

Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets since mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008, reaching R\$2.34 per US\$1.00 on December 31, 2008. On April 30, 2009, the exchange rate was R\$2.18 per US\$1.00. The Central Bank has intervened occasionally to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

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

	Low	High	Average (1)	Period-end
<b>Year ended</b>				
December 31, 2004	2.654	3.205	2.917	2.654
December 31, 2005	2.163	2.762	2.413	2.341
December 31, 2006	2.059	2.371	2.177	2.138
December 31, 2007	1.733	2.156	1.948	1.771
December 31, 2008	1.559	2.500	1.837	2.337
	Low	High	Average	Period-end
<b>Month ended</b>				
December 31, 2008	2.337	2.500	2.394	2.337
January 31, 2009	2.189	2.380	2.307	2.136
February 28, 2009	2.245	2.392	2.313	2.378
March 31, 2009	2.238	2.422	2.314	2.315
April 30, 2009	2.170	2.290	2.206	2.178
May 31, 2009	1.973	2.148	2.061	1.973

Source: Central Bank.

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

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

### 3B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### 3D. Risk Factors

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

## Risks Relating to Brazil

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

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

- interest rates;
- exchange controls and restrictions on remittances abroad;
- 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.

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

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets since mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008 and reached R\$2.337 per US\$1.00 at year end. On June 26, 2009, the exchange rate was R\$1.940 per US\$1.00.

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

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

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

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

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

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

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

The global financial crisis has had significant consequences, including in Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general slowdown of the world economy, volatile exchange rates, and inflationary pressure, among others, which have and may continue to, directly or indirectly, materially and adversely affect our operating results, financial position and the price of our common shares and/or ADSs.

#### **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 products.***

The steel industry is highly cyclical, both in Brazil and abroad. Until 2007, the Brazilian steel industry produced more steel than the domestic economy was able to consume, and was therefore dependent on export markets. In 2007 and until the third quarter of 2008, there was a significant increase in the demand for steel in the domestic market, which reduced our dependency on export markets and increased domestic prices. The demand for steel products and, thus, the financial condition and results of operations of companies in the steel industry, including us, are generally affected by macroeconomic fluctuations in the world economy and the economies of steel-producing countries, including trends in the automotive, construction, home appliances, packaging and distribution industries. In recent years, the price of steel in world markets has been at historically high levels, but in 2009 these prices have been decreasing as a result of lower domestic demand and the effects of the 2008 worldwide financial crisis. Any material decrease in the demand for steel in domestic or export markets served by us could have a material adverse effect on us.

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

In 2008, raw material costs accounted for approximately 56.9% of total production costs. Our principal raw materials include iron ore, coal, coke (a portion of which we produce from coal), limestone, dolomite, manganese, zinc, tin and aluminum. We depend on third parties for some of our raw material requirements. In addition, we import all of the coal required to produce coke and approximately 21.7% of our coke requirements.

In 2008, there was a steep rise in the cost of a number of commodities essential for steelmaking, specifically coking coal and metallurgical coke. Global developments, particularly the dramatic increase in Chinese and Indian demand for raw materials used in steel manufacturing, may cause severe shortages and/or substantial price increases in key raw materials and ocean transportation capacity. Our inability to pass those cost increases on to our customers or to meet our customers' demands because of non-availability of key raw materials may cause a material adverse effect on us.

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

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

The steel industry is highly competitive with respect to price. In the 1990s, 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 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. Over the last two years, China has become one of the main international steel exporters. If we are unable to remain competitive with China or other producers in the future, we may be materially and adversely affected.

***Protectionist and other measures adopted by foreign government 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 representing the main markets for our exports. Foreign countries continue to impose restrictions on the exports to certain countries, such as the restrictions on exports of hot-rolled products from Brazil to the United States, Canada and Argentina and the restrictions on exports of certain chemical substances contained in the steel products exported to the European Union, effective as of January 2009. The imposition of these and other protectionist measures by foreign countries may materially and adversely affect our export sales.

On the other hand, in response to steel imports to Brazil at subsidized prices, the Brazilian government has recently imposed certain import tariffs in order to protect the domestic steel industry. If the Brazilian government were to remove these protection measures, or fail to act against cheap or subsidized steel imports, we could be adversely affected.

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

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

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

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

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

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

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

**The global recession could lead to a significant reduction in our revenues, cash flow and profitability.**

The global economy, in particular global industrial production, is the primary driver of demand for minerals and metals. Global industrial production has shown a downward trend since the second half of 2008, resulting in a significant and widespread contraction in demand for minerals and metals.

There is uncertainty about the depth and duration of the current global economic downturn and its continuing impact on the demand for minerals and metals, which could have a negative impact on our cash generation and profitability.

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

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

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

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

We currently operate parts of our business through joint-ventures with other companies. We have established a joint-venture with an Asian consortium at our subsidiary 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 project with the Brazilian government at Transnordestina Logística S.A., or Transnordestina, to explore railway transportation in the Northeastern region of Brazil; and a joint-venture with Tractebel at Itá Energética S.A., or ITASA, to produce electricity.

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

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

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

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

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

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

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

We are involved in numerous legal and administrative proceedings, including tax, labor and civil disputes. While, as of December 31, 2008, we had recorded provisions for some of these proceedings in a total amount of US\$1,687 million and deposited a total amount of US\$893 million in court escrow accounts, it is not possible to predict either the outcome of these proceedings or the potential liability we may face due to unfavorable rulings in them. 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 materially adversely affected. In addition, even if sufficient provisions have been recorded, our liquidity may be materially and adversely affected.

***Our activities depend on authorizations from regulatory agencies, and changes in regulations could materially and 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. The loss of any such authorization or changes in the regulatory framework we operate in may materially and adversely affect us.

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

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

***We are exposed to devaluation of our shares as result of certain equity swap agreements.***

In 2003, we entered into certain equity swap agreements referenced to our common 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. In 2008, these agreements were assigned to Goldman Sachs International. Our current equity swap agreement with Goldman Sachs International will expire on September 10, 2009, unless it is renewed by us. 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 rate of USD three-month London Interbank Offered Rate, or Libor, plus 0.75% 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 have yielded higher long-term returns than fixed-income securities, hence tending to offset CSN's long-term debt servicing costs. From September 5 to December 31, 2008, we recorded a loss in connection with these equity swap agreements in the amount of US\$685 million, which was partially offset by a gain of US\$155 million recorded in connection with an equity swap that expired on September 5, 2008, for a total loss of US\$530 million. However, in the event of a decrease in the trading price of our shares and ADRs, the amount payable by us under these swap agreements may be significant and materially and adversely affect us.

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

We are the principal sponsor of Caixa Beneficente dos Empregados da CSN, or CBS, our employee pension plan. As of December 31, 2008, CBS had invested a portion of its portfolio in our common shares and held 4.47% of our capital stock. As a result, the ability of CBS to honor its pension obligations is subject to fluctuations in the fair value of CBS's assets, including fluctuations in the trading price of our common shares.

As of December 31, 2008, CBS had a deficit of plan assets over pension benefit obligations of US\$83.8 million. The unfunded status of CBS is affected by, among other things, fluctuations in the fair value of CBS's assets, which totaled US\$524.7 million as of December 31, 2008, while CBS' accumulated obligations and projected benefit obligations as of December 31, 2008 were US\$608.5 million.

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

#### **Risks Relating to 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. See "Item 4A. Unresolved Staff Comments" for further information.

#### **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 our 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 our common shares or upon the disposition of our 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, our common shares unless they obtain their own electronic certificate of registration or register their investment in our common shares pursuant to Resolution No. 2,689, which entitles certain foreign investors to buy and sell securities on the BOVESPA. Holders who do not qualify under Resolution No. 2,689 will generally be subject to less favorable tax treatment on gains with respect to our 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 our 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 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 our common shares. Pursuant to our bylaws, the first call for a shareholders' meeting must be published at least 15 days in advance of the meeting, the second call must be published at least eight days in advance of the meeting. When a shareholders' meeting is convened, holders of ADSs may not receive sufficient advance notice to surrender the ADS in exchange for the underlying common shares to allow them to vote with respect to any specific matter. If we ask for voting instructions, the 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 the shares. 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. 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 the ability of holders of our common shares or ADSs to sell the common shares underlying the ADSs at the price and time they desire.***

Investing in securities, such as the common shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries. Investments in emerging markets are generally considered to be more speculative in nature, and are subject to certain economic and political risks, such as changes in the regulatory, tax, economic and political environment that may affect your ability to receive the total or a partial return on your investment.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit the ability of holders of our common shares or ADSs to sell our common shares or the ADSs at the price and time desired. There is also significantly greater concentration in the Brazilian securities markets than in major securities markets in the United States. See "Item 9C. Markets—Trading on the BOVESPA."

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

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

Holders of ADSs may not be able to exercise the preemptive rights relating to the common shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not required to file a registration statement with respect to the shares or other securities relating to these preemptive rights and we cannot assure holders of our ADSs that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our ADSs may receive only the net proceeds from the sale of their preemptive rights by the depository or, if the preemptive rights cannot be sold, the rights will be allowed to lapse.

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

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