

equivalent of the *real* price of the common shares on the São Paulo Stock Exchange (*Bolsa de Valores do Estado de São Paulo*), or BOVESPA.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

Risks Relating to Brazil

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

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

- interest rates;
- exchange controls and restrictions on remittances abroad;
- currency fluctuations;
- inflation;
- price instability;
- energy shortages and rationing programs;
- liquidity of domestic capital and lending markets;
- tax policies and rules; and
- other political, social and economic developments in or affecting Brazil.

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

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

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

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

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

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

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

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

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

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

In the event the *real* depreciates in relation to the U.S. dollar, the cost in *reais* of our foreign currency-denominated borrowings and imports of raw materials, particularly coal and coke, will increase. To the extent that we do not succeed in promptly reinvesting the funds received from such borrowings in dollar-denominated assets, we are exposed to a mismatch between our foreign currency-denominated expenses and revenues. On the other hand, if the appreciation trend of the past few years continues, it will cause *real*-denominated production costs to increase as a percentage of total production costs.

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

The market value of securities of Brazilian issuers is affected to varying degrees by economic and market conditions in other countries, including the United States, other Latin American and emerging market countries.

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

Risks Relating to the Steel Industry and CSN

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

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

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

The steel industry is highly competitive with respect to price. Over the last decade, the world steel industry was adversely affected by excess worldwide production capacity, reflecting the decreasing demand for steel in Western industrial countries and significant increases in steel production capacity in countries outside the Organization for Economic Development, or OECD. Further, continuous advances in materials sciences and resulting technologies have given rise to improvements in products such as plastics, aluminum, ceramics and glass that permit them to substitute the steel. Due to high start-up costs, the economics of operating a steelworks facility on a continuous basis may encourage mill operators to maintain high levels of output, even in times of low demand, which increases the pressure on industry profit margins. In addition, downward pressure on steel prices by our competitors may affect our profitability.

The steel industry is also highly competitive with respect to product quality and customer service, as well as technological advances that would allow a steel manufacturer to lower its costs of production. In addition, most markets are served by several suppliers, often from different countries. Competition from foreign steel producers is strong and may increase due to increases in foreign steel installed capacity, appreciation of the *real* against the U.S. dollar and the reduction of domestic steel demand in other markets.

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

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

In response to the increased production and export of steel by many countries, anti-dumping, countervailing duties and safeguard measures were imposed in the late 1990s and early 2000s by foreign governments which

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to a Routine SEC Review

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

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

Risks Relating to our Common Shares and ADSs

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

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

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

Holder of ADSs may only exercise their voting rights with respect to the underlying common shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, ADS holders must vote by giving voting instructions to the depository. Upon receipt of the voting instructions of the ADS holder, the depository will vote the underlying common shares in accordance with these instructions. Otherwise, ADS holders will not be able to exercise their right to vote unless they surrender the ADS for cancellation in exchange for the common shares. Pursuant to our bylaws, the first call for a shareholders’ meeting must be published at least 15 days in advance of the meeting, the second call must be published at least eight days in advance of the meeting. When a shareholders’ meeting is convened, holders of ADSs may not receive sufficient advance notice to surrender the ADS in exchange for the underlying common shares to allow them to vote with respect to any specific matter. If we ask