

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
Amendment No. 1

(Mark One)

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

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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Yes No

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

Item 17 Item 18

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EXPLANATORY NOTE

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

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

Item 18. Financial Statements

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

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

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SIGNATURE

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

June 27, 2003

Companhia Siderúrgica Nacional

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By: /s/ Claudia de Azerêdo Santos

Name: Claudia de Azerêdo Santos

Title: General Counsel

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CERTIFICATIONS

I, Benjamin Steinbruch, certify that:

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

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

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

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

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

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

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

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

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

Signature: /s/ Benjamin Steinbruch

Name: Benjamin Steinbruch

Title: Chief Executive Officer and
Acting Chief Financial Officer

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Companhia Siderúrgica Nacional

Consolidated Financial Statements

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

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INDEPENDENT AUDITORS REPORT

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

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

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

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

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

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

Rio de Janeiro, Brazil,

/s/ Deloitte Touche Tohmatsu
May 15, 2003

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Companhia Siderurgica Nacional

Consolidated Balance Sheets

Expressed in millions of United States dollars, except share data

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

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

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

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

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

Consolidated Statements of Income

Expressed in millions of United States dollars, except share data

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

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

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

Consolidated Statements of Cash Flows

Expressed in millions of United States dollars

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

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

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

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

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

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

Consolidated Statements of Changes in Stockholders Equity

Expressed in millions of United States dollars

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

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

Balance, end of year	(1,807)	(1,978)	(1,912)
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Unrealized gain (loss) on available-for-sale security

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

Balance, end of year	(16)	-	-
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The accompanying notes are an integral part of these consolidated financial statements.

Years ended December 31,

	2000	2001	2002
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**(As Restated
See Note 22)**

Retained earnings (accumulated loss)

Appropriated

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

Transfer to unappropriated retained earnings

Balance, end of year	543	416	226
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Legal reserve

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

Balance, end of year	93	85	56
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Total balance, end of year	636	501	282
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Unappropriated

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

Balance, end of year	(112)	(277)	(363)
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Total retained earnings (accumulated loss)	524	224	(81)
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Total stockholders' equity	1,177	746	507
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Comprehensive income (loss)			
Net income (loss)	273	527	(162)
Translation adjustments for the year	(196)	(171)	66
Unrealized gain on available-for-sale security, net of income taxes	19	16	-
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Total comprehensive income (loss)	96	372	(96)
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The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

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

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

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

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

2 Summary of significant accounting policies

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

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

(a) Basis of presentation

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

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

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

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

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

(b) Basis of consolidation

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

(c) Inventories

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

(d) Investments in affiliated companies and other investments

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

Other investments are accounted for at cost.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest incurred during the construction period of major new facilities. Depreciation is computed on the straight-line basis at rates which take into consideration the useful lives of the related assets, as follows (average): buildings 25 years; equipment 15 years; furniture and fixtures 10 years; and vehicles 5 years.

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

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

(f) Recoverability of long lived assets

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

(g) Revenues and expenses

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

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

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

(h) Environmental and remediation costs

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

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

(i) Research and development

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

(j) Accrued pension cost

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

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

(k) Employee profit participation plan

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

(l) Compensated absences

Liability regarding employee compensation for vacation benefits is accrued.

(m) Income taxes

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

(n) Statements of cash flows

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

(o) Earnings per share

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

(p) Concentration of credit risk

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

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

(q) Comprehensive income (loss)

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

(r) Interest attributed to stockholders

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

(s) Segment information

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

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

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

3 Recently issued accounting pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 Business combinations

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

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

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

Acquisition of in process liability

2

Total purchase price

74

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

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

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

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

5 Income taxes

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

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

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

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

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

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

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

6 Cash and cash equivalents

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

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

7 Trade accounts receivable

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

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

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

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

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

8 Investments for sale

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

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

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

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

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

9 Inventories

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

10 Investments in affiliated companies and other investments

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

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

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

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

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

Valepar S.A.

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

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

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

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Itá Energética S.A.

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

GalvaSud S.A.

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

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

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

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

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

11 Property, plant and equipment

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

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

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

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

12 Loans and financing

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

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

(a) Short-term

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

(b) Long-term

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

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

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Denominated in foreign currency

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

Indices applied to debt in each year are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial restrictions

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

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

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

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

13 Stockholders equity

(a) Capital

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

(b) Appropriated retained earnings

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

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

(c) Dividends and interest on stockholders equity

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

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

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

14 Pension plan

(a) Description of the plans

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

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

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

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

(b) Defined contribution plan

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

(c) Defined benefit plan

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

(i) Change in benefit obligation

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

(ii) Change in plan assets

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

(iii) Accrued pension cost liability

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

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Accrued pension cost liability	273	179
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(iv) Periodic pension cost

Net periodic pension cost includes the following components:

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

Actuarial assumptions used for the calculations were:

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

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

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

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

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

15 Employee benefits

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

16 Commitments and contingencies

(a) Accruals and deposits

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

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

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

(i) Labor contingencies

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

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

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

(ii) Tax contingencies

(A) Social contribution and income tax

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

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

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

(C) CPMF - Provisional contribution on financial activities tax

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

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

(D) Other tax accruals

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

(iii) Other accruals

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

(b) Other commitments and contingencies

Anti-trust penalty

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

Environmental

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

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

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

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steelmaking units and limestone mining operations in December 2002.

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

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

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

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

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

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

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

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

17 Guarantees

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

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

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GalvaSud S.A. (1)	R\$	242	175	Guarantee for financing of equipment acquisition
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(1) All shares issued by GalvaSud S.A. owned by the Company are pledged in favor of Unibanco - União dos Bancos Brasileiros S.A. and Kreditanstalt Fur Wiederaufbau, guaranteeing financing contracts of GalvaSud.

Other commitments

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

18 Segment and geographical information

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

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

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

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

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

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

The eliminations column refers basically to intersegment operations.

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

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

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

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

Year ended December 31, 2001

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

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

19 Related parties

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

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resulted in the following balance sheet and income statement amounts.

Balances at December 31 relate to the following related parties:

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

(1) Refers to issuance of debentures.

(2) Trade accounts receivable.

(3) Steel products sales.

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

20 Derivatives

20.1 General description and accounting practices

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

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

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

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

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

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

20.2 Detailed transactions

a) Exchange rate options

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

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

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

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

b) Interest rate swap agreements - USD

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

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

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

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

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

c) Currency forward USD

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

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

d) Interest rate cap and floor agreements

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

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

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

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

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

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

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

21 Fair value of financial instruments, other than derivatives

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

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

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

Short and long-term debt, including

accrued finance charges	2,513	2,504	2,052	2,061
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Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

22 Restatement

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

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

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

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

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

Consolidated Statement of Income

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

(a) Sepetiba coal terminal

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

(b) Offerings

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

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

(c) CISA

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

(d) Tax Assessment

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

(e) Lusosider

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

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

In April 2003, the Company announced its intention:

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

(g) Payment of U.S. Commercial Paper

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

(h) Environmental fines

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

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

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REPORT OF INDEPENDENT ACCOUNTANTS

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

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

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

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes

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

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Consolidated Balance Sheets
Expressed in millions of United States dollars

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

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Consolidated Balance Sheets

Expressed in millions of United States dollars

(Continued)

As of December 31

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

See notes to consolidated financial statements

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

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

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

See notes to consolidated financial statements

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

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

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

See notes to consolidated financial statements

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

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

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

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Comprehensive income is comprised as follows:

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

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

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

The main operating subsidiaries we consolidate are as follows:

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

2 Summary of significant accounting policies

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

(a) Basis of presentation

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

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

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

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

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

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

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

(b) Basis of consolidation

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

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

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

(c) Business combinations

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

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

(d) Inventories

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

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

(e) Property, plant and equipment

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

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

the time we actually begin such development.

(f) Available-for-sale equity securities

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

(g) Revenues and expenses

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

(h) Environmental and site reclamation and restoration costs

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

(i) Compensated absences

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

(j) Income taxes

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

(k) Statement of cash flows

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

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

(l) Earnings per share

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

(m) Interest attributed to stockholders

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

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

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

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

(n) Accounting for derivatives and hedging activities

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

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

(o) Comprehensive income

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

3 Our privatization

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

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

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

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

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

4 Major acquisitions

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

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

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

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

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

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

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

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

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

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

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

5 Income taxes

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

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

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

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

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

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

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

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

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

6 Cash and cash equivalents

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

7 Accounts receivable

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

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

8 Inventories

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

9 Property, plant and equipment

a) Per business area:

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

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Logistics

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

Holdings

Pulp and paper	175	26	149	191	33	158
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Corporate Center

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

Total	6,778	2,823	3,955	6,931	2,988	3,943
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b) Per type of assets:

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

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

10 Investments

As of December 31

	2000 Investments		Equity Adjustments		
	Participation in capital (%)	(1)Net equity (loss)	2000	1999	2000 1999 1998
					for the

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

(1) Based on US GAAP financial statements.

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

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

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

(5) Development stage enterprises.

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

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

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

Goodwill included in the above investments is as follows:

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

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

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

Steel sector affiliates (Combined)

Year ended December 31

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

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

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

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

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

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

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

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

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

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Provision at December 31, 2000	(215)	(185)	-	(6)	-	(15)	-	(421)
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Our participation in ALUNORTE (49.29% at December 31, 2000) changed several times during the periods presented, but we did not consolidate the financial statements of this investee due to the temporary nature of our increased holding. Movements on the investment account and related provision during 1999 and 2000 are as follows:

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

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

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

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

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

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

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

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

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

11 Short-term debt

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

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

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

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12 Long-term debt

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

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

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

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

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

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

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

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

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

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

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

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

13 Stockholders' equity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14 Pension plan

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

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

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

(a) Change in benefit obligation

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

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

(b) Change in plan assets

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

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

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

(c) Accrued pension cost liability

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

(d) Recognition of additional minimum liability

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

(e) Assumptions used in each period

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

Net pension cost includes the following components:

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

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

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

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

15 Commitments and contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 Segment and geographical information

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

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

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

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

Holdings divided into the following sub-groups:

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

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

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

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

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

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

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

Sales classified by geographic destination:
Export market

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

1999

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

Sales classified by geographic destination:

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

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

1998

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

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

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

17 Related party transactions

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

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

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Long-term	720	201	621	160
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(1) Includes onlending outstanding balance of \$204 (1999 - \$204), with identical conditions and terms, of a \$200 U.S. dollar denominated loan obtained by us from the Nippon Amazon Aluminium Company (NAAC) in January 1997 (bearing interest of 6.41% p.a. and maturing up to 2011).

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

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

(4) Represents interest bearing deposits and investment funds.

These balances are included in the following balance sheet classifications:

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

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

Year ended December 31

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

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

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

18 Fair value of financial instruments

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

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

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

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

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

19 Derivative financial instruments

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

(a) Gold

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

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

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

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

(b) Interest rates (6-month Libor)

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

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

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

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

(c) Currency

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

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

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

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

20 Effects of currency devaluation

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

21 Accounting changes

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

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

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

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

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

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

The impact of the above alterations is shown below:

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

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

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

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22 Subsequent events

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

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

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

23 Information about independent accountants

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

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

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

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

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

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

(1) Audited by PricewaterhouseCoopers in 1998.

(2) Audited by PricewaterhouseCoopers in 1999 and 1998.

(3) Consolidated as from 2000.