight. General and administrative expenses increased 7.3%, from R\$537 million in 2010 to R\$576 million in 2011.

**Other operating income (Expenses)**

In 2011, we recorded a net income of R\$218 million in the “Other Revenue and Expenses” line-item, as compared to a net expense of R\$551 million in 2010. The R\$769 million increase was mostly due to the R\$698 million from the sale of CSN’s entire interest in Riversdale Mining Limited in April 2011.

**Operating Income**

Operating income increased by 15.2%, or R\$759 million, from R\$4,998 million in 2010 to R\$5,757 million in 2011. This increase was mainly due to the R\$698 million from the sale of CSN’s entire interest in Riversdale Mining Limited in April 2011.

**Financial expenses (income), net**

In 2011, our net financial expenses increased by 5.0% or R\$95 million, from R\$1,911 million in 2010 to R\$2,006 million in 2011, mainly due to the following items:

- Interest income increased by 11.5%, or R\$74 million, from R\$643 million in 2010 to R\$717 million in 2011 mainly due to the increase of R\$145 million in returns on financial investments, due to the increases in cash and cash equivalents. This decrease was partially offset by the decrease of R\$46 million in other financial income;
- Interest expense increased by 31.1%, or R\$684 million, from R\$2,200 million in 2010 to R\$2,884 million in 2011 mainly due to the increase of R\$828 million in interests on loans and financing, partially offset by an increase of R\$138 million in capitalized interest;
- Foreign exchange and monetary variation net, including operations with derivatives, moved from a loss of R\$354 million in 2010 to a gain of R\$161 million in 2011, mainly resulting from the depreciation of the *real* against the U.S. dollar. This depreciation affects:

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

### **Income Taxes**

We recorded an expense for income tax and social contribution of R\$84 million in 2011, as compared to R\$571 million in 2010. Expressed as a percentage of pre-tax income, income tax expense decreased from 18.5% in 2010 to 2.2% in 2011. Income tax expense in Brazil refers to federal income tax and social contribution tax. The statutory rates for these taxes applicable to the periods presented herein were 25% for federal income tax and 9% for the social contribution. Therefore, the balances owed for these periods totaled R\$1,275 million in 2011 and R\$1,050 million in 2010 (34% of income before taxes and equity in affiliated companies). Adjustments are made to these rates in order to reach the actual tax expense for the years.

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For the year ended December 31, 2011, adjustments totaled R\$1,190 million and were comprised of:

- a R\$1,279 million adjustment related to equity income of subsidiaries at different rates or which are not taxable, which decreased tax expenses;
- tax incentives that represented a net tax adjustment of R\$73 million, which decreased tax expenses;
- tax incentives of R\$44 million, which decreased tax expenses;
- a R\$16 million adjustment related to non taxable income from REFIS which increased tax expenses; and
- An adjustment of R\$190 million related to sale of non-deductible securities, which increased tax expenses.

For the year ended December 31, 2010, adjustments totaled R\$478 million and were comprised of:

- a R\$121 million benefit from interest on shareholders' equity;
- a R\$217 million adjustment related to equity income of subsidiaries at different rates or which are not taxable, which decreased tax expenses;
- tax incentives that represented a net tax adjustment of R\$34 million, which decreased tax expenses; and
- a R\$106 million benefit related to non taxable income from REFIS adjustments.

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

### **Net Income**

In 2011, we had a net income of R\$3,667 million, a 45.7% increase as compared to 2010. The improved results were mainly due to the R\$698 million from the sale of CSN's entire interest in Riversdale Mining Limited in April 2011.

### **Adjusted EBITDA**

The Company uses adjusted EBITDA to measure the performance of its various segments and the capacity to generate recurring operating cash. It comprises net income before the net financial result, income and social contribution taxes, depreciation and amortization, equity income and other operating revenue (expenses). However, although it is used to measure segment results, adjusted EBITDA is not a measure recognized by Brazilian accounting practices or International Financial Reporting Standards (IFRS), has no standard definition and therefore should not be compared to similar indicators adopted by other companies. As required by IFRS 8, the table below shows the reconciliation of the adjusted EBITDA with the net income (loss) for the year.

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R\$ Million	2012	2011	2010
Profit/(Loss) for the year	(481)	3,667	2,516
Depreciation	1,216	929	806
Income tax and social contribution	(870)	84	571
Finance income	1,992	2,006	1,911
EBITDA	1,858	6,686	5,804
Other operating income (expenses)	2,673	(218)	551
Share of profit (losses) of investees	1	-	-
<b>Adjusted EBITDA</b>	<b>4,532</b>	<b>6,468</b>	<b>6,355</b>

Adjusted EBITDA totaled R\$4,532 million in 2012, a decrease of 29.9% or R\$1,936 million as compared to R\$6,468 million in 2011, due to the decrease in sales and average prices of iron ore and higher costs of goods sold.

Adjusted EBITDA totaled R\$6,468 million in 2011, an increase of 1.8% or R\$113 million as compared to R\$6,355 million in 2010, due to the increase in sales and average prices of iron ore, partially offset by higher costs of goods sold and lower steel prices.

## **5B. Liquidity and Capital Resources**

### **Overview**

Our main uses of funds are for capital expenditures, repayment of debt and dividend payments. We have historically met these requirements by using cash generated from operating activities and through the issuance of short- and long-term debt instruments. We expect to meet our cash needs for 2013 primarily through a combination of operating cash flow, cash and cash equivalents on hand and newly issued long-term debt instruments.

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

### **Sources of Funds and Working Capital**

#### *Year 2012 Compared to Year 2011*

#### *Cash Flows*

Cash and cash equivalents decreased by R\$973 million in 2012, compared to an increase of R\$5,178 million in 2011.

#### *Operating Activities*

Cash provided by operations was R\$3,488 million and R\$4,202 million, in 2012 and 2011, respectively. This R\$714 million decrease was mainly due to a decrease of R\$1,215 million in net income adjusted for items that do not impact cash and a decrease of R\$501 million in our working capital.

***Investing Activities***

We used cash in our investing activities in the total amount of R\$3,540 million in 2012 and R\$5,275 million in 2011. The decrease of R\$1,735 million was mainly a result of a decrease of R\$1,257 million in investments in fixed assets in our main projects.

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***Financing Activities***

Cash used in financing activities was R\$749 million in 2012 compared to cash provided by financing activities of R\$4,741 million in 2011. This R\$5,490 million difference was mainly due to:

- a decrease of R\$4,102 million in proceeds from borrowings and financings;
- an increase of R\$1,055 million in amortizations of borrowings and financings; and
- R\$803 million in amortization of financings of SWT.

These effects were partially offset by a decrease of R\$657 million in dividends and interest on equity payments.

***Year 2011 Compared to Year 2010******Cash Flows***

Cash and cash equivalents flow increased by R\$5,178 million in 2011 and R\$2,268 million in 2010.

***Operating Activities***

Cash provided by operations was R\$4,202 million and R\$2,517 million, in 2011 and 2010, respectively. This R\$1,685 million increase was mainly due to an increase of R\$1,171 million in net income adjusted for items that do not impact cash and a decrease of R\$514 million in working capital.

***Investing Activities***

We used cash in our investing activities in the total amount of R\$5,275 million in 2011 and R\$4,636 million in 2010. The increase of R\$639 million was mainly due to an increase of fixed assets to supply the projects, mainly related to: (i) the Casa de Pedra expansion; (ii) the expansion of the Itaguaí Port; (iii) the construction of the long steel mill in the city of Volta Redonda (State of Rio de Janeiro); and (iv) the extension of the Transnordestina railroad.

***Financing Activities***

Cash provided by financing activities totaled R\$4,741 million in 2011, compared R\$4,616 million in 2010. This R\$125 million increase was mainly due to a decrease of R\$1,238 million in amortizations of borrowings and financings, almost offset by a decrease of R\$931 million in issuances and an increase of R\$296 million in payments of dividends and interest on equity.

***Trade Accounts Receivable Turnover Ratio***

Our receivable turnover ratio (the ratio between trade accounts receivable and net operating revenues), expressed in days of sales increased to 31 days on December 31, 2012 from 29 days on December 31, 2011.

***Days Sales in Inventory***



Our days sales in inventory (obtained by dividing inventories by annualized cost of products sold), expressed in days of cost of products sold decreased to 76 days in 2012 from 103 days in 2011.

***Trade Accounts Payable Turnover Ratio***

The accounts payable turnover ratio (obtained by dividing trade accounts payable by annualized cost of products sold), expressed in days of cost of products sold, increased to 55 days on December 31, 2012 from 46 days on December 31, 2011.

***Liquidity Management***

Given the capital intensive and cyclical nature of our industry, and the generally volatile economic environment in certain emerging markets, we have retained a substantial amount of cash on hand to run our operations, to satisfy our financial obligations, and to be prepared for potential investment opportunities. As of December 31, 2012, cash and cash equivalent totaled R\$14,445 million.

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We were also taking advantage of the current liquidity conditions to extend the maturity profile of our debt. These activities are unrelated to the management of any interest rate, inflation and/or foreign exchange risk exposure. Given the lack of a liquid secondary market for our short term debt instruments, we have accumulated cash instead of prepaying our debt prior to final maturity. As of December 31, 2012, short-term and long-term indebtedness accounted for 7.6% and 92.4%, respectively, of our total debt, and the average life of our existing debt was equivalent to approximately 7 years, considering a 40 year term for the perpetual bonds issued in September 2010.

***Capital Expenditures and Investments***

In 2012, our capital expenditures were R\$3,144 million, of which R\$984 million was used in the expansion of the Transnordestina railroad, R\$454 million in the construction of our long steel plant in Volta Redonda, R\$381 million in the Casa de Pedra mine expansion and Itaguaí Port expansion, R\$73 million in our clinker plant and R\$219 million in maintenance and repairs.

We expect to meet our liquidity requirements from cash generated from operations, and, if needed, the issuance of debt securities. For details on our Planned Investments see “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments”.

***Company Debt and Derivative Instruments***

At December 31, 2012 and 2011, total debt (composed of current and non-current portions of borrowings and financings) summed R\$30,284 million and R\$28,067 million, respectively, equal to 330% and 333% of the stockholders’ equity at December 31, 2012 and 2011, respectively. At December 31, 2012, our short-term debt (composed of current borrowings and financings, which includes current portion of long-term debt) totaled R\$2,326 million and our long-term debt (composed of non-current borrowings and financings) totaled R\$27,958 million. The foregoing amounts do not include debt of others for which we are contingently liable. See “Item 5E. Off-Balance Sheet Arrangements.”

At December 31, 2012, approximately 64% of our debt was denominated in *reais* and substantially all of the remaining balance was denominated in U.S. dollars.

Our current policy is to protect ourselves against foreign exchange losses and interest rate losses on our debt and currently our exposure is protected through foreign exchange derivative products, including futures and swaps. For a description of our derivative instruments, see Note 13.IV to our consolidated financial statements contained in “Item 18. Financial Statements.” Also see “Item 5A. Operating Results—Results of Operations—Year 2012 Compared to Year 2011”.

The components of R\$2,326 million of our consolidated current portion of short-term debt outstanding at December 31, 2012 were:

<b>Components</b>	<b>Average interest rate</b>	<b>Total (in million of R\$)</b>
Fixed rate notes	6.5% - 10.0%	1,265
BNDES/Finame	TJLP + 1.5% - 5% and TJR + 1.7% - 2.7%	448
Prepayment financing	1% - 7.5% and 104.8% - 111% CDI	335

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Debentures	1% + TJLP and 103.6% - 110.8% CDI	145
CCB	112.5% CDI	62
Others	1.4% - 8.0% and CDI + 1.2%	71
<b>Total</b>		<b>2,326</b>

The components of R\$27,958 million of our consolidated long-term debt outstanding at December 31, 2012 were (amounts are reflected in long-term debt):

<b>Components</b>	<b>Average interest rate</b>	<b>Total (in million of R\$)</b>
Debentures	1% + TJLP and 103.6% - 110.8% CDI	4,614
Fixed rate notes	6.5% - 10%	4,802
BNDES/Finame	TJLP + 1.5% - 5% and TJR + 1.7% - 2.7%	1,968
Perpetual bonds	7%	2,043
Prepayment financing	1% - 7.5% and 104.8% - 111% CDI	6,839
CCB	112.5% CDI	7,200
Others	1.4% - 8.0% and CDI + 1.2%	492
<b>Total</b>		<b>27,958</b>

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The amount of interest paid in 2012 was R\$2,348 million.

The local debenture is a *real*-denominated debt instrument, which includes:

(i) Debentures issued in February 2006, of R\$600 million six-year bearing interest at a rate of 103.6% of the CDI rate per annum. On February 1, 2012, the Company liquidated these debentures in the amount of R\$635,285 thousand (R\$600,000 thousand principal amount and R\$35,285 thousand in interest).

(ii) Debentures issued by our controlled company Transnordestina Logística S.A., which obtained approval by FDNE (*Fundo de Desenvolvimento do Nordeste*) on March 2010 for its First Private Emission of Debentures, convertible into shares, composed of eight series in total, with the overall amount of R\$2,672,400. Until December 31, 2011, Transnordestina Logística S.A. had already issued 5 series in the total amount of R\$1,615 million.

(iii) Debentures issued in July 2011, of R\$1,150 million bearing interest at a rate of 105.8% of the CDI rate per annum and maturity in 2019.

(iv) Debentures issued in September 2012, of R\$1,565 million comprised of two series, one maturing in March 2015 and bearing interest at a rate of 105.8% of the CDI rate per annum, and one maturing in September 2015 and bearing interest at a rate of 106.0% of the CDI rate per annum.

Eurodollar and Euronotes issued in accordance with Rule 144A and Regulation S under the Securities Act reflect senior unsecured debt instruments issued by us and our offshore subsidiaries, including (i) the US\$300 million bonds, 10% per annum coupon, and the US\$300 million notes, 8.25% per annum coupon, issued in 1997 with final maturity in 2047; (ii) the issuance in December 2003 and January 2004 of US\$550 million notes, 9.75% per annum coupon with final maturity in 2013; (iii) the US\$400 million notes, 10% per annum coupon, issued in September 2004 and January 2005 with final maturity in 2015, and (iv) the US\$750 million notes, 6.875% per annum coupon, issued in September 2009 with maturity in 2019.

In July 2010, we issued US\$1 billion notes, 6.50% per annum coupon and maturity date in July 2020, and in September 2010 we issued a US\$1 billion Perpetual Bond, 7% per annum coupon.

We issued export credit notes, or NCEs: (i) on April 11, 2008, in the amount of R\$100 million in favor of Banco do Brasil S.A., due 2013; (ii) on September 30, 2009, in the amount of R\$1.0 billion, in favor of Banco do Brasil S.A., due 2014; (iii) on September 30, 2009, in the amount of R\$300 million, in favor of Banco do Brasil S.A., due 2014; (iv) on May 21, 2010 in the amount of R\$2.0 billion, in favor of Banco do Brasil S.A., through our subsidiary Congonhas Minérios S.A., due 2018. In April 2011, we issued another NCE, in the amount of R\$1.5 billion; in favor of Banco do Brasil S.A., due to 2019.

We contracted credit facilities from Caixa Econômica Federal (CEF), under its special credit for large companies, in the form of a bank credit bill, or CCB: (i) on August 18, 2009, in the amount of R\$2.0 billion and to be amortized in 36 months; (ii) on February 9, 2010, in the amount of R\$1.0 billion and to be amortized in 36 months. In 2011, we contracted two more CCBs: (i) in February 2011, in the amount of R\$2.0 billion and to be amortized in 94 months; and (ii) in August 2011, in the amount of R\$2.2 billion and to be amortized in 108 months.

In January 2012, we priced, through our wholly-owned subsidiary CSN Resources S.A., an additional bond issuance in the amount of US\$200 million, through the reopening of the US\$1 billion bonds, at an interest rate of 6.5% p.a., due in July 2020. The offering price was 106.00% and yield was 5.6% p.a.

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In January 2012, we secured financing contracted through our subsidiary CSN Steel S.L., in the amount of €120 million, to partially fund the acquisition of all shares held by the Alfonso Gallardo Group, S.L.U. (“Grupo Gallardo”) in the following companies: SWT and Gallardo Sections S.L.U.

In March 2012, we issued promissory notes in the total amount of R\$800 million.

In September 2012, the Company liquidated these promissory notes, paying the principal amount of R\$800 million and R\$33,277 in interest.

***Maturity Profile***

The following table sets forth the maturity profile of our long-term debt at December 31, 2012:

<b>Maturity in</b>	<b>Principal Amount</b> <i>(In millions of R\$)</i>
2014	2,917
2015	3,886
2016	3,282
2017	3,530
2018	3,727
2019 and thereafter	8,573
Perpetual bonds	2,043
Total	27,958

**5C. Research & Development and Innovation**

We have been investing in Research & Development to develop new products and processes required by a demanding market. Among our projects, we can highlight:

- The development of pre-painted steel, coated with Organo-Metallic film for application in fuel tanks in automobiles, reducing fuel consumption;
- Advanced High Strength Steels, Ultra Low Carbon Steels (extra deep drawing quality), Bake-Hardening Steels, High Resistance Interstitial Free Steels, High Strength and Low Alloy and Rephosphorized High Strength Steels, allowing the production of lighter vehicles;
- CSN Extra Fino ® cold rolled steel for new applications in white goods and steel furniture, developed in response to a worldwide trend.

**5D. Trend Information*****Overview***

The global economic activity is recovering at a moderate pace, still reflecting the high level of uncertainty surrounding the international scenario. For 2013, the International Monetary Fund (IMF) estimates global growth of 3.5%.

For the European Union, the European Central Bank is forecasting stagnation in 2013 and growth of 1.1% in 2014. The Bank of England expects GDP growth of 1% in 2013 and annualized inflation of 3%, forecasted to remain above the 2% target for two years.

With regard to the United States, the Fed estimates GDP growth of between 2.3% and 2.8% in 2013. However, the US\$85 billion cut in the U.S. budget may affect several economic sectors, resulting in a reduction of up to 1% in the GDP estimates.

The Chinese Central Bank maintained its 2013 GDP growth estimate at 7.5%. During the Central Economic Work Conference held in December, the Chinese authorities singled out urban growth as a key factor in fueling domestic demand, deemed necessary in order to reduce the country's dependence on exports, given the uncertainties in the global economy. At the same time, the Chinese government is expected to continue with its proactive fiscal policies and prudent monetary measures.

With regards to Brazil, GDP growth is expected to reach 3.00% in 2013, while the IPCA is expected to total 5.71%, according to the Central Bank's FOCUS report. COPOM indicates that it will monitor the macroeconomic scenario in order to define its next steps, with the possibility of increasing the Selic interest rate if inflation continues to rise.

### ***Steel***

According to the WSA, world steel demand is expected to increase by 3.2% in 2013, totaling 1.46 billion tons, with China accounting for 659 million tons.

IABr expects domestic sales growth of 7.7% in 2013, fueled by government measures such as the reduction in electricity tariffs, the increase in import taxes for certain steel products and the end of fiscal conflicts between the Brazilian states. It also expects apparent consumption of flat and long steel of 26.4 million tons in 2013, a 4.3% increase over 2012.

Continuing with the goal of diversifying and investing in the expected growth of the construction industry in the domestic market, we are constructing a long steel plant with a capacity of 500 kta, including rebar and wire rods in our portfolio.

### ***Mining***

CRU forecasts the seaborne iron ore trade will reach 1.43 billion tons by 2017, a 33% growth as compared with the level reached in 2012.

Pressured by slower than expected GDP performance during 2012, the Chinese government announced last September a US\$157 billion stimulus package focused on infrastructure investments. This change in expectations has resulted in better fundamentals for steel, and since then has been sustaining the appetite for seaborne iron ore. Chinese iron ore imports are expected to increase by 9% in 2013, reaching the record volume of 782 million tons.

According to CRU, exports in Brazil show a tendency to increase until at least 2017. By this time, exports should total approximately 452 million tons, an increase of 41% over current levels. For 2013, the forecast is for Brazil to export 332 million tons.

Considering this scenario, we expect to reach an annual sales level of 89 million tons per year of iron ore products from Casa de Pedra, Namisa and third party purchases. To ensure the production outflow, we expect the Itaguaí Port to reach an 84 mtpy shipment capacity.

### ***Cement***

Prospects for the sector remain positive. In 2013, the construction industry is expected to benefit from lower taxes and higher investments in infrastructure. ABRAMAT estimates construction material domestic sales growth 4.5% greater in 2013 than 2012, fueled by a greater number of property launches and the construction of homes within the government's *Minha Casa, Minha Vida* housing program. In addition, the highway, railway, port and airport concession programs and the construction related to the World Cup are expected to gain momentum.

We are analyzing the expansion of our grinding capacity to 5.4 million tons, to capture the strong growth expected for the construction sector, fueled by increased income and employment, incentives for homebuyers and the expansion of Brazil's infrastructure. For details on our Planned Investments see "Item 4D. Property, Plant and Equipment – Capital



Expenditures – Planned Investments”.

**5E. Off-Balance Sheet Arrangements**

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

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**Contingent Liability with Respect to Consolidated and Non-Consolidated Entities as of December 31, 2012**

	<b>Aggregate Amount</b>	<b>Maturity</b>
	<i>(In million of R\$)</i>	
<b>Guarantees of Debt:</b>		
Transnordestina	1,633	2012-2028
<b>Contingent Liability for Concession Payments<sup>(1)</sup> :</b>		
Sepetiba Tecon	310	2026
Transnordestina	101	2027
Solid Bulks Terminal - TECAR	1,251	2022
MRS Logística S.A	1,144	2026
<b>Total</b>	<b>2,806</b>	
<b>”Take-or-Pay” Contractual Obligations</b>		
MRS Logística S.A.	660	2016
White Martins Gases Industriais Ltda.	440	2016
Companhia Estadual de Gás do Rio de Janeiro – CEG Ri <sup>(2)</sup>	0	
Ferrovia Centro Atlântica – FCA	270	2020
Vale S/A	221	2014
Companhia Paranaense de Gás - COMPAGÁS	181	2024
Companhia Paranaense de Energia - COPEL ALL <sup>(2)</sup>	62	2021
K&K Tecnologia	73	2023
Harsco Metals Ltda	45	2014
Siemens	20	2013
<b>Total</b>	<b>1,971</b>	
<b>Total Contingent Liability with Respect to Consolidated and Non-consolidated Entities:</b>	<b>6,411</b>	

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

(2) These contracts are under renegotiations.

**Guarantees**

We guarantee the loans BNDES has granted to Transnordestina in May and December 2005, and in January 2006, all of which mature by May 2028, adjusted based on the TJLP plus 1.5% per annum. The total outstanding amount of the debt as of December 31, 2012 was R\$1,633 million.

## **Concessions**

### ***Sepetiba Tecon***

We own 99.99% of Sepetiba Tecon S.A., or TECON, which holds a concession to operate, for a 25-year term (renewable for additional 25 years), the container terminal at the Itaguaí Port, located in the State of Rio de Janeiro. As of December 31, 2012, R\$310 million of the cost of the concession was outstanding and payable over the remaining 14 years of the concession. For more information see “Item 4D. Property, Plant and Equipment – Capital Expenditures – Planned Investments”.

### ***Transnordestina***

As of December 31, 2012, we held 76.13% of the capital stock of Transnordestina Logística S.A., which has a 30-year concession granted in 1997 to operate Brazil’s Northeastern railway system. The Northeastern railway system currently covers 4,534 km of track and operates in the states of Maranhão, Piauí, Ceará, Paraíba, Pernambuco, Alagoas and Rio Grande do Norte. It also connects with the region’s leading ports, thereby offering an important competitive advantage through opportunities for intermodal transportation solutions and made-to-measure logistics projects. As of December 31, 2012, R\$101 million was outstanding over the remaining 15 years of the concession.

***Solid Bulks Terminal***

We hold the concession to operate TECAR, a solid bulks terminal, one of four terminals that form the Itaguaí Port, located in the State of Rio de Janeiro, for a term expiring in 2022 and renewable for another 25 years. Itaguaí Port, in turn, is connected to the Presidente Vargas Steelworks, Casa de Pedra and Namisa by the Southeastern railway system. Our imports of coal and coke are made through this terminal. Under the terms of the concession, we undertook to load and unload at least 3.0 million tons of bulk cargo annually. Among the approved investments that we announced is the development and expansion of the solid bulks terminal at the Itaguaí Port to handle up to 84 million tons of iron ore per year.

***MRS Logística S.A***

As of December 31, 2012, we held a 33.27% participation in MRS Logística S.A., which holds a concession to operate Brazil's Southeastern railway system until 2026, renewable for an additional 30 years. We have contracts with MRS Logística S.A. for the transportation of iron ore from the mines of Casa de Pedra in Minas Gerais to Volta Redonda and coke and coal from the Port of Itaguaí (RJ) to Volta Redonda, and transportation of our exports to the Ports of Itaguaí (RJ) and Rio de Janeiro (RJ). As of December 31, 2012, R\$1,144 million was outstanding over the remaining 14 years of the concession.

**Contractual Obligations*****Namisa******Port Operating Services Agreement***

On October 21, 2008, CSN entered into an agreement for the provision of port services to Namisa for a 34-year period, consisting of receiving, handling, storing and shipping Namisa's iron ore in annual volumes that range from 18.0 million tons to 39.0 million tonnes. On December 30, 2008, CSN has received the amount of approximately R\$5.3 billion as an advance for part of the payments due for the services to be provided under this agreement. The amounts charged for these port services are reviewed on a quarterly basis and adjusted considering the changes in the market price of iron ore.

***High Silica ROM***

On October 21, 2008, CSN entered into an agreement for the supply of high silica crude iron ore ROM to Namisa for a period of 30 years in volumes that range from 42.0 million tons to 54.0 million tons per year. On December 30, 2008, CSN received approximately R\$1.6 billion as an advance for part of the payments due for the supplies to be made under this agreement. The supply price is reviewed on a quarterly basis and adjusted considering the changes in the market price of iron ore.

***Low Silica ROM***

On October 21, 2008, CSN entered into an agreement for the supply of low silica crude iron ore ROM to Namisa for an effective period of 9 years in volumes that range from 8 million tons to 30.6 million tons per year. On December 30, 2008, CSN received approximately R\$424 million as an advance for part of the payments due for the supplies to be made under this agreement. The supply price is reviewed on a quarterly basis and adjusted considering the changes in the market price of iron ore.

**“Take-or-Pay” Contractual Obligations**

*MRS Logística S.A.*

*Transportation of Iron Ore, Coal and Coke to Volta Redonda*

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The volume set for iron ore and pellets is 8,280,000 tons per year and for coal, coke and other reduction products is 3,600,000 tons per year. Variation of up to 10% is accepted, with a guarantee of payment of at least 90%, but the obligation is for each item individually. MRS, on the other hand, is required to transport at least 80% of the volume established by the agreement. The agreement expired on December 31, 2012 and CSN and MRS are negotiating the terms of a new contract.

#### ***Transportation of Iron Ore for Export from Itaguaí***

The volume set is 40,000,000 tons per year for the first three years, with gradual increases for the following years, with a guarantee of payment of at least 80%. We may increase or decrease the volume set in the agreement every year by up to 10% and 15%, respectively, taking into consideration the volume informed in the previous year. This agreement expires on November 30, 2026.

For both contracts we have flexibility to renegotiate the “take-or-pay,” if the volume is not reached. As we are a shareholder of MRS, the minimum amounts to be paid under the contract terms are calculated by a tariff model that assures competitive prices.

#### ***Transportation of Steel Products***

The volume set is 2,750,000 tons per year, with an acceptable variation of up to 20%. The agreement covers the transportation of steel products from the Presidente Vargas Steelworks to third party terminals, and expires on May 31, 2016.

#### ***Cement Transportation - CSN CIMENTOS***

We and MRS are negotiating the terms of a new contract.

#### ***White Martins Gases Industriais Ltda.***

To secure gas supply (oxygen, nitrogen and argon), in 1994 we signed a 22-year “take-or-pay” agreement with White Martins Gases Industriais, by which we are committed to acquire at least 90% of the gas volume guaranteed in the agreement with White Martins’ plant. Under the terms of the agreement, we are not required to advance funds raised against future processing charges if White Martins is unable to meet its financial obligations.

#### ***Companhia Estadual de Gás do Rio de Janeiro***

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

We and CEG Rio are negotiating new values for this contract.

#### ***Ferrovia Centro Atlântica - FCA***

#### ***Transportation of Reduction Products***

This agreement covers transportation of reduction products from the city of Arcos to the city of Volta Redonda.

The volume set for reduction products from January to April of 2012 was 633,333 tons, with an acceptable variation of up to 5%. The volume set from May to December of 2012 was 1,382,222 tons, with an acceptable variation of up to 10%.

As of 2013, volume set for reduction products is 2,073,333 tons per year, with an acceptable variation of up to 10%. This agreement will expire on August 31, 2013.

***Transportation of Clinker***

This agreement covers transportation of clinker products from the city of Arcos to the city of Volta Redonda.

The volume set for clinker transportation from January to April of 2012 was 250,000 tons, with an acceptable variation of up to 29%. The volume set from May to December of 2012 was 440,000 tons, with an acceptable variation of up to 10%.

As of 2013, the volume set for clinker is 660,000 tons per year, with an acceptable variation of up to 10%. This agreement will expire on April 19, 2020.

In 2013, the calculation of “take-or-pay” will consider the total volume performed in both contracts - clinker and reduction products – regardless of the percentage transported of each one.

***Vale S.A.***

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

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

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

***Companhia Paranaense de Energia – COPEL***

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

***América Latina Logística - ALL***

This agreement covers transportation of steel products from Volta Redonda to CSN Paraná. Volume set for steel products is 20,000 tons per month, with an acceptable variation of up to 10%. This agreement was initially valid until August 31, 2012, and CSN and ALL are negotiating the terms of a new contract.

***K&K Tecnologia***

CSN undertakes to acquire at least 3,000 metric tons of blast furnace mud for processing at CSN's mud concentration plant. This agreement is valid until March 31, 2023.

***Harsco Metals Ltda***



The Harsco Metals Ltda. undertakes to perform the Scrap recovery Services resulting from the process of production of pig iron and steel from Presidente Vargas Steelworks, receiving by this process the equivalent in value the result of multiplying the unit price (U.S.\$/t) by the total Liquid Steel CSN's Mill production, with a guarantee of a minimum production of liquid steel corresponding to 400,000 tons. This agreement is valid until June 30, 2014.

***Siemens***

Siemens Vaiz Metal Services provides Continuous Casting Machines Maintenance Services in steel production at Presidente Vargas Steelworks, with a guarantee of a minimum production of 365,000 tons per month. This agreement is valid until June 30, 2014.

**5F. Tabular Disclosure of Contractual Obligations**

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The following table represents our long-term contractual obligations as of December 31, 2012:

Contractual obligations	Total	Payment due by period (In millions of R\$)			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
<b>Long-term accrued finance charges<sup>(1)</sup></b>	15,196	1,885	3,328	2,360	7,623
<b>Taxes payable in installments</b>	1,119	97	197	188	637
<b>Long-term debt</b>	27,856	2,887	7,131	7,231	10,607
<b>“Take-or-Pay” contracts</b>	1,971	609	817	314	231
<b>Derivatives swap agreements<sup>(2)</sup></b>	4	4	0	0	0
<b>Concession agreements<sup>(3)</sup></b>	2,806	235	486	486	1,598
<b>Purchase obligations:</b>					
Raw materials <sup>(4)</sup>	1,522	998	484	11	29
Maintenance <sup>(5)</sup>	296	222	74	0	0
Utilities/Fuel <sup>(6)</sup>	1,668	793	409	349	117
<b>Total</b>	<b>3,486</b>	<b>2,013</b>	<b>967</b>	<b>360</b>	<b>147</b>

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

(2) Derivative swap agreements were calculated based on market prices, on December 31, 2012, for futures with similar maturity to our derivative swap agreements.

(3) Refers to TECON, TECAR, MRS and Transnordestina’s concessions agreements

(4) Refers mainly to purchases of coal, tin, aluminum, zinc and iron ore (pellets), which comprise part of the raw materials for steel manufacturing.

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

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

## 5G. Safe Harbor

See “Forward-Looking Statements.”

## Item 6. Directors, Senior Management and Employees

### 6A. Directors and Senior Management

#### General

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

Our Board of Directors is responsible for setting general guidelines and policies for our business and our Board of Executive Officers is responsible for the implementation of such guidelines and policies and for our day-to-day operations. As of the date of this annual report, our Board of Directors was comprised of one Chairman, one Vice Chairman and five members, and our Board of Executive Officers was comprised of our Chief Executive Officer and six Executive Officers.

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

<b>Name</b>	<b>Position</b>	<b>First Elected on</b>	<b>Last Elected on</b>
<b><i>Board of Directors</i></b>			
Benjamin Steinbruch	Chairman	April 23, 1993	April 30, 2013
Jacks Rabinovich	Vice Chairman	April 23, 1993	April 30, 2013
Fernando Perrone	Member	September 26, 2002	April 30, 2013
Antonio Francisco dos Santos	Member	December 23, 1997	April 30, 2013
Yoshiaki Nakano	Member	April 29, 2004	April 30, 2013
Antonio Bernardo Vieira Maia	Member	April 30, 2013	April 30, 2013
Aloysio Meirelles de Miranda Filho	Member	April 30, 2013	April 30, 2013
<b><i>Board of Executive Officers</i></b>			
Benjamin Steinbruch	Chief Executive Officer	April 30, 2002	August 2, 2011
Enéas Garcia Diniz	Executive Officer	June 21, 2005	August 2, 2011
José Taragano	Executive Officer	December 15, 2009	August 2, 2011
David Moise Salama	Executive Officer	August 2, 2011	August 2, 2011
Luis Fernando Barbosa Martinez	Executive Officer	August 2, 2011	August 2, 2011
Juarez Saliba de Avelar	Executive Officer	October 26, 2011	October 26, 2011
Tufi Daher Filho	Executive Officer	October 4, 2012	October 4, 2012

The next election for our Board of Directors is expected to take place in April, 2014. The next election for our Board of Executive Officers is expected to take place in the next meeting of our Board of Directors.

### **Board of Directors**

*Benjamin Steinbruch.* Mr. Steinbruch has been a member of our Board of Directors since April 23, 1993, and has simultaneously held the positions of Chairman since April 28, 1995 and CEO since April 30, 2002. He is also a member of the Administrative Board of the Portuguese Chamber, 1<sup>st</sup> Vice-President of the Federation of Industries of the State of São Paulo - FIESP since September 2004, member of FIESP's Superior Strategic Board, advisor to the Robert Simonsen Institute, and advisor of the Institute for Industrial Development Studies - IEDI. Over the past five years, he also served as Chairman of the Board of Directors and CEO of Vicunha Siderurgia S.A., Vice Chairman of the Board of Directors of Textília S.A., Director of Vicunha Aços S.A., Vicunha Steel S.A., Vicunha S.A., Elizabeth S.A. – Indústria Têxtil, Vicunha Participações S.A., Officer of Rio Purus Participações S.A., and Officer of Rio Iaco (all these companies belong to the controlling group of CSN), Director of Prada Metallurgical Company and Nacional Minérios S.A. (both controlled by CSN), member of the Deliberative Council of the CSN Foundation, and Administrator of Fazenda Alvorada de Bragança Agro-Pastoril Ltda., Ibis Agrária Ltda., Ibis II Empreendimentos Ltda., Ibis Participações e Serviços Ltda., and Haras Phillipson Ltda. Mr. Steinbruch graduated from the Business School of Fundação Getúlio Vargas – FGV/SP and specialized in Marketing and Finance also from Fundação Getúlio Vargas - FGV/SP.

*Jacks Rabinovich.* Mr. Rabinovich has been a member of our Board of Directors since April 23, 1993 and Vice Chairman since April 24, 2001. Mr. Rabinovich graduated in Civil Engineering from Universidade Mackenzie - SP, and has a specialization in Textile Engineering from the Lowell Institute, Massachusetts - USA.

*Fernando Perrone.* Mr. Perrone has been a member of our Board of Directors since September 26, 2002, and a member of our Audit Committee since June 24, 2005, where he currently holds the position of President. He was our Infrastructure and Energy Executive Officer from July 10, 2002, to October 2, 2002. Over the past five years, he served as member of the Board of Directors of Profarma - Pharmaceuticals Distributor S.A., member of the Board of Directors of João Fortes Engenharia S.A., and member of the Management Board of Energia Sustentável S.A. Mr. Perrone graduated in Business from a program sponsored by "Chimica" Bayer S.A., holds a Law degree from Universidade Federal Fluminense – UFF/RJ, and has a graduate degree in Economics in the area of Capital Markets from Fundação Getulio Vargas – FGV/SP.

*Antonio Francisco dos Santos.* Mr. Santos has been a member of our Board of Directors since December 23, 1997, and a member of our Audit Committee since April 27, 2012. He is currently Chairman and Chief Executive Officer of CSN's Employee Investment Club (*Clube de Investimento CSN*). Over the past five years he served as Planning and Support Officer of CSN, and Coordinator and Chief of Industrial Engineering, Chief of Production Planning and member of the Board of Directors of the Caixa Beneficente dos Empregados of CSN, or CBS, our pension plan. Mr. Santos graduated in Business and holds a graduate degree in Organization and Finance, both from the Coordination of Graduate Studies and Research - CECOP, and an MBA in Industrial Strategy and Business Management from Universidade Federal Fluminense – UFF/RJ.



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*Yoshiaki Nakano.* Mr. Nakano has been a member of our Board of Directors since April 29, 2004, and a member of our Audit Committee since June 24, 2005. Over the past five years, Mr. Nakano has been a professor at the School of Economics of Fundação Getulio Vargas – FGV/SP, a board member of the Fundação de Amparo à Pesquisa do Estado de São Paulo – FAPESP, a member of the Conselho Superior de Economia (COSEC) of FIESP/Instituto Roberto Simonsen, and a member of the Consulting Board of the Grupo Pão de Açúcar. Previously, Mr. Nakano served as Special Secretary for Economic Affairs in the Ministry of Finance and as Finance Secretary of the State of São Paulo. Mr. Nakano graduated in Business Administration from Fundação Getulio Vargas and has an MBA and a Ph.D. from Cornell University, USA.

*Antonio Bernardo Vieira Maia.* Mr. Maia was elected member of our Board of Directors on April 30, 2013. He is also CEO of BRG Capital Ltda. since July, 2005. From April, 1995 to May, 2005 he was Officer of Credit Suisse / Banco Garantia de Investimentos S.A.. He began his career in Citibank Brazil as an intern in 1982 and moved to New York in 1986, where he acted as Institutional Investment Analyst of Citigroup in Latin America until he became an Officer of Citigroup. He was associate of Banco Bozano Simonsen de Investimentos from August, 1979 to December, 1981 and member of the Board of Directors of Banque Bénédict Hentsch & Cie SA , Geneva, Switzerland from April to December, 2005. He graduated in 1981 in Business and Public Administration from the Fundação Getulio Vargas.

*Aloysio Meirelles de Miranda Filho.* Mr. Miranda Filho was elected member of our Board of Directors on April 30, 2013. He is also a member of the Ulhôa Canto Advogados Associados office since 1982, becoming Advisor Partner in 1989. Mr. Miranda Filho participates in the Deliberative Council of the Instituto Fernando Henrique Cardoso, member of the board of the Instituto de Gestão Educacional of the Fundação Lemann and of the Consultive Council of the Instituto Empreender Endeavor. Mr. Miranda Filho graduated in the Universidade do Estado do Rio de Janeiro – UERJ in 1984.

### **Board of Executive Officers**

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

*Enéas Garcia Diniz.* Mr. Diniz holds the position of Executive Officer in charge of the production area since June 21, 2005. He has been serving CSN since 1985, previously acting as General Manager of Hot Rolling, General Manager of Maintenance, Metallurgy Officer and General Officer of the Presidente Vargas Steelworks. Mr. Diniz is also currently President of the Board of Directors of Transnordestina Logística S.A., a member of the Board of Directors and Officer of Companhia Metalúrgica Prada and Cia. Metalic Nordeste, a member of the Board of Directors of Nacional Minérios S.A., Sepetiba Tecon S.A. and Lusosider Aços Planos S.A., Officer of CSN Cimentos S.A. and CSN Energia S.A. and a member of the Deliberative Council of Caixa Beneficente dos Empregados da Companhia Siderúrgica Nacional – CBS. Mr. Diniz graduated in Mechanical Engineering from Pontifícia Universidade Católica do Rio de Janeiro - PUC / RJ, further specialized in Business Management from Universidade Federal Fluminense - UFF/RJ and has an MBA from the Fundação Dom Cabral Business School of Belo Horizonte.

*José Taragano.* Mr. Taragano was elected Executive Officer on December 15, 2009, being in charge of the projects area. He is currently a member of the Board of Directors and Executive Officer of Cia Metalic Nordeste, a member of the Board of Directors of Companhia Metalúrgica Prada and of Nacional Minérios S.A., and Executive Officer of Estanho de Rondônia S.A. – ERSA. He previously served as COO - Executive VP of Operations of Brenco – Companhia Brasileira de Energia Renovável, Executive and Business Officer of Klabin S.A., Environment, Health & Safety Worldwide Officer of Alcoa Inc. in New York, Officer of Primary Products/Aluminum, Alumina & Chemical Products, Officer of Quality and Human Resources and Superintendent of Production of Alcoa Latin America in São Paulo, Chairman of CEMPRE – Compromisso Empresarial para a Reciclagem, member of the Healthy People 2010 Business Advisory Committee in Washington and acted as Independent Director at the Board of ECOSORB. Mr. Taragano graduated in Metallurgical Engineering from Pontifícia Universidade Católica of Rio de Janeiro - PUC-RJ, has an MBA in Marketing from the Fundação Instituto de Administração of Universidade de São Paulo / FIA-USP and further education at MIT / Sloan Executive Program and Harvard Business School / Finance for Senior Executives.

*David Moise Salama.* Mr. Salama was elected Executive Officer on August 2, 2011, being in charge of the investor relations area. He has been serving CSN since 2006, having previously acted as Investor Relations Manager. He is also currently serving as Executive Officer of CSN Cimentos, S.A. Prior to joining CSN, Mr. Salama acted as Financial Controller Officer at Tecnisa Engenharia e Comércio, Birmann Comércio e Empreendimentos and Goldfarb Comércio e Construções, was the head of consolidated financial information of Unilever Brasil and acted as senior auditor at PricewaterhouseCoopers. He is a member of the National Investor Relations Institute and of the Brazilian Institute of Investor Relations. Mr. Salama graduated in Accounting and has an MBA in Finance, both from the School of Economics, Business and Accounting of the Universidade de São Paulo / FEA-USP. He complemented his academic education by attending the Oxford Advanced Management and Leadership Program of Saïd Business School at Oxford University, England, and the Program on Negotiation of Harvard Law School at Harvard University, United States.

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*Luis Fernando Barbosa Martinez.* Mr. Martinez was elected Executive Officer on August 2, 2011, being in charge of the steel products commercial area. He has been serving CSN since 2002, having previously acted as Sales Officer. Mr. Martinez is also President of the Brazilian Association of Steel Packaging – ABEAÇO, Officer of Cia. Metalic Nordeste, CSN Energia, S.A. and CSN Cimentos, S.A., member of the Board of Directors of Associação Brasileira de Metalurgia, Materiaise Mineração – ABM and an alternate member of the Board of Directors of Nacional Minérios, S.A. Prior to joining CSN, Mr. Martinez was a Sales Officer at Alcan Alumínio do Brasil S.A., having worked in such company for 14 years in different departments (processing, quality, product/market development and sales). He also acted as Executive Officer of the Brazilian Center of Steel Construction - CBCA and of the Brazilian Association of Metallic Construction - ABCEM. Mr. Martinez graduated in Metallurgical Engineering from Instituto Mauá de Tecnologia – IMT, has a graduate degree in Industrial Management from the School of Production Engineering of the Universidade de São Paulo, and also graduated from the Corporate Management Development Program at Alcan Aluminum Limited, Montreal, Canadá.

*Juarez Saliba de Avelar.* Mr. Avelar was elected Executive Officer on October 26, 2011 and is in charge of the new businesses area. Mr. Avelar previously worked at CSN from 2003 to 2010, having acted as Ports and Railroads Officer, Mining Officer, Mineral Resources Officer and New Businesses Officer. Prior to 2003, Mr. Avelar was the President of Ferteco Mineração, Officer of the Southern and Northern Systems of Vale S.A. and, from January 2010 to August 2011, acted as Chief Executive Officer of Steel do Brasil Participações S.A. Mr. Avelar is also a Director of Transnordestina Logística S.A. Mr. Avelar graduated in Mining Engineering from Universidade Federal de Minas Gerais - UFMG.

*Tufi Daher Filho.* Mr. Daher Filho was elected Executive Officer on October 04, 2012. He is currently the Chairman of the Board of Directors of MRS Logística, S.A. and a member of the Board of Directors of Transnordestina Logística, S.A. Mr. Daher Filho previously served as Chief Executive Officer of Transnordestina Logística, S.A. from March, 2007 to October, 2012. From January, 2000 to June, 2006, Mr. Daher Filho worked at Telemar Group as Superintendent responsible for the Amazonas and Roraima branches, Officer of Customer Services responsible for Ceará, Superintendent Officer responsible for Pernambuco, Superintendent Officer responsible for Rio de Janeiro, Officer responsible for the Southeast Region, and Operations Officer responsible for Brazil. He also acted as leader of Operations and Maintenance of Fixed and Mobile Telephony of Telemar Group beginning in July, 2004. In addition, he acted as Business Manager at Rede Ferroviária Federal S.A. (RFFSA) and Ferrovia Centro Atlântica (FCA), and Manager of Operations in Companhia Brasileira de Trens Urbanos – CBTU. He graduated in Civil Engineering from Universidade Católica de Minas Gerais and in Transportation Planning from the Japan International Cooperation Agency, Japan. He has a Corporate MBA degree from Fundação Dom Cabral and graduated in the Advanced Management Program of the European Institute of Business Administration - Insead, France.

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

### **Indemnification of Officers and Directors**

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

### **6B. Compensation**



For the year ended December 31, 2012, the aggregate compensation paid by us to all members of our Board of Directors and the members of our Board of Executive Officers for services in all capacities was R\$30.7 million, which includes salaries, bonuses, profit sharing arrangements and benefits, such as medical assistance, pension plan and life insurance, among others. See “—Item 6D. Employees” for a brief description of our profit sharing arrangements.

We are the principal sponsor of CBS, our employee pension plan. CBS had an excess of plan assets over pension benefit obligations of R\$257 million in 2012. The fair value of the plan assets of CBS, totaled R\$2,923 million as of December 31, 2012, and projected benefit obligations were R\$2,666 million. See Note 28 to our consolidated financial statements contained in “Item 18. Financial Statements.”

## **6C. Board Practices**

### **Fiscal Committee and Audit Committee**

Under Brazilian Corporate Law, shareholders may request the appointment of a Fiscal Committee (Conselho Fiscal), which is a corporate body independent of management and our external auditors. The primary responsibility of the Fiscal Committee is to monitor management’s activities, review the financial statements, and report its findings to the shareholders.

In June 2005, an Audit Committee (*Comitê de Auditoria*) was appointed in compliance with SEC’s rules, which is composed of independent members of our Board of Directors. The Audit Committee is responsible for recommending to the Board of Directors the appointment of the independent auditors, reporting on our auditing policies and our annual audit plan prepared by our internal auditing team, as well as monitoring and evaluating the activities of the external auditors. Our Audit Committee has also been tasked with identifying, prioritizing and submitting actions to be implemented by our Executive Officers, analyzing our annual report and our financial statements, and making recommendations to our Board of Directors.

The Audit Committee is currently composed of Mr. Fernando Perrone, Mr. Yoshiaki Nakano and Mr. Antonio Francisco dos Santos and is constantly assisted by an outside consultant.

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

### **Service Contracts**

We permit our directors to continue to participate in our employee pension plan after ceasing to be a director of our Company.

## **6D. Employees**

As of December 31, 2010, 2011 and 2012, we had 19,217, 20,791 and 21,232 employees, respectively. As of December 31, 2012, approximately 3,540 of our employees were members of the Steelworkers’ Union of Volta Redonda and region, which is affiliated with the Força Sindical since 2012, a national union. We believe we have a good relationship with Força Sindical. We have collective bargaining agreements, renewable annually on May 1<sup>st</sup> of every year. Moreover, we have members affiliated with other unions, such as the Engineers’ Union with 37 members, the Accountants’ Union with 7 members and the Workers’ Unions from Arcos, Casa de Pedra, Camaçari, Recife and Araucária, with a total of 332 members. At all other companies controlled by CSN, such as Prada, ERSAs, Namisa and Transnordestina, we have a total of 1,308 members.

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

nature.

**6E. Share Ownership**

The Steinbruch family, which includes Mr. Benjamin Steinbruch, our Chairman and Chief Executive Officer holds an indirect majority ownership interest in Vicunha Siderurgia and Rio Iaco Participações, our controlling shareholders.

All of our Executive Officers and members of our Board of Directors held an aggregate of 5,558 shares of our outstanding common shares as of December 31, 2012.

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**Item 7. Major Shareholders and Related Party Transactions****7A. Major Shareholders**

On December 31, 2012, our capital stock was composed of 1,457,970,108 common shares. Our capital stock is entirely composed of common shares and each common share entitles the holder to one vote at our shareholders' meetings.

The following table sets forth, as of December 31, 2012, the number of our common shares owned by all persons known to us that own more than 5% of our outstanding common shares as of such date:

Name of Person or Group	Common Shares	
	Shares Owned	Percent of Outstanding Shares
Vicunha Siderurgia S.A. <sup>(1)</sup>	697,719,990	47.86%
Rio Iaco Participações S.A. <sup>(1)</sup>	58,193,503	3.99%

- (1) Owned indirectly by the Steinbruch family, which includes Mr. Benjamin Steinbruch, Chairman of our Board of Directors and CEO, as well as other members of his family.

**7B. Related Party Transactions**

From time to time we conduct transactions with companies directly or indirectly owned by our principal shareholders or members of our Board of Directors. See "Item 4. Information on the Company – A. History and Development of the Company," "Item 4B. Business Overview," "Item 4D. Property, Plant and Equipment – Acquisitions and Dispositions", "Item 6A. Directors and Senior Management", "Item 7A. Major Shareholders" and Note 18 to the consolidated financial statements included in "Item 18. Financial Statements."

**Item 8. Financial Information****8A. Consolidated Statements and Other Financial Information**

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

**Legal Proceedings**

In the ordinary course of our business, we are party to several proceedings, both administrative and judicial, which we believe are incidental and arise out of our regular course of business. We believe that the outcome of the proceedings to which we are currently a party will not have a material adverse effect on our financial position, results of operations

and cash flows. We have established provisions for all amounts in dispute that represent a probable loss based on the legal opinion of our internal and external legal counsels.

***Labor Contingencies***

As of December 31, 2012, the Company and its subsidiaries are defendants in 12,080 labor claims, for which a provision has been recorded in the amount of R\$246 million. Most of the claims are related to alleged joint liability between us and our independent contractors, wage equalization, differences of 40% fine on the FGTS deposits regarding pre-retirement periods and due to inflation purge, additional payments for unhealthy and hazardous activities, overtime and profit sharing differences from 1997 to 1999 and from 2001 to 2003.

***Civil Contingencies***

These are mainly claims for indemnities within the civil judicial processes in which we are involved. Such proceedings, in general, result of occupational accidents, diseases and contractual disputes related to our industrial activities. As of December 31, 2012, the amount relating to probable losses for these contingencies was R\$110 million.

We also classify as civil contingencies the administrative and judicial proceedings filed against us for alleged violation of environmental statutes, mainly as a result of our industrial activities, claims for regularization, indemnification or imposition of fines. As of December 31, 2012, the amount relating to probable losses for civil contingencies relating to environmental issues was R\$7 million.

### ***Tax Contingencies***

Among our tax contingencies there are charges for alleged non-payment of income tax and social contribution taxes in Brazil, for which a provision of R\$321 million has been recorded in 2012.

### ***Refis***

In November 2009, we adhered to the Tax Recovery Program (REFIS) established by the Federal Government in order to settle our tax and social security liabilities through a special settlement and installment payment system. Management's decision took into consideration the economic benefits provided by the REFIS, such as discounts and fines exemptions, as well as the high costs of maintaining pending lawsuits. Joining the REFIS allows us to pay a reduced amount of the fines, interest and legal charges that were previously due. On December 31, 2012, the position of the debt under the REFIS, recorded under taxes payable in installments, was R\$1,119 million (R\$2,095 million in 2011).

### ***Antitrust***

In October 1999, CADE fined us, claiming that certain practices adopted by us and other Brazilian steel companies up to 1997 allegedly comprised a cartel. We challenged the cartel allegation and the imposition of the fine judicially and, on June 2003, obtained a partially favorable judgment by a federal trial court. CADE appealed the trial court decision and, on June 2010, a federal appellate court in Brasília held a judgment reversing the trial court's decision and confirming the cartel allegation as well as the fine imposed by CADE in the amount of R\$65 million. We appealed the decision of the appellate court to the Brazilian Superior Court of Justice. We have not yet recorded any provision in connection with this fine.

In September 2011, we received a request from Secretaria de Direito Econômico (SDE) to provide information related to the acquisition of shares of Usinas Siderúrgicas de Minas Gerais S.A. – Usiminas in order to evaluate a possible concentration act. In October 2011, SDE involved the Conselho Administrativo de Defesa Econômica (CADE) and the Secretaria de Acompanhamento Econômico (SEAE) on the subject. We have been providing the requested information to such antitrust bodies.

In April and July, 2012, CADE issued certain injunctive orders limiting our ability to, among other things, acquire more Usiminas shares or exercise our voting rights on the shares we already own. We are currently discussing with CADE alternatives to preserve our rights and protect our financial investment.

***Other Legal Proceedings***

The Company and its subsidiaries are defendants in other proceedings at administrative and judicial levels, in the approximate amount of R\$14,631 million, of which R\$12,849 million relate to tax contingencies, R\$615 million to civil contingencies, R\$1,137 million to labor and social security contingencies and R\$30 million to environmental contingencies. The assessments made by legal counsel define these contingencies as entailing a risk of possible loss and, therefore, no provision has been recorded. Contingencies related to each of our subsidiaries are included proportionally to the percentage of these subsidiaries that we consolidate in our financial statements.

Our tax contingencies are as follows:

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- a) R\$1,814 million refers to tax assessment notices issued against the Company for the alleged non-taxation of profits earned on the balances of its foreign subsidiaries for purposes of Income Tax (IRPJ) and Social Contribution on Net Income (CSLL);
- b) R\$154 million refers to tax assessment notices issued against our investee Namisa also for the alleged non-taxation of profits earned on the balances of its foreign subsidiary for purposes of Income Tax (IRPJ) and Social Contribution on Net Income (CSLL). The total amount of this assessment notice is R\$256 million, but as we only consolidate our 60% interest in Namisa, we include only 60% of this amount in our contingencies;
- c) R\$6,079 million refers to a tax assessment notice issued against the Company for having allegedly failed to submit to taxation the capital gain resulting from the alleged sale of 40% of the shares of its subsidiary Namisa to the Asian consortium;
- d) R\$1,048 million refers to a tax assessment notice issued against our investee Namisa in connection with its alleged improper use of the goodwill resulting from the investment made by the Asian consortium in Namisa's direct controlling entity, which was later merged into Namisa. The total amount of this assessment notice is R\$1,747 million, but as we only consolidate our 60% interest in Namisa, we include only 60% of this amount in our contingencies; and
- e) R\$3,754 million refers to other taxes (local, state and federal taxes) and social security contingencies, which includes our own contingencies and those related to our subsidiaries, proportionally to the percentage of those subsidiaries that we consolidate in our financial statements.

The Company was also a defendant in an arbitration proceeding at the International Court of Arbitration - ICC that discussed potential damages suffered by the plaintiff due to a breach of contract in the estimated amount of R\$84 million. The parties settled the case over the course of 2012 and it is currently closed.

In July 2012, the Ministério Público Estadual do Rio de Janeiro (Environmental Public Prosecutor of the State of Rio de Janeiro) filed a judicial proceeding against us claiming that we must (i) remove all waste disposed in two areas used as an industrial waste disposal site in the city of Volta Redonda and (ii) relocate 750 residences located in the adjacent neighborhood Volta Grande IV Residential, also in the city of Volta Redonda. This case is classified as having a risk of probable loss, but we have not yet recorded any provision since, at this moment, it is not possible to quantify the amounts involved in the case.

In 2012, we received notices for lawsuits brought by certain home owners at Volta Grande IV Residential claiming indemnification for alleged moral and material damages. At this point, it is not possible to quantify the amounts involved in this claim. Such lawsuits are classified as having a risk of possible loss and, therefore, we recorded no provision.

On April 8, 2013, the Rio de Janeiro State environmental authority (*Instituto Estadual do Ambiente*), or INEA, fined us R\$35 million in connection with the matters involving Volta Grande IV Residential and requested we perform the same actions already under discussion in the July 2012 public prosecutor lawsuit. We plan to dispute this fine and the other requests made by INEA.

For further information on our legal proceedings and contingencies, see Notes 16 and 17 to our consolidated financial statements.

**Dividend Policy**



*General*

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

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

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

At our Annual Shareholders' Meeting of April 30, 2013, our shareholders approved the payment of R\$300 million as dividends and R\$560 million as interest on shareholders' equity relating to 2012.

***Amounts Available for Distribution***

At each Annual Shareholders' Meeting, our Board of Directors is required to recommend how our earnings for the preceding fiscal year are to be allocated. For purposes of Brazilian Corporate Law, a company's income net of income tax and social contribution for any one fiscal year, any accumulated losses from prior fiscal years and amounts allocated to employees' and management's participation in earnings, represents its "net profits" for that fiscal year.

In accordance with Brazilian Corporate Law, an amount equal to 50% of our net profits as further (i) reduced by amounts allocated to the legal reserve; (ii) reduced by amounts allocated to the contingency reserve and the tax incentive reserve, if any; and (iii) increased by the eventual reversion of any contingency reserves constituted in prior years, will be available for distribution to shareholders in any particular year ("Distributable Amount").

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

*Discretionary (or Statutory) Reserves.* Under Brazilian Corporate Law, any corporation may provide in its by-laws for the creation of additional reserves, provided that the maximum amount that may be allocated to such reserves, the purpose of such reserves and the allocation criteria of such reserves are specified. There cannot be any allocation to such reserves if it affects payment of the Mandatory Dividend (as defined below). Our by-laws currently provide that our Board of Directors may propose to our shareholders the deduction of at least 1% from our net profits to be allocated to a Working Capital and Investments Reserve. Constitution of such reserve will not affect payment of the Mandatory Dividend. Our by-laws do not provide for any other discretionary reserve.

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

*Tax Incentive Reserve.* Our shareholders in a shareholders' meeting may, following a management's proposal, allocate to a tax incentive reserve the portion of our "net profits" resulting from donations or governmental grants for investments, which may be excluded from the taxable basis of the Mandatory Dividend. Our by-laws currently do not

provide for such reserve.

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

*Retained Earnings Reserve.* Under Brazilian Corporate Law, our shareholders may decide at a general shareholders’ meeting to retain a portion of our net profits as provided for in a previously approved capital expenditure budget. No allocation of net profits may be made to the retained earnings reserve in case such allocation affects payment of the Mandatory Dividend.

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

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

*Capital Reserve.* Under Brazilian Corporate Law, the capital reserve consists of premiums from the issuance of shares, goodwill reserves from mergers, sales of founders' shares, and sales of warrants. Amounts allocated to our capital reserve are not taken into consideration for purposes of determining Mandatory Dividends. Our capital stock is not currently represented by founders' shares. In our case, any amounts allocated to the capital reserve may only be used to increase our capital stock, to absorb losses that surpass accumulated profits and profit reserves, or to redeem, reimburse or purchase shares.

***Mandatory Dividend***

Under our bylaws, we are required to distribute to shareholders as dividends in respect of each fiscal year ending on December 31, to the extent profits are available for distribution, an amount equal to at least 25% of the Distributable Amount (the “Mandatory Dividend”) in any particular year, which amount shall include any interest paid on capital during that year. See “Additional Payments on Shareholders’ Equity” below. In addition to the Mandatory Dividend, our Board of Directors may recommend that shareholders receive an additional payment of dividends from other funds legally available. Any payment of interim dividends may be netted against the amount of the Mandatory Dividend for that fiscal year. Under Brazilian Corporate Law, if the Board of Directors determines prior to the Annual Shareholders’ Meeting that payment of the Mandatory Dividend for the preceding fiscal year would be inadvisable in view of our financial condition, the Mandatory Dividend does not need to be paid. That type of determination must be reviewed by the Fiscal Committee, if one exists, and reported, together with the appropriate explanations, to the shareholders and to the CVM. Mandatory dividends not distributed as described above shall be registered as a special reserve and, if not absorbed by losses in subsequent fiscal years, shall be paid as a dividend as soon as our financial condition allows for it.

***Payment of Dividends***

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

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

***Additional Payments on Shareholders' Equity***

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

The TJLP is determined by the Central Bank on a quarterly basis. The TJLP is based on the annual profitability average of Brazilian public internal and external debt. The TJLP rate for the fourth quarter of 2012 was 5.5%

Interest on shareholders' equity is deductible up to the greater of the following amounts: (i) 50% of the net profits, as determined for accounting purposes, for the current period of interest payment after the deduction of the social contribution on net profits and before the provision for income tax and the deduction of the amount of such interest; and (ii) 50% of the balance of accumulated earnings and profits reserves from prior years.

**8B. Significant Changes**

None

**Item 9. The Offer and Listing****9A. Offer and Listing Details**

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

On March 25, 2010, our shareholders approved a two-for-one split of our common shares. As a result of this stock split, each common share of our capital stock as of March 25, 2010 became represented by two common shares after the split. The same ratio of one common share for each ADS was maintained. See "Item 10.B. Memorandum and Articles of Association."

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

Common Shares <sup>(1)</sup>			American Depositary Shares <sup>(1)</sup>		
US\$ per Share <sup>(2)</sup>		Volume	US\$ per ADS		Volume
High	Low		High	Low	

	<i>(In thousands)</i>			<i>(In thousands)</i>		
<b>2007:</b>						
Year end	14.90	4.67	5,330	15.28	4.71	6,980
<b>2008:</b>						
Year end	25.63	4.12	5,761	25.51	3.94	9,219
<b>2009:</b>						
Year end	18.45	6.03	4,930	18.61	6.00	7,214
<b>2010:</b>						
Year end	20.81	13.37	3,637	20.76	13.38	5,360
<b>2011</b>						
First quarter	17.98	15.24	3,036	18.33	15.41	4,377
Second quarter	16.81	11.60	3,169	17.22	11.81	4,453
Third quarter	12.55	7.89	3,780	12.62	7.94	5,932
Fourth quarter	9.66	7.23	3,683	9.89	7.31	4,573
Year End	17.98	7.23	3,422	18.33	7.31	4,840
<b>2012</b>						
First quarter	10.83	8.09	3,958	10.88	8.53	5,486
Second quarter	9.58	5.23	3,914	9.63	5.24	5,078
Third quarter	6.80	4.56	6,435	6.78	4.55	7,331
Fourth quarter	5.84	4.75	4,940	5.90	4.72	6,695
Year End	10.83	4.56	4,817	10.88	4.55	6,148
<b>2013</b>						
First quarter	6.25	4.49	5,561	6.23	4.48	5,213

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Month Ended:

October 31, 2012	5.82	5.34	4,263	5.78	5.30	6,963
November 30, 2012	5.82	4.75	5,186	5.75	4.72	7,295
December 31, 2012	5.84	4.93	5,509	5.90	4.84	5,784
January 31, 2013	6.25	5.41	5,314	6.23	5.43	5,409
February 28, 2013	5.62	4.93	4,876	5.54	4.90	4,065
March 31, 2013	5.45	4.49	6,437	5.44	4.48	6,097

Source: Economática.

- (1) Prices and volumes of our common shares and ADSs have been adjusted to reflect the two-for-one stock split occurred in March 2010 whereby each common share of our capital stock on March 25, 2010 became represented by two common shares. See “Item 10.B. Memorandum and Articles of Association.”
- (2) U.S. dollar amounts have been translated from *reais* at the exchange rates in effect on the respective dates of the quotations for the common shares set forth above. These U.S. dollar amounts may reflect exchange rate fluctuations and may not correspond to changes in nominal *reais* prices over time.

As of April 29, 2013, the closing sale price (i) per common share on the BM&FBOVESPA was of R\$7.87 and (ii) per ADS on the NYSE was of US\$3.93. The ADSs are issued under a deposit agreement and JP Morgan Bank serves as depositary under that agreement.

As of December 31, 2012, approximately 343 million, or approximately 23.5%, of our outstanding common shares were held through ADSs. Substantially all of these ADSs were held of record by The Depository Trust Company. In addition, our records indicate that on that date there were approximately 155 record holders (other than our ADR depositary) with addresses in the U.S., holding an aggregate of approximately 66 million common shares, representing 4.5% of our outstanding common shares.

**9B. Plan of Distribution**

Not applicable.

**9C. Markets**

The principal trading market for our common shares is BM&FBOVESPA. Our ADSs trade on the NYSE under the symbol “SID.”

**Trading on the BM&FBOVESPA and NYSE**

CSN shares traded in the market are comprised of ordinary shares without nominal value. Ordinary shares are traded on the Brazilian Stock Exchange, BM&FBOVESPA, under the code CSNA3. Our ADSs, each one representing an ordinary share, are traded on the New York Stock Exchange, NYSE, under the code SID.



In 2000, the BM&FBOVESPA was reorganized through the execution of a memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities in Brazil are now traded only on the BM&FBOVESPA. When shareholders trade in common and preferred shares on the BM&FBOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the third business day following the trade date. Delivery of and payment for shares are made through the facilities of BM&FBOVESPA's clearinghouse.

The BM&FBOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 2012, the aggregate market capitalization of the BM&FBOVESPA was equivalent to R\$2.5 trillion (or US\$1.2 trillion). In contrast, as of December 2012, the aggregate market capitalization of the NYSE was US\$14.1 trillion. The average daily trading volume of the BM&FBOVESPA and NYSE for December 2012 was of approximately R\$7.5 billion (or US\$3.7 billion) and US\$51.2 billion, respectively. Although any of the outstanding shares of a listed company may trade on the BM&FBOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, since the remaining shares are generally being held by small groups of controlling persons, by government entities or by one principal shareholder. See "Item 3. Risk Factors—Risks Relating to the ADSs and Our Common Shares— The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the common shares underlying the ADSs at the price and time you desire."

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As of December 31, 2012, we accounted for approximately 0.69% of the market capitalization of all listed companies on the BM&FBOVESPA.

The following table reflects the fluctuations in the Ibovespa index during the periods indicated:

**Ibovespa Index**

	<b>High</b>	<b>Low</b>	<b>Close</b>
2007	65,790	41,179	63,886
2008	73,516	29,435	37,550
2009	69,349	36,234	68,588
2010	72,995	58,192	69,304
2011	71,632	48,668	56,754
2012	68,394	52,481	60,952
2013 (through March 31)	63,312	54,873	56,352

The IBOVESPA index closed at 56,352 on March 31, 2013. Trading on the BM&FBOVESPA by nonresidents of Brazil is subject to certain limitations under Brazilian foreign investment legislation. See “Item 10D. Exchange Controls.”

**Regulation of the Brazilian Securities Markets**

The Brazilian securities markets are regulated by CVM, which has authority over stock exchanges and the securities markets in general, and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law No. 6,385 dated December 7, 1976, as amended, or the Brazilian Securities Law, Brazilian Corporate Law and regulations issued by CVM.

Under Brazilian Corporate Law, a company is either public, a *companhia aberta*, such as CSN, or private, a *companhia fechada*. All public companies are registered with CVM and are subject to reporting and regulatory requirements.

Trading in securities on the BM&FBOVESPA may be suspended at the request of a company in anticipation of a material announcement. The company should also suspend its trading on international stock exchanges where its securities are traded. Trading may also be suspended on the initiative of the BM&FBOVESPA or CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by CVM or the BM&FBOVESPA.

The Brazilian Securities Law and the regulations issued by CVM provide for, among other things, disclosure requirements, restrictions on insider trading and price manipulation, as well as protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the United States securities markets or markets in certain other jurisdictions.

**Disclosure Requirements**



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According to Law No 6,385, a publicly held company must submit to CVM and BM&FBOVESPA certain periodic information, including annual and quarterly reports prepared by management and independent auditors. This legislation also requires companies to file with CVM shareholder agreements, notices of shareholders' meetings and copies of the related minutes.

Pursuant to CVM Resolution No. 358, of January 3, 2002, CVM revised and consolidated the requirements regarding the disclosure and use of information related to material facts and acts of publicly held companies, including the disclosure of information in the trading and acquisition of securities issued by publicly held companies.

Such requirements include provisions that:

- Establish the concept of a material fact that gives rise to reporting requirements. Material facts include decisions made by the controlling shareholders, resolutions of the shareholders at a shareholders' meeting and of management of the company, or any other facts related to a company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade such securities or to exercise any of such securities' underlying rights;
- Specify examples of facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control of the company, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;
- Oblige the investor relations officer, controlling shareholders, other officers, directors, members of the audit committee and other advisory boards to disclose material facts;
- Require simultaneous disclosure of material facts to all markets in which the corporation's securities are admitted for trading;
- Require the acquirer of a controlling stake in a corporation to disclose material facts, including its intentions as to whether or not to de-list the corporation's shares within one year from the acquisition of such controlling stake;
- Establish rules regarding disclosure requirements in the acquisition and disposal of a material ownership interest; and
- Forbid trading on the basis of material non-public information.

Pursuant to CVM Rule No. 480, of December 7, 2009, CVM expanded the quantity and improves the quality of information reported by issuers in Brazil. This Rule represents a significant step forward in providing the market with greater transparency over securities issuers and provides for issuers to file annually a comprehensive and opinative reference form (*Formulário de Referência*). The reference form (*Formulário de Referência*) is in line with the Shelf Registration System recommended by the International Organization Securities Commission (IOSCO) and adopted in other countries (England and the United States, among others), by means of which the information regarding an specific issuer is consolidated into one document and is subject to periodic update (the "Shelf Document"). This mechanism offers the investor the possibility to analyze one single document for relevant information about the issuer.

CVM Rule No. 480 also created two groups of issuers per type of securities traded. Group A issuers are authorized to trade in any securities, whereas Group B issuers must not trade in stocks, depositary receipts (BDRs, Units) and

securities convertible or exchangeable into stocks or depositary receipts. The greater extend of Group A authorization is followed by more stringent disclosure and reporting requirements. We, as issuers of stocks, are part of Group A and, as such, are subject to more stringent disclosure and reporting requirements.

CVM has also enacted Rule No. 481, of December 17, 2009 to regulate two key issues involving general meetings of shareholders in publicly held companies: (i) the extent of information and documents to be provided in support of call notices (subject to prior disclosure to shareholders); and (ii) proxy solicitation for exercise of voting rights.

CVM Rule No. 481 is intended to (i) improve the quality of information disclosed by publicly held companies to shareholders and to the market in general, favoring the use of Internet as a vehicle to that end; (ii) make the exercise of voting rights less costly and foster the participation of shareholders in general meetings, specially for companies with widely dispersed capital; and, consequently (iii) facilitate the oversight of corporate businesses.

**9D. Selling Shareholders**

Not applicable.

**9E. Dilution**

Not applicable.

**9F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**10A. Share Capital**

Not applicable.

**10B. Memorandum and Articles of Association**

**Registration and Corporate Purpose**

We are registered with the Department of Trade Registration under number 15,910. Our corporate purpose, as set forth in Article 2 of our bylaws, is to manufacture, transform, market, import and export steel products and steel derived by-products, as well as to explore other activities that are directly or indirectly related to our corporate purpose, including: mining, cement and carbochemical business activities, the manufacture and assembly of metallic structures, construction, transportation, navigation and port activities.

**Directors' Powers**

Pursuant to our bylaws, a director may not vote on a proposal, arrangement or contract in which the director's interests conflict with our interests. In addition, our shareholders must approve the compensation of our management and, in case a global amount is fixed, our Board of Directors is responsible for allocating individual amounts of management compensation. There is no mandatory retirement age for our directors. A detailed description of the general duties and powers of our Board of Directors may be found in "Item 6A. Directors and Senior Management."

**Description of Capital Stock**

Set forth below is certain information concerning our capital stock and a brief summary of certain significant provisions of our bylaws and Brazilian Corporate Law applicable to our capital stock. This description does not purport to be complete and is qualified by reference to our bylaws and to Brazilian law. For further information, see our bylaws, which have been filed as an exhibit to this annual report.

*Capital Stock*

On December 31, 2012 our capital stock was composed of 1,457,970,108 common shares. Our bylaws authorize the Board of Directors to increase the capital stock up to 2,400,000,000 common shares without an amendment to our bylaws. There are currently no classes or series of preferred shares issued or outstanding. We may purchase our own shares for purposes of cancellation or to hold them in treasury subject to certain limits and conditions established by the CVM and Brazilian Corporate Law. See “Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.”

***Liability for Further Capital Calls***

Pursuant to Brazilian Corporate Law, a shareholder's liability is generally limited to the issue price of the subscribed or purchased shares. There is no obligation of a shareholder to participate in additional capital calls.

***Voting Rights***

Each common share entitles the holder to one vote at our shareholders' meetings. According to CVM regulations, shareholders that represent at least 5% of our common shares may request cumulative voting in an election of our Board of Directors. Pursuant to Brazilian Corporate Law, shareholders holding at least 15% of our common shares have the right to appoint a member of our Board of Directors.

***Shareholders' Meetings***

Pursuant to Brazilian Corporate Law, the shareholders present at an annual or extraordinary shareholders' meeting, convened and held in accordance with Brazilian Corporate Law and our bylaws are empowered to decide all matters relating to our corporate purpose and to pass any resolutions they deem necessary for our protection and well-being.

In order to participate in a shareholders' meeting, a shareholder must be a record owner of the share on the day the meeting is held, and may be represented by a proxy.

Shareholders' meetings are called, convened and presided over by the Chairman of our Board of Directors or, in his absence, by whom he appoints. Brazilian Corporate Law requires that our shareholders' meeting be convened by publication of a notice in the *Diário Oficial do Estado de São Paulo*, the official government publication of the State of São Paulo, and in a newspaper of general circulation in Brazil and in the city in which our principal place of business is located, currently the *Jornal Valor Econômico*, at least 15 days prior to the scheduled meeting date and no fewer than three times. Both notices must contain the agenda for the meeting and, in the case of an amendment to our bylaws, an indication of the subject matter.

In order for a shareholders' meeting to be held, shareholders representing a quorum of at least one-fourth of the voting capital must be present, except for meetings convened to amend our bylaws, where shareholders representing at least two-thirds of the voting capital must be present. A shareholder may be represented at a shareholders' meeting by means of a proxy, appointed not more than one year before the meeting, who must be either a shareholder, a company officer or a lawyer. For public companies, such as we are, the proxy may also be a financial institution. If no quorum is present, notice must be given in the manner described above, no fewer than eight days prior to the scheduled meeting date. On second notice, the meeting may be convened without a specific quorum requirement, subject to the minimum quorum and voting requirements for certain matters, as described below. A holder of shares with no voting rights may attend a shareholders' meeting and take part in the discussion of matters submitted for consideration.

Except as otherwise provided by law, resolutions passed at a shareholders' meeting require a simple majority vote, abstentions not considered. Pursuant to Brazilian Corporate Law, the approval of shareholders representing at least one-half of the issued and outstanding voting shares is required for the following actions: (i) to create a new class of preferred shares or disproportionately increase an existing class of preferred shares relative to the other classes of preferred shares, to change a priority, preference, right, privilege or condition of redemption or amortization of any class of preferred shares or to create any class of non-voting preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of shares (in these cases, a majority of the issued and outstanding shares of the affected class is also required); (ii) to reduce the Mandatory Dividend; (iii) to change our



corporate purpose; (iv) to merge into or consolidate with another company or to spin-off our assets; (v) to dissolve or liquidate our Company; (vi) to cancel any liquidation procedure; (vii) to authorize the issuance of founders' shares; and (viii) to participate in a centralized group of companies as defined under Brazilian Corporate Law.

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Pursuant to Brazilian Corporate Law, shareholders voting at a shareholders' meeting have the power to: (i) amend our bylaws; (ii) elect or dismiss members of our Board of Directors (and members of the Fiscal Committee) at any time; (iii) receive and approve the annual management accounts, including the allocation of net profits and the distributable amounts for payment of the mandatory dividends and allocation to the various reserve accounts; (iv) authorize the issuance of debentures in general; (v) suspend the rights of a shareholder who has violated Brazilian Corporate Law or our bylaws; (vi) accept or reject the valuation of assets contributed by a shareholder in consideration of the subscription of shares in our capital stock; (vii) authorize the issuance of founders' shares; (viii) pass resolutions authorizing reorganization of our legal form, a merger, consolidation or split of the company, dissolution and liquidation of the company, election and dismissal of our liquidators and to examine their accounts; and (ix) authorize management to declare the company insolvent and to request a *recuperação judicial* or *recuperação extrajudicial* (a procedure involving protection from creditors similar in nature to a reorganization under the U.S. Bankruptcy Code), among others.

***Redemption Rights***

Our common shares are not redeemable, except that a dissenting and adversely affected shareholder is entitled, under Brazilian Corporate Law, to obtain redemption upon a decision made at a shareholders' meeting by shareholders representing at least one-half of the issued and outstanding voting shares to: (i) create a new class of preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of preferred shares (unless these actions are provided for or authorized by our bylaws); (ii) modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than an existing class of preferred shares; (iii) reduce the mandatory distribution of dividends; (iv) change our corporate purpose; (v) merge us with another company or consolidate us; (vi) transfer all of our shares to another company in order to make us a wholly-owned subsidiary of that company (*incorporação*); (vii) approve the acquisition of control of another company at a price that exceeds certain limits set forth under Brazilian Corporate Law; (viii) approve our participation in a centralized group of companies as defined under Brazilian Corporate Law; (ix) conduct a spin-off that results in (a) a change of corporate purpose, (b) a reduction of the Mandatory Dividend or (c) any participation in a group of companies as defined under Brazilian Corporate Law; or (x) in the event that the entity resulting from (a) a merger or consolidation, (b) an *incorporação* as described above or (c) a spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which the decision was taken. The right of redemption lapses 30 days after publication of the minutes of the relevant shareholders' meeting. We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of those rights, if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Law No. 9,457 dated May 5, 1997, which amended Brazilian Corporate Law, contains provisions which, among others, restrict redemption rights in certain cases and allow companies to redeem their shares at their market value, subject to certain requirements. According to Brazilian Corporate Law, the reimbursement value of the common shares must equal the book value, which is determined by dividing our net assets by the total number of shares issued by us, excluding treasury shares (if any).

***Preemptive Rights***

Except as provided for in Brazilian Corporate Law (such as in the case of mergers and public offerings), our bylaws allow each of our shareholders a general preemptive right to subscribe to shares in any capital increase, in proportion to his or her ownership interest. A minimum period of 30 days following the publication of notice of a capital increase is allowed for the exercise of the right and the right is transferable. In the event of a capital increase that would maintain or increase the proportion of capital represented by common shares, holders of ADSs will have preemptive rights to subscribe only to newly issued common shares. In the event of a capital increase that would

reduce the proportion of capital represented by common shares, holders of ADSs will have preemptive rights to subscribe for common shares, in proportion to their ownership interest, only to the extent necessary to prevent dilution of their interest in us.

***Form and Transfer***

As our common shares are in registered form, the transfer of shares is governed by the rules of Article 31, paragraph 3, of Brazilian Corporate Law, which provides that a transfer of shares is effected by a transfer recorded in a company's share transfer records upon presentation of valid share transfer instructions to the company by a transferor or its representative. When common shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on our records by a representative of a brokerage firm or the stock exchange's clearing system. Transfers of shares by a non-Brazilian shareholder are made in the same way and are executed by such shareholders' local agent.

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The BM&FBOVESPA operates a central clearing system. A holder of our common shares may choose, at its discretion, to participate in this system and, in that case, all shares elected to be put into this system will be deposited in the custody of the BM&FBOVESPA (through a Brazilian institution duly authorized to operate by the Central Bank and having a clearing account with the BM&FBOVESPA). The fact that those common shares are held in the custody of the BM&FBOVESPA will be reflected in our register of shareholders. Each participating shareholder will, in turn, be registered in our register of beneficial shareholders maintained by the BM&FBOVESPA and will be treated in the same way as registered shareholders.

***Limitations on Ownership and Voting Rights by non-Brazilians Shareholders***

There are no restrictions on ownership or voting of our common shares by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of common shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally require, among other things, obtaining a Certificate of Registration under the Brazilian National Monetary Council's Resolution No. 2,689 or its direct foreign investment regulations. See "Item 10D. Exchange Controls."

***Share Ownership Disclosure***

There are no provisions in our bylaws governing the ownership threshold above which shareholder ownership must be disclosed. CVM regulations require the disclosure of (i) the acquisition of 5% of any class of capital stock of a listed company and any subsequent acquisition or disposition of at least 5% of any such class of capital stock, (ii) acquisition of control of a listed company and (iii) the ownership of shares of capital stock of a listed company by members of such company's Board of Executive Officers, Board of Directors, Audit Committee, Fiscal Committee (if any) and any other consulting or technical body (if any) and certain relatives of those persons.

**10C. Material Contracts**

None.

**10D. Exchange Controls**

There are no restrictions on ownership or voting of our common shares by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of common shares into foreign currency and to remit those amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally require, among other things, obtaining a Certificate of Registration under the Brazilian National Monetary Council's Resolution No. 2,689 or its direct foreign investment regulations.

Resolution No. 2,689 dated March 31, 2000, introduced new rules to facilitate foreign investment in Brazil. The principal changes for foreign investors entering the Brazilian market include:

- the removal of restrictions on investments by portfolio composition (e.g., equities, fixed income and derivatives); and

- permission for foreign individuals and corporations to invest in the Brazilian market, in addition to foreign institutional investors.

Prior to Resolution No. 2,689, foreign investors had to leave and reenter the country in order to switch their investments from equity to fixed income. Now foreign investors can freely switch their investments without leaving the local market. Foreign investors registered with the CVM and acting through authorized custody accounts and a legal representative may buy and sell any local financial product traded on the local exchanges and registered on the local clearing systems, including shares on the BM&FBOVESPA, without obtaining separate Certificates of Registration for each transaction. Pursuant to Resolution No. 2,689, as amended, investors are also generally entitled to favorable tax treatment. See “Item 10E. Taxation—Brazilian Tax Considerations.”

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A Certificate of Registration has been issued in the name of JP Morgan Chase Bank N.A., as our ADR depository, and is maintained by the *Itaú Corretora de Valores S.A.*, our ADR custodian, on behalf of our ADR depository. Pursuant to the Certificate, our ADR custodian and our ADR depository are able to convert dividends and other distributions with respect to the common shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs surrenders its ADSs for common shares, that holder will be entitled to continue to rely on our ADR depository's Certificate of Registration for only five business days after the surrender, following which the holder must obtain its own Certificate of Registration. Thereafter, unless the common shares are held pursuant to Resolution No. 2,689 or direct foreign investment regulations, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, those common shares, and the holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See "Item 10E. Taxation—Brazilian Tax Considerations."

A non-Brazilian holder of common shares may experience delays in obtaining a Certificate of Registration, which may delay remittances abroad. This kind of delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Under current Brazilian legislation, the Brazilian government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Brazilian government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Brazilian government directives. See "Item 3D. Risk Factors—Risks Relating to our Common Shares and ADSs—If you surrender your ADSs and withdraw common shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages."

For a description of the foreign exchange markets in Brazil, see "Item 3A. Selected Financial Data—Exchange Rates."

**10E. Taxation**

The following is a summary of certain U.S. federal income and Brazilian tax consequences of the acquisition, ownership and disposition of our common shares or ADSs by an investor that holds such common shares or ADSs. This summary does not purport to address all material tax consequences of the acquisition, ownership and disposition of our common shares or ADSs, does not take into account the specific circumstances of any particular investor and does not address certain investors that may be subject to special tax rules.

This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions) and Brazil, as in effect on the date hereof, which are subject to change (or changes in interpretation), possibly with retroactive effect. In addition, this summary is based in part upon the representations of our ADSs depository and the assumption that each obligation in our deposit agreement and any related agreement will be performed in accordance with its terms.

Although there is, at present, no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may result in such a treaty. Both countries have been accepting the offset of income taxes paid in one country against the income tax due in the other based on reciprocity. No assurance can be given, however, as to whether or when an income tax treaty will enter into force or how it will affect the U.S. Holders, as defined below, of our common shares or ADSs.

This discussion does not address any aspects of U.S. taxation (such as estate tax, gift tax and Medicare tax on net investment income) other than federal income taxation or any aspects of Brazilian taxation other than income, gift, inheritance and capital taxation. Prospective investors are urged to consult their own tax advisors regarding the Brazilian and U.S. federal, state and local tax consequences of the acquisition, ownership and disposition of our common shares and ADSs.

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**Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of common shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Resident Holder”). It is based on Brazilian law as currently in effect. Any change in such law may change the consequences described below, possibly with retroactive effect. This discussion does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Resident Holder. Each Non-Resident Holder of common shares or ADSs should consult their own tax advisor concerning the Brazilian tax consequences of an investment in our common shares or ADSs.

A Non-Resident Holder of ADSs may withdraw them in exchange for common shares in Brazil. Pursuant to Brazilian law, the Non-Resident Holder may invest in common shares under Resolution 2,689, of January 26, 2000, of the National Monetary Council (a “2,689 Holder”).

***Taxation of Dividends and Interest on Shareholders' Equity***

Dividends, including stock dividends and other dividends, paid by us (i) to our ADSs depository in respect of the common shares underlying the ADSs or (ii) to a Non-Resident Holder in respect of common shares, are currently not subject to Brazilian withholding income tax, as far as such amounts are related to profits generated on or after January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, depending on the year such profits have been generated.

Since 1996, Brazilian companies have been permitted to pay limited amounts of interest on shareholders' equity to holders of equity securities and to treat those payments as a deductible expense for purposes of its Brazilian income tax and social contribution on net profits tax basis. For tax purposes, this interest is limited to the daily pro rata variation of the Brazilian Federal Government's Long-Term Interest Rate (“TJLP”), as determined by the Central Bank from time to time, multiplied by the net equity value of the Brazilian company, and the amount of the deduction may not exceed the greater of (i) 50% of the net income (before taking into account the amounts attributable to shareholders as interest on shareholders' equity and the provision of corporate income tax but after the deduction of the provision of the social contribution on net profits) related to the period in respect of which the payment is made; or (ii) 50% of the sum of retained profits and profits reserves as of the date of the beginning of the fiscal year in respect of which the payment is made. Payments of interest on shareholders' equity are decided by the shareholders on the basis of the recommendations of our Board of Directors.

Payment of interest on shareholders' equity to a Non-Resident Holder is subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is domiciled in a tax haven.

For this purpose, a “tax haven” or “low-tax regime” is a country or location (1) that does not impose income tax, (2) where the income tax rate is lower than 20% or (3) where the local legislation imposes restrictions on disclosing the shareholding composition or ownership of the investment (“Tax Haven Jurisdiction”). These payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable Brazilian withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

No assurance can be given that our board of directors will not recommend that future distributions of income should be made by means of interest on shareholders' equity instead of dividends.



*Taxation of Gains*

Capital gains realized by Non-Resident Holders on the disposition of common shares sold on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

- are exempt, when realized by a Non-Resident Holder that (i) is a 2,689 Holder and (ii) is not resident or domiciled in a Tax Haven Jurisdiction;

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- are subject to income tax at a rate of 15% in case of gains realized by (A) a Non-Resident Holder that (i) is not a 2,689 Holder and (ii) is not resident or domiciled in a Tax Haven Jurisdiction; or (B) a Non-Resident Holder that (i) is a 2,689 Holder and (ii) is resident or domiciled in a Tax Haven Jurisdiction; and
- are subject to income tax at a rate of up to 25% in case of gains realized by a Non-Resident Holder that (i) is not a 2,689 Holder and (ii) is resident or domiciled in a Tax Haven Jurisdiction.

As a general rule, capital gains realized as a result of a disposition transaction are the positive difference between the amount realized on the disposition of the common shares and the respective acquisition cost.

According to Law No. 10,833/03, the gains recognized on a disposition of assets located in Brazil, such as our common shares, by a Non-Resident Holder, are subject to withholding income tax in Brazil. This rule is applicable regardless of whether the disposition is conducted in Brazil or abroad and/or if the disposition is or is not made to an individual or entity resident or domiciled in Brazil.

A withholding income tax of 0.005% will apply and can be offset against any income tax due on the capital gain. Such withholding does not apply to a 2,689 Holder that is not resident or domiciled in a Tax Haven Jurisdiction.

Any other gains realized on the disposition of common shares that are not carried out on the Brazilian stock exchange:

- are subject to income tax at a rate of 15% when realized by any Non-Resident Holder that is not resident or domiciled in a Tax Haven Jurisdiction, whether or not such holder is a 2,689 Holder; and
- are subject to income tax at a rate of up to 25% when realized by a Non-Resident Holder that is resident or domiciled in a Tax Haven Jurisdiction, whether or not such holder is a 2,689 Holder.

In the cases described above, if the gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% will also apply and can be offset against any income tax due on the capital gain.

Any exercise of preemptive rights relating to common shares will not be subject to Brazilian withholding income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposition of common shares.

In the case of a redemption of common shares or a capital reduction, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the common shares redeemed in *reais* is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

***Sale of ADSs by U.S. Holders to Other Non-Residents in Brazil***

As discussed above, pursuant to Law No. 10,833, the sale of assets located in Brazil involving Non-Resident Holders is subject to Brazilian withholding income tax. We believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, and, thus, should not be subject to the Brazilian withholding tax. However, due to the lack of any administrative or judicial guidance, there is no assurance that such position would prevail.

***Gains on the Exchange of ADSs for Common Shares***

The withdrawal of ADSs in exchange for common shares is not subject to Brazilian income tax, assuming compliance with applicable regulation regarding the registration of the investment with Central Bank.

***Gains on the Exchange of Common Shares for ADSs***

The deposit of common shares in exchange for the ADSs may be subject to Brazilian withholding income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in common shares or, in the case of other market investors under Resolution No. 2,689, the acquisition cost of the common shares, as the case may be, is lower than:

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- the average price per common share on the Brazilian stock exchange on which the greatest number of such common shares were sold on the day of deposit; or
- if no common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of common shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the common shares, calculated as set forth above, is considered a capital gain subject to income tax at a rate of 15%, or 25% if the Non-Resident Holder is resident or domiciled in a Tax Haven Jurisdiction.

***Tax on Financial Transactions***

The Tax on Financial Transactions (*Imposto sobre Operações de Crédito, Câmbio e Seguro ou relativas a Títulos ou Valores Mobiliários*), or “IOF”, is imposed on foreign exchange, securities, credit and insurance transactions.

***IOF on Foreign Exchange Transactions***

Tax on foreign exchange transactions, or “IOF/Exchange”, may be levied on foreign exchange transactions (conversion of foreign currency in *reais* and conversion of *reais* into foreign currency), affecting either or both the inflow or outflow of investments. Currently, the general IOF/Exchange rate applicable to foreign currency exchange transactions is 0.38%.

The Brazilian Government may increase the rate of the IOF/Exchange to a maximum rate of 25% of the amount of the foreign exchange transactions at any time, but such an increase will only apply in respect to future foreign exchange transactions.

Currently, for most foreign exchange transactions related to this type of investment, the IOF/Exchange rate is zero.

***IOF on Bonds and Securities Transactions***

IOF may also be levied on transactions involving bonds and securities, or “IOF/Securities”, including those carried out on a Brazilian stock, futures or commodities exchanges. The rate of the IOF/Securities applicable to most transactions involving common shares is currently zero percent. Since November 19, 2009, the IOF/Securities levies at a rate of 1.5% on transfer of shares traded on the Brazilian stock exchange with the specific purpose of enabling the issuance of depositary receipts to be traded outside Brazil. The Brazilian Government may increase the rate of the IOF/Exchange up to 1.5% per day at any time, but such an increase will only apply in respect of future transactions.

***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil to individuals or entities resident or domiciled within that state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of common shares or ADSs.

**U.S. Federal Income Tax Considerations**

The summary discussion below is applicable to you only if you are a “U.S. Holder” (as defined below) that is not domiciled in Brazil (or domiciled or resident in a tax haven jurisdiction) for purposes of Brazilian taxation and, in the case of a holder of common shares, that has registered its investment in common shares with the Central Bank as a U.S. dollar investment.

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For purposes of this discussion, a U.S. Holder is any beneficial owner of common shares or ADSs that is (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if a U.S. court is able to exercise primary supervision over administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust or if the trust validly elects under applicable Treasury regulations to be taxed as a U.S. person. A “Non-U.S. Holder” is any beneficial owner of common shares or ADSs that is an individual, corporation, estate or trust who is neither a U.S. Holder nor a partnership for U.S. federal income tax purposes.

If a partnership holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A prospective investor who is a partner of a partnership holding our shares should consult its own tax advisor.

In general, and taking into account the earlier assumptions, for U.S. federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the common shares represented by those ADSs, and exchanges of common shares for ADSs, and ADSs for common shares, will not be subject to U.S. federal income tax.

***Taxation of Dividends******U.S. Holders***

Under the U.S. federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, U.S. Holders will include in gross income, as dividend income, the gross amount of any distribution paid by us (including payments considered “interest” in respect of stockholders’ equity under Brazilian law) (before reduction for Brazilian withholding taxes) out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) when the distribution is actually or constructively received by the U.S. Holder, in the case of common shares, or by our ADSs depository, in the case of ADSs. Distributions in excess of current and accumulated earnings and profits, as determined under U.S. federal income tax principles, will be treated as a return of capital to the extent of the U.S. Holder’s adjusted tax basis in the common shares or ADSs and thereafter as capital gain, which will be either long-term or short-term capital gain depending on whether the U.S. holder held the common shares or ADSs for more than one year. We do not intend to maintain calculations of our earnings and profits under U.S. federal income tax principles and, unless and until such calculations are made, U.S. Holders should assume all distributions are made out of earnings and profits and constitute dividend income.

The dividend income will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Subject to certain exceptions for short-term and hedged positions certain non-corporate U.S. Holders (including individuals) may qualify for a maximum 20% rate of tax in respect of “qualified dividend income” received after December 31, 2012. Dividend income with respect to the ADSs will be qualified dividend income, provided that, in the year that a non-corporate U.S. Holder receives the dividend, the ADSs are readily tradable on an established securities market in the United States, and we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. Based on existing Internal Revenue Service (“IRS”) guidance, it is not entirely clear whether dividends received with respect to the common shares not held through ADSs will be treated as qualified dividend income, because the common shares are not themselves listed on a U.S. exchange.

The amount of the dividend distribution includible in gross income of a U.S. Holder will be the U.S. dollar value of the *real* payments made, determined at the spot *real*/U.S. dollar rate on the date such dividend distribution is includible in the gross income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in gross income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States and will not be eligible for the special tax rate applicable to qualified dividend income.

Dividends received by most U.S. holders will constitute foreign source “passive income” for foreign tax credit purposes. Subject to limitations under U.S. federal income tax law concerning credits or deductions for foreign income taxes and certain exceptions for short-term and hedged positions, any Brazilian income tax withheld from dividends paid by us would be treated as a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or at a U.S. Holder’s election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes paid or accrued for the relevant taxable year). The rules with respect to foreign tax credits are complex and U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

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The U.S. Treasury Department has expressed concern that intermediaries in connection with depositary arrangements may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. persons who are holders of depositary shares. Accordingly, investors should be aware that the discussion above regarding the availability of foreign tax credits for Brazilian income tax withheld from dividends paid with respect to common shares represented by ADSs could be affected by future action taken by the U.S. Treasury Department.

Distributions of additional common shares to U.S. Holders with respect to their common shares or ADSs that are made as part of a pro rata distribution to all our stockholders generally will not be subject to U.S. federal income tax.

***Non-U.S. Holders***

Dividends paid to a Non-U.S. Holder in respect of common shares or ADSs will not be subject to U.S. federal income tax unless those dividends are effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for the Non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of income from common shares or ADSs), in which case the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of the dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional “branch profits tax” (at a 30% rate or at a reduced rate as may be specified by an applicable income tax treaty).

***Taxation of Capital Gains******U.S. Holders***

Subject to the PFIC rules discussed below, upon a sale, redemption or other taxable disposition of common shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized (before deduction of any Brazilian tax) and the U.S. Holder’s adjusted tax basis (determined in U.S. dollars) in the common shares or ADSs. Generally, the U.S. Holder’s gain or loss will be capital gain or loss. Capital gain of a non-corporate U.S. Holder that is recognized after December 31, 2012 is generally taxed at a maximum rate of 20% where the property is held for more than one year. The deductibility of capital losses is subject to limitations under the Code.

If a Brazilian income tax is withheld on the sale, exchange or other taxable disposition of common shares or ADSs, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale, exchange or other taxable disposition before deduction of the Brazilian tax. Capital gain or loss, if any realized by a U.S. Holder on the sale, exchange or other taxable disposition of common shares or ADSs generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a share or ADS that is subject to Brazilian income tax (see “Taxation – Brazilian Tax Considerations – Taxation of Gains”), the U.S. Holder may not be able to benefit from the foreign tax credit for that Brazilian income tax (i.e., because the gain from the disposition would be U.S. source income), unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Brazilian income tax if it does not elect to claim a foreign income tax credit for any foreign taxes paid or accrued during the taxable year.

***Non-U.S. Holders.*** A Non-U.S. Holder will not be subject to U.S. federal income tax in respect of gain recognized on a sale, exchange or other taxable disposition of common shares or ADSs unless:





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- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by that Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for that Non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of gain from the sale or other disposition of the common shares or ADSs); or
- in the case of a Non-U.S. Holder who is an individual, that Non-U.S. Holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply.

Effectively connected gains realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax (at a 30% rate or at a reduced rate as may be specified by an applicable income tax treaty).

### ***Passive Foreign Investment Companies***

Based on current estimates of our gross income, gross assets and the nature of our business, we believe that our common shares and ADSs should not be treated as stock of a PFIC for U.S. federal income tax purposes. There can be no assurances in this regard, however, because the application of the relevant rules is complex and involves some uncertainty. The PFIC determination is made annually and is based on the portion of our assets and income that is characterized as passive under the PFIC rules. Moreover, our business plans may change, which may affect the PFIC determination in future years.

In general, we will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held our ADSs or common shares, either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes, among other things, dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, a U.S. Holder that did not make a "mark-to-market election" or "QEF election," each as described below, would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of common shares or ADSs and (b) any "excess distribution" by CSN to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the common shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder with respect to the common shares or ADSs during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the common shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the common shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such prior year.

If we are treated as a PFIC and, at any time, we invest in non-U.S. corporations that are classified as PFICs (each, a "Subsidiary PFIC"), U.S. Holders generally will be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interest in that Subsidiary PFIC. If we are treated as a PFIC, a U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or

dispose of all or part of our interest in, the Subsidiary PFIC or (2) the U.S. Holder disposes of all or part of its common shares or ADSs.

The special PFIC tax rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election (i) to “mark-to-market” with respect to the common shares or ADSs (a “mark-to-market election”) or (ii) to have us treated as a “qualified electing fund” (a “QEF election”). The QEF election is not available to holders unless we agree to comply with certain reporting requirements and provide the required annual information statements. The QEF and mark-to-market elections only apply to taxable years in which the U.S. Holder’s common shares or ADSs are treated as stock of a PFIC. Our ADR Depositary has agreed to distribute the necessary information to registered holders of ADSs.

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A U.S. Holder may make a mark-to-market election, if the common shares or ADSs are regularly traded on a “qualified exchange.” Under applicable U.S. Treasury regulations, a “qualified exchange” includes a national securities exchange, such as the New York Stock Exchange, that is registered with the SEC or the national market system established under the Exchange Act. Also, under applicable Treasury Regulations, PFIC securities traded on a qualified exchange are regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure you that the common shares or ADSs will be eligible for a mark-to-market election.

A U.S. Holder that makes a mark-to-market election must include for each taxable year in which the U.S. Holder’s common shares or ADSs are treated as shares of a PFIC, as ordinary income, an amount equal to the excess of the fair market value of the common shares or ADSs at the close of the taxable year over the U.S. Holder’s adjusted tax basis in the common shares or ADSs, and is allowed an ordinary loss for the excess, if any, of the adjusted tax basis over the fair market value of the common shares or ADSs at the close of the taxable year, but only to the extent of the amount of previously included mark-to-market inclusions (not offset by prior mark-to-market losses). These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. A U.S. Holder’s tax basis in the common shares or ADSs will be adjusted to reflect any such income or loss amounts. Although a U.S. Holder may be eligible to make a mark-to-market election with respect to its common shares or ADSs, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Holder is treated as owning, because such Subsidiary PFIC stock is not marketable. Thus, the mark-to-market election will not be effective to avoid all of the adverse tax consequences described above with respect to any Subsidiary PFICs. U.S. Holders should consult their own tax advisors regarding the availability and advisability of making a mark-to-market election with respect to their common shares of ADSs based on their particular circumstances.

A U.S. Holder that makes a QEF election will be currently taxable on its pro rata share of our ordinary earnings and net capital gain (at ordinary income and capital gain rates, respectively) for each of our taxable years, regardless of whether we distributed the income and gain. The U.S. Holder’s basis in the common shares or ADSs will be increased to reflect taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of tax basis in the common shares or ADSs and will not be taxed again as a distribution to the U.S. Holder.

In addition, notwithstanding any election that a U.S. Holder makes with regard to the common shares or ADSs, dividends that a non-corporate U.S. Holder receives from us will not constitute qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC or, in certain cases, QEF inclusions.

A U.S. Holder who owns common shares or ADSs during any year that we are a PFIC must file IRS Form 8621.

***Backup Withholding and Information Reporting******U.S. Holders***

Dividends paid on, and proceeds from the sale, redemption or other taxable disposition of common shares or ADSs to a U.S. Holder generally will be subject to information reporting and backup withholding, unless, in the case of backup withholding, the U.S. Holder provides an accurate taxpayer identification number or in either case otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a U.S. Holder will be

allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that certain required information is timely furnished to the IRS.

Recently enacted legislation requires certain U.S. Holders to report information with respect to their investment in certain "foreign financial assets," which would include an investment in our common shares, not held through a custodial account with a U.S. financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in our common shares.

***Non-U.S. Holders***

If common shares are held by a Non-U.S. Holder through the non-U.S. office of a non-U.S. related broker or financial institution, backup withholding and information reporting generally would not be required. Information reporting, and possibly backup withholding, may apply if the common shares are held by a Non-U.S. Holder through a U.S., or U.S.-related, broker or financial institution, or the U.S. office of a non-U.S. broker or financial institution and the Non-U.S. Holder fails to provide appropriate information. Information reporting and backup withholding generally will apply with respect to ADSs if the Non-U.S. Holder fails to timely provide appropriate information. Non-U.S. Holders should consult their tax advisors regarding the application of these rules.

**10F. Dividends and Paying Agents**

Not applicable.

**10G. Statement by Experts**

Not applicable.

**10H. Documents on Display**

We are subject to the information requirements of the Exchange Act and accordingly file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. You may also inspect our reports and other information at the offices of the NYSE, 11 Wall Street, New York, New York 10005, on which our ADSs are listed. For further information on obtaining copies of our public filings at the NYSE, you should call (212) 656-5060. We also file financial statements and other periodic reports with the CVM.

**10I. Subsidiary Information**

Not required.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a number of different market risks arising from our normal business activities. Market risk is the possibility that changes in interest rates, currency exchange rates, commodities prices will adversely affect the value of financial assets, liabilities, expected future cash flows or earnings. We developed policies aimed at managing the volatility inherent to certain of these natural business *exposures*. We use financial instruments, such as derivatives, in order to achieve the main goals established by our Board of Directors to minimize the cost of capital and maximize the returns on financial assets, while observing, as determined by our Board of Directors, parameters of credit and risk. Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices defined in the contract. Only well-understood, conventional derivative instruments are used for these purposes. These include futures and options traded on regulated exchanges and "over-the-counter" swaps, options and forward contracts.

**Market Risk Exposures and Market Risk Management**

Our treasury department is responsible for managing our market risk exposures. We use some internal controls in order to:

- help us understand market risks;
- reduce the likelihood of financial losses; and

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- diminish the volatility of financial results.

The principal tools used by our treasury department are:

- “Sensitivity Analysis,” which measures the impact that movements in the price of different market variables such as interest rates and exchange rates will have in our earnings and cash flows; and
- “Stress Testing,” which measures the worst possible loss from a set of consistent scenarios to which probabilities are not assigned. The scenarios are deliberately chosen to include extreme changes in interest and currency exchange rates.

Following is a discussion of the primary market risk exposures that we face together with an analysis of the exposure to each one of them.

### Interest Rate Risk

We are exposed to interest rate risk on short- and long-term instruments and as a result of refinancing of fixed-rate instruments included in our consolidated debt. Consequently, as well as managing the currency and maturity of debt, we manage interest costs through a balance between lower-cost floating rate debt, which has inherently higher risk, and more expensive, but lower risk, fixed-rate debt. We can use swaps, options and other derivatives to achieve the desired ratio between floating-rate debt and fixed-rate debt. The desired ratio varies according to market conditions: if interest rates are relatively low, we will shift towards fixed rate debt.

We are basically exposed to the following floating interest rates:

- U.S. dollar LIBOR, due to our floating rate U.S. dollar-denominated debt (usually trade-finance related), to our cash position held offshore in U.S. dollars, which is invested in short-term instruments,
- TJLP (Long Term Interest Rate), due to *real*-denominated debt indexed to this interest rate, and
- CDI (benchmark Brazilian *real* overnight rate), due to our cash held in Brazil (onshore cash) and to our CDI indexed debt.

Exposure as of December 2012* (amortization)	Notional amount	Maturities					
		2013	2014	2015	2016	2017	Thereafter
US dollar LIBOR	2,190	194	367	467	626	536	-
US dollar fixed rate	8,135	1,168	31	837	57	6	6,036
CDI	15,061	113	2,228	2,257	2,174	2,595	5,694
Euro fixed rate	323	-	-	-	65	65	194



<b>TJLP</b>	<b>3,350</b>	415	215	235	249	243	1,994
<b>Other</b>	<b>646</b>	57	59	71	84	59	317

	Exposure as of December 2011* (amortization)	Notional amount	Maturities				Thereafter
			2012	2013	2014	2015	
<b>US dollar LIBOR</b>	<b>2,444</b>	547	178	308	400	547	464
<b>US dollar fixed rate</b>	<b>7,362</b>	298	1,071	14	756	52	5,171
<b>CDI</b>	<b>14,008</b>	1,045	546	1,446	1,041	1,707	8,223
<b>TJLP</b>	<b>3,231</b>	382	335	101	90	95	2,228
<b>Other</b>	<b>495</b>	26	43	65	60	43	258

\*All figures in R\$ million.

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Our cash and cash equivalent were as follows:

	<b>December 31, 2012</b>	<b>December 31, 2011</b>	<b>Exposure</b>
Cash in <i>reais</i> :	1,956	2,690	CDI
Cash in U.S. dollars:	6,111	6,784	LIBOR

The table below shows the average interest rate and the average life of our debt.

	<b>Average rate</b>	<b>December 2012</b>		<b>December 2011</b>	
	%	Average life	Average rate	Average rate	Average life
			%		
U.S. dollar LIBOR	2.72	2.99	3.14		3.20
U.S. dollar fixed rate	7.52	13.83 (with perpetual bond)	6.37	14.37 (with perpetual bond)	N/A
Euro fixed rate	3.88	5.16	N/A		N/A
UMBNDDES	N/A	N/A	N/A		N/A
	110,69 of		111.21 of		
CDI	CDI	4.38	CDI		5.19
TJLP	1.68	7.65	1.70		5.58

We entered into cross-currency swap agreements to hedge liabilities indexed to the U.S. dollar from Brazilian *real* fluctuations, which are affected by market, economic, political, regulatory and geopolitical conditions, among others. The gains and losses from these contracts are directly related to exchange (dollar) and CDI fluctuations. For the duration of our U.S. dollar fixed-rate derivatives, see tables below.

<b>As of December 31, 2012</b>	<b>Notional (in U.S. dollar million, unless otherwise indicated)</b>	<b>Average interest rate (U.S. dollar)</b>	<b>Average maturity (days)</b>
Swaps (U.S. dollar fixed - rate versus CDI)	10	3.5%	732

As of December 31, 2011	<b>Notional (in U.S. dollar million, unless otherwise indicated)</b>	<b>Average interest rate (U.S. dollar)</b>	<b>Average maturity (days)</b>
Swaps (U.S. dollar fixed - rate versus CDI)	293	3.45%	782
Swaps (U.S. dollar fixed - rate versus CDI)	75	3.23%	691
Swaps (U.S. dollar fixed - rate versus CDI)	(100)	2.39%	32

### Foreign Currency Exchange Rate Risk

Fluctuations in exchange rates can have significant effects on our operating results. Therefore, exchange rate fluctuations affect the values of our *real*-denominated assets, the carrying and repayment costs of our *real*-denominated financial liabilities, our *real*-denominated production costs, the cost of *real*-denominated capital items and the prices we receive in the Brazilian market for our finished steel products. We attempt to manage our net foreign exchange rate exposures, trying to balance our non-*real* denominated assets with our non-*real* denominated liabilities. We use derivative instruments to match our non-*real* denominated assets to our non-*real* denominated liabilities, but at any given time we may still have significant foreign currency exchange rate risk exposure.

Our exposure to the U.S. dollar is due to the following contract categories:

- U.S. dollar-denominated debt;
- offshore cash;

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- currency derivatives (in the case of options, we use the delta as a measure of exposure);
- U.S. dollar indexed accounts payable and receivable (usually related to international trade, i.e., imports and exports); and
- offshore investments: assets that we bought offshore and that are denominated in U.S. dollars on our balance sheet.

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
<b>U.S. dollar Liabilities</b>		
loans and financing	5,103	5,300
trade accounts payable	267	11
Intercompany loans	14	14
Others	37	43
<b>Total Liabilities</b>	<b>5,421</b>	<b>5,367</b>
<b>U.S. dollar Assets</b>		
offshore cash and cash equivalents	6,106	5,613
guarantee margin	200	217
trade accounts receivable	348	288
advances to suppliers	12	61
Intercompany loans	62	62
Other	3	16
<b>Total Assets</b>	<b>6,731</b>	<b>6,257</b>
<b>Total U.S. dollar Exposure</b>	<b>1,310</b>	<b>890</b>
Derivative notional	67	268
<b>Total U.S. dollar Net Exposure</b>	<b>1,377</b>	<b>1,158</b>

Our exposure to the Euro is due to the following contract categories:

- Euro-denominated debt;
- offshore cash;
- U.S. dollar indexed accounts payable and receivable (usually related to international trade, i.e., imports and exports); and
- offshore investments: assets that we bought offshore and that are denominated in Euros on our balance sheet

	December 31, 2012	December 31, 2011
<b>Euro Liabilities</b>		
loans and financing	121	-
trade accounts payable	-	1
Intercompany loans	-	-
Others	-	-
<b>Total Liabilities</b>	<b>121</b>	<b>1</b>
<b>Euro Assets</b>		
offshore cash and cash equivalents	3	-
guarantee margin	-	-
trade accounts receivable	32	8
Intercompany loans	92	-
advances to suppliers	1	-
Other	37	-
<b>Total Assets</b>	<b>165</b>	<b>8</b>
<b>Total Euro Exposure</b>	<b>44</b>	<b>7</b>
Derivative notional	(90)	(90)
<b>Total Euro Net Exposure</b>	<b>(46)</b>	<b>(83)</b>

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Our exposure to the Australian Dollar is due to the following contract categories:

- offshore cash.

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
<b>AUD Liabilities</b>	-	-
<b>AUD Assets</b>	-	
offshore cash and cash equivalents	-	303
		<b>303</b>
<b>Total AUD Exposure</b>	-	<b>303</b>

### **Offshore investments**

We have capitalized our offshore subsidiaries domiciled in U.S. dollar-based countries with equity investments, and those investments are accounted as U.S. dollar investments. The result is that they work as assets indexed to the U.S. dollar from an earnings perspective.

### **Commodity Price Risk**

Fluctuations in the price of steel and some of the commodities used in producing steel, such as zinc, aluminum, tin, coal, coke and energy, can have an impact on our earnings. Currently, we are not hedging our exposure to commodity prices. Our biggest commodity price exposure is the price of steel and coal, but there are no liquid instruments that provide an effective hedge against their price fluctuations.

### **Sensitivity analysis**

The economic environment in which we operate determines the main factors taken into consideration to establish risk scenarios. In the Brazilian economic environment, exchange rate variation is the most notable market risk.

The *real* exchange rate is significantly volatile. Between 2003 and 2012 the exchange rate had an average annual volatility of 14.79%.

- **Sensitivity analysis of the US dollar-to-real exchange swap**

For the consolidated foreign exchange operations with US Dollar Fluctuation risk, the sensitivity analysis is based on the assumption of maintaining, as a probable scenario, the fair values as of 31 December, 2012 recorded as assets in the amount of R\$9,046 million.



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To develop our sensitivity analysis we analyze four different scenarios of exchange rate variation. Based on the foreign exchange rate of December 31, 2012 of R\$2.0435 per US\$1.00, adjustments were estimated for four scenarios: scenario 1: (25% of Real appreciation) rate of R\$1.5326 per US\$1.00; scenario 2: (50% of Real appreciation) rate of R\$1.0218 per US\$1.00; scenario 3: (25% of Real devaluation) rate of R\$ 2.5544; scenario 4: (50% of Real devaluation) rate of R\$ 3.0653.

<b>December 31, 2012</b>						
<b>(In millions of US\$, except for exchange rates)</b>		<b>Risk</b>	<b>Scenario</b>	<b>Reference Value</b>	<b>Exchange Rates</b>	<b>Additional Results</b>
Net current swap	US Dollar fluctuation			67	2.0435	-
			1		1.5326	(34)
			2		1.0218	(68)
			3		2.5544	34
			4		3.0653	68
Exchange position functional currency BRL	US Dollar fluctuation			1,310	2.0435	-
			1		1.5326	(669)
			2		1.0218	(1,339)
			3		2.5544	669
			4		3.0653	1,339
Consolidated exchange position	US Dollar fluctuation			1,377	2.0435	-
			1		1.5326	(703)
			2		1.0218	(1,407)
			3		2.5544	703
			4		3.0653	1,407

- **Sensitivity analysis of the euro-to-dollar exchange swap**

For the consolidated foreign exchange operations with Euro fluctuation risk, the sensitivity analysis is based on the assumption of maintaining, as a probable scenario, the fair values as of 31 December, 2012 recorded as liabilities in the amount of R\$2,441 million.

For consolidated exchange transactions with Euro fluctuation risk, based on the foreign exchange rate on December 31, 2012, of R\$ 2.6954 per €\$ 1.00, adjustments were estimated for four scenarios: scenario 1: (25% of Real appreciation) rate of R\$2.0216 per €\$ 1.00; scenario 2: (50% of Real appreciation) rate of R\$1.3477 per €\$ 1.00; scenario 3: (25% of Real devaluation) rate of R\$ 3.3693; scenario 4: (50% of Real devaluation) rate of R\$ 4.0431.

<b>December 31, 2012</b>						
<b>(In millions of EUR, except for exchange rates)</b>		<b>Risk</b>	<b>Scenario</b>	<b>Reference Value</b>	<b>Exchange Rates</b>	<b>Additional Results</b>
Net current swap				(90)	2.6954	



	EURO			
	fluctuation			
		1	2.0216	61
		2	1.3477	121
		3	3.3693	(61)
		4	4.0431	(121)
Exchange position functional currency BRL	EURO		44	2.6954
	fluctuation			
		1	2.0216	(30)
		2	1.3477	(59)
		3	3.3693	30
		4	4.0431	59
Consolidated exchange position	EURO		(46)	2.6954
	fluctuation			
		1	2.0216	31
		2	1.3477	62
		3	3.3693	(31)
		4	4.0431	(62)

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- **Sensitivity analysis of exchange dollar-to-euro swap**

The sensitivity analysis is based on the assumption of maintaining, as a probable scenario, the fair values as of December 31, 2012 recognized in liabilities, amounting to R\$4,241 million.

To develop our sensitivity analysis we analyze four different scenarios for the real-euro parity volatility. Based on the foreign exchange rate of December 31, 2012 of R\$1.3190 per US\$1.00, adjustments were estimated for four scenarios: scenario 1: (25% of Real appreciation) rate of R\$0.9893 per US\$1.00; scenario 2: (50% of Real appreciation) rate of R\$0.6595 per US\$1.00; scenario 3: (25% of Real devaluation) rate of R\$ 1.6488; scenario 4: (50% of Real devaluation) rate of R\$ 1.9785.

<b>December 31, 2012 (In millions of US\$, except for exchange rates)</b>	<b>Risk</b>	<b>Scenario</b>	<b>Reference Value</b>	<b>Exchange Rates</b>	<b>Additional Results</b>
Net current swap	US Dollar fluctuation		44	1.3190	
		1		0.9893	(15)
		2		0.6595	(29)
		3		1.6488	15
		4		1.9785	29
Exchange position functional currency EURO	US Dollar fluctuation		(6)	1.3190	
		1		0.9893	2
		2		0.6595	4
		3		1.6488	(2)
		4		1.9785	(4)
Consolidated exchange position	US Dollar fluctuation		38	1.3190	
		1		0.9893	(13)
		2		0.6595	(25)
		3		1.6488	13
		4		1.9785	25

**Sensitivity analysis of interest rate swaps***In millions of R\$, except for notional amount*

	<b>Notional</b>					<b>12/31/2012</b>
	<b>Million US\$</b>	<b>Risk</b>	<b>25%</b>	<b>50%</b>	<b>25%</b>	<b>50%</b>
Swap of interest rate libor vs CDI	64	(Libor) US\$	(8)	(10)	8	10

- Sensitivity analysis of changes in interest rate**

The Company considers the effects of a 5% increase or decrease in interest rates on its outstanding borrowings, financing and debentures as of December 31, 2012 in the consolidated financial statements.

*In millions of R\$*

	<b>% p.a</b>	<b>Impact on profit or loss</b>	
		<b>2012</b>	<b>2011</b>
Changes in interest			
TJLP	5.50	9,667	1,372
Libor	0.51	6,607	7,941
CDI	6.90	50,391	72,607

**Share market price risk**

- The Company is exposed to the risk of changes in equity prices due to the investments made and classified as available-for-sale.

The Company considers as probable scenario the amounts recognized at market prices as of December 31, 2012. Sensitivity analysis is based on the assumption of maintaining as probable scenario the market values as of December 31, 2012. Therefore, there is no impact on the financial instruments classified as available for sale already presented above. The Company considered the following scenarios for volatility of the shares.

- Scenario 1: (25% appreciation of shares);
- Scenario 2: (50% appreciation of shares);

- Scenario 3: (25% devaluation of shares);

- Scenario 4: (50% devaluation of shares).

<b>Companies</b>	<b>Probable</b>	<b>Impact on profit or loss</b>			
		<b>25%</b>	<b>50%</b>	<b>25%</b>	<b>50%</b>
Usiminas	731	200	401	(200)	(401)
Panatlântica	1	3	5	(3)	(5)
	732	203	406	(203)	(406)

**Item 12. Description of Securities Other Than Equity Securities*****American Depositary Shares***

JP Morgan Chase Bank, N.A. serves as the depositary for our ADSs. ADR holders are required to pay various fees to the depositary, and the depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADR holders are required to pay the depositary amounts in respect of expenses incurred by the depositary or its agents on behalf of ADR holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, facsimile transmission or conversion of foreign currency into U.S. dollars. In this case, the depositary may decide at its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADR holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

**Depositary service**

Issuance and delivery of ADRs, including in connection with share distributions, stock splits  
 Distribution of dividends  
 Deposit of securities, including in respect of share, rights and other distributions  
 Withdrawal of deposited securities

**Fee payable by ADR holders**

US\$5.00 for each 100 ADSs (or portion thereof)  
 US\$5.00 for each 100 ADSs  
 US\$5.00 for each 100 ADSs (or portion thereof)  
 US\$5.00 for each 100 ADSs (or portion thereof)

**Direct and indirect payments by the depositary**

The depositary reimburses us for certain expenses we incur in connection with the ADR program, subject to a ceiling agreed between us and the depositary from time to time. These reimbursable expenses currently include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2012, such reimbursements totaled US\$0.7 million.

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modification to the Rights of Security Holders and Use of Proceeds**

None.

**PART II**

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

We have carried out an evaluation under the supervision of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and our Principal Financial Officer concluded that the design and operation of our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) collected and communicated to management, including the Chief Executive Officer and the Principal Financial Officer, to allow timely decisions regarding required disclosure as of the end of our most recent fiscal year.

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## **MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

Our internal control over financial reporting is a process designed by, or under the supervision of, our Audit Committee, principal executive and principal financial officers, and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the criteria established in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations – COSO – of the Treadway Commission. Based on the assessment, management has concluded that, as of December 31, 2012, our internal control over financial reporting is effective.

### **Attestation Report of the Independent Registered Public Accounting Firm**

For the report of Deloitte Touche Tohmatsu Auditores Independentes, our independent registered public accounting firm, dated April 23, 2013, on the effectiveness of our internal control over financial reporting as of December 31, 2012, see “Item 18. Financial Statements”.

### **Changes in internal control over financial reporting**

There have been no changes in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16. [Reserved]**

### **16A. Audit Committee Financial Expert**

After reviewing the qualifications of the members of our Audit Committee, our Board of Directors has determined that all three members of our Audit Committee qualify as an “audit committee financial expert,” as defined by the SEC. In addition, all of the members of our Audit Committee meet the applicable independence requirements both under Brazilian Corporate Law and under the NYSE rules.

Our Audit Committee is permanently assisted by a consultant, who renders financial and consulting services, among others, to the members of our Audit Committee.

**16B. Code of Ethics**

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We have adopted a Code of Ethics in 1998, reinforcing our ethical standards and values that apply to all of our employees, including executive officers and directors.

Given its importance, the Code of Ethics was updated during year 2011 and copies of the Code of Ethics were distributed to each employee of the organization, to our Board of Directors and our Audit Committee members, who have signed a Commitment Letter, which reinforces the dedication to the established values.

There was no amendment to or waiver from any provision of our Code of Ethics in 2012. Our Code of Ethics is in compliance with the SEC requirements for codes of ethics for senior financial officers. A copy of our Code of Ethics is available on our websites [www.csn.com.br](http://www.csn.com.br) or [www.csn.com.br/ir](http://www.csn.com.br/ir).

### 16C. Principal Accountant Fees and Services

Our interaction with our independent auditors with respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditors and are otherwise permissible under applicable rules and regulations. For the fiscal year ended December 31, 2012, Deloitte Touche Tohmatsu Auditores Independentes acted as our independent auditor, while for the fiscal year ended December 31, 2011, our independent auditor was KPMG Auditores Independentes.

The following table describes the services rendered and the related fees.

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands of R\$)</i>	
Audit fees	2,992	2,654
Audit – related fees	1,899	285
Tax fees	0	142
<b>Total</b>	<b>4,891</b>	<b>3,081</b>

#### **Audit fees**

Audit fees in 2012 and 2011 consisted of the aggregate fees billed and billable by our independent auditors in connection with the audit of our consolidated financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

#### **Audit-related fees**

Audit-related fees in the above table are fees billed by our independent auditors for services that are reasonably related to the performance of the audit or review of our financial statements. In 2012 and 2011 these fees refer mainly to comfort letters for offering of bonds and due diligence processes.

#### **Tax Fees**

Depository service

Fees billed in 2011 for professional services rendered by our independent auditors are for tax compliance services. In 2012 there are no fees for tax services provided by our independent auditors.

**Pre-approval Policies and Procedures**

Our Board of Directors and Audit Committee must approve before we engage independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries.

**16D. Exemptions from the Listing Standards for Audit Committees**

We are in full compliance with the listing standards for audit committee pursuant to Exchange Act Rule 10A-3. For a discussion on our audit committee, see “Item 6. Directors, Senior Management and Employees—Board Practices—Fiscal Committee and Audit Committee.”

**16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Since the beginning of 2004, in accordance with the limits and provisions of CVM Instruction No. 10/80, our Board of Directors approved a number of share buyback programs.

In 2012, we did not carry out any form of share buyback, either through publicly announced plans or programs or otherwise.

**16F. Change in Registrant's Certifying Accountant**

Not Applicable

**16G. Corporate Governance**

**Significant Differences between our Corporate Governance Practice and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (i) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (ii) provide prompt certification by our Chief Executive Officer of any material non-compliance with any corporate governance rules, and (iii) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies. The discussion of the significant differences between our corporate governance practices and those required of U.S. listed companies follows below.

***Majority of Independent Directors***

The NYSE rules require that a majority of the board of directors must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both Brazilian Corporate Law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian Corporate Law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. Brazilian Corporate Law requires that our directors be elected by our shareholders at an annual shareholders' meeting.

***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian Corporate Law does not have a similar provision. According to Brazilian Corporate Law, up to one-third of the members of the board of directors can be elected from management. Mr. Benjamin Steinbruch, our Chief Executive Officer, is also the Chairman of our Board of Directors. There is no requirement that non-management directors meet regularly without management. As a result, the non-management directors on our Board of Directors do not typically meet in executive sessions without management present.

***Nominating and Corporate Governance Committee***

NYSE rules require that listed companies have a nominating and corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. We are not required under Brazilian Corporate Law to have, and currently we do not have, a nominating and a corporate governance committee.

***Compensation Committee***

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive-compensation and equity-based plans. We are not required under applicable Brazilian law to have, and currently do not have, a compensation committee. Under Brazilian Corporate Law, the total amount available for compensation of our directors and executive officers and for profit-sharing payments to our executive officers is established by our shareholders at the annual shareholders' meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members.

***Audit Committee***

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporate law. We have established an Audit Committee, which is equivalent to a U.S. audit committee, and provides assistance to our Board of Directors in matters involving our accounting, internal controls, financial reporting and compliance. Our Audit Committee recommends the appointment of our independent auditors to our Board of Directors and reviews the compensation of, and coordinates with, our independent auditors. They also report on our auditing policies and our annual audit plan prepared by our internal auditing team. Our Audit Committee also evaluates the effectiveness of our internal financial and legal compliance controls, and is comprised of up to three independent directors elected by our Board of Directors for a one-year term of office. The current members of our Audit Committee are Fernando Perrone, Yoshiaki Nakano and Antonio Francisco dos Santos. All members of our Audit Committee satisfy the audit committee membership independence requirements set forth by the SEC and the NYSE. All members of our Audit Committee have been determined by our Board of Directors to qualify as an "audit committee financial expert" within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the Exchange Act. For further information on our Audit Committee, see "Item 6. Directors, Senior Management and Employees—Board Practices—Fiscal Committee and Audit Committee."

***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement. We have adopted a Code of Ethics applicable to all our employees, including our executive officers and directors. We believe this code addresses the matters required to be addressed pursuant to the NYSE rules. For a further discussion of our Code of Ethics, see “Item 16B. Code of Ethics.”

***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. We currently do not have any such plan and, pursuant to our bylaws, we would require shareholder approval to adopt an equity compensation plan.

***Corporate Governance Guidelines***

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We have adopted the following corporate governance guidelines, either based on Brazilian law, our Code of Ethics or institutional handbook:

- insider trading policy for securities issued by us;
- disclosure of material facts;
- disclosure of annual financial reports;
- confidential policies and procedures; and
- Sarbanes-Oxley Disclosure Committee’s duties and activities.

**Item 16H. Mine Safety Disclosure**

Not applicable as none of our mines are located in the United States and as such are not subject to the Federal Mine Safety and Health Act of 1977 or the Mine Safety and Health Administration.

**Item 17. Financial Statements**

We have responded to Item 18 in lieu of responding to this item. See “Item 18. Financial Statements.”

**PART III****Item 18. Financial Statements**

The following consolidated financial statements of the Registrant, together with the reports of Deloitte Touche Tohmatsu Auditores Independentes and KPMG Auditores Independentes thereon, are filed as part of this annual report.



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**Item 19. Exhibits**

Exhibit Number	Description
<u>1.1+</u> 2.1	<u>Bylaws of CSN, as amended to date.</u> Form of Amended and Restated Deposit Agreement dated as of November 1, 1997 as amended and restated as of November 13, 1997, among Companhia Siderúrgica Nacional, JP Morgan Chase Bank, N.A. (as successor to Morgan Guaranty Trust Company of New York), as successor depository, and all holders from time to time of American Depositary Receipts issued thereunder (incorporated by reference from the Registration Statement on Form F-6 (333-7818) filed with the SEC).
2.2	Form of Amendment No. 1 to the Deposit Agreement (incorporated by reference from the Registration Statement on Form F-6EF (333-115078) filed with the SEC on April 30, 2004).
2.3	Form of Amendment No. 2 to Deposit Agreement, including the form of American Depositary Receipt (incorporated by reference from the Registration Statement on Form F-6POS filed with the SEC on January 5, 2011)
<u>8.1+</u> 10.1*	<u>List of subsidiaries</u> Share Purchase Agreement, dated October 21, 2008, among CSN, Big Jump Energy Participações S.A., Itochu Corporation, JFE Steel Corporation, Nippon Steel Corporation, Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd., Nishin Steel Co., Ltd., and Posco. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)



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10.2*+	Amendment to the Share Purchase Agreement, dated June 30, 2011. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2011, filed with the SEC on February 14, 2013).
10.3*	Shareholders Agreement of Nacional Minérios S.A., dated October 21, 2008, between CSN and Big Jump Energy Participações S.A. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)
10.4*+	Amendment to the Shareholders' Agreement of Nacional Minérios S.A., dated June 30, 2011. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2011, filed with the SEC on February 14, 2013).
10.5*	High Silica ROM Iron Ore Supply Contract, dated October 21, 2008, between CSN and Nacional Minérios S.A. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)
10.6*	Low Silica ROM Iron Ore Supply Contract, dated October 21, 2008, between CSN and Nacional Minérios S.A. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)
10.7*	Iron Ore Supply Contract, dated October 21, 2008, between CSN and Nacional Minérios S.A. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)
10.8*	Port Operating Services Agreement, dated October 21, 2008, between CSN and Nacional Minérios S.A. (incorporated by reference from Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2008, filed with the SEC on March 18, 2010)
<u>12.1+</u>	- <u>Section 302 Certification of Chief Executive Officer.</u>
<u>12.2+</u>	- <u>Section 302 Certification of Principal Financial Officer.</u>
<u>13.1+</u>	- <u>Section 906 Certification of Chief Executive Officer.</u>
<u>13.2+</u>	- <u>Section 906 Certification of Principal Financial Officer.</u>
<u>15.1+</u>	- <u>Management's report dated April 23, 2013, on the effectiveness of our internal control over financial reporting as of December 31, 2012.</u>

\* Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.

+ Filed herewith.



**SIGNATURE**

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

April 30, 2012

Companhia Siderúrgica Nacional

By:

/s/

Benjamin Steinbruch

Title:

Chief Executive Officer

By:

/s/

Rogério Leme Borges dos Santos  
Controller / Principal Financial

Title:

Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Companhia Siderurgica Nacional

São Paulo – SP, Brazil

We have audited the internal control over financial reporting of Companhia Siderurgica Nacional and subsidiaries (the "Company") as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Stahlwerk Thüringen GmbH, which was acquired on January 31, 2012 and whose financial statements constitute 3.5% of total assets, and 6.6% of net revenues from sales and/or services, of the consolidated financial statement amounts as of and for the year ended December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at Stahlwerk Thüringen GmbH. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board - IASB. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board - IASB, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated April 23, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES

São Paulo – SP, Brazil

April 23, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Companhia Siderurgica Nacional

São Paulo – SP, Brazil

We have audited the accompanying consolidated balance sheet of Companhia Siderurgica Nacional and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Companhia Siderurgica Nacional and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board - IASB.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB, the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO and our report dated April 23, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES

São Paulo – SP, Brasil

April 23, 2013

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Companhia Siderúrgica Nacional:

We have audited the accompanying consolidated balance sheet of Companhia Siderúrgica Nacional and subsidiaries (the “Company”) as of December 31, 2011, and the related consolidated statements of income, changes in shareholders’ equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Companhia Siderúrgica Nacional and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

/s/ KPMG Auditores Independentes

São Paulo, Brazil  
April 27, 2012

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**Companhia Siderúrgica Nacional and Subsidiaries**

Consolidated Balance Sheet

Thousands of Brazilian reais

**Assets**

	Note	2012	2011
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	14,444,875	15,417,393
Trade receivables	5	1,794,566	1,616,206
Inventories	6	3,580,025	3,734,984
Other current assets	7	1,302,479	1,175,723
<b>Total current assets</b>		<b>21,121,945</b>	<b>21,944,306</b>
<b>NON-CURRENT ASSETS</b>			
<b>Long-term receivables</b>			
Short-term investments		116,753	139,679
Deferred income taxes	8	2,372,501	1,840,773
Other non-current assets	7	1,648,056	2,876,269
		<b>4,137,310</b>	<b>4,856,721</b>
Investments	9	2,351,774	2,088,225
Property, plant and equipment	10	20,408,747	17,377,076
Intangible assets	11	1,275,452	603,374
<b>Total non-current assets</b>		<b>28,173,283</b>	<b>24,925,396</b>
<b>TOTAL ASSETS</b>		<b>49,295,228</b>	<b>46,869,702</b>

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

**Companhia Siderúrgica Nacional and Subsidiaries**

Consolidated Balance Sheet

Thousands of Brazilian reais

**Liabilities and shareholders' equity**

	Note	2012	2011
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payroll and related taxes		241,291	202,469
Trade payables		1,957,789	1,232,075
Taxes payable		336,348	325,132
Borrowings and financing	12	2,295,409	2,702,083
Other payables	14	1,221,350	1,728,445
Provisions for tax, social security, labor and civil risks	16	355,889	292,178
Other provisions			14,565
<b>Total current liabilities</b>		<b>6,408,076</b>	<b>6,496,947</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings and financing	12	27,856,350	25,186,505
Other payables	14	4,388,451	5,593,520
Deferred income taxes	8	284,110	37,851
Provisions for tax, social security, labor and civil risks	16	371,697	346,285
Employee Benefits	28	565,591	469,050
Other provisions		413,440	322,374
<b>Total non-current liabilities</b>		<b>33,879,639</b>	<b>31,955,585</b>
<b>Equity</b>	19		
Issued capital		4,540,000	1,680,947
Capital reserves		30	30
Earnings reserves		3,690,543	7,671,620
Other comprehensive income/(loss)		386,324	-1,366,776
<b>Total equity attributable to owners of the Company</b>		<b>8,616,897</b>	<b>7,985,821</b>
Non-controlling interests		390,616	431,349
<b>Total equity</b>		<b>9,007,513</b>	<b>8,417,170</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>49,295,228</b>	<b>46,869,702</b>

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

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**Companhia Siderúrgica Nacional and Subsidiaries**

Consolidated Statements of Income

Thousands of Brazilian reais

	Note	2012	2011	2010
<b>Net Revenue from sales and/or services</b>	22	<b>16,896,264</b>	<b>16,519,584</b>	<b>14,450,510</b>
Cost of sales and/or services	23	-12,072,206	-9,800,844	-7,882,726
<b>Gross profit</b>		<b>4,824,058</b>	<b>6,718,740</b>	<b>6,567,784</b>
<b>Operating expenses</b>		<b>-4,182,361</b>	<b>-961,818</b>	<b>-1,569,438</b>
Selling expenses	23	-931,525	-604,108	-481,978
General and administrative expenses	23	-576,514	-575,585	-536,857
Other operating income	24	46,003	719,177	48,821
Other operating expenses	24	-2,719,373	-501,302	-599,424
Share of profits of investees		-952		
<b>Profit before finance income (costs) and taxes</b>		<b>641,697</b>	<b>5,756,922</b>	<b>4,998,346</b>
Finance income	25	416,781	717,450	643,140
Finance costs	25	-2,409,186	-2,723,253	-2,554,598
<b>(Loss) profit before income taxes</b>		<b>-1,350,708</b>	<b>3,751,119</b>	<b>3,086,888</b>
Income tax and social contribution	26	870,134	-83,885	-570,697
<b>(Loss) profit from continuing operations</b>		<b>-480,574</b>	<b>3,667,234</b>	<b>2,516,191</b>
<b>(Loss) profit for the year attributed to:</b>				
Companhia Siderúrgica Nacional		-420,113	3,706,033	2,516,376
Non-controlling interests		-60,461	-38,799	-185
(Losses) Earnings per common share - (reais/share)				
Basic	27	-0.28815	2.54191	1.72594
Diluted	27	-0.28815	2.54191	1.72594

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

**Companhia Siderúrgica Nacional and Subsidiaries**

## Consolidated Statements of Comprehensive Income

Thousands of Brazilian reais

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Loss) profit for the year</b>	<b>-480,574</b>	<b>3,667,234</b>	<b>2,516,191</b>
<b>Other comprehensive income</b>	<b>1,753,100</b>	<b>-1,198,761</b>	<b>417,700</b>
Exchange differences arising on translation of foreign operations, net of taxes ((R\$425,510) in 2012 and (R\$425,510) in 2011)	147,735	195,046	-69,270
Actuarial gains/(losses) on defined benefit plan, net of taxes (R\$66,155 in 2012 and R\$54,714 in 2011)	106,209	-74,331	-28,603
Net change in fair value of available-for-sale financial assets, net of taxes ((R\$377,164) in 2012 and R\$241,484 in 2011)	-8,329	-621,312	515,573
Net change in fair value of available-for-sale financial assets transferred to profit or loss		-698,164	
Impairment of available-for-sale assets, net of taxes	1,507,485		
<b>Comprehensive income for the year</b>	<b>1,272,526</b>	<b>2,468,473</b>	<b>2,933,891</b>
<b>Attributable to:</b>			
Companhia Siderúrgica Nacional	1,332,987	2,507,272	2,934,076
Non-controlling interests	-60,461	-38,799	-185

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

**Companhia Siderúrgica Nacional and Subsidiaries**

## Consolidated Statement of Cash Flow

Thousands of Brazilian reais

	Note	2012	2011	2010
Profit for the year		-480,574	3,667,234	2,516,191
Accrued charges on borrowings and financing		2,249,123	2,650,622	1,489,191
Depreciation/ depletion / amortization	10.b)	1,230,651	948,251	814,034
Proceeds from write-off and disposal of assets		5,246	54,727	5,827
Impairment of available-for-sale assets	24	2,022,793		
Realization of available-for-sale investments	24		-698,164	
Deferred income tax and social contribution	8	-1,075,156	-52,542	207,268
Provision of swaps/forwards transactions		4,975	110,009	126,492
Share of profits of investees		952		
Provision for actuarial liabilities		-30,655	-11,412	2,393
Provision for tax, social security, labor and civil risks		252,432	62,746	199,558
Inflation adjustment and exchange differences		996,810	-250,083	57,119
Allowance for doubtful debts			189	-46,675
Other provisions		70,252	-19,651	-80,570
<b>Cash generated from operations</b>		<b>5,246,849</b>	<b>6,461,926</b>	<b>5,290,828</b>
Trade receivables		-237,873	-339,427	143,250
Inventories		200,893	-410,264	-794,331
Receivables from related parties		-3,774	471,666	
Recoverable taxes		139,823	16,700	297,424
Trade payables		663,198	544,300	11,964
Payroll and related taxes		-91,447	-47,072	-36,757
Taxes payable		74,982	135,765	-101,723
Taxes in installments - REFIS		-255,338	-296,304	-414,473
Judicial deposits		39,023	-20,253	-33,822
Payables to related parties		-1,322		
Contingent liabilities		-10,539	120,951	16,868
Interest paid		-2,297,833	-2,145,400	-1,190,423
Interest paid on swap transactions		-50,569	-360,976	-676,163
Other		71,427	70,168	4,662
<b>Increase (decrease) in assets and liabilities</b>		<b>-1,759,349</b>	<b>-2,260,146</b>	<b>-2,773,524</b>
<b>Net cash generated by (used in) operating activities</b>		<b>3,487,500</b>	<b>4,201,780</b>	<b>2,517,304</b>
Receipt/payment in derivative transactions		57,740	-57,157	395,346
Disposal of investments			1,310,171	
Cash from acquisition of subsidiaries		14,880		
Investments		-166,915	-2,126,493	-1,370,016
Property, plant and equipment	10	-3,142,634	-4,400,825	-3,635,911
Intangible assets	11	-1,532	-707	-25,216

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**Companhia Siderúrgica Nacional and Subsidiaries**

## Consolidated Statement of Cash Flow

Thousands of Brazilian reais

	Note	2012	2011	2010
Acquisition of subsidiary		-301,192		
<b>Net cash used in investing activities</b>		<b>-3,539,653</b>	<b>-5,275,011</b>	<b>-4,635,797</b>
Borrowings and financing	12	3,721,945	7,824,012	8,754,779
Repayments to financial institutions - principal	12	-2,523,828	-1,469,206	-2,706,982
Dividends and interest on capital		-1,199,734	-1,856,381	-1,560,795
Repayments of principal - acquisition of subsidiaries		-803,456		
Capital contribution by non-controlling shareholders		56,194	242,290	128,811
<b>Net cash generated by (used in) financing activities</b>		<b>-748,879</b>	<b>4,740,715</b>	<b>4,615,813</b>
<b>Exchange rate changes on cash and cash equivalents</b>		<b>-171,486</b>	<b>1,510,631</b>	<b>-228,833</b>
Increase (decrease) in cash and cash equivalents		-972,518	5,178,115	2,268,487
Cash and cash equivalents at the beginning of the year		15,417,393	10,239,278	7,970,791
<b>Cash and cash equivalents at the end of the year</b>		<b>14,444,875</b>	<b>15,417,393</b>	<b>10,239,278</b>

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

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**Companhia Siderúrgica Nacional and Subsidiaries**

## Consolidated Statement of Changes in Shareholders' Equity

Thousands of Brazilian reais

	Paid-in Capital	Capital Reserve	Earnings Reserve	Retained earnings	con
<b>Opening balance at January 1, 2010</b>	<b>1,680,947</b>	<b>30</b>	<b>5,444,605</b>	<b>(33,417)</b>	
Approval of prior year's proposed dividends			(1,178,635)		
Profit for the year				2,516,376	
<b>Allocation of profit for the year</b>				(272,297)	
Declared dividends (R\$186.76 per thousand shares)				(356,800)	
Interest on capital (R\$244.72 per thousand shares)				(1,227,703)	
Additional dividends proposed (R\$842.06 per thousand shares)			1,227,703		
Investment reserve			626,159	(626,159)	
Cancellation of treasury shares			(34)		
Comprehensive income					
Non-controlling interests					
<b>Balances at December 31, 2010</b>	<b>1,680,947</b>	<b>30</b>	<b>6,119,798</b>		
Approval of prior year's proposed dividends			(1,227,703)		
Profit for the year				3,706,033	
<b>Allocation of profit for the year</b>				(926,508)	
Declared dividends (R\$635.48 per thousand shared)				(926,508)	
Additional dividends proposed (R\$187.58 per thousand shares)			273,492	(273,492)	
Other comprehensive income					
Recognition of reserves			2,506,033	(2,506,033)	
Non-controlling interests					
<b>Balances at December 31, 2011</b>	<b>1,680,947</b>	<b>30</b>	<b>7,671,620</b>		
<b>Capital transactions with shareholders</b>	<b>2,859,053</b>		<b>(3,432,545)</b>		
Capital increases	2,859,053		(2,859,053)		
Declared dividends (R\$205.77 per thousand shared)			(300,000)		

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**Companhia Siderúrgica Nacional and Subsidiaries**

## Consolidated Statement of Changes in Shareholders' Equity

Thousands of Brazilian reais

	Paid-in Capital	Capital Reserve	Earnings Reserve	Retained earnings	Other comprehensi income
Interest on capital (R\$384.10 per thousand shares)			(560,000)		
Interest on capital proposed			560,000		
Approval of prior year's proposed dividends			(273,492)		
Total comprehensive income				(548,532)	1,753,1
<b>Profit for the year</b>				<b>(420,113)</b>	
<b>Other comprehensive income</b>				<b>(128,419)</b>	<b>1,753,1</b>
Cumulative translation adjustments for the period					147,7
Actuarial (losses)/gains on defined benefit pension plan					(22,2
Available-for-sale assets, net of taxes					1,499,1
Actuarial losses reclassification				(128,419)	128,4
Losses absorption for the period			(420,113)	(420,113)	
Actuarial losses absorption			(128,419)	(128,419)	
Non-controlling interests in subsidiaries					
<b>Balances at December 31, 2012</b>	<b>4,540,000</b>	<b>30</b>	<b>3,690,543</b>		<b>386,3</b>

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**(Expressed in thousands of reais – R\$, unless otherwise stated)**

## **1. DESCRIPTION OF BUSINESS**

Companhia Siderúrgica Nacional - "CSN", also referred to as the Company, is a publicly-held company incorporated on April 9, 1941, under the laws of the Federative Republic of Brazil (Companhia Siderúrgica Nacional, its subsidiaries, associates and jointly controlled entities collectively referred to herein as the "Group"). The Company's registered office is located in São Paulo.

CSN has shares listed on the São Paulo Stock Exchange (BM&F BOVESPA) and the New York Stock Exchange (NYSE). Accordingly, it reports its information to the Brazilian Securities Commission (CVM) and the U.S. Securities and Exchange Commission (SEC).

The Group's main operating activities are divided into five (5) operating segments as follows:

- **Steel:**

The Company's main industrial facility is the Presidente Vargas Steel Mill ("UPV"), located in the city of Volta Redonda, State of Rio de Janeiro. This segment consolidates the operations related to the production, distribution and sale of flat steel, long steel, metallic containers and galvanized steel. In addition to the facilities in Brazil, CSN has operations in the United States, Portugal and Germany aimed at gaining markets and performing excellent services for final consumers. Its steels are used in the home appliances, civil construction and automobile industries.

- **Mining:**

The production of iron ore is developed in the city of Congonhas, in the State of Minas Gerais. It further mines tin in the State of Rondônia to supply the needs of UPV, with the excess of these raw materials being sold to subsidiaries and third parties. CSN holds the concession to operate TECAR, a solid bulk terminal, one of the 4 (four) terminals that comprise the Itaguaí Port, in Rio de Janeiro. Importations of coal and coke are carried out through this terminal.

- **Cement:**

CSN entered the cement market boosted by the synergy between this new activity and its already existing businesses. Next to the Presidente Vargas Steel Mill in Volta Redonda (RJ), it installed a new business unit: CSN Cimentos, which produces CP-III type cement by using slag produced by the UPV blast furnaces in Volta Redonda. It also explores limestone and dolomite at the Arches drive in the State of Minas Gerais, to supply the needs of UPV and of the cement plant.

- **Logistics:**

*Railroads:*

CSN has equity interests in two railroad companies: MRS Logística, which manages the former Southeast Network of Rede Ferroviária Federal S.A. (RFFSA), and Transnordestina Logística, which operates the former Northeast Network of the RFFSA in the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas.

*Ports:*

In the State of Rio de Janeiro, the Company operates the Container Terminal known as Sepetiba Tecon at the Itaguaí Port. Located in the Bay of Sepetiba, this port has privileged highway, railroad and maritime access.

Tecon handles the shipments of CSN steel products, movement of containers, as well as storage, consolidation and deconsolidation of cargo.

- **Energy:**

As energy is fundamental in its production process, the Company invested in assets for generation of electric power to guarantee its self-sufficiency.

For further details on the Group's strategic investments and segments, see Note 26 - Business Segment Reporting.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of preparation**

The consolidated financial statements have been prepared and are being presented in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the notes to this report and refer to the allowance for doubtful debts, allowance for inventories losses, provision for labor, civil, tax, environmental and social security risks, depreciation, amortization, depletion, provision for impairment, deferred taxes, financial instruments and employee benefits. Actual results may differ from these estimates.

The financial statements are presented in thousands of reais (R\$). Depending on the applicable IFRS standard, the measurement criterion used in preparing the financial statements considers the historical cost, net realizable value, fair value or recoverable amount.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on April 23, 2013.

**(b) Consolidated financial statements**

The accounting policies have been consistently applied to all consolidated companies.

The consolidated financial statements for the years ended December 31, 2012 and 2011 include the following direct and indirect subsidiaries and jointly controlled entities, as well as the exclusive funds Diplic, Mugen and Vértice as follows:

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- Companies**

Companies	Equity interests (%)		Main activities
	12/31/2012	12/31/2011	
<b>Direct interest in subsidiaries: full consolidation</b>			
CSN Islands VII Corp.	100.00	100.00	Financial transactions
CSN Islands VIII Corp.	100.00	100.00	Financial transactions
CSN Islands IX Corp.	100.00	100.00	Financial transactions
CSN Islands X Corp.	100.00	100.00	Financial transactions
CSN Islands XI Corp.	100.00	100.00	Financial transactions
CSN Islands XII Corp.	100.00	100.00	Financial transactions
Tangua Inc. (1)		100.00	Financial transactions
International Investment Fund	100.00	100.00	Equity interests and financial
CSN Minerals S.L.U.	100.00	100.00	Equity interests
CSN Export Europe, S.L.U.	100.00	100.00	Financial transactions and eq
CSN Metals S.L.U.	100.00	100.00	Equity interests and financial
CSN Americas S.L.U.	100.00	100.00	Equity interests and financial
CSN Steel S.L.U.	100.00	100.00	Equity interests and financial
TdBB S.A	100.00	100.00	Dormant company
Sepetiba Tecon S.A.	99.99	99.99	Port services
Mineração Nacional S.A.	99.99	99.99	Mining and equity interests
Florestal Nacional S.A.	99.99	99.99	Reforestation
Estanho de Rondônia S.A.	99.99	99.99	Tin mining
Cia Metalic Nordeste	99.99	99.99	Manufacture of packaging and
Companhia Metalúrgica Prada	99.99	99.99	Manufacture of packaging and
CSN Cimentos S.A.	99.99	99.99	Cement manufacturing
CSN Gestão de Recursos Financeiros Ltda.	99.99	99.99	Dormant company
Congonhas Minérios S.A.	99.99	99.99	Mining and equity interests
CSN Energia S.A.	99.99	99.99	Sale of electric power
Transnordestina Logística S.A.	76.13	70.91	Railroad logistics
TFNE - Transnordestina Ferrovias do Nordeste S.A.	99.99		Railroad logistics
<b>Indirect interest in subsidiaries: full consolidation</b>			
CSN Aceros S.A.	100.00	100.00	Equity interests
Companhia Siderúrgica Nacional LLC	100.00	100.00	Steel
CSN Europe Lda.	100.00	100.00	Financial transactions, produc
CSN Ibéria Lda.	100.00	100.00	Financial transactions, produc
CSN Portugal, Unipessoal Lda.	100.00	100.00	Financial transactions and pro
Lusosider Projectos Siderúrgicos S.A.	100.00	100.00	Equity interests
Lusosider Aços Planos, S. A.	99.94	99.94	Steel and equity interests
CSN Acquisitions, Ltd.	100.00	100.00	Financial transactions and eq
CSN Resources S.A.	100.00	100.00	Financial transactions and eq
CSN Finance (UK) Ltd (1)		100.00	Financial transactions and eq
CSN Holdings (UK) Ltd	100.00	100.00	Financial transactions and eq
CSN Handel GmbH	100.00	100.00	Financial transactions, produc

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Companhia Brasileira de Latas	59.17	59.17	Sale of cans and containers in
Rimet Empreendimentos Industriais e Comerciais S. A.	58.96	58.08	Production and sale of steel c
Companhia de Embalagens Metálicas MMSA	58.98	58.98	Production and sale of cans a
Empresa de Embalagens Metálicas - LBM Ltda.	58.98	58.98	Sales of containers and holdin
Empresa de Embalagens Metálicas - MUD Ltda.	58.98	58.98	Production and sale of house
Empresa de Embalagens Metálicas - MTM do Nordeste	58.98	58.98	Production and sale of cans a
Companhia de Embalagens Metálicas - MTM	58.98	58.98	Production and sale of cans a
CSN Steel Comercializadora, S.L.U. (2)	100.00		Financial transactions, produ
CSN Steel Holdings 1, S.L.U. (2)	100.00		Financial transactions, produ
CSN Steel Holdings 2, S.L.U. (2)	100.00		Financial transactions, produ
Stalwerk Thüringen GmbH (2)	100.00		Production and sale of long s
CSN Steel Sections UK Limited (2)	100.00		Financial transactions, produ
CSN Steel Sections Czech Republic s.r.o. (2)	100.00		Financial transactions, produ
CSN Steel Sections Polska Sp.Z.o.o (2)	100.00		Financial transactions, produ

**Direct interest in jointly controlled entities: proportionate consolidation**

Nacional Minérios S.A.	60.00	60.00	Mining and equity interests
Itá Energética S.A.	48.75	48.75	Electric power generation
MRS Logística S.A.	27.27	27.27	Railroad transportation
Consórcio da Usina Hidrelétrica de Igarapava	17.92	17.92	Electric power consortium
Aceros Del Orinoco S.A.	22.73	22.73	Dormant company
CBSI - Companhia Brasileira de Serviços de Infraestrutura	50.00	50.00	Provision of services
CGPAR - Construção Pesada S.A. (3)	50.00		Mining support services and e

**Indirect interest in jointly controlled entities: proportionate consolidation**

Namisa International Minérios SLU	60.00	60.00	Financial transactions, produ
Namisa Europe, Unipessoal Lda.	60.00	60.00	Equity interests and sales of p
Namisa Handel GmbH (4)	60.00	60.00	Financial transactions, produ
MRS Logística S.A.	6.00	6.00	Railroad transportation
Aceros Del Orinoco S.A.	9.08	9.08	Dormant company

**Direct interest in associates: equity method**

Arvedi Metalfer do Brasil S.A. (5)	20.00		Metallurgy and equity interest
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- (1) Companies liquidated in 2012.
- (2) Companies acquired on January 31, 2012 (see note 9.e).
- (3) Equity interest acquired in July 2012 (see note 9.d).
- (4) New corporate name of Aloadus Handel GmbH, changed on August 13, 2012.
- (5) Equity interest acquired on July 31, 2012 (see note 9.f).





- Exclusive Funds

<b>Exclusive Funds</b>	<b>Equity interests (%)</b>		<b>Main activities</b>
	<b>31/12/2012</b>	<b>31/12/2011</b>	
<b>Direct interests: full consolidation</b>			
Diplic - Balanced mutual fund	100.00	100.00	Investment fund
Mugen - Balanced mutual fund	100.00	100.00	Investment fund
Caixa Vértice - Balanced mutual fund private credit	100.00	100.00	Investment fund

In preparing the financial statements the following consolidation procedures have been applied:

Unrealized gains on transactions with subsidiaries and jointly controlled entities are eliminated to the extent of CSN's equity interests in the related entity in the consolidation process. Unrealized losses are eliminated in the same manner as unrealized gains, although only to the extent that there are indications of impairment. The base date of the financial statements of the subsidiaries and jointly controlled entities is the same as that of the Company, and their accounting policies are in line with the policies adopted by the Company.

- **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to determine the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are actually exercisable or convertible are taken into consideration when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Company and are deconsolidated from the date when such control ceases.

- **Joint controlled entities**

The financial statements of jointly controlled entities are included in the consolidated financial statements from the date when shared control starts through the date when shared control ceases to exist. Jointly controlled entities are proportionately consolidated.

- **Associates**

Associates are all entities over which the Company has significant influence but not control, generally through a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognized at cost.

- **Transactions and non-controlling interests**

The Company treats transactions with non-controlling interests as transactions with owners of Company equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in shareholders' equity. Gains and losses on disposals to non-controlling interests are also recognized directly in shareholders' equity, in line item "Valuation adjustments to equity".

When the Company no longer holds control, any retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

- (c) **Foreign currencies**

- i. **Functional and presentation currency**

Items included in the financial statements of each one of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("functional currency"). The consolidated financial statements are presented in Brazilian reais (R\$), which is the Company's functional currency and the Group's presentation currency.



**ii. Balances and transactions**

Transactions in foreign currencies are translated into the functional currency using the exchange rates in effect at the dates of the transactions or valuation on which items are remeasured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at exchange rates in effect as of December 31, 2012 of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when they are recognized in shareholders' equity as qualifying cash flow hedges and qualifying net investment hedges.

The asset and liability balances are translated at the exchange rate in effect at the end of the reporting period. As of December 31, 2012, US\$1 is equivalent to R\$2,0435 (R\$1,8758 as of December 31, 2011), EUR 1 is equivalent to R\$2,6954 (R\$2,4342 as of December 31, 2011), JPY 1 is equivalent to R\$0.02372 (R\$0.02431 as of December 31, 2011).

All other foreign exchange gains and losses, including foreign exchange gains and losses related to loans and cash and cash equivalents, are presented in the income statement as finance income or costs.

Changes in the fair value of monetary securities denominated in foreign currency, classified as available-for-sale, are segregated into translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Exchange differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in shareholders' equity.

Exchange differences on non-monetary financial assets and liabilities classified as measured at fair value through profit or loss are recognized in profit or loss as part of the gain or loss on the fair value. Exchange differences on non-monetary financial assets, such as investments in shares classified as available-for-sale, are included in comprehensive income in shareholders' equity.

Starting 2012, in view of the changes in operations of the subsidiary Namisa Europe, its functional currency changed from the US dollar to the Brazilian real.

**iii. Group companies**

Depositary service

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- Assets and liabilities in each balance sheet presented have been translated at the exchange rate at the end of the reporting period;
- Income and expenses of each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates in effect at the transaction dates, in which case income and expenses are translated at the rate in effect at the transaction dates); and
- All resulting exchange differences are recognized as a separate component in other comprehensive income.

On consolidation, exchange differences resulting from the translation of monetary items with characteristics of net investment in foreign operations are recognized in shareholders' equity. When a foreign operation is partly disposed of or sold, exchange differences previously recorded in other comprehensive income are recognized in the income statement as part of the gain or loss on sale.

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments redeemable within 90 days from the end of the reporting period, readily convertible into a known amount of cash and subject to an insignificant risk of change in value. Certificates of deposit that can be redeemed at any time without penalties are considered as cash equivalents.

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**(e) Trade receivables**

Trade receivables are initially recognized at fair value, including the related taxes and expenses. Foreign currency-denominated trade receivables are adjusted at the exchange rate in effect at the end of the reporting period. The allowance for doubtful debts were recognized in an amount considered sufficient to cover any losses. Management's assessment takes into consideration the customer's history and financial position, as well as the opinion of our legal counsel regarding the collection of these receivables for recognizing the allowance.

**(f) Inventories**

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted average cost method on the acquisition of raw materials. The costs of finished products and work in process comprise raw materials, labor and other direct costs (based on the normal production capacity). Net realizable value represents the estimated selling price in the normal course of business, less estimated costs of completion and costs necessary to make the sale. Estimated losses for slow-moving or obsolete inventories are recognized when considered appropriate.

Stockpiled inventories are accounted for as processed when removed from the mine. The cost of finished products comprises all direct costs necessary to transform stockpiled inventories into finished products.

**(g) Investments**

Investments in jointly controlled entities and associates are accounted for under the equity method of accounting and are initially recognized at cost. In the case of foreign exchange differences arising on translating foreign investments that have a functional currency different from the Company's, changes in investments due exclusively to foreign exchange differences, as well as adjustments to pension plans and available-for-sale investments that impact the subsidiaries' shareholders' equity, are recognized in line item "Cumulative translation adjustments", in the Company's shareholders' equity, and are only recognized in profit or loss when the investment is disposed of or written off due to impairment loss. Other investments are recognized and maintained at cost or fair value.

When necessary, the accounting policies of subsidiaries and jointly controlled entities are changed to ensure consistency and uniformity of criteria with the policies adopted by the Company.

**(h) Business combination**

The acquisition method is used to account for each business combination conducted by the Company. The consideration transferred for acquiring a subsidiary is the fair value of the assets transferred, liabilities incurred and equity instruments issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, where applicable. Acquisition-related costs are recognized in profit or loss, as incurred. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes non-controlling interests in the acquiree according to the proportional non-controlling interest held in the fair value of the acquiree's new assets (see note 3).

**(i) Property, plant and equipment**

Property, plant and equipment are carried at cost of acquisition, formation or construction, less accumulated depreciation or depletion and any impairment loss. Depreciation is calculated under the straight-line method based on the remaining economic useful lives of assets, as mentioned in note 10. The depletion of mines is calculated based on the quantity of ore mined (units of production). Land is not depreciated since their useful life is considered indefinite. However, if the tangible assets are mine-specific, that is, used in the mining activity, they are depreciated over the shorter of the normal useful lives of such assets or the useful life of the mine. The Company recognizes in the carrying amount of property, plant and equipment the cost of replacement, reducing the carrying amount of the part that it is replacing if it is probable that future economic benefits embodied therein will revert to the Company, and if the cost of the asset can be reliably measured. All other disbursements are expensed as incurred. Borrowing costs related to funds obtained for construction in progress are capitalized until these projects are completed.

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If some components of property, plant and equipment have different useful lives, these components are separately recognized as property, plant and equipment items.

Gains and losses on disposal are determined by comparing the sale value less the residual value and are recognized in 'Other operating income (expenses)'.

Mineral rights acquired are classified as other assets in property, plant and equipment.

Exploration expenditures are recognized as expenses until the viability of mining activities is established; after this period subsequent development costs are capitalized. Exploration and valuation expenditures include:

- Research and analysis of exploration area historical data;
- Topographic, geological, geochemical and geophysical studies;
- Determine the mineral asset's volume and quality/grade of deposits;
- Examine and test the extraction processes and methods;
- Topographic surveys of transportation and infrastructure needs;
- Market studies and financial studies.

The costs for the development of new mineral deposits or capacity expansion in mines in operation are capitalized and amortized using the produced (extracted) units method based on the probable and proven ore quantities.

The development stage includes:

- Drillings to define the ore body;
- Access and draining plans;

- Advance removal of overburden (top soil and waste material removed prior to initial mining of the ore body) and waste material (non-economic material that is intermingled with the ore body).

Stripping costs (the costs associated with the removal of overburdened and other waste materials) incurred during the development of a mine, before production commences, are capitalized as part of the depreciable cost of developing the property. Such costs are subsequently amortized over the useful life of the mine based on proven and probable reserves.

Post-production stripping costs are included in the cost of the inventory produced (that is extracted), at each mine individually during the period that stripping costs are incurred.

The Company holds spare parts that will be used to replace parts of property, plant and equipment and that will increase the asset's useful life and the useful life of which exceeds 12 months. These parts are classified in property, plant and equipment and not in inventories.

#### **(j) Intangible assets**

Intangible assets comprise assets acquired from third parties, including through business combinations and/or those internally generated.

These assets are recognized at cost of acquisition or formation, less amortization calculated on a straight-line basis based on the exploration or recovery periods (which represents the useful lives of the assets).

Intangible assets with indefinite useful lives and goodwill based on expected future profitability are not amortized.

- **Goodwill**

Goodwill represents the positive difference between the amount paid and/or payable for the acquisition of a business and the net fair values of the assets and liabilities of the acquiree. Goodwill on acquisitions of subsidiaries is recognized as 'Intangible assets' in the consolidated financial statements. In the individual balance sheet, goodwill is included in investments. Negative goodwill is recognized as a gain in profit for

the period at the acquisition date. Goodwill is annually tested for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of a Cash-Generating Unit (CGU) include the carrying amount of goodwill related to the CGU sold.

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Goodwill is allocated to CGUs for impairment testing purposes. The allocation is made to Cash-Generating Units or groups of Cash-Generating Units that are expected to benefit from the business combination from which the goodwill arose, and the unit is not greater than the operating segment.

- **Software**

Software licenses purchased are capitalized based on the costs incurred to purchase the software and make it ready for use. These costs are amortized on a straight-line basis over the estimated useful lives of 1 to 5 years.

**(k) Impairment of non-financial assets**

Assets with infinite useful lives, such as goodwill, are not subject to amortization and are annually tested for impairment. Assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized at the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use. For impairment testing purposes, assets are grouped at their lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGUs). Non-financial assets, except goodwill, that are considered impaired are subsequently reviewed for possible reversal of the impairment at the reporting date.

**(l) Employee benefits**

**i. Employee benefits**

**Defined contribution plans**

A defined contribution plan is as a post-employment benefit plan whereby an entity pays fixed contributions to a separate entity (pension fund) and will not have any legal or constructive obligation to pay additional

amounts. Obligations for contributions to defined contribution pension plans are recognized as employee benefit expenses in the income statement for the periods during which services are provided by employees. Contributions paid in advance are recognized as an asset on condition that either cash reimbursement or reduction in future payments is available. Contributions to a defined contribution plan that is expected to mature twelve (12) months after the end of the period in which the employee provides services are discounted to their present values.

### **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation regarding defined pension benefit plans is calculated individually for each plan by estimating the value of the future benefit that the employees accrue as return for services provided in the current period and in prior periods; such benefit is discounted to its present value. Any unrecognized costs of past services and the fair values of any plan assets are deducted. The discount rate is the yield presented at the end of the reporting period for top line debt securities whose maturity dates approximate the terms and conditions of the Company's obligations and which are denominated in the same currency as the one in which it is expected that the benefits will be paid. The calculation is made annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit for the Company, the asset to be recognized is limited to the total amount of any unrecognized costs of past services and the present value of the economic benefits available in the form of future plan reimbursements or reduction in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any Company plan. An economic benefit is available to the Company if it is realizable during the life of the plan or upon settlement of the plan's liabilities.

The Company and some of its subsidiaries offered a postretirement healthcare benefit to its employees. The right to these benefits is usually contingent to their remaining in employment until the retirement age and the completion of the minimum length of service. The expected costs of these benefits are accumulated during the employment period, and were calculated using the same accounting method used for defined benefit pension plans. These obligations are annually evaluated by qualified independent actuaries.

When the benefits of a plan are increased, the portion of the increased benefit related to past services of employees is recognized on a straight-line basis over the average period until the benefits become vested. When the benefits become immediately vested, the expense is recognized in profit or loss.

The Company has chosen to recognize all the actuarial gains and losses resulting from defined benefit plans immediately in other comprehensive income, and subsequently are transferred to retained earnings. They are recorded in the income statement only if the plan is extinguished.

## **ii. Profit sharing and bonus**

Employee profit sharing and executives' variable compensation are linked to the achievement of operating and financial targets. The Company recognizes a liability and an expense substantially allocated to production cost and, where applicable, to general and administrative expenses when such goals are met.

## **(m) Provisions**

Provisions are recognized when: (i) the Company has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle a present obligation, and (iii) the amount can be reliably measured. Provisions are determined discounting the expected future cash flows based on a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the specific risks of the liability.

## **(n) Concessions**

The Company has government concessions and their payments are classified as operating leases.

## **(o) Share capital**

Common shares are classified in shareholders' equity.

Incremental costs directly attributable to the issue of new shares or options are shown in shareholders' equity as a deduction from the proceeds, net of taxes.

When any Group company buys Company shares (treasury shares), the amount paid, including any directly attributable additional costs (net of income tax), is deducted from shareholders' equity attributable to owners of the Company until the shares are canceled or reissued. When these shares are subsequently reissued, any amount received, net of any directly attributable additional transaction costs and the related income tax and social contribution effects, is included in shareholders' equity attributable to owners of the Company.

**(p) Revenue recognition**

Operating revenue from the sale of goods in the normal course of business is measured at the fair value of the consideration received or receivable. Revenue is recognized when there is convincing evidence that the most significant risks and rewards of ownership of goods have been transferred to the buyer, it is probable that future economic benefits will flow to the entity, the associated costs and possible return of goods can be reliably estimated, there is no continued involvement with the goods sold, and the amount of the operating revenue can be reliably measured. If it is probable that discounts will be granted and the value thereof can be reliably measured, then the discount is recognized as a reduction of the operating revenue as sales are recognized. Revenue from services provided is recognized as it is realized.

The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the incoterms of the contract.

**(q) Finance income and finance costs**

Finance income includes interest income from funds invested (including available-for-sale financial assets), dividend income (except for dividends received from investees accounted for under the equity method in Company), gains on disposal of available-for-sale financial assets, changes in the fair value of financial assets measured at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized in profit or loss under the effective interest method. Dividend income is recognized in profit or loss when the Company's right to receive payment has been established. Distributions received from investees accounted for under the equity method reduce the investment value.

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Finance costs comprise interest expenses on borrowings, net of the discount to present value of the provisions, dividends on preferred shares classified as liabilities, losses in the fair value of financial instruments measured at fair value through profit or loss, impairment losses recognized in financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are measured through profit or loss under the effective interest method.

Foreign exchange gains and losses are reported on a net basis.

**(r) Income tax and social contribution**

Current and deferred income tax and social contribution are calculated based on the tax laws enacted or substantially enacted by the end of the reporting period, including in the countries where the Group entities operate and generate taxable profit. Management periodically assesses the positions assumed in the tax calculations with respect to situations where applicable tax regulations are open to interpretations. The Company recognizes provisions, when appropriate, based on the estimated payments to tax authorities.

The income tax and social contribution expense comprises current and deferred taxes. The current and deferred taxes are recognized in profit or loss unless they are related to business combinations or items recognized directly in shareholders' equity.

Current tax is the expected tax payable or receivable on taxable profit or loss for the year at tax rates that have been enacted or substantially enacted by the end of the reporting period and any adjustment to taxes payable in relation to prior years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is not recognized for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination and does not affect either the accounting or taxable profit or loss, and differences associated with investments in subsidiaries and controlled entities when it is probable that they will not reverse in the foreseeable future. Moreover, a deferred tax liability is not recognized for taxable temporary differences resulting in the initial recognition of goodwill. The deferred tax is measured at the rates that are expected to be applied on temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the end of the reporting period.

Current income tax and social contribution are carried at their net amounts by the taxpayer, in liabilities when there are amounts payable or in assets when prepaid amounts exceed the total amount due at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same entity subject to taxation.

A deferred income tax and social contribution asset is recognized for all tax losses, tax credits, and deductible temporary differences to the extent that it is probable that taxable profits will be available against which those tax losses, tax credits, and deductible temporary differences can be utilized.

Deferred income tax and social contribution assets are reviewed at the end of each reporting period and reduced to the extent that their realization is no longer probable.

**(s) Earnings/(loss) per share**

Basic earnings/loss per share are calculated by means of the profit/loss for the year attributable to owners of the Company and the weighted average number of common shares outstanding in the related period. Diluted earnings/loss per share are calculated by means of the average number of shares outstanding, adjusted by instruments potentially convertible into shares, with diluting effect, in the reported periods. The Company does not have any instruments potentially convertible into shares and, accordingly, diluted earnings/loss per share are equal to basic earnings/loss per share.

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**(t) Environmental and restoration costs**

The Company recognizes a provision for the costs of recovery of areas and fines when a loss is probable and the amounts of the related costs can be reliably measured. Generally, the period for providing for the amount to be used in recovery coincides with the end of a feasibility study or the commitment to adopt a formal action plan.

Expenses related to compliance with environmental regulations are charged to profit or loss or capitalized, as appropriate. Capitalization is considered appropriate when the expenses refer to items that will continue to benefit the Company and that are basically related to the acquisition and installation of equipment to control and/or prevent pollution.

**(u) Research and development**

All these costs are recognized in the income statement when incurred, except when they meet the criteria for capitalization. Research and development expenditures recognized as expense for the year ended December 31, 2012, amounted to R\$ 6,033 (R\$ 6,532 as December 31, 2011).

**(v) Financial instruments**

**i) Financial assets**

Financial assets are classified into the following categories: measured at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

- **Financial assets measured at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for active and frequent trading. Derivatives are also categorized as held for trading and, accordingly, are classified in this category unless they have been designed as cash flow hedging instruments. Assets in this category are classified in current assets.

- **Loans and receivables**

This category includes loans and receivables that are non-derivative financial assets with fixed or determinable payments not quoted in an active market. They are included in current assets, except those with maturity of more than 12 months after the end of the reporting period (which are classified as non-current assets). Loans and receivables include loans to associates, trade receivables and cash and cash equivalents, except short-term investments. Cash and cash equivalents are recognized at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

- **Held-to-maturity assets**

These are basically financial assets acquired with the positive intent and ability to hold to maturity. Held-to-maturity investments are initially recognized at their value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment loss.

- **Available-for-sale financial assets**

These are non-derivative financial assets, designated as available-for-sale, that are not classified in any other category. They are included in non-current assets when they are strategic investments of the Company, unless Management intends to dispose of the investment within up to 12 months from the end of the reporting period. Available-for-sale financial assets are recognized at fair value.

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- **Recognition and measurement**

Regular purchases and sales of financial assets are recognized at the trading date - the date on which the Company undertakes to buy or sell the asset. Investments are initially recognized at their fair value, plus transaction costs for all financial assets not classified as at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at their fair value and the transaction costs are charged to the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, in the latter case, provided that the Company has transferred significantly all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses resulting from changes in the fair value of financial assets at fair value through profit or loss are presented in the income statement under "finance income" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other finance income when the Company's right to receive the dividends has been established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are segregated into translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Exchange differences on monetary securities are recognized in profit or loss, while exchange differences on non-monetary securities are recognized in shareholders' equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income and are only recognized in profit or loss when the investment is sold or written off as a loss.

Interest on available-for-sale securities, calculated under the effective interest method, is recognized in the income statement as part of other income. Dividends from available-for-sale equity instruments, such as shares, are recognized in the income statement as part of other finance income when the Company's right to receive payments has been established.

The fair values of publicly quoted investments are based on current purchase prices. If the market for a financial asset (and for instruments not listed on a stock exchange) is not active, the Company establishes the fair value by using valuation techniques. These techniques include the use of recent transactions contracted with third parties, reference to other instruments that are substantially similar, analysis of discounted cash flows, and pricing models that make maximum use of market inputs and relies as little as possible on entity-specific inputs.

ii)