FINANCIAL STATEMENTS 2003

- Corporate Legislation (Brazilian GAAP) in R$

(free translation of the original in Portuguese)

BALANCE SHEET AT DECEMBER 31

IN THOUSANDS OF REAIS

Assets	Parent company 2003	Parent company 2002	Consolidated 2003	Consolidated 2002
Current assets				
Cash and banks	40,597	63,383	417,753	439,697
Trade accounts receivable	440,694	470,302	340,744	284,325
Advances to suppliers	8,878	9,637	8,878	9,637
Inventories	377,868	331,755	377,939	332,438
Deferred income tax and social contribution	175,143	156,702	175,321	156,883
Other taxes and contributions recoverable	171,612	164,487	171,614	164,489
Other	27,843	48,338	28,219	46,018
	1,242,635	1,244,604	1,520,468	1,433,487
Long-term receivables				
Deferred income tax and social contribution	44,191	131,696	44,342	131,847
Other taxes and contributions recoverable	31,760	180,052	31,760	180,052
Judicial deposits	38,269	36,262	38,269	36,262
Receivables from subsidiary		14,451		
Other	19,823	16,139	19,932	16,247
	134,043	378,600	134,303	364,408
Permanent assets				
Investments	531,584	256,104	138,631	76,799
Property, plant and equipment	7,791,127	5,628,924	7,791,127	5,628,924
Deferred charges	9,711	11,554	9,711	11,554
	8,332,422	5,896,582	7,939,469	5,717,277
Total assets	9,709,100	7,519,786	9,594,240	7,515,172

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

Liabilities and shareholders' equity	Parent company 2003	Parent company 2002	Consolidated 2003	Consolidated 2002
Current liabilities				
Suppliers	108,780	66,699	107,734	63,462
Short-term financing	413,370	1,007,507	413,370	1,007,507
Current portion of long-term financing	390,481	559,817	388,875	559,861
Deferred income tax and social contribution	90,467	38,090	90,467	38,279
Other taxes and contributions	35,250	18,045	35,528	18,113
Provisions and labor charges	37,144	29,984	37,144	29,984
Provision for contingencies	1,113	12,126	1,113	12,126
Advances from customers – subsidiary	112,679			
Interest on own capital and dividends	153,511	93,376	153,511	93,376
Profit sharing	33,587	33,151	33,587	33,151
Other	54,364	22,339	54,557	22,554
	1,430,746	1,881,134	1,315,886	1,878,413
Long-term liabilities				
Long-term financing	1,439,852	1,476,074	1,439,852	1,474,181
Provision for contingencies	114,304	58,961	114,304	58,961
Deferred income tax and social contribution	1,075,776	434,019	1,075,776	434,019
Accrued pension cost liability	711	4,065	711	4,065
Other	1,029	495	1,029	495
	2,631,672	1,973,614	2,631,672	1,971,721
Shareholders' equity				
Capital	2,782,106	2,782,106	2,782,106	2,782,106
Capital reserves	137,568	4	137,568	4
Revaluation reserve	2,114,450	763,842	2,114,450	763,842
Revenue reserves	612,558	119,086	612,558	119,086
	5,646,682	3,665,038	5,646,682	3,665,038
Total liabilities and shareholders' equity	9,709,100	7,519,786	9,594,240	7,515,172

STATEMENT OF OPERATIONS YEARS ENDED DECEMBER 31

IN THOUSANDS OF REAIS

	Parent company		Consolidated	
	2003	2002	2003	2002
Gross sales and services revenues				
Sales				
Export	2,750,870	2,637,010	3,035,563	2,820,985
Domestic	1,111,887	163,607	1,111,887	163,607
Services	13,538	13,568	13,894	13,568
	3,876,295	2,814,185	4,161,344	2,998,160
Deductions				
Taxes and contributions on sales and Services	(229,379)	(33,259)	(229,523)	(33,259)
Freight, discounts and returns	(196,906)	(119,848)	(202,404)	(123,971)
	(426,285)	(153,107)	(431,927)	(157,230)
Net sales and services revenues	3,450,010	2,661,078	3,729,417	2,840,930
Cost of sales and services	(2,447,096)	(1,963,901)	(2,447,405)	(1,963,649)
Gross profit	1,002,914	697,177	1,282,012	877,281
Operating income (expenses)				
Selling	(86,398)	(75,319)	(87,959)	(79,879)
Administrative and general	(102,513)	(85,842)	(117,898)	(88,125)
Management remuneration	(3,400)	(2,670)	(3,400)	(2,670)
Financial results	184,570	(590,904)	133,225	(585,539)
Equity in the results of subsidiaries and associated company	208,824	179,025	(4,824)	
Other, net	(47,697)	12,816	(44,856)	13,376
Operating profit	1,156,300	134,283	1,156,300	134,444
Non-operating result	186	1,606	186	1,606
Carried forward	1,156,486	135,889	1,156,486	136,050

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

	Parent company		Consolidated	
	2003	**2002**	**2003**	**2002**
Income before income tax, social contribution and profit sharing (brought forward)	1,156,486	135,889	1,156,486	136,050
Income tax	(142,599)	31,135	(142,599)	31,023
Social contribution	(53,029)	8,355	(53,029)	8,306
	(195,628)	39,490	(195,628)	39,329
Income before profit sharing	960,858	175,379	960,858	175,379
Profit sharing	(50,610)	(38,723)	(50,610)	(38,723)
Net income for the year	910,248	136,656	910,248	136,656
Net income per thousand shares of paid-up capital				
Preferred - R$	18.74	2.83		
Common - R$	17.04	2.57		

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31

IN THOUSANDS OF REAIS

At January 1, 2002	
Reversal of dividends	
Increase of social contribution rate (Note 7(b))	
ICMS fiscal incentives	
Realization of reserve	
Sale of treasury shares under the stock option plan (Note 15(c))	
Net income for the year	
Appropriation of net income and reserves	
Constitution of reserves	
Interest on own capital	
Dividends	
At December 31, 2002	

At January 1, 2003	
Fiscal incentive- ADENE (Note 7 (c))	
Realization of reserve	
Sale of treasury shares under the stock option plan (Note 15 (c))	
Sale of treasury shares (Note 14 (e))	
Revaluation of property, plant and Equipment - (Note 10(c))	
Deferred income tax and social contribution on revaluation - (Note 10(c))	
Net income for the year	
Appropriation of net income	
Constitution of reserves	
Interest on own capital	
Dividends	
At December 31, 2003	

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

Capital	Capital reserve	Revaluation reserve	Revenue reserves: Legal	Revenue reserves: For investments and working capital	Revenue reserves: Treasury shares	Retained earnings	Total
2,782,106	2	844,126	7,762	66,803	(17,818)		3,682,981
						31	31
		(13,406)					(13,406)
	2						2
		(66,878)				66,878	
				(1,628)	4,977		3,349
						136,656	136,656
			6,833	100,327		(107,160)	
				(24,085)		(23,515)	(47,600)
				(24,085)		(72,890)	(96,975)
2,782,106	4	763,842	14,595	117,332	(12,841)		3,665,038

Capital	Capital reserves: Fiscal incentives	Capital reserves: Premium on sale of shares	Revaluation reserve	Revenue reserves: Legal	Revenue reserves: For investments and working capital	Revenue reserves: Treasury shares	Retained earnings	Total
2,782,106	4		763,842	14,595	117,332	(12,841)		3,665,038
	97,564							97,564
			(56,705)				56,705	
					(315)	777		462
		40,000				12,064		52,064
			2,132,293					2,132,293
			(724,980)					(724,980)
							910,248	910,248
				45,512	435,434		(480,946)	
							(336,087)	(336,087)
							(149,920)	(149,920)
2,782,106	97,568	40,000	2,114,450	60,107	552,451			5,646,682

STATEMENT OF CHANGES IN FINANCIAL POSITION YEARS ENDED DECEMBER 31

IN THOUSANDS OF REAIS

	Parent company		Consolidated	
	2003	2002	2003	2002
Financial resources were provided by				
Operations				
Net income for the year	910,248	136,656	910,248	136,656
Expenses (income) not affecting working capital				
Monetary variation and interest on long-term liabilities	(94,520)	225,292	(94,520)	228,767
Depreciation and amortization	352,413	344,411	352,413	344,411
Residual value of permanent asset disposals	150	18,206	150	18,206
Equity in the results of subsidiaries and associated company	(208,824)	(179,025)	4,824	
Deferred income tax and social contribution	49,593	(6,791)	49,593	(6,791)
Provision for contingencies	55,343	981	55,343	981
Pension plan liabilities	(3,354)	(11,888)	(3,354)	(11,888)
	1,061,049	527,842	1,274,697	710,342
Shareholders				
Reversal of dividends		31		31
Sale of treasury shares	52,526	3,349	52,526	3,349
	52,526	3,380	52,526	3,380
Third parties				
Fiscal incentive - ADENE	97,564		97,564	
Financing	404,635	230,844	404,635	230,844
Transfer from long-term receivables and permanent assets to current assets	150,202	125,387	135,752	125,350
	652,401	356,231	637,951	356,194
Total funds provided	1,765,976	887,453	1,965,174	1,069,916

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

	Parent company		Consolidated	
	2003	2002	2003	2002
Financial resources were used for				
Transfer from shareholders' equity and long-term liabilities to current liabilities	439,522	672,110	437,631	672,110
Permanent assets				
Investments	66,656	54,423	66,656	54,361
Property, plant and equipment	325,372	383,984	325,372	383,984
Deferred charges		80		80
Interest on own capital	336,087	47,600	336,087	47,600
Dividends	149,920	96,975	149,920	96,975
Total funds used	1,317,557	1,255,172	1,315,666	1,255,110
Increase (decrease) in working capital	448,419	(367,719)	649,508	(185,194)
Current assets				
At the end of the year	1,242,635	1,244,604	1,520,468	1,433,487
At the beginning of the year	1,244,604	837,900	1,433,487	832,610
	(1,969)	406,704	86,981	600,877
Current liabilities				
At the end of the year	1,430,746	1,881,134	1,315,886	1,878,413
At the beginning of the year	1,881,134	1,106,711	1,878,413	1,092,342
	(450,388)	774,423	(562,527)	786,071
Increase (decrease) in working capital	448,419	(367,719)	649,508	(185,194)

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2003 AND 2002

ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED

1 Operations

Companhia Siderúrgica de Tubarão, located in the State of Espírito Santo, Brazil, was established in 1974 and started production in 1983. It operates an integrated steel mill for the production and sale of iron and steel products, mainly semi-finished steel slabs for export.

The Company is strategically located and has an infrastructure that comprises a well-equipped road and railway network and a port complex, including the Port of Praia Mole. This structure contributes to the reduction of the Company's costs, such as those related to the delivery of raw materials and the shipment of production, as well as to other operating gains, such as those related to the use of gases from the production process to generate power necessary for production.

The Company's strategy, based on a continuous improvement of its operations, is to strengthen its profile as a producer of semi-finished goods, with a greater emphasis on special steels and focused on both the export and domestic markets.

Accordingly, the Company has been investing continuously in modern technology, and has increased its nominal production capacity from 3 to 4.7 million tons after the start-up of Blast Furnace II in 1998, which represented an investment of US$ 235 million (in historical values). Since 1998, the Company has carried out all the production of slabs through continuous casting, the equipment for which has required investments of approximately US$ 320 million (in historical values) and has resulted in gains in productivity and in the quality of the steel.

In September 2002, the Company started the production of the hot strip mill (LTQ), an investment of approximately US$ 400 million (in historical values), with production of hot rolled coil, a product of higher added value, mainly for the domestic market.

In addition, in 2001 the Company approved new investments to strengthen its infrastructure to launch another growth cycle, as these investment will improve the industrial processes and increase production capacity up to 5 million tons/year. Once the Company achieves full production capacity of the LTQ and reaps the benefits of its production optimization investment, the Company expects to allocate approximately 40% of the manufactured slabs to meet the LTQ requirements.
In April 2003, the Company's Board of Directors approved new investments to increase steel production capacity to 7.5 million tons/year as from 2006, in order to recover the production capacity which will be absorbed by the LTQ, and continue to satisfy the demand for steel as a preferred supplier in the international market. The project involves direct investments of approximately US$ 600 million, of which 70% should be financed by third party capital.

The Company has an investment of 25% in Vega do Sul S.A., a company located in the State of Santa Catarina, whose main activity is the production of galvanized and cold-rolled products. The project, which is led by the Arcelor group (also a shareholder of the Company), is expected to require total investments of approximately US$ 456 million, of which US$ 228 million from the shareholders (US$ 57 million from the Company, of which US$ 50 million has already been paid up by December 31, 2003). Vega do Sul started preliminary operations of its galvanization unit at the end of July 2003, in the final construction phase; however, all production units are only expected to be operational at close of the year. In this initial phase, it will not be operating at full capacity due to technical adjustments to the equipment in the rating up phase. Vega do Sul will absorb about 800 thousand tons/year of hot rolled coil which represents 40% of LTQ production of the Company.

2 Presentation of the Financial Statements

The financial statements were prepared in conformity with accounting practices adopted in Brazil and the rules and regulations of the Brazilian Securities Commission (CVM) and of the Institute of Independent Auditors of Brazil (IBRACON).

Supplemental information has been provided to enhance disclosures to the market, as follows:

- **Note 1** Statement of Cash Flows (IBRACON NPC 20);
- **Note 2** Statement of Added Value (CVM/SNC/SEP Circular 01/00);
- **Note 3** Social Accounts (based on the model of the Brazilian Institute of Social and Economic Analysis (IBASE);
- **Note 4** Reconciliation of Shareholders' Equity and Results for the years in conformity with the accounting practices adopted in Brazil, with International Financial Reporting Standards;
- **Note 5** Summarized balance sheet and results for the years, in constant currency (full monetary restatement).

3 Significant Accounting Policies

(a) Cash and banks

Financial investments are stated at cost plus accrued income. Financial investments in foreign currency are stated at the exchange rates at the balance sheet date.

(b) Trade accounts receivable

These are stated at realizable amounts and include, when applicable, a provision for doubtful accounts which is based on an analysis of the financial situation of each customer and of the guarantees received. The receivables in foreign currency are stated at the exchange rates at the balance sheet date.

(c) Inventories

Inventories are stated at the lower of average cost of purchase or monthly production, and replacement cost or net realizable amounts, except for imports in transit which are stated at the accumulated cost of each importation.

(d) Other current assets

These are stated at realizable amounts including accrued income and monetary indexation, when applicable.

(e) Deferred income tax and social contribution

Deferred income tax and social contribution credits arising from accumulated losses and temporary differences are recorded taking into consideration: (i) the analysis of expected future profits supported by budgets based on internal production and sales estimates and on the current macroeconomic and tax scenarios, prepared by management and approved by the Company's Board of Directors; (ii) the accumulated balances of taxes payable for income tax and social contribution; and (iii) the historical profitability of the Company.

(f) Investments

Investments in subsidiaries and affiliated company are recorded on the equity method of accounting. Other investments are recorded at cost of purchase.

(g) Property, plant and equipment

Property, plant and equipment , indexed for inflation through 1995, and take the following matters into consideration:

- interest and foreign exchange gains and losses on loans are capitalized during the construction of assets until full production capacity is reached;

- revaluation recorded in 1999 and updated in 2003 based on an appraisal report prepared by an independent professional appraiser; and

- d calculated on the unit-of-production method, considering estimates of the remaining useful lives of the assets and future production volumes, except for vehicles and shipping terminal which are depreciated on the straight-line method.

(h) Deferred charges

These are stated at cost plus price-level restatement up to 1995 and are amortized over a maximum period of ten years as from the time benefits start to be generated.

(i) Deferred income tax and social contribution liabilities

Deferred income tax and social contribution obligations arise from the revaluation reserve, accelerated depreciation from tax incentives and inflationary profit, as shown in Note 7(a).

(j) Actuarial liability

The Company records a provision to cover the actuarial obligations of the pension plan fund of which it is a sponsor, based on the report of an independent actuary, and recognizes the total actuarial gains and losses directly in the results of the year.

(l) Major refurbishments

The costs of major refurbishments are recognized when effectively incurred and are amortized over their estimated useful lives.

(m) Provision for contingencies

Provision for contingencies relating to labor, tax and civil claims filed at the administrative level and in judicial courts are recorded based on the opinion of legal advisors and the best estimates of management as to the probable outcome of the cases pending at the end of each year.

(n) Other liabilities

These are stated at known or estimated amounts, including accrued charges, monetary indexation and/or foreign exchange variations, when applicable.

Amounts payable in foreign currency are stated at the exchange rates ruling at the balance sheet date and those in local currency are indexed for inflation in accordance with the contractual indices.

(o) Appropriations of net income

The financial statements of the Company include appropriations of net income based on management's proposal, on the assumption that it will be approved at the Annual Shareholders' Meeting.

(p) Statement of operations

Sales revenues are recorded at the time title to the goods are transferred to the customers. Other revenues, and costs and expenses, are recorded on the accrual basis of accounting.

(q) Basis of consolidation

The consolidated financial statements include the financial statements of Companhia Siderúrgica de Tubarão, of its direct subsidiaries CST Comércio Exterior S.A. and CST Corporation B.V., and its indirect subsidiaries Skadden Consultadoria e Serviços Lda. and CST Overseas Ltd.

All intercompany investments, shareholders' equity accounts, current accounts and other asset and liability accounts, as well as the effects on the statement of operations of intercompany transactions, are eliminated on consolidation.

Vega do Sul S.A. was not consolidated since it is an associated company.

4 Cash and Banks

	Parent company		Consolidated	
	2003	**2002**	**2003**	**2002**
Cash and banks (*)	40,597	45,296	88,632	74,982
Short-term investments				
Indexed to Bank Deposit Certificates (CDB), with a Swap to U.S. dollars		18,087		18,087
In U.S. dollars (**)			329,121	346,628
	40,597	63,383	417,753	439,697

(*) Includes bank accounts abroad in the amount of R$ 30,289 (2002 - R$ 41,640) (consolidated - R$ 72,498 (2002 - R$ 70,657)) subject to the Securitization Program.
(**) Represented by deposits abroad in a mutual fixed income fund backed by US Treasury securities.

5 Trade Accounts Receivable

	Parent company		Consolidated	
	2003	**2002**	**2003**	**2002**
Export customers	341,020	419,414	241,070	233,437
Domestic customers	99,902	51,539	99,902	51,539
Allowance for doubtful accounts	(228)	(651)	(228)	(651)
	440,694	470,302	340,744	284,325

The Company exports through the use of letters of credit, thus reducing the risk of default on these sales. For domestic sales, which have considerably increased with the beginning of LTQ operations, the Company is monitoring the credits of all customers, and in 2003 no delays which justified measures such as the suspension of sales and/or judicial collection occurred.

ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED

6 Inventories

	2003	2002
Finished products		
Steel slabs	23,900	100,637
Coils	43,257	21,206
Raw materials	152,814	123,782
Warehouse	85,498	56,125
Imports in progress	42,258	3,860
Other (mainly sub-products)	30,141	26,145
Total parent company	377,868	331,755
Inventories at subsidiary – Raw materials	71	683
Total consolidated	377,939	332,438

7 Deferred Income Tax and Social Contribution

(a) Nature of deferred assets and liabilities balances

Assets - tax credits	**2003**	**2002**
Current assets		
Tax losses (i) and (ii)	154,338	131,530
Negative social contribution basis (i) and (ii)	20,285	20,925
Temporary differences (iii)	520	4,247
	175,143	156,702
Long-term receivables		
Tax losses (i) and (ii)		85,831
Negative social contribution basis (i) and (ii)	23,775	23,466
Temporary differences (iii)		
Provision for contingencies	17,920	18,668
Provision for actuarial deficit	242	1,382
Other	2,254	2,349
	44,191	131,696
Total tax credits	219,334	288,398
Liabilities – tax liabilities		
Current liabilities		
Revaluation reserve (ii)	(77,702)	(31,473)
Accelerated depreciation (ii)	(10,650)	(4,502)
Inflationary profit (ii)	(2,115)	(2,115)
	(90,467)	(38,090)
Long-term liabilities		
Revaluation reserve (ii)	(1,007,208)	(357,669)
Accelerated depreciation (ii)	(66,453)	(72,120)
Inflationary profit (ii)	(2,115)	(4,230)
	(1,075,776)	(434,019)
Total tax liabilities	(1,166,243)	(472,109)
Total deferred income tax and social contribution liabilities, net (parent company)	(946,909)	(183,711)
Tax credits in subsidiary	329	332
Tax liabilities in subsidiary		(189)
Total deferred income tax and social contribution liabilities, net (consolidated)	(946,580)	(183,568)

The deferred income tax and social contribution credits and liabilities arising from income tax and social contribution losses, and temporary differences, are recorded based principally on the following factors:

(i) The analysis of expected future profits supported by budgets prepared by management based on internal production and sales estimates and on the current macroeconomic, business and tax scenarios and approved by the Company's Board of Directors. These budgets show that the tax credits recorded relating to income tax and social contribution losses will be fully offset up to 2004 and 2005, respectively. The actual timing of the realization of these credits is dependent on the confirmation of the internal production and sales estimates and the continuation of the current macroeconomic/business and tax scenarios on which the budgets were based.

(ii) The Company has liabilities for deferred income tax and social contribution arising from the revaluation reserve recorded in 2003 (see Note 10 (c)), on accelerated depreciation through tax incentives (arising from the former BEFIEX program) and on inflationary profit, which amounts are in excess of the deferred tax credits recorded at December 31, 2003. The Company has been offsetting these liabilities against the credits, recording them in accordance with their expected realization and consequent classification between current and long-term.

(iii) The tax credits arising from temporary differences will be realized when the related taxable event occurs.

In the 4th quarter of 2003, the Company obtained the right to an income tax incentive, through ADENE fiscal incentive ((c) below). The tax benefit was retroactive to January 1, 2003, which reduced the need to use the Company's tax losses.

(b) Income tax and social contribution

Amounts recorded as the parent company's income tax and social contribution benefit (expense) are reconciled with the statutory rates as follows:

	Parent company	
	2003	**2002**
Income before income tax, social contribution and profit sharing	1,156,486	135,889
Income tax and social contribution expenses at statutory rates - 34 %	(393,205)	(46,202)
Reconciling items		
Equity in the results	71,000	60,868
Interest on own capital	114,270	16,184
Deductible profit sharing	16,508	12,541
Permanent differences	(4,201)	(3,901)
Income tax and social contribution benefit (charge)	(195,628)	39,490
Deferred income tax expense (benefit) recognized or offset in the books	38,218	(39,490)
Provision for income tax and social contribution – current	(157,410)	

The deferred assets and liabilities related to the social contribution introduced by Law 7689, of December 15, 1998, arising from losses and temporary differences, were recorded at the rate of 9% based on the changes introduced by Law 10637/02.

(c) Fiscal incentive - ADENE

In 2003, the Company requested and was granted the right to a reduction of corporate income tax (IRPJ) and non-recoverable surcharges on its operating profits. This incentive is available to the Company since it is located in the area covered by the Agency for Northeast Development (ADENE) and the steel and energy sectors are priority ventures for the regional development as set forth in Decree 4213/2002.

The benefit was granted through constitutive reports numbers 0103/2003, 0104/2003 and 0105/2003, issued by the Ministry of National Integration on March 31, 2003 and later ratified by the Federal Revenue Secretariat on July 31, 2003, providing the Company with the following tax benefits:

(i) 75% reduction of income tax and non-recoverable surcharges on the profits from the production of steel slabs, limited to 5,000,000 t/year, as from 2002 up to 2011;

(ii) 75% reduction of income tax and non-recoverable surcharges on the profits from the production of steel coils, limited to 2,000,000 t/year, as from 2004 up to 2013; and

(iii) 75% reduction of income tax and non-recoverable surcharges on the profits from energy production, limited to 300 MW/year, as from 2002 up to 2011.

In the year ended December 31, 2003, the benefit amounted to R$ 97,564 and was recorded in Capital Reserves against income tax payable, with no impact on the results for the year. This reserve can only be used to absorb losses or increase capital, for investments in activities directly related to production.

On January 5, 2004, the Company received a letter from the Extrajudicial Administrator of the former Superintendence for the Development of the Northeast (SUDENE), informing that "accepting the review of the Judicial Consultant of the Ministry of Integration, concerning the period covered by the incentive mentioned" the benefit previously granted and used is judged to be improper, and it will be cancelled.

The Company's management, assisted by its legal advisors, is convinced that the intention to cancel the incentive will not prevail, since the applicable rules lead to the unequivocal conclusion that the incentives are available to companies which operate within the ADENE area, which is the case of the Company. The Company, supported by the opinion of its legal advisors, believes that the intended cancellation cannot include the benefits used as from January 1, 2003. Accordingly, at December 31, 2003 no provision was recorded related to the loss of benefits recognized in the year then ended.

In order to assure the full use of the tax benefit for the whole effectiveness period, the Company will adopt the appropriate administrative and legal measures.

8 Other Taxes and Contributions Recoverable

				Parent company
		2003		2002
	Short-term	Long-term	Short-term	Long-term
Value-Added Tax on Sales and Services (ICMS)				
Credits	125,556	22,208	16,613	156,221
Advances			30,502	
Excise Tax (IPI)	13,701		75,041	
Withholding income tax (IRRF)	18,100		36,521	
Social integration program (PIS)	12,580		2,002	
Other taxes, rates and contributions Recoverable	1,675	9,552	3,808	23,831
	171,612	31,760	164,487	180,052

The ICMS tax credits are being offset against the tax liabilities arising from sales in the domestic market generated as from the beginning of LTQ operations. The Company expects to use the total amount of these credits up to 2005.

The advance made by the Company in 1998, pursuant to an agreement signed with the Government of the State of Espírito Santo, was fully offset up to 2003, against ICMS payable generated from the LTQ operations in 2002.

9 Investments

					Parent company
				2003	2002
	CST Comércio Exterior S.A.	CST Corporation B.V.	Vega do Sul S.A. (i)	Total	Total
Information at December 31					
Subscribed and paid-up capital	553	50	572,074		
Shareholders' equity	1,293	391,691	554,109		
Net income (loss) for the year	50	246,069	(18,149)		
Ownership	100%	100%	25%		

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9 Investments (continuation)

				Parent company	
				2003	2002
	CST Comércio Exterior S.A.	CST Corporation B.V.	Vega do Sul S.A. (i)	Total	Total
Changes in the investment accounts					
At the beginning of the year	1,243	178,093	76,695	256,031	32,909
Capital subscription (ii)			66,656	66,656	54,423
Equity in the results (iii)	50	213,598	(4,824)	208,824	179,025
Sale of direct subsidiary					(10,326)
At the end of the year	1,293	391,691	138,527	531,511	256,031
Other investments				73	73
Total				531,584	256,104

(i) This investee entered the operational phase in December 2003. The accounting information of the investee was adjusted to the accounting practices of the Parent company.
(ii) As described in Notes 1 and 16 (b).
(iii) Includes exchange variation effects on CST Corporation B.V. net equity, in the amount of R$ 32,471.

In June 2002, the Company concluded certain changes in the structure of its subsidiaries, as follows:

(a) On June 1, 2002, established of the subsidiary Skadden Consultadoria e Serviços Lda.;

(b) On June 21, 2002, sold its total investment in CST Overseas Ltd. to its subsidiary Skadden Consultadoria e Serviços Lda., at book values, and

(c) On June 30, 2002, established CST Corporation B.V., a new wholly-owned subsidiary whose capital was subscribed basically with shares of Skadden Consultadoria e Serviços Lda.

The sale of the investment in CST Overseas Ltd. to Skadden Consultadoria e Serviços Lda., whose shares were subsequently used as payment of the CST Corporation B.V. capital, was made so as to transfer the direct control of CST Corporation B.V. to the Company. Also, this new structure enables the reduction of the administrative and operating costs of the Company's commercial activities.

10 Property, Plant and Equipment

			2003	2002
	Revalued cost	Accumulated depreciation	Net	Net
Land	15.666		15.666	36,071
Buildings	1.321.877	364,954	956.923	698,547
Industrial installations	6.642.642	1,906,900	4.735.742	3,555,284
Equipment	1.726.777	381,245	1.345.532	979,310
Shipping terminal	48.943	23,775	25.168	29,388
Vehicles	8.174	5,254	2.920	1,397
Construction in progress	709.176		709.176	328,927
	10.473.255	2,682,128	7,791,127	5,628,924

(a) In September 2002, the Company's hot strip mill (LTQ) became operational on a start-up basis. At the end of 2003 the equipment was operating at close to its total capacity and is expected to reach full production capacity in February 2004. This 18-month rating up phase for technical adjustment of the equipment is necessary to achieve full and stable production capacity of 2 million tons/year. The investments in the LTQ up to December 31, 2003 amount to R$ 1,278,592, of which R$ 448,139 refers to financial charges capitalized.

(b) Construction in progress relates mainly to expenditures for: (i) refurbishing of Blast Furnace I (R$ 143,912), (ii) the 4th. thermoelectric plant (R$ 135,349), (iii) optimization of operating capacity (R$ 130,689), (iv) auxiliary units related to the LTQ (R$ 103,788), (v) refurbishing of the energy center and torpedo vehicles (R$ 32,973), (vi) the refurbishing of the utility center (R$ 20,053) and (vii) information technology (R$ 18,600).

(c) On february 13, 2004 the Board of Directors approved "ad referendum" the General Shareholder's Meeting the appraisal report for the revaluation of the Company's Property, Plant and Equipment at December 31, 2003 which did not include the Shipping Terminal and Construction in Progress. Consequently the Company recognized the revaluation of its Property, Plant and Equipment at December 31, 2003 in the amount of R$ 2,132,293 (R$ 1,407,313, net of tax effects).

(d) Depreciation charges in 2003 and 2002 were allocated as follows:

	2003	2002
Cost of production	337,440	353,169
Operating expenses	6,868	3,292
	344,308	356,461

The depreciation charge for the year includes R$ 85,917 (2002 - R$ 101,330) of the surplus arising on the revaluation of assets referred to in item (c).

11 Insurance Cover

Reflecting the nature of its activities, the Company holds insurance cover sufficient for its needs in view of its operating risks. Based on systematic risk analyses, together with current insurance techniques, the Company contracts insurance cover using the maximum possible loss concept, which is the maximum possible loss which could arise from a single event. At December 31, 2003, the amount of the maximum loss is approximately US$ 300 million per event.

12 Related Party Transactions

(a) Parent Company

	Arcelor Group (i) (Shareholder)	Companhia Vale do Rio Doce (Shareholder)	Pool of Japanese Shareholders (ii) (Shareholder)	CST Comércio Exterior S.A. (Direct subsidiary)	CST Overseas Ltd. (Indirect subsidiary)	Vega do Sul S.A. (Associated)	Total 2003	Total 2002
Assets								
Trade accounts receivable and advances	353	122	22		341,020	20,728	362,245	437,478
Liabilities								
Loans and financing					164,446		164,446	261,565
Suppliers	15	40,268		1,046			41,329	46,164
Advances from customers - Subsidiary					112,679		112,679	
Transactions in the year ended December 31								
Sales	14,497	517			2,750,870	91,246	2,857,130	2,630,044
Purchases (ore, coal, freight and unloading)	2,365	658,285		631			661,281	516,916
Purchases of property, plant and equipment			116,971				116,971	32,811
Financial expenses					(100,202)		(100,202)	136,926
Financial income								93,903

Related party transactions arise from sales and purchases of products and services and were carried out under normal market conditions for similar transactions (prices, payment terms and financial charges).

(i) Comprises Sidmar N. V., Acesita S.A. and Companhia Siderúrgica Belgo Mineira.
(ii) Project for the construction of the 4th thermoelectric plant, including the companies - JFE Steel Corporation and Marubeni Corporation.

(b) Consolidated

	Arcelor Group (i) (Shareholder)	Companhia Vale do Rio Doce (Shareholder)	Pool of Japanese Shareholders (ii) (Shareholder)	California Steel Industries Inc. (Shareholder)	Vega do Sul S.A. (Associated)	Total 2003	Total 2002
Assets							
Trade accounts receivable and advances	6,465	122	30,278	36,437	20,728	94,030	104,087
Liabilities							
Suppliers	15	40,268				40,283	42,815
Transactions in the year ended December 31							
Sales	117,228	517	771,989	305,670	91,246	1,286,650	1,094,546
Purchases (ore, coal, freight, and unloading)	2,365	658,285				660,650	502,776
Purchases of property, plant and equipment			116,971			116,971	32,811

Related party transactions arise from sales and purchases of products and services and were carried out under normal market conditions for similar transactions (prices, payment terms and financial charges).

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13 Financings (consolidated)

(a) Outstanding debt

	Index and annual interest rate % (i)	2003 Short-term	2003 Long-term	2003 Total	2002 Short-term	2002 Long-term	2002 Total
Working capital							
Advances against exchange contracts	US$ + Libor + 1.21 to 4.66	383,258		383,258	816,138		816,138
Export prepayments	US$ + Libor + 1.7 to 4	116,828	262,917	379,745	266,262	70,666	336,928
Raw materials and spare parts	US$, ¥ and EUR, TJLP + 2.9				13,595		13,595
		500,086	262,917	763,003	1,095,995	70,666	1,166,661
Investments							
Export receivables securitization	US$ + Libor + 1 to 2	96,030	275,446	371,476	152,320	449,333	601,653
Export receivables securitization	US$ + 8.2	21,812		21,812	106,876	26,500	133,376
Export receivables securitization	Libor + 1.75 and 7.88 to 8.69	8,789	100,666	109,455			
Financing of property, plant and equipment							
BNDES	TJLP + 2 to 4.2 and 4.25 and currency Basket + 4.25	103,306	442,544	545,850	110,863	404,663	515,526
KfW	US$ + Libor + 0.6 to 0.65	57,084	316,680	373,764	77,350	454,146	531,496
Other	¥ + 4.6 and Libor + 0.2 to 0.65	15,138	41,599	56,737	23,964	68,873	92,837
		302,159	1,176,935	1,479,094	471,373	1,403,515	1,874,888
Total		802,245	1,439,852	2,242,097	1,567,368	1,474,181	3,041,549

(i) TJLP - The long-term interest rate, fixed quarterly, is 11% p.a. as from October 1, 2003 (10% - October 1, 2002).
Libor - The London Interbank Offered Rate was 1.43% p.a. at December 31, 2003 (1.49% p.a. at December 31, 2002).
US$ - U.S. dollar at December 31, 2003 = R$ 2.8892 (at December 31, 2002 = R$ 3.5333).
¥ - Japanese yen at December 31, 2003 = R$ 0.027011 (at December 31, 2002 = R$ 0,029779).
EUR - Euro at December 31, 2003 = R$ 3.65059 (at December 31, 2002 = R$ 3.7012).
Currency basket - BNDES restatement index which contemplates the exchange rates variations, interest and income tax incurred by BNDES on its foreign loans.

(b) Maturity by currency

	2003 Local currency	2003 Foreign currency	2003 Total	2002 Local currency	2002 Foreign currency	2002 Total
2003				115,348	1,452,020	1,567,368
2004	104,594	697,651	802,245	88,050	241,087	329,137
2005	109,882	280,705	390,587	88,050	235,576	323,626
2006	92,463	288,105	380,568	72,850	161,168	234,018
2007	74,374	117,157	191,531	55,254	128,771	184,025
2008 to 2014	159,738	317,428	477,166	100,843	302,532	403,375
Total	541,051	1,701,046	2,242,097	520,395	2,521,154	3,041,549
	24%	76%	100%	17%	83%	100%

(c) Financing of property, plant and equipment

(i) National Bank for Economic and Social Development (BNDES)

In 1997, the Company obtained a line of credit to be used in projects to increase production capacity and environmental control, which totaled R$ 110,108 (at historical amounts).

In 2000, the Company obtained a further line of credit to finance equipment for the hot strip mill (LTQ) construction program and the overhaul of the converters, of R$ 413,057 (at historical amounts). The resources were fully received by the Company up to December 31, 2002.

In 2003, the Company obtained a credit line for optimization of production and construction of the 4th thermoelectrical plant in the amount of R$ 143,911, of which R$ 64,689 was received up to December 31, 2003.

The transactions with BNDES are summarized as follows:

Credit line	Original amount of credit line	Financial charges	Final maturity dates	Outstanding balance 2003	Outstanding balance 2002
1997					
Tranche A	80,780	TJLP + 3.5 %	February/2006	32,142	45,183
Tranche B	8,048	TJLP + 2 %	January/2006	2,806	3,944
Tranche C	21,280	TJLP + 2 %	January/2006	5,246	7,375
	110,108			40,194	56,502
2000					
Tranche A (*)	210,960	TJLP + 2.5 %	June/2010	269,364	276,251
Tranche B	52,740	TJLP + 2.5 %	June/2010	55,397	57,983
Tranche C	15,015	TJLP + 4 %	June/2007	14,616	16,526
Tranche D	134,342	TJLP + 4 %	June/2007	101,303	108,264
	413,057			440,680	459,024
2003					
Sub credit A	11,462	Currency Basket + 4.2%	April/2009	842	
Sub credit B	8,323	Currency basket + 4.2%	April/2009	3,959	
Sub credit C	11,462	TJLP + 4.25%	February/2009	855	
Sub credit D	8,323	TJLP + 4.25%	February/2009	4,022	
Sub credit E	19,257	TJLP + 3.75%	November/2012	5,027	
Sub credit F	85,084	TJLP + 3.75%	November/2012	50,271	
	143,911			64,976	
Total	667,076			545,850	515,526

(*) During the grace period (until May 2003), all interest was added to the principal. During the year ended December 31, 2003, interest capitalized amounted to R$ 5,794 (2002 – R$ 21,805).

All the contracts with BNDES provide that if the TJLP variation exceeds 6% p.a., the difference in interest will be added to the outstanding balance.

The security for these transactions is a first, second and third mortgage on the coke ovens plant and the coal yard and a first and second mortgage on the Continuous Casting Mill I.

(ii) Kreditanstalt für Wiederaufbau - KfW

In 1996, the Company contracted loans with KfW for the Blast Furnace II and the Continuous Casting Mill II projects. The original amounts contracted were US$ 49,007 thousand and US$ 30,050 thousand, respectively, with interest of Libor + 0.650% p.a., payable in 11 semi-annual installments as from the second half of 1998. The balances of these loans at December 31, 2003 amount to US$ 22,055 thousand (R$ 63,721) and US$ 13,612 thousand (R$ 39,328), respectively.

In 1999, a new loan of US$ 99,035 thousand was contracted for the hot-strip mill (LTQ) project, with interest of Libor + 0.6% p.a., payable in 20 semi-annual installments as from January 2003. The balance of this loan at December 31, 2003 amounts to US$ 89,854 thousand (R$ 259,606).

Other projects of the Company's operating units were also financed by KfW, such as the Continuous Casting Mill I in 1993, of US$ 25,800 thousand, the degassifier in 1997, of US$ 5,163 thousand, and also the converter in 1999, of US$ 3,603 thousand. The balances of these loans at December 31, 2003 amounts to US$ 3,845 thousand (R$ 11,109).

(d) Export receivables securitization program

In 1997, the Company launched a program for the securitization of export receivables of its indirect subsidiary CST Overseas Ltd. This program included US$ 136,758 thousand relating to existing financing agreements between the Company and various creditors and these liabilities are now represented by US$ 90,000 thousand in Investors Certificates and the rest in Sellers Certificates. The total amount of the original program was US$ 524,658 thousand and new funds received totaling US$ 387,900 thousand.

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In 1999, the Company also included in the overall securitization program, loans received from KfW totaling US$ 103,053 thousand.

In 2003, the Company contracted financing with the Japan Bank for International Cooperation (JBIC), for the implementation of optimization projects for the 4th thermoelectrical plant and the steel mill gas recovery system. The original amounts o the contracts were US$ 31,444 thousand and US$ 7,711 thousand respectively. The amortization of the contracts will be in 20 semi-annual installments as from June 2004, and the balances at December 31, 2003 amount to US$ 31,680 thousand (R$ 91,530) and US$ 6,204 thousand (R$ 17,925), respectively. This financing is part of the securitization program issued in 1997.

The receivables securitization program of the Company is summarized as follows:

	In US$ thousands		
	Securities issued		At December 31, 2003
	Investors	Sellers	Total
Cash proceeds	210,000	317,867	527,867
Debt agreements renegotiated	90,000	46,758	136,758
Total	300,000	364,625	664,625
Amortization, net of interest	(291,669)	(198,948)	(490,617)
Balance	8,331	165,677	174,008
Balance - R$			502,743

The securitization program requires compliance with certain covenants relating to the generation and collection of receivables, maximum levels of indebtedness and minimum amounts of shareholders' equity which, if not complied with, could result in the early or accelerated repayment of the loans. As from November 2002, with the approval of investors holding the securities, these conditions and indices are now calculated based on financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(e) Export prepayments

The Company obtained a credit line in U.S. dollars with Libor plus interest of up to 2.74% p.a. These financings are guaranteed by promissory notes in amounts equivalent to the total amount financed. Interest is payable semi-annually and the principal on final maturity (up to November 2006).

(f) Guarantees

	Consolidated	
	2003	2002
Export receivables securitization program	502,743	735,029
Joint mortgage of the continuous casting Mill I, coke plant and coal yard	545,850	523,250
Promissory notes	436,478	439,225
Pledges of the steel plant and top blast-furnace turbine		2,144
With guarantees - 66% (2002 - 56%)	1,485,071	1,699,648
Without guarantees - 34% (2002 - 44%)	757,026	1,341,901
	2,242,097	3,041,549

14 Shareholders' Equity

(a) Capital

At December 31, 2003 and 2002, paid-up capital comprises 50,976,440 thousand shares, all nominative and with no par value, of which 19,666,329 thousand are common and 31,310,111 thousand are preferred shares, held as described below:

	Number of common shares (thousand)	%	Number of preferred shares (thousand)	%	Total	%
Companhia Vale do Rio Doce	4,034,524	20.5	7,615,693	24.3	11,650,217	22.9
APSL Arcelor Participações S.A.	1,183,792	6.0	7,321,794	23.4	8,505,586	16.7
Aços Planos do Sul S.A.	5,828,897	29.7			5,828,897	11.4
APSL ONPN Participações S.A.	1,680,204	8.5	3,530,941	11.3	5,211,145	10.2
JFE Steel Corporation (i)	4,034,524	20.5			4,034,524	7.9
Fundação de Seguridade Social dos Empregados da Companhia Siderúrgica de Tubarão - FUNSSEST and Clube de Investimentos dos Empregados da CST (CIEST)	1,077,369	5.5	337,301	1.1	1,414,670	2.8
BR Fund Ltd.	981,351	5.0			981,351	1.9
California Steel Industries Inc.	786,653	4.0			786,653	1.5
Minority shareholders (ii)	59,015	0.3	12,504,382	39.9	12,563,397	24.7
	19,666,329	100	31,310,111	100	50,976,440	100

(i) Representing a group of Japanese shareholders.
(ii) Represented by 104 shareholders of common shares and 3,029 shareholders of preferred shares.

(b) Share rights

Each common share has the right to one vote at General Meetings of shareholders. Preferred shares cannot be redeemed or converted into common shares and have no voting rights, but they have priority to the return of capital in the event of the Company's liquidation, as well as the right to a dividend and/or interest on own capital in an amount 10% greater than that paid to holders of common shares, in accordance with current legislation.

(c) Remuneration of Shareholders

A minimum dividend must be distributed equivalent to 25% of net income of each year, adjusted in accordance with corporate legislation.

The by-laws permit the Board of Directors to declare interim dividends from net income based on interim financial statements, as well as from the revenue reserve for investments and working capital.

On December 31, 2003, the Company made a provision of R$ 176,521 for interest on own capital (R$ 3.262422 per thousand common shares and R$ 3.588664 per thousand preferred shares), as approved by the Board of Directors in a meeting held on December 19, 2003 "ad referendum" the Annual General Meeting. Such amounts will be paid as from February 27, 2004.

On June 30, 2003, the payment of interest on own capital in the amount of R$ 159,566 (R$ 2.994121 per thousand common shares and R$ 3.293533 per thousand preferred shares) and R$ 149,920 of dividends (R$ 2.813119 per thousand common shares and R$ 3.094430 per thousand preferred shares), was approved by the Board of Directors Meeting held on August 5, 2003 "ad referendum" the Annual General Meeting. Such amounts were paid on August 29, 2003.

On January 8, 2003, the Board of Directors approved "ad referendum" the Annual Shareholders' Meeting, the payment of interest on own capital and dividends for the year ended December 31, 2002, in the amounts of R$ 23,515 (R$ 0.441683 per thousand common shares and R$ 0.485852 per thousand preferred shares) and R$ 72,890 (R$ 1.369064 per thousand common shares and R$ 1.505970 per thousand preferred shares), respectively. On April 15, 2003 the Annual General Meeting approved the Board of Directors' decision.

On October 16, 2002, the Board of Directors approved "ad referendum" the Annual Shareholders' Meeting, the extraAnnual payment of interest on own capital and dividends, in the amounts of R$ 24,085 (R$ 0.452668 per thousand common shares and R$ 0.497936 per thousand preferred shares) and R$ 24,085 (R$ 0.452668 per thousand common shares and R$ 0.497936 per thousand preferred shares), respectively, calculated based on part of the balance at December 31, 2001 of the revenue reserve for investments and working capital. On April 15, 2003 the Annual General Meeting approved the Board of Directors' decision.

(d) Appropriation of net income

	Consolidated	
	2003	**2002**
Net income for the year	910,248	136,656
Reversal of dividends		31
Transfer to legal reserve	(45,512)	(6,833)
Realization of revaluation reserve	56,705	66,878
Profits at the disposal of the Annual General Meeting	921,441	196,732
Transfer to the reserve for investments and working capital	435,434	100,327
Interest on own capital attributed to preferred shareholders of R$ 6.882197 (2002 – R$ 0.485852) per thousand shares outstanding at the date of credit	213,044	14,829
Interest on own capital attributed to Common shareholders of R$ 6.256543 (2002 – R$ 0.441683) per thousand shares outstanding at the date of credit	123,043	8,686
	336,087	23,515
Dividends to preferred shareholders of R$ 3.094430 (2002 – R$ 1.505970) per thousand shares outstanding at the date of credit	94,596	45,965
Dividends to common shareholders, of R$ 2.813119 (2002 - R$ 1.369064) per thousand shares outstanding at the date of credit	55,324	26,925
	149,920	72,890
Distribution of interest on own capital and dividends	486,007	96,405

(e) Treasury shares

In 1998, the Company purchased its own shares to be held in treasury for later sale or cancellation, or to meet stock option plan commitments. Up to June 2003, all options under the Stock Option plan were exercised (Note 15 (c)). The remaining 740,387 thousand shares in treasury were totally sold as from November 3, 2003 at market value in the amount of R$ 52,064, with a gain of R$ 40,000 recorded in capital reserve as premium on sale of shares.

(f) Investments subsidy

In 2003, the Company obtained and used the income tax incentive benefit of R$ 97,564, recorded in a capital reserve (Note 7 (c)).

(g) Reserve for investments and working capital

The proposal for appropriation of the result for the year ended December 31, 2003 includes a profit retention of R$ 435,434, recorded in the reserve for investments and working capital. This is intended to reserve resources to meet the investments plan of the Company, and is subject to the approval of the Shareholders' General Meeting.

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15 Employee Benefits

(a) Supplementary Pension Plan

In 1988, the Company established a not-for-profit private pension fund for employees, the Fundação de Seguridade Social dos Empregados da Companhia Siderúrgica de Tubarão - FUNSSEST, which is administratively and financially independent. Its objectives, in compliance with the pertinent legislation, are to supplement government pension benefits as well as to render social assistance to employees and their dependents.

FUNSSEST has four pension plans, of which Plans I, II and III are defined-benefit plans which will be extinguished over time. Plan IV, which is defined-contribution, covers the employees hired as from 1998.

S contributions during the year, including the reimbursement of administrative and operating expenses, amounted to R$ 12,943 (2002 - R$ 9,774).

In accordance with IBRACON Statement NPC – 26 and CVM Deliberation nº 371, the Company recognizes directly in the result, against net actuarial liability, the full amount of the actuarial gain for the year. The adjustment arising from net actuarial gains in 2003 was R$ 3,354 (2002 - R$ 11,888) and only the amount of R$ 711 related to the portion of defined-benefit in Plan IV, of defined-contribution, was provisioned.

Reconciliation of the assets and liabilities recorded in the December 31, 2003 balance sheet	**Defined-benefit plans**
Present value of the actuarial benefit liabilities	(445,066)
Fair value of the plan assets	538,588
Fair value of assets in excess of present value of liabilities	93,522
Actuarial liability at December 31, 2002	4,065
Adjustment arising from net actuarial gains in 2003 (*)	(3,354)
Actuarial liability at December 31, 2003	711

(*) According to current regulation, the Company recognizes immediately the actuarial gains and losses at the full amount generated in the year. Based on the accumulated performance of FUNSSEST up to 2003, the Company still has approximately R$ 93,522 of technical surplus not recognized in the books, subject to offset against eventual future actuarial liabilities and those of the defined-contribution Plan IV.

Estimate of expenses to be recognized in 2004

Cost of current service, including interest	12,781
Contributions to be received from participants	(310)
Interest on the actuarial liabilities	48,958
Expected return on the assets	(60,252)
Total estimated expense to be recognized	1,177

Actuarial assumptions used in the calculations

Actuarial liability discount rate	6% p.a. + inflation of 5% p.a.
Expected return on plan assets	6% p.a. + inflation of 5% p.a.
Estimated salary increase	(*)
Estimated benefits increase	0% to 5% p.a. of actual gain

(*) For Plan I the increase in salaries is estimated based on a rate of 2% per annum plus 5% per annum inflation for 2004 and 1% per annum plus 5% per annum inflation for 2005 and after. For Plans IIand IV the increase in salaries is estimated based on a rate of 4% per annum plus 5% per annum inflation for 2004 and 2005, 3% per annum plus 5% per annum inflation for 2006 to 2008 and 2% per annum plus 5% per annum inflation for 2009 and after.

(b) Profit Sharing Plan

The employee profit sharing plan is linked to (i) the results of operations measured through the indicators EBITDA (Earnings before interest, taxes, depreciation and amortization) and ROCE (Return on capital employed), and (ii) achievement of personal, managerial, corporate and departmental goals.

In 2003, the Company paid R$ 17,023 of profit sharing as an advance (2002 - R$ 5,572) and recorded a provision for the balance related to 2003, in the amount of R$ 33,587 (2002 - R$ 33,151).

(c) Stock Option Plan

In 1995, the shareholders approved a stock option plan for management and employees in order to encourage the recruitment and retention of certain professionals. The classes of shares to be included in the plan were determined by the Company, and shares were purchased in the market for this specific purpose. The plans permitted 30% of the option to be exercised as from October 1998 and 1999 and 40% as from October 2000. During 2003, the last remaining options representing 47,700 lots of one thousand shares were exercised by the participants, an accumulated total of 492,450 lots of one thousand shares. As a result of the exercise of these options, the Company sold an equal number of its treasury stock, incurring a loss of R$ 315, recorded in the reserve for investments and working capital.

16 Contingencies and Commitments

(a) Contingencies

The Company, based on an individual analysis of each case and on the opinion of its legal advisors, has recorded provisions for probable losses in legal claims involving tax, labor and civil lawsuits, of R$ 115,417 (December 2002 – R$ 71,087), of which R$ 38,269 (December 2002 – R$ 36,262) has already been deposited in court.

The Company is defending legal proceedings in progress, involving contingent risks which are considered as possible losses and total approximately R$ 145,500.

In December de 1994, the Company filed a suit to obtain the right of deducting from the calculation basis of income tax and social contribution on net income, the difference between the Consumer Price Index (IPC) and the Daily Federal Treasury Bonds (BTNF) index, related to the inflation rate adjustments in connection with the "Plano Verão" (January 1989 – 42.72% and February 1989 – 10.14% - totaling 57.20%). The Regional Federal Court of the 2nd Region granted the Company the right to deduct for tax purposes the amount equivalent to 42.72%.

Although the claim has not yet been subject to a final judgement, according to the Company's legal advisors opinion, this decision permits the offset of the credit related to 42.72% as exclusion from the calculation basis of income tax and social contribution on net income, since the appeal filed against it does not have suspensive effect.

Due to the partial use of the benefit and to the preliminary character of the above-mentioned decision, the Company set up a contingency provision in long-term liabilities of R$ 67,712, which is restated by the Special System for Settlement and Custody (SELIC) interest rate.

(b) Commitments

The Company, as shareholder of the associated company Vega do Sul S.A., has agreed to be a co-guarantor of 25% of that Company's loan with the BNDES (R$ 65 million). Moreover, the Company expects to make further investments of US$ 7 million into this associated company during 2004 (Note 1).

17 Financial Instruments

(a) Risk management

Since most of the Company's sales are made in U.S. dollars, management believes it has a natural hedge against its liabilities in foreign currency. At December 31, 2003 there are no derivative financial instruments transactions.

(b) Market value

Available information and the Company's own valuation methodologies are used to determine the market value of financial instruments. The estimates do not necessarily indicate that the rates used in the calculations could be obtained in the market. The use of different market information and/or valuation methods could have a significant effect on the estimated market values.

	Consolidated			
	2003		2002	
	Book amount	Market value	Book amount	Market value
Assets				
Cash and banks and financial investments	417,753	417,753	439,697	439,697
Liabilities				
Advances against export contracts	383,258	380,178	816,138	804,907
Financing of raw material and spare parts			13,595	13,620
Export receivables securitization program	502,743	517,506	735,029	689,876
Other loans and financing	1,356,096	1,494,642	1,476,787	1,265,494

The market value of loans and financings was determined on the basis of the present value of future cash flows adjusted by the current interest rates for financial instruments with similar terms and risks.

18 Financial Result

	Parent company		Consolidated	
	2003	2002	2003	2002
Financial income	10,598	15,148	15,848	19,324
Financial expenses	(114,214)	(101,144)	(120,235)	(101,241)
Monetary and exchange variations on assets (i)	(10,257)	124,155	(270,220)	125,441
Monetary and exchange variations on liabilities	298,443	(629,063)	507,832	(629,063)
	184,570	(590,904)	133,225	(585,539)

(i) Mainly represented by foreign exchange variations on accounts receivable and cash and cash equivalents in foreign currency.

19 Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) Operation Cash Generation - Consolidated

Description	2003	2002
Operating profit	1,156,300	134,444
Net financial result	(133,225)	585,539
Depreciation and amortization in the result	352,413	344,411
EBITDA	1,375,488	1,064,394

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) approximates operating cash generation and is being presented in accordance with the model suggested by CVM/SNC/SEP Circular 01/2004.

20 Environmental Costs

Expenditures related to the compliance with the environmental regulations are charged to the cost of production or capitalized when incurred. The Company m its relations with the environment in accordance with ISO 14001 Standard specifications and develops continuous programs to minimize the environmental impact of its operations, according to the environmental certificate of good standing (CNDA 386/03) issued at the end of 2003.

21 Balance Sheet (Consolidated) Classified by Currency/Index

	December 31, 2003			
	Indexed to US$	Local index (*)	Without indexation	Total
Assets				
Current assets	690,775	48,175	781,518	1,520,468
Long-term receivables		47,578	86,725	134,303
Permanent assets			7,939,469	7,939,469
	690,775	95,753	8,807,712	9,594,240
Liabilities and shareholders' equity				
Current liabilities	734,784	103,419	477,683	1,315,886
Long-term liabilities	1,002,107	552,049	1,077,516	2,631,672
Shareholders' equity			5,646,682	5,646,682
	1,736,891	655,468	7,201,881	9,594,240

(*) Long-term Interest Rate (TJLP), Special System for Settlement and Custody (SELIC) interest rate, General Market Price Index (IGPM) and the Referential Rate (TR).

ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED

1 Statement of Cash Flow

	Parent company		Consolidated	
	2003	2002	2003	2002
Operating activities				
Net income for the year	910,248	136,656	910,248	136,656
Adjustments to reconcile net income with cash flow from operating activities				
Depreciation and amortization	352,413	344,411	352,413	344,411
Residual value of permanent asset disposals	150	18,206	150	18,206
Equity in the results of subsidiaries and associated company	(208,824)	(179,025)	4,824	
Profit sharing	50,610	38,723	50,610	38,723
Financial expenses and monetary and foreign exchange variations on debt	(210,209)	690,261	(146,747)	598,275
Reversal of provision for pension plan liabilities	(3,354)	(11,888)	(3,354)	(11,888)
Provision for contingencies	51,733	981	51,733	981
Deferred income tax and social contribution	38,218	(39,490)	38,032	(39,329)
	980,985	998,835	1,257,909	1,086,035
Decrease (increase) in assets				
Trade accounts receivable	29,608	(138,836)	(56,419)	(124,810)
Other taxes and contributions recoverable	117,774	(59,398)	117,774	(58,969)
Inventories	(52,375)	(18,451)	(51,763)	(18,401)
Advance to suppliers	759	23,201	759	8,453
Other	29,255	(40,100)	12,109	(37,931)
Increase (decrease) in liabilities				
Suppliers and subsidiaries	42,081	10,910	44,273	24,822
Provision for contingencies	(7,403)	3,516	(7,403)	3,516
Profit sharing	(50,174)	(12,536)	(50,174)	(12,536)
Pension plan liabilities		(15,036)		(15,036)
Other	154,489	7,195	154,674	6,797
Net cash provided by operating activities	1,244,999	759,300	1,421,739	861,940
Investing activities				
Permanent assets				
Investment	(66,656)	(54,423)	(66,656)	(54,361)
Property, plant and equipment	(302,549)	(273,458)	(302,549)	(273,458)
Deferred charges		(80)		(80)
Net cash used in investing activities	(369,205)	(327,961)	(369,205)	(327,899)
Financing activities				
Sale of treasury shares	52,526	3,349	52,526	3,349
Advances against export contracts				
Issuances	645,417	628,822	645,417	628,822
Amortization of principal	(976,196)	(682,062)	(976,196)	(682,062)
Financial charges paid	(31,477)	(34,498)	(31,477)	(34,498)
Financing				
Issuances	393,651	243,415	393,651	237,702
Amortization of principal	(598,791)	(379,975)	(598,548)	(379,975)
Financial charges paid	(93,910)	(79,679)	(93,910)	(79,679)
Advances from subsidiary	112,679			
Interest on own capital	(179,861)	(74,280)	(179,861)	(74,280)
Dividends	(222,618)	(24,085)	(222,618)	(24,085)
Net cash used in financing activities	(898,580)	(398,993)	(1,011,016)	(404,706)
Effect of exchange rate changes on balances of cash and banks in foreign currency			(63,462)	94,986
Net cash generated (used) in the year	(22,786)	32,346	(21,944)	224,321

	Parent company		Consolidated	
	2003	2002	2003	2002
Cash and banks				
At the end of the year	40,597	63,383	417,753	439,697
At the beginning of the year	63,383	31,037	439,697	215,376
Net increase (reduction) in cash and banks	(22,786)	32,346	(21,944)	224,321
Supplementary cash flow information				
Interest and foreign exchange/monetary indexation capitalized in property, plant and equipment	(39,782)	340,664	(39,782)	340,664
Fiscal incentive - ADENE	97,564		97,564	
Non-cash financial transactions				
Financed purchases of property, plant and equipment	111,601	39,831	111,601	39,834
Financed purchases of inventories		34,966		37,966

2 Statement of Added Values

	Parent company		Consolidated	
	2003	2002	2003	2002
Inflows				
Sales of products and services	3,876,295	2,814,185	4,161,344	2,998,160
Non-operating	18,697	22,198	22,615	22,758
	3,894,992	2,836,383	4,183,959	3,020,918
Inputs purchased from third parties				
Raw materials	(1,458,992)	(1,138,411)	(1,458,992)	(1,138,411)
Materials, energy, third party services and other	(956,675)	(523,443)	(986,670)	(533,758)
	(2,415,667)	(1,661,854)	(2,445,662)	(1,672,169)
Gross added value	1,479,325	1,174,529	1,738,297	1,348,749
Retentions				
Depreciation, amortization and depletion	(352,413)	(344,411)	(352,413)	(344,411)
Net added value produced	1,126,912	830,118	1,385,884	1,004,338
Transfers of added value received				
Equity in the results	208,824	179,025	(4,824)	
Financial result	298,784	(492,166)	253,460	(487,361)
	507,608	(313,141)	248,636	(487,361)
Added value for distribution	1,634,520	516,977	1,634,520	516,977
Distribution of added value				
Personnel and payroll charges	249,276	225,476	249,276	225,476
Taxes, rates and contributions	321,646	116,698	321,808	117,220
Interest	96,645	101,144	102,665	101,241
Interest on own capital and dividends	486,007	144,575	486,007	144,575
Retained (distributed) result	480,946	(70,916)	474,764	(71,535)
	1,634,520	516,977	1,634,520	516,977

On December 31, 2003 the added value plus retentions (depreciation, amortization and depletion) totaled R$ 1,986,933 (2002 - R$ 861,388)

ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED

3 Social Accounts

	2003	2002
Net Sales and services	3,729,417	2,840,930
Operating profit	1,156,300	134,444
Gross payroll	252,883	210,078

	2003	% on		2002	% on	
	Amount	Gross payroll	Net sales and services revenue	Amount	Gross payroll	Net sales and services revenue
Labor Indicators						
Meals	16,379	6.48	0.44	12,106	5.76	0.43
Compulsory social charges	57,304	22.66	1.54	48,034	22.86	1.69
Pension plan	13,019	5.15	0.35	10,759	5.12	0.38
Health	16,009	6.33	0.43	12,034	5.73	0.42
Security and medical assistance	5,963	2.36	0.16	3,674	1.75	0.13
Education	1,132	0.45	0.03	981	0.47	0.03
Culture	1,322	0.52	0.04	479	0.23	0.02
Professional training and development	11,236	4.44	0.30	11,259	5.36	0.40
Day care or day care assistance	72	0.03	0.00	72	0.03	0.00
Profit sharing	50,610	20.01	1.36	38,723	18.43	1.36
Other	2,511	0.99	0.07	1,448	0.69	0.05
Total – Labor indicators	175,557	69.42	4.72	139,569	66.43	4.91

	2003	% on		2002	% on	
	Amount	Operating profit	Net sales and services revenue	Amount	Operating profit	Net sales and services revenue
Social Indicators						
Education	1,462	0.13	0.04	750	0.56	0.03
Culture	508	0.04	0.01	310	0.23	0.01
Health and sanitation	444	0.04	0.01	245	0.18	0.01
Sports	95	0.01	0.00	77	0.00	0.00
Hunger programs and food security	205	0.02	0.01	179	0.13	0.01
Technical support	413	0.04	0.01	543	0.40	0.02
Environmental communication program	521	0.05	0.01	137	0.10	0.00
Strategic planning of municipalities	116	0.01	0.00	220	0.16	0.01
Other	297	0.03	0.01	196	0.15	0.01
Total contributions to society	4,061	0.37	0.10	2,657	1.91	0.10
Taxes (excluding social charges)	264,342	22.86	7.09	273,774	203.63	9.64
Total – Social indicators	268,403	23.23	7.19	276,431	205.54	9.74
Environmental indicators						
Investments related to the Company's production/operation	28,000	2.42	0.75	22,200	16.51	0.78
Investments in external programs and/or projects	1,120	0.10	0.03	748	0.56	0.03
Total investments in the environment	29,120	2.52	0.78	22,948	17.07	0.81

4 Reconciliation of balances per accounting practices adopted in Brazil to International Financial Reporting Standards

(a) Reconciliation of Shareholders' Equity at December 31

	Note	2003	2002
As per accounting practices adopted in Brazil		5,646,682	3,665,038
Adjustments for differences in accounting practices:			
Revaluation of property, plant and equipment	(ii)	(2,114,450)	(763,842)
Charges capitalized to property, plant and equipment	(ii)	128,723	240,269
Investments	(iii)	(35,644)	(6,199)
Pre-operating expenses – deferred charges	(iv)	(9,711)	(11,554)
Proposed dividends	(vi)		72,890
Deferred income tax and social contribution	(v)	(1,210,665)	(1,930,542)
Effects of conversion	(i)	3,431,632	5,424,311
Other effects		10,136	25,040
As per International Financial Reportiing Standards		5,846,703	6,715,411

(b) Reconciliation of result for the year ended December 31

	Note	2003	2002
As per accounting practices adopted in Brazil		910,248	136,656
Adjustments for differences in accounting practices:			
Depreciation	(ii)	(202,048)	(248,036)
Investments	(iii)	(15,952)	(23,560)
Pre-operating expenses – deferred charges amortization	(iv)	1,843	1,843
Realization of securities available for sale	(vii)		92,153
Gain (loss) on monetary balances in reais	(i)	(45,487)	10,742
Fiscal incentive – ADENE	(vi)	97,564	
Deferred income tax and social contribution	(v)	381,250	(600,429)
Foreign exchange variation on balances in U.S. dollars	(i)	(237,612)	503,622
Other effects		(2,405)	89
As per International Financial Reportiing Standards		887,401	(126,920)

(c) Differences in accounting practices

The accounting balances measured in accordance with International Financial Reportiing Standards ("IFRS") – formerly international accounting standards (IAS) - differ in certain respects from the accounting balances measured in accordance with the accounting principles applied by the Company in its financial statements prepared in conformity with the accounting practices adopted in Brazil.

(i) Measurement and presentation of the accounting balances and foreign exchange effects

■ Measurement currency and foreign exchange effects

The Company carries out its operations in reais (R$) and has decided to use the U.S. dollar (US$) as its measurement currency in accordance with international accounting standards, considering (i) that a significant part of sales is exported, (ii) the predominance of financing is in U.S. dollars and, (iii) that a significant part of the Company's costs, as well as the sales prices of its products is denominated in, or indexed to, the U.S. dollar. The balances of shareholders' equity and the result for the year are presented in accordance with Interpretation (SIC) nº 19 – "Disclosure currency – Measurement and presentation of the financial statements in conformity with the International Accounting Standards - IAS 21 and IAS 29".

The amounts in reais for all periods presented were translated into U.S. dollars as follows: Inventories, property, plant and equipment, accumulated depreciation, other assets and shareholders' equity accounts were remeasured at historical foreign exchange rates and the other assets and liabilities were remeasured using current rates at the end of each year (2003 - R$ 2.8892; 2002 - R$ 3.5333). The statement of operations accounts are translated at the average rate of the month, except for the accounts related to the assets remeasured at historical foreign exchange rates.

■ Reporting currency and translation effects

Although the Company's measurement currency is the U.S. dollar, it uses the real as its reporting currency. Pursuant to Interpretation 30 – "Disclosure currency – Translation of the measurement currency into presentation currency", the balances of assets, liabilities and shareholders' equity, are translated from the measurement currency into the presentation currency using the current rate at the end of each p and the balances of the results of operations at the average rate of each period with the related effects of translation directly recognized in shareholders' equity.

(ii) Property, plant and equipment

■ Revaluation

The Company adopts the revaluation criterion for its property, plant and equipment in its financial statements in conformity with the accounting practices adopted in Brazil. In its financial statements in conformity with IFRS, the Company does not adopt the practice of revaluing its property, plant and equipment.

■ Capitalized charges

The procedure used by the Company for the capitalization of financial charges to its property, plant and equipment is consistent with both the accounting practices adopted in Brazil and with IFRS. However, there are computation differences, as follows: (i) the accumulated effect of the difference between the historical exchange rates applied to property, plant and equipment and the current rates, and (ii) exchange rate variation on loans denominated in U.S. dollars.

■ Depreciation

Although the method used to calculate depreciation and the useful lives of property, plant and equipment of the Company are the same both for statutory purposes and in accordance with IFRS, there are differences generated by the computation basis, as follows, (i) accumulated effect of the difference between the historical exchange rates and the current rates, and (ii) exchange rate variation on loans which is not capitalized.

(iii) Investments

The differences in accounting practices on the balance of the investment in Vega do Sul S.A. (Note 9 to the financial statements) are as follows: (i) measurement of the investment balances according to IFRS at historical exchange rates and, (ii) the deferral of pre-operating expenses according to the accounting practices adopted in Brazil as against recognition in the result under international accounting standards.

(iv) Pre-operating expenses (deferred charges)

According to the accounting practices adopted in Brazil, the Company allocates to deferred charges the pre-operating expenses which cannot be capitalized to the projects. According to IFRS the pre-operating expenses not capitalized to property, plant and equipment are recorded directly in the results of operations for the year.

ALL AMOUNTS IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED

(v) Deferred income tax and social contribution

As required by IAS 12 – "Taxes on income", the Company fully recognizes the e of deferred income tax and social contribution arising from the differences between the accounting balances measured in accordance with the accounting practices adopted in Brazil and the balances according to IFRS.

(vi) Fiscal incentive – ADENE (Note 7 (c) to the financial statements)

This income tax incentive obtained by the Company in 2003 is directly recognized in shareholders' equity under the accounting practices adopted in Brazil. International accounting standards require the presentation of the benefit directly in the results for the year.

(vii) Realization of available for sale securities

In 1997, the Company recognized under the accounting practices adopted in Brazil, a gain arising from the difference between the historical amount of a note issued to cover court-ordered debts and the debt amount of the Company with Siderurgia Brasileira S.A. - SIDERBRÁS, which was guaranteed by the note.

In 2002, the claim period expired in which SIDERBRÁS could challenge the agreement signed with the Company to use this note in the payment of debt, the gain previously allocated to shareholders' equity was considered realized and recorded in the results for the year in accordance with IFRS.

5 Summarized balance sheet and result for the year, in Constant currency (full monetary restatement) - (Unaudited)

The main difference between the financial statements prepared in conformity with the accounting practices adopted in Brazil and in constant currency corresponds to the non-recognition of the monetary restatement of inventories, permanent assets and shareholders' equity in the former.

The condensed balance sheet and statement of operations in constant currency, in constant of December 31, 2003 price-levels (using IGP-M of FGV as the restatement index), is as follows;

	Parent company (unaudited)	
	2003	**2002**
Assets		
Current assets	1,361,017	1,442,012
Long-term receivables	134,043	411,583
Permanent assets		
Investments	628,131	295,124
Property, plant and equipment	11,108,153	9,301,800
Deferred charges	21,220	25,248
	11,757,504	9,622,172
	13,252,564	11,475,767
Liabilities		
Current liabilities	1,428,142	2,039,817
Long-term liabilities	2,631,672	2,181,627
Shareholders' equity		
Capital	6,615,013	6,615,013
Capital reserves	120,651	6
Revaluation reserve	2,004,522	645,099
Revenue reserves	452,564	(5,795)
	9,192,750	7,254,323
	13,252,564	11,475,767
Statement of operations		
Net sales and service	3,568,203	3,351,615
Cost of sales and services	(2,519,060)	(2,733,508)
Gross profit	1,049,143	618,107
Operating profit (loss)	158,954	(612,091)
Non-operating result	189	11,132
Income before income tax, social contribution and profit sharing	1,208,286	17,148
Income tax and social contribution	(204,752)	(45,739)
Income (loss) before profit sharing	1,003,534	(28,591)
Profit sharing	(51,439)	(45,672)
Net income (loss) for the year	952,095	(74,263)

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Companhia Siderúrgica de Tubarão

1 We have audited the accompanying parent company balance sheets of Companhia Siderúrgica de Tubarão and the consolidated balance sheets of Companhia Siderúrgica de Tubarão and its subsidiaries as of December 31, 2003 and 2002, and the related parent company statements of operations, of changes in shareholders' equity and of changes in financial position and the consolidated statements of operations and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audits in accordance with Brazilian auditing standards which require that we perform the audits to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audits taking into consideration the significance of balances, the volume of transactions and the accounting systems and internal controls of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements and (c) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Companhia Siderúrgica de Tubarão and of Companhia Siderúrgica de Tubarão and its subsidiaries at December 31, 2003 and 2002, and the results of operations, the changes in shareholders' equity and the changes in financial position of Companhia Siderúrgica de Tubarão, as well as the consolidated results of operations and of changes in financial position, for the years then ended, in conformity with accounting practices adopted in Brazil.

4 Our audits were performed for the purpose of issuing an opinion on the financial statements referred to in the first paragraph, taken as a whole. The statements of Cash Flows, Added Value and Social Accounts, which provide supplemental information on Companhia Siderúrgica de Tubarão and Companhia Siderúrgica de Tubarão and its subsidiaries, are not required components of the financial statements. We also applied the audit procedures described in the second paragraph to these statements and, in our opinion, they are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

5 The supplemental information (Note 4) includes a reconciliation between shareholders' equity and the result for the year in conformity with accounting practices adopted in Brazil and in conformity with international accounting standards, as well as a description of the main differences. International Financial Reporting Standards differ in certain significant respects from accounting practices adopted in Brazil which are quantified in the the supplementary information. The supplementary information presented does not, however, include all disclosure which would be required by International Financial Reporting Standards.

Vitória, February 13, 2004

PricewaterhouseCoopers
Auditores Independentes
CRC-SP-000160/O-5-S-ES

Otavio Cassou Maia
Contador CRC 2SP-158611/O "S"ES

Ronaldo Matos Valiño
Contador CRC RJ-069958/O "S"ES

FINANCIAL STATEMENTS 2003

- Generally Accepted Accounting Principles in the USA (US GAAP) in US$

CONSOLIDATED BALANCE SHEET

EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	December 31	
Assets	**2003**	**2002**
Current assets		
Cash and cash equivalents	130,522	104,446
Trade accounts receivable, net		
Related parties	32,423	29,459
Other	85,514	51,011
Advances to suppliers	3,073	2,728
Recoverable tax	59,399	46,554
Inventories	139,738	112,002
Deferred income tax	56,263	42,528
Prepaid expenses	996	6,932
Other	9,383	8,861
	517,311	404,521
Investments in associated company	35,610	19,952
Property, plant and equipment, net	2,812,208	2,853,461
Other assets		
Loans and advances	4,087	3,112
Restricted deposits for legal proceedings	13,246	10,263
Recoverable tax	10,993	50,959
Deferred income tax	35,751	64,715
Debt issue costs, net	3,621	4,616
Other	2,872	1,499
	70,570	135,164
Total assets	3,435,699	3,413,098

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

Liabilities and shareholder's equity	December 31 2003	2002
Current liabilities		
Suppliers	23,748	6,776
Payroll and related charges	26,542	20,822
Advances against export contracts	132,652	230,985
Short-term debt	10,422	13,848
Current portion of long-term debt	120,527	180,591
Accounts payable to related parties	13,943	12,117
Interest attributed to shareholders' equity, net of tax	53,066	5,798
Other	29,572	11,108
	410,472	482,045
Long-term liabilities		
Long-term debt	498,357	417,225
Accrued liability for legal proceedings	39,563	16,688
Accrued pension cost liability	80,419	88,059
Other	356	140
	618,695	522,112
Commitments and contingencies (Note 17)		
Shareholders' equity		
Share capital		
Preferred shares - no par value 62,620,222,060 authorized, 31,310,111,030 issued	1,186,101	1,186,101
Common shares - no par value 39,332,658,000 shares authorized, 19,666,329,000 shares issued	802,097	802,097
Treasury shares		(11,261)
Additional paid-in capital	7,124	270
Appropriated retained earnings	245,785	37,340
Unappropriated retained earnings	165,425	394,394
Total shareholders' equity	2,406,532	2,408,941
Total liabilities and shareholders' equity	3,435,699	3,413,098

CONSOLIDATED STATEMENT OF OPERATIONS

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND NUMBER OF SHARES

	Year ended December 31		
	2003	**2002**	**2001**
Gross sales, net of discounts, returns and allowances			
Export	988,974	929,997	788,410
Domestic	370,567	56,923	95,388
Total gross sales	1,359,541	986,920	883,798
Sales and value-added tax	(75,617)	(10,778)	(17,340)
Net sales	1,283,924	976,142	866,458
Cost of sales	(855,043)	(767,855)	(740,346)
Gross profit	428,881	208,287	126,112
Selling, general and administrative expenses	(144,321)	(95,508)	(92,711)
Impairment and loss on disposal of fixed assets	(141)	(587)	(11,775)
Profit sharing plan	(17,331)	(11,717)	(4,797)
Operating income	267,088	100,475	16,829
Non-operating income (expenses)			
Financial income	5,186	30,021	14,190
Financial expenses	(39,840)	(33,928)	(50,509)
Foreign exchange gain (loss), net	(14,777)	3,665	(20,894)
	(49,431)	(242)	(57,213)
Income (loss) before taxes on income and equity results	217,657	100,233	(40,384)
Taxes on income - benefit (expense)			
Current	(19,975)		
Deferred	(22,294)	(7,096)	20,207
	(42,269)	(7,096)	20,207
Equity in losses of associated company	(6,139)	(8,715)	
Income (loss) before cumulative effect of change in accounting principle	169,249	84,422	(20,177)
Cumulative effect of change in accounting principle for provision for programmed maintenance, net of tax (Note 2(v))			15,860
Net income (loss) and comprehensive income (loss)	169,249	84,422	(4,317)

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

	Year ended December 31		
	2003	2002	2001
Basic earnings (loss) per thousand shares (US$)			
Preferred shares	3.49	1.75	(0.09)
Common shares	3.17	1.59	(0.08)
Weighted-average number of shares outstanding - basic (thousands of shares)			
Preferred shares	30,686,172	30,384,640	30,183,665
Common shares	19,666,329	19,666,329	19,666,329
Diluted earnings (loss) per thousand shares (US$)			
Preferred shares	3.49	1.75	(0.09)
Common shares	3.17	1.59	(0.08)
Weighted-average number of shares outstanding - diluted (thousands of shares)			
Preferred shares	30,686,172	30,419,059	30,350,297
Common shares	19,666,329	19,666,329	19,666,329

CONSOLIDATED STATEMENT OF CASH FLOWS

EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Year ended December 31		
	2003	**2002**	**2001**
Cash flows from operating activities			
Net income (loss)	169,249	84,422	(4,317)
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Depreciation	180,937	196,320	192,809
Fixed assets impairment charge			9,807
Deferred income tax	22,294	7,096	(20,207)
Translation (gain) loss, net	14,777	(3,665)	20,894
Equity in losses of associated company	6,139	8,715	
Cumulative effect of change in accounting principle for provision for programmed maintenance			(15,860)
Gain on realization of available-for-sale-securities		(23,660)	
Decrease (increase) in assets			
Trade accounts receivable	(30,971)	(13,133)	32,523
Advances to suppliers and related parties	846	1,993	1,256
Recoverable tax	46,706	(20,008)	(16,753)
Inventories	(24,281)	21,525	1,036
Other	7,851	142	(8,284)
Increase (decrease) in liabilities			
Suppliers	13,202	8,233	1,617
Payroll and related charges	5,020	6,166	(11,417)
Accrued liability for legal proceedings, net of restricted deposits	13,808	1,183	5,187
Accrued pension cost liability	(7,640)	(10,552)	311
Other	2,121	(14,832)	(12,409)
Net cash provided by operating activities	420,058	249,945	176,193
Cash flows from investing activities			
Additions to property, plant and equipment	(97,164)	(89,190)	(108,394)
Investments in associated company	(21,797)	(19,453)	(9,214)
Short-term investments and others	24	26	(80)
Net cash used in investing activities	(118,937)	(108,617)	(117,688)

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

	Year ended December 31		
	2003	2002	2001
Cash flows from financing activities			
Advances against export contracts			
Issuances	206,800	224,900	271,760
Repayments	(302,900)	(246,760)	(263,200)
Short-term debt			
Issuances	10,000	21,765	1,651
Repayments	(10,232)	(32,275)	(48,170)
Long-term debt			
Issuances	124,000	73,724	89,536
Repayments	(185,958)	(111,792)	(143,790)
Dividends and interest attributed to shareholders' equity paid	(128,876)	(34,870)	(16,961)
Exercise of stock options	125	1,165	402
Proceeds from sale of treasury shares	17,703		
Net cash used in financing activities	(269,338)	(104,143)	(108,772)
Effect of exchange rate changes on cash	(5,707)	1,134	(9,238)
Net increase (decrease) in cash and cash equivalents	26,076	38,319	(59,505)
Cash and cash equivalents, beginning of year	104,446	66,127	125,632
Cash and cash equivalents, end of year	130,522	104,446	66,127
Supplemental cash flow information			
Cash paid during the period for interest	36,536	40,639	58,015
Interest capitalized in fixed assets	8,798	18,413	21,897
Significant non-cash transactions			
Financed raw materials purchases		11,668	20,065
Financed equipment purchases	36,914	13,881	67,382
Financed equipment purchases under capital lease			680

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND NUMBER OF SHARES

	2003		2002		2001	
	Thousands of shares	**US$**	**Thousands of shares**	**US$**	**Thousands of shares**	**US$**
Share capital						
Preferred shares						
Beginning and end of year	31,310,111	1,186,101	31,310,111	1,186,101	31,310,111	1,186,101
Common shares						
Beginning and end of year	19,666,329	802,097	19,666,329	802,097	19,666,329	802,097
Treasury shares						
Preferred shares						
Beginning of year	(788,087)	(11,261)	(1,093,387)	(15,624)	(1,178,337)	(16,838)
Sales of treasury shares	740,387	10,579				
Exercise of stock options	47,700	682	305,300	4,363	84,950	1,214
End of year			(788,087)	(11,261)	(1,093,387)	(15,624)

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

	Year ended December 31		
	2003	**2002**	**2001**
Additional paid-in capital			
Beginning of year	270	1,899	2,352
Gain on sale of treasury shares	7,124		
Stock options exercised	(270)	(1,629)	(453)
End of year	7,124	270	1,899
Appropriated retained earnings			
Statutory reserve			
Beginning of year	4,131	3,345	3,969
Transfer from (to) unappropriated retained earnings	16,673	786	(624)
End of year	20,804	4,131	3,345
Tax incentive reserve			
Beginning of year	1	1	1
Transfer from unappropriated retained earnings	33,768		
End of year	33,769	1	1
Investment and development reserve			
Beginning of year	33,208	28,789	37,274
Stock options exercised	270	1,629	453
Loss on sale of treasury shares	(557)	(3,198)	(812)
Dividend reversal		9	
Transfer from (to) unappropriated retained earnings	158,291	5,979	(8,126)
End of year	191,212	33,208	28,789
Total	245,785	37,340	32,135
Unappropriated retained earnings			
Beginning of year	394,394	351,612	391,104
Net income (loss)	169,249	84,422	(4,317)
Cash dividends and interest attributed to shareholders' equity	(189,486)	(19,023)	(43,925)
Realization of available-for-sale securities		(15,852)	
Transfer from (to) appropriated retained earnings	(208,732)	(6,765)	8,750
End of year	165,425	394,394	351,612
Total shareholders' equity	2,406,532	2,408,941	2,358,220

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, UNLESS OTHERWISE STATED

1 The Company and its operations

Companhia Siderúrgica de Tubarão (the "Company"), located in the State of Espírito Santo, Brazil, was incorporated in 1974 and started production in 1983. It operates an integrated steel mill for the production and sale of iron and steel products, mainly slabs and semi-finished steel plates for export.

Strategically located, the Company's infrastructure includes a road and railway system, as well as a port complex that includes the Praia Mole Marine Terminal. This structure permits the Company to reduce various significant costs, such as those related to the delivery of raw materials and shipment of production.

The Company has continuously invested in technological improvement to increase production capacity and optimize product mix. Nominal installed capacity grew from 3.0 to 4.7 million metric tons/year when the Blast Furnace II began operation in 1998, which entailed an investment of approximately US$ 235 million (based on historical exchange rates). An additional US$ 320 million (based on historical exchange rates) was invested to provide continuous casting for all slab production beginning in 1998.

The operational start-up in September 2002 of the hot strip mill (HSM), which represented an investment of approximately US$ 400 million (based on historical exchange rates), will allow the Company to access markets for products with greater value-added (coiled hot-rolled strip), especially the domestic market. The Company expects that this mill will achieve a nominal capacity of 2.0 million tons/year by February 2004. The Company expects to allocate nearly 40% of the slabs produced to the HSM mill once it is fully operational.

In April 2003, the shareholders approved new investments to increase the steel production capacity to 7.5 million ton/year as from 2006 in order to replace the production of steel slabs that will be directed to the HSM. Investments in the project are expected to total US$ 600 million, of which 70% will be financed through third-parties.

In 2001 the Company obtained a 25% ownership interest in the total and voting stocks of Vega do Sul S.A., to produce galvanized and cold-rolled steel in the state of Santa Catarina, Brazil. The remaining shares are held by an entity controlled by one of the Company's shareholders, the Arcelor Group. The plant was partially commissioned and began operations in July 2003 and once fully operational is expected to consume approximately 800 thousand metric tons/year of the Company's HSM production.

2 Summary of Significant Accounting Policies

(a) Basis of presentation and consolidation

(i) The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which differ in certain respects from accounting principles applied by the Company in its financial statements prepared in accordance with accounting practices adopted in Brazil and the regulations and resolutions established by the Brazilian Securities and Exchange Commission (CVM) and the Institute of independent Auditors of Brazil (IBRACON).

(ii) Shareholders' equity and net income (loss) included in these financial statements differ from those included in the statutory accounting records as a result of differences between the United States dollar and indexes mandated over the years for indexation of statutory financial statements and adjustments made to reflect the requirements of accounting principles generally accepted in the United States of America.

(iii) All majority-owned subsidiaries have been consolidated, and all significant intercompany accounts and transactions have been eliminated.

(b) Basis of translation and exchange effects

The Company transacts its business in Brazilian reais (R$) and has selected the United States dollar as its reporting currency; a substantial portion of the Company's sales are destined for export and a high level of financing is denominated in U.S. dollars. The Company presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52 - "Foreign Currency Translation". The Company's Board of Directors ("Conselho de Administração") and management have historically considered the U.S. dollar as its functional currency as this has been, and remains in their opinion, the currency in which the Company principally operates. Accordingly, the Company's management has concluded that the functional currency is currently the U.S. dollar.

The U.S. dollar amounts for all periods have been remeasured (translated) from reais amounts as follows: Inventories, property plant and equipment, accumulated depreciation, certain other assets and shareholders' equity are remeasured at historical rates of exchange, and the remaining assets and liabilities denominated in reais are remeasured at period-end rates (R$ 2.8892, R$ 3.5333 and R$ 2.3204 to US$ 1.00 at December 31, 2003, December 31, 2002 and December 31, 2001, respectively); statement of operations accounts are remeasured at the average rate prevailing in the month of the charge or credit to income, except those relating to assets remeasured at historical rates, which are calculated based on the assets' U.S. dollar values.

The translation gains and losses arose from the following balances:

	2003	2002	2001
Cash and cash equivalents	(5,707)	1,134	(9,238)
Receivables	6,496	(1,456)	(1,947)
Recoverable tax	19,600	(45,566)	(17,991)
Deferred tax	7,051	(31,508)	(13,554)
Other assets	5,448	(1,944)	(5,820)
Payables and accruals	1,374	2,396	243
Loans and financing	(42,418)	66,004	17,224
Other liabilities	(6,621)	14,605	10,189
Total translation gain (loss), net	(14,777)	3,665	(20,894)

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into United States dollars at official exchange rates reported by the Brazilian Central Bank at each balance sheet date.

(d) Cash and cash equivalents

Cash and cash equivalents represent cash, bank accounts and short-term financial investments with a ready market and maturities when purchased of 90 days or less, and are stated at the lower of cost plus accrued interest or market value.

(e) Trade accounts receivable and advances to suppliers

Trade accounts receivable are stated at estimated realizable values. An allowance for doubtful accounts is provided in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

(f) Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments, trade accounts receivable and advances to suppliers. The Company limits its credit risk associated with cash and cash equivalents by placing its investments with highly rated financial institutions in short-term securities and mutual funds, substantially all of such investments are made in US dollar - denominated deposits and funds in offshore accounts. With respect to trade accounts receivable, the Company limits its credit risk by selling to a reasonably geographically dispersed customer base and by performing ongoing credit evaluations and, usually, requiring letters of credit, guarantees or collateral. In 2003, 62% of the Company's gross sales were to ten major customers (2002 - 82%, 2001 - 84%) and two customers, individually, represented more than 10% of gross sales for the year (one customer in 2002 and one in 2001). All such customers are meeting current commitments, are operating within established credit limits and are considered by management to represent a low credit risk. The Company's customers are principally steel rerollers which transform steel slabs into steel sheets. Advances to suppliers are made only to select long-standing suppliers. The financial condition of such suppliers is analyzed on an ongoing basis to limit credit risk.

(g) Inventories

Inventories are stated at the lower of the average of cost of purchase or production and replacement or realizable values. Allowances for slow moving or obsolete inventories are recorded when considered appropriate.

(h) Investment in associated company

Relates to the investment in Vega do Sul S.A. (Note 8) in which the Company has a 25% interest in the voting capital. Vega do Sul S.A. prepares its financial statements using the U.S. dollar as the functional currency.

(i) Property, plant and equipment

Property, plant and equipment are recorded at cost, including interest incurred during the construction of major new facilities. Interest on construction-period borrowings denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange gains or losses. Interest on construction-period borrowings denominated in reais is capitalized, net of related purchasing power gains. Expenditures for maintenance and repairs which do not materially extend the useful lives of the related assets are expensed as incurred as operating costs.

Depreciation has been computed on a units-of-production basis over the estimated useful economic lives of the assets, except for the shipping terminal which is depreciated over 29 to 35 years.

(j) Recoverability of long-lived assets

Management reviews long-lived assets, primarily buildings and equipment to be held and used in the business, for the purpose of determining and measuring impairment on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Write-down of the carrying value of assets or groups of assets is made if and when appropriate.

As from January 1, 2002, impairment is assessed in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", to identify circumstances that might require assessment of the recoverability of the long-lived assets and to measure any potential impairment charges. Assets are grouped and evaluated for possible impairment on the basis of the projected undiscounted future cash flows of the business over the estimated remaining lives of the assets as new events or circumstances arise. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market of the long-lived asset. Fair market value is determined primarily using discounted anticipated cash flows.

(k) Environmental and site reclamation and restoration costs

Expenditures relating to ongoing environmental and restoration programs are charged against earnings as incurred. These ongoing programs are designed to minimize the environmental impact of the Company's operations and to manage the environmental risks of its activities. Liabilities with respect to such costs are recorded at the time that they are considered probable and are reasonably estimable. Management believes that, at present, there has not been a material loss or need for a significant accrual.

The Company obtained an environmental clearance certificate from the State Secretariat for the Environment (SEAMA/IEMA) on December 31, 2003. The same affirms that there are no pending items related to penalties or environmental requirements.

(l) Compensated absences

The liability for future compensation for employee vacations earned is fully accrued as benefits are earned.

(m) Pension plans

The Company accounts for pension plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions".

(n) Treasury shares

Treasury shares are acquired as a temporary investment and accounted for using the cost method, as a deduction from shareholders' equity. In 1998 and 1999, as authorized by the Board of Directors, the Company repurchased Preferred Shares which were held in treasury, resold, or used to offset potential dilution by the stock option plans (Note 15). Certain shares have been used to discharge obligations under the stock-based compensation plans.

During November 2003, all treasury shares were sold at market value for the amount of US$ 17,703 and a gain from its operation, in amount of US$ 7,124, were recorded in shareholders' equity.

(o) Revenues and expenses

Revenues are recognized when products are delivered or services are rendered. Expenses and costs are recognized on the accrual basis.

(p) Income taxes

Income taxes in Brazil comprise Federal income tax and social contribution, as recorded in the Company's statutory accounting records. There is no state or local income taxes in Brazil.

For the purposes of these financial statements, the Company has applied SFAS No. 109, "Accounting for Income Taxes", for all years presented. The effect of adjustments made to reflect the requirements of accounting principles generally accepted in the United States of America, as well as differences between the tax basis of non-monetary assets and the amounts included in the statutory accounting records, prepared in accordance with the Brazilian Corporation Law, have been recognized as temporary differences for the purpose of recording deferred income taxes, except that, in accordance with paragraph 9(f) of SFAS No. 109, deferred taxes have not been recorded for differences relating to certain assets and liabilities that are remeasured from reais to U.S. dollars at historical exchange rates and that result from changes in exchange rates or indexing to inflation in local currency for tax purposes. Net operating loss carryforwards are recognized as deferred tax assets as losses are incurred, and a valuation allowance is recorded, if necessary, against such tax loss carryforwards pursuant to the requirements of SFAS No. 109. No valuation allowances have been established, based on management's expectation that realization of the loss carryforwards is more likely than not.

(q) Earnings per share

Pursuant to SFAS No. 128, "Earnings per share", the Company has presented its earnings per share for each class of share. In calculating earnings per share the Company has adopted the two-class method which is based on dividends declared and participating rights. Net income is first reduced by dividends declared and the balance allocated to common and preferred shares to the extent that they share in earnings. Preferred shares are treated as participating securities.

Earnings and dividends per share are disclosed in amounts per thousand shares, as a lot of one thousand shares is the minimum number of shares that can be traded on the Brazilian stock exchange. As each class of share is given equal weight in the computation, earnings per share are of equal amounts for all classes. Preferred

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, UNLESS OTHERWISE STATED

Shares are entitled to a dividend 10% greater than that distributed to the common shareholders. As such earnings may be capitalized or otherwise appropriated; there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed.

The Company has issued employee stock options (Note 15). The dilutive effect is reflected in diluted earnings per share by application of the "treasury stock method".

(r) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Segment information

The Company has adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" which introduces a "management approach" concept for reporting segment information, whereby financial information is required to be reported on the basis that the chief operating decision-maker uses such information internally for deciding how to allocate resources to segments and in assessing performance. Management has concluded that the Company operates in a single segment - operation of an integrated steel mill and sale of steel slab and hot coil production - and does not consider additional segment disclosures to be necessary.

(t) Comprehensive income (loss)

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income". Net income (loss), for the periods presented, is not different from comprehensive income (loss) as determined by SFAS No. 130.

(u) Accounting for derivatives

The Company maintains an overall risk management strategy to minimize significant unplanned fluctuations caused by foreign exchange rate volatility. The Company may enter into derivative instruments to protect against exchange rate movements affecting its non-US dollar denominated accounts. Market-value gains and losses on these contracts are recognized in income currently, offsetting foreign exchange gains and losses arising on the counter party accounts balances.

The Company adopted SFAS No. 133 - Accounting for Derivative Financial Instruments and Hedging Activities, as amended.

SFAS No. 133, as amended, requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or 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 transaction. The Company had no transactions which have been classified as hedge transactions in the periods presented. The adoption of SFAS No. 133, did not have a significant effect on the Company's results of operations or its financial position.

(v) Change in accounting principle

Until December 31, 2000 maintenance costs were being accrued for under provisions for programmed maintenance and the actual costs were charged against the provisions as incurred. To better reflect the current industry approach, as from January 1, 2001, maintenance costs incurred by the Company are expensed or capitalized, as applicable. The cumulative effect as income up to December 31, 2000 was a credit of US$ 15,860 (net of income tax effects of US$ 7,931). This effect excludes the accelerated depreciation provision for the Blast Furnace I under the programmed maintenance in the amount of US$ 59,328 that was reclassified to accumulated depreciation.

3 Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB"), recently issued the following pronouncements:

SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities".

SFAS No. 147 "Accounting for Acquisitions of Certain Financial Institutions".
SFAS No. 148 "Accounting for Stock-Based Compensation".

SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity".

Management believes that adoption of these pronouncements did not or will not, as applicable, have a material impact on the financial position and results of operations of the Company.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46) "Consolidation of Variable Interest Entities". FIN 46 provides guidance on when certain entities should be consolidated or the interests in those entities should be disclosed by enterprises that do not control them through majority voting interest. The Company does not have any entities or transactions, which are subject to the requirements of FIN 46 and does not expect FIN 46 to have a material impact on its financial statements.

4 Taxes on Income

(a) Analysis of tax balances

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

	2003	2002
Current deferred tax assets, net		
Net operating loss carryforwards	56,084	42,528
Other temporary differences	179	
	56,263	42,528
Non-current deferred tax assets		
Net operating loss carryforwards	8,229	30,933
Provision for pension plan	27,342	29,940
Other temporary differences	23,913	26,381
	59,484	87,254
Non-current deferred tax liabilities		
Net price-indexing gains (inflationary profit)	(733)	(1,197)
Accelerated depreciation	(23,000)	(20,411)
Other temporary differences		(931)
	(23,733)	(22,539)
Non-current deferred tax assets (net)	35,751	64,715
Total deferred tax assets (net)	92,014	107,243

(b) Income tax reconciliation

The amount reported as income tax expense (benefit) in these financial statements is reconciled to the statutory composite rates as follows:

	2003	2002	2001
Income (loss) before taxes on income and equity results	217,657	100,233	(40,384)
Statutory composite rate			
Income tax - %	25	25	25
Social contribution - %	9	9	8-9
Tax expense (benefit) at statutory composite rate	(74,003)	(34,079)	13,731
Adjustments to derive effective rate:			
Income tax on permanent differences	(1,594)	(1,281)	(1,178)
Benefit from deductibility of interest attributed to shareholders' equity	37,166	4,580	9,168
Income tax on realization of available-for-sale-securities		(7,808)	
Foreign earnings not subject to tax	23,092	17,227	
Fiscal incentive - Income tax (*)	33,768		
Effects of differences between indexation and devaluation, including gain (loss) on translation (**)	(60,698)	14,265	(1,514)
Tax benefit (expense) as reported in the financial statements	(42,269)	(7,096)	20,207

(*) As a result of the fact that it is located in the area under the jurisdiction of the Agency for Development of the Northeast (ADENE) and because the steel products and energy areas are considered priority industries for regional development, as set forth in Decree 4.213/2002, the Company applied and obtained, in 2003, the right to a reduction in the income tax rate arise from the exploitation income.

The right to this benefit was processed in approval reports 0103/2003, 0104/2003, and 0105/2003 issued by the Ministry for National Integration on March 31, 2003 and the same was subsequently homologated by the Federal Revenue Service on July 31, 2003. The following tax benefits were approved for the Company:

(i) reduction of 75 percent for statutory income tax rate on profits generated as a result of Steel Slabs production, limited to 5,000,000 tons/year as from 2002 to 2011;

(ii) reduction of 75 percent for statutory income tax on profits generated as a result of coiled hot-holled strip production, limited to 2,000,000 tons/year as from 2004 to 2013;

(iii) reduction of 75 percent for statutory income tax on profits generated as a result of energy production, limited to 300 MW/year as from 2002 to 2011.

In the year ended December 31, 2003, the income tax benefit amounted US$ 33,768. This amount is included as part of appropriated retained earnings and can be used only to absorption of losses and increase capital.

Following a reexamination by the legal department of the Regional Integration Ministry, on January 5, 2004, the Company was notified by the former, now extinct, Superintendency for Development of the Northeast (SUDENE) of its decision to annul the fiscal benefits previous granted, upon concluding that the geographical area where the Company is located would not be within the geographical area of the fiscal incentive and, therefore, the Company would no longer be entitled to such fiscal incentive.

The Company's management has consulted legal counsel and is convinced that the intended cancellation is incorrect, because applicable regulations lead to the unequivocal conclusion that the incentives cover companies that operate in the area under the jurisdiction of ADENE, which is the case of CST. Based on advice of legal counsel, the Company understands that the intended cancellation does not affect benefits already recorded during 2003. Therefore, no provision was set up for these benefits recognized in the year ended as of this date.

In order to assure full use of this tax benefit, the Company will seek all available administrative and legal instruments.

(**) These differences arise under SFAS No. 109 paragraph 9(f) due to basis for and the remeasurement into U.S. dollars for purposes of these financial statements.

(c) Net operating loss carryforwards

(i) Potential restriction on use of tax losses

Federal income tax and social contribution regulations currently state that tax losses available for offset are limited in any one year to 30% of annual income before tax determined in accordance with Brazilian Corporation Law; such restriction is not applicable to the Company for federal income tax purposes as long as it meets its BEFIEX commitments which expired at December 31, 2001 (Note 17(c)).

(ii) Valuation allowance

Based on the Company's expectation that the deferred tax assets are more likely than not to be recovered, no valuation allowances have been established.

5 Cash and Cash Equivalents

	2003	2002
Brazilian real-denominated	3,591	6,199
U.S. dollar-denominated	126,931	98,247
	130,522	104,446

Cash equivalents denominated in United States dollars represents investments in short-term securities and mutual funds with highly rated financial institutions.

6 Trade Accounts Receivable

	2003	2002
Customers		
Export (U.S. dollar-denominated)	83,438	66,068
Domestic	34,578	14,586
Allowance for doubtful accounts (Note 22)	(79)	(184)
	117,937	80,470

It is the Company's practice to require letters of credit for sales to foreign markets, thereby reducing the risk of default on such sales. The provision for doubtful accounts refers to old outstanding balances for which the Company has adopted measures necessary to recover these amounts; it maintains a provision for 100% against these amounts.

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7 Recoverable Taxes

	2003		2002	
	Current	Non-current	Current	Non-current
Sales tax credits, primarily value added tax	48,199	7,686	25,941	44,214
Prepaid sales taxes			8,633	
Withholding tax on financial income	6,265		10,336	
Other taxes and contributions	4,935	3,307	1,644	6,745
	59,399	10,993	46,554	50,959

8 Inventories

	2003	2002
Finished product		
Steel slabs	9,136	32,072
Hot coil	15,916	6,832
Products in process	8,177	3,534
Raw materials	59,242	33,137
Spare parts and maintenance supplies and other	47,267	36,427
	139,738	112,002

9 Investments in Associated Company

	Year ended December 31	
	2003	2002
Beginning of year	19,952	9,214
Capital subscription	21,797	19,453
Equity in losses	(6,139)	(8,715)
End of year	35,610	19,952

Relates to the investment in Vega do Sul S.A., in which the Company has a 25% interest in the total and voting capital.

10 Property, Plant and Equipment

	2003		
	Cost	Accumulated depreciation	Net
Land	19,096		19,096
Buildings	688,523	244,065	444,458
Installations	2,727,123	1,214,175	1,512,948
Shipping terminal	32,772	16,146	16,626
Equipment	771,410	233,187	538,223
Vehicles	4,432	3,077	1,355
Construction in progress	279,502		279,502
	4,522,858	1,710,650	2,812,208

	2002		
	Cost	Accumulated depreciation	Net
Land	19,096		19,096
Buildings	688,727	220,331	468,396
Installations	2,722,048	1,092,294	1,629,754
Shipping terminal	32,377	12,988	19,389
Equipment	762,163	198,317	563,846
Vehicles	4,410	2,677	1,733
Construction in progress	151,247		151,247
	4,380,068	1,526,607	2,853,461

Construction in progress at December 31, 2003 and 2002 consists as following:

	December 31, 2003	December 31, 2002
Production optimization	88,634	16,426
Blast furnace equipment	81,368	76,189
Hot strip mill	46,862	12,466
Utility center refurbishment	8,400	4,757
Information technology	6,769	12,618
Other	47,469	28,791
	279,502	151,247

The appropriation of depreciation for the year is summarized as follows:

	2003	2002
Cost of production	179,576	191,801
Operation expenses	4,816	2,631
	184,392	194,432

11 Advances against Export Contracts

Advances received against export commitments are obtained from commercial banks with a commitment that the products be exported. Advances are denominated in U.S. dollars and accrue interest of LIBOR (*) + 0.3% to 4.7% per annum (2002 - LIBOR (*) + 1.2% to 5.4% p.a.). Advances fall due within 360 days.

(*) The six-monthly London Interbank Offered Rate - LIBOR at December 31, 2003 is 1.4% (2002 - 1.5%).

12 Short-term Debt

The Company's short-term borrowings represent export pre-payment notes denominated in U.S. dollars indexed to LIBOR plus interest up to 3.3% p.a. These debts are secured by the issuance of promissory notes to the full value of the debt. Compensating balances for short-term debt are insignificant. The Company has no formal lines of credit available.

13 Long-term Debt

Summary	**2003**	**2002**
Brazilian Reais		
Financing of property, plant and equipment		
BNDES line of credit ((a) below)	188,926	145,906
Lease of equipment		192
U.S. Dollars		
Financing of property, plant and equipment due through 2014 Export Receivables Securitization Program ((b) below)	159,940	189,661
KfW line of credit ((c) below) (LIBOR + 0.6% per annum)	89,854	100,191
Export notes pre-payment ((d) below)	121,013	85,336
Others (LIBOR (*) + 0.2% to 0.6% per annum)	59,151	76,530
Total	618,884	597,816

(*) The annualized TJLP (Government nominal long-term interest rate), fixed quarterly, is 11% as from December 31, 2003 (2002 - 10%).

Long term debt is classified as follows:

	2003	2002
Current liabilities	120,527	180,591
Long-term liabilities	498,357	417,225
Total	618,884	597,816

(a) BNDES line of credit

The Company executed a line of credit agreement with the Brazilian National Bank for Economic and Social Development (BNDES), on December 15, 1997. The original line of credit, denominated in reais, is payable in 60 monthly installments through January 2006. In the event the TJLP exceeds 6% per annum, the differential is added to the principal balance outstanding.

On June 5, 2000, the Company signed another line of credit agreement, denominated in reais, with the BNDES. Interest becomes payable as from April 2003 through June 2010. In the event the TJLP exceeds 6% per annum, the surplus is added to the principal.

On October 28, 2003, the Company contracted with BNDES a new line of credit, denominated in reais. Tranches A through D will be used toward the enhancement of production capacity from 4.7 to 5.0 million tons/year. Tranche E and F will be used to finance the acquisition of locally manufactured equipment for the construction of the fourth thermoelectric plant. Interest is payable quarterly for all tranches and, in the event the TJLP exceeds 6% per annum, the surplus will be added to the principal.

The loans are collateralized through items on the industrial land and property, including all equipment and installations (mortgage on the Coal Yard, Coke Ovens Plant and Continuous Caster I).

				Outstanding balance	
	Original line of credit	**Annual finance charges**	**Due date**	**December 31, 2003**	**December 31, 2002**
1997 line of credit					
Tranche A	72,494	TJLP + 3.5%	February 2006	11,126	12,787
Tranche B and C	26,320	TJLP + 2%	January 2006	2,787	3,205
	98,814			13,913	15,992

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	Original line of credit	Annual finance charges	Due date	Outstanding balance December 31, 2003	December 31, 2002
2000 line of credit					
Tranche A and B	147,048	TJLP + 2.5%	June 2010	112,404	94,595
Tranche C and D	83,286	TJLP + 4%	June 2007	40,120	35,319
	230,334			152,524	129,914
2003 line of credit					
Tranche A and B	6,900	(*) + 4.25%	April 2009	1,661	
Tranche C and D	6,900	TJLP + 4.25%	December 2009	1,688	
Tranche E and F	36,388	TJLP + 3.75%	November 2012	19,140	
	50,188			22,489	
	379,336			188,926	145,906

(*) Basket of foreign currencies.

(b) Export receivables securitization

In April 1997, the Company consummated an Export Receivables Securitization Program (the "Program") securitizing then existing and future receivables generated by its wholly-owned subsidiary CST Overseas Ltd. (the "Seller"). Under the program, an off-shore master trust (the "Trust") was established to issue a series of participation certificates ("Investor Certificates") in the Trust. The Seller sold existing receivables to CST International Limited ("SPC"), an off-shore wholly-owned special purpose subsidiary of the Company established for the sole purpose of engaging in this transaction, which were then sold by the SPC to the Trust; whereby the Trust issued to the Seller a Seller Certificate. The Trust collects outstanding receivables and the proceeds are applied to amounts owing to holders of the Investor Certificates. Excess collections, as defined in the agreement, are paid to holders of the Seller Certificate.

Additionally, US$ 90,000 of Investor Certificates were issued on April 13, 1997 to the Seller, which further pledged those Investor Certificates to Nine foreign trading companies, to secure then existing indebtedness outstanding under certain loan a with the Seller. Such Investor Certificates replace, in part, loan agreements between the Company and each trading company. The Seller also pledged its Seller Certificates as security for such indebtedness and other indebtedness.

The Trust is required to pay interest and principal on Investor Certificates on a monthly basis. If an Early Amortization Event or Accelerated Amortization Event, as defined in the Program, occurs, outstanding principal of the Investor Certificates will be repaid on an accelerated basis via allocating an increased amount of any collections of such receivables to the principal balance. In addition, if an Accelerated Amortization Event occurs, the Seller may be required to pay to the Trust an amount sufficient to pay all amounts then owing in respect of the Investor Certificates.

Early Amortization Events include certain coverage tests relating to the collection and generation of receivables and a minimum balance of shareholders' equity of the Company measured under accounting practices adopted in Brazil generally accepted accounting principles. Accelerated Amortization Events include the failure to pay scheduled amounts owing in respect of the Investor Certificates.

In addition, the Company's existing loan agreements include conditions of events of default. As from November 2002 the holders of the certificates approved, as the new basis for measuring, such events among others under US GAAP, which are detailed below: (i) Gear Ratio (indebtedness to shareholders' equity, as defined) not permitted to be greater than 2:1, at any time; (ii) Shareholders' equity not to be less than the equivalent of US$ 1,000,000; and (iii) EBITDA\Interest expenses ratio shall not less than 2.5:1 at any time. All obligations of the Seller in connection with the Program are guaranteed by the Company.

In addition, the Company continues to obtain financing from certain creditors of the Company which financing is received by certain Investors Certificates and the Seller Certificates under the Program which are subject to the same conditions regarding guarantees and collection of the proceeds to be applied to amounts owed to holders of the Seller Certificates.

(i) In December 1999, in connection with the contract for the supply of the Hot Strip Mill and two LD Converters, the Company entered in a loan agreement to finance locally costs incurred up to US$ 103,053 relating to the project.

(ii) In January 2003, the Company consummated a financing agreement in the amount of US$ 39,155 with the Japan Bank of International Cooperation (JBIC). The proceeds of the loan will be applied to cover the purchase of the fourth thermoelectric plant and of gases recovery system. At December 31, 2003, the Company had drawn down US$ 36,914, referring to this contract.

Details of the Program are as follows:

Series	Certificate	Principal	Annual finance charges	Grace period (months)	Due date
1	Investor	120,000	8.22%	36	2004
2	Investor	90,000	LIBOR + 1.25%	12	2002
3 to 8	Investor	90,000	LIBOR + 0.6% to 1.9%	Up to 30	Through 2004
	Seller	224,658	LIBOR + 0.6% to 1.9%	Up to 38	Through 2007
	Seller	103,053	LIBOR + 2%	Up to 30	Through 2009
JBIC	Seller	15,662	LIBOR + 1.75% to 8.69%	Up to 17	Through 2008
JBIC	Seller	23,493	7.88% to 8.69%	Up to 65	Through 2014
		666,866			

Certificates issued to creditors through December 31, 2003 under existing debt agreements, are as follows:

	Issued				
	Through December 31, 2002		During 2003	Total Program December 31, 2003	Total Program December 31 2002
	Investor	Seller	Seller		
Cash proceeds	210,000	280,953	36,914	527,867	490,953
Debt agreements replaced	90,000	46,758		136,758	136,758
	300,000	327,711	36,914	664,625	627,711
Amortization, net of interest (*)	(294,378)	(211,277)	970	(504,685)	(438,050)
Balance at December 31, 2003	5,622	116,434	37,884	159,940	189,661

(*) Consistent with the guidance in SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", the Company offset US$ 14,070 (December, 2002 - US$ 18,368) against the loan balance, corresponding to the total amounts deposited in escrow accounts. These collateral accounts are outside the Company's control and will be utilized to settle the loan.

(c) KfW line of credit

On September 6, 1999, the Company concluded with Mannesmann Demag Limitada contracts for US$ 116,512 and R$ 273,000 for the supply of imported and local equipment and materials for a Hot Strip Mill for the steel mill. Certain works were sub-contracted . Approximately 85% of the contract price amounting to US$ 99,035 is financed by KfW and guaranteed by the Federal Government of Germany. Interest is payable semi-annually in arrears at LIBOR plus 0.6% per annum. The financed amount is payable in 20 semi-annual installments as from January 15, 2003. The equipment purchased is subject to negative pledge clauses. Through December 31, 2003, the lender had made disbursements totaling US$ 99,035 and the outstanding balance was US$ 89,854.

(d) Export notes prepayment

The Company enters into line of credit agreements denominated in U.S. dollars. At December 31, 2003, interest rates were LIBOR plus 1.7% to 4% per annum. These debts are secured by promissory notes for the full value of the debt. Interest related to these debts is payable semiannually and the principal will be paid by 2006 on the final maturity of the debt.

(e) Siderbrás agreement

Beginning in 2002, the prescriptive period, in which Siderbrás (the former Federal government steel authority) might have been able to contest the arrangement with the Company to settle its debt, has expired. In this arrangement the Company had extinguished its debt with Siderbrás by providing securities in the form of court-ordered debts. As the Company had not yet received formal recognition by the creditor that the debt was extinguished, the amount of the debt had been maintained on the Company's balance sheet together with the bond at like-value (Restricted asset). The unrealized gain on extinguishment of debt (accruing from purchasing the bond at a discount and offsetting the bond at face value) had been recorded, net of tax effects in "Other comprehensive income " in shareholders' equity. In 2002, the gain was considered to have been realized and was recorded in the statement of operations.

The Company is awaiting a final decision on a declaratory action which seeks the f extinguishment of the debt although for legal purposes the arrangement cannot be annulled.

(f) Maturities and guarantees

At December 31, 2003, the long-term portion of long-term debt matures as follows:

	Total
2005	135,190
2006	131,721
2007	66,292
2008	56,002
2009	47,565
2010 to 2014	61,587
	498,357

Long-term debt is secured as follows

	2003
Export receivables	159,940
Property, plant and equipment	188,926
Promissory notes	121,013
Unsecured	149,005
	618,884

14 Shareholders' Equity

(a) Share capital and Share rights

Total authorized share capital of the Company, up to which shares may be issued without changing the by-laws, is 62,620,222,060 Preferred Shares and 39,332,658,000 Common Shares.

Each holder of Common Shares is entitled to one vote for each share held on all matters that come before a shareholders' meeting. Preferred Shares are not redeemable, nor convertible into Common Shares, and have no voting rights, but are assured priority in the return of capital in the event of liquidation.

Preferred Shares are entitled to a dividend per share 10% greater than the dividend paid to Common Shares. As distributable earnings may be capitalized or otherwise appropriated, there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed.

The minimum mandatory dividend is 25% of net income of each year, as determined in the local currency financial statements prepared in accordance with accounting practices adopted in Brazil.

(b) Shareholders' agreement

A Shareholders Agreement provides that each party to the agreement has a right of first refusal in the event that the other party seeks to dispose of its shares in the Company, unless these are disposals to member companies of the same group. This agreement is among Aços Planos do Sul S.A. (an associated company of the Acesita S.A. and Arcelor Group as from August 1998), Companhia Vale do Rio Doce and a pool of Japanese companies lead by JFE Steel Corporation.Together these companies own, of record, 74.67% of the common shares of the Company at December 31, 2003 and 2002.

The agreement also provides for rights to appoint members of the Company's Board of Directors (which may number up to ten persons). Parties who own at least 9.5% of the Company's Common Shares may appoint one member. Parties holding at least 15% of the Company's Common Shares may appoint two members.

In addition, at least 60% of the votes of the parties are required for certain issues regarding the corporate governance of the Company including, but not limited to (a) amendments to the Company's by-laws, (b) amendments to dividend policy, (c) changes in capital structure and (d) new investments and projects.

(c) Appropriated retained earnings

Brazilian Corporate Law and the Company'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:

(i) The statutory reserve results from appropriations from retained earnings of 5% of annual net income as stated in the statutory accounting records prepared in accordance with Brazilian Corporate Law. Such appropriations are, generally, required until the balance reaches 20% of the balance of share capital, based on the statutory accounting records. At December 31, 2003 such total capital was R$ 2,782,106 thousand, equivalent to US$ 962,933 at the exchange rate in effect at such date (R$ 2,782,106 thousand and US$ 787,396 at December 31, 2002).

(ii) The tax incentive reserve results from an option to apply a portion of income tax otherwise payable for (i) the acquisition of capital stock of companies undertaking specified government-approved projects and (ii) investment in property, plant and equipment for the Company's qualifying capital projects (iii) income tax reductions arising from operations in designated economic development areas. The amount applied is credited to taxes on income or to the sales and value-added tax line in the Company's statement of operations and subsequently appropriated from unappropriated retained earnings to the tax incentive reserve. No recapture provisions are required to be satisfied unless the corresponding capital reserve presented in the financial statements prepared in accordance with Brazilian Corporate law is used to pay dividends and /or interest attributed to shareholders' equity, at which time the income tax not previously paid on such credits would become due, together with penalties. The tax incentive and statutory reserves may be capitalized but are not available for distribution as cash dividends and interest attributed to shareholders' equity.

(iii) The investment and development reserve represents discretionary appropriations, ratified by the shareholders, for plant expansion and other capital projects, the amount of which is based on an approved capital budget prepared by management. After completion of the projects, the Company may elect to retain the appropriations until the shareholders vote to transfer all or a portion of the reserve to capital or to retained earnings, from which a cash dividend and interested attributed to shareholders' equity may then be paid.

(d) Unappropriated retained earnings

Brazilian law permits the payment of dividends and interest attributed to shareholders' equity only in reais and from retained earnings as stated in the accounting records prepared in accordance with Brazilian Corporate Law. At December 31, 2003, such retained earnings available for distribution aggregated R$ 552,451 thousand, equivalent to US$ 191,212 at the exchange rate in effect at such date (R$ 104,491 and US$ 29,573 at December 31, 2002).

(e) Dividends

The minimum mandatory dividend is 25% on net income of each year, as determined in the local currency financial statements prepared in accordance with Brazilian Corporate Law.

Management is required by Brazilian Corporate Law to propose dividends at year-end to meet the minimum mandatory dividend requirements for the year.

(f) Interest attributed to shareholders' equity

Brazilian companies are permitted to pay limited amounts to shareholders and treat such payments as an expense for Brazilian federal income tax and social contribution purposes. This notional interest distribution is treated for accounting purposes as a deduction from shareholders' equity in a similar manner to a dividend. A tax generally of 15% is withheld and paid (or compensated with withholding tax credits) by the Company upon credit of the interest. Interest attributed to shareholders' equity is treated as a dividend for purposes of the mandatory dividend payable by the Company. The shareholders have approved a proposal to provide interest attributed to shareholders' equity of US$ 61,097 in respect of the year ended December 31, 2003 (US$ 6,655 - December 31, 2002) which has been recorded as an obligation in these US GAAP financial statements.

(g) Earnings per share

SFAS No. 128, "Earnings per share" addresses computation, presentation and disclosure requirements for earnings per share. Because the preferred and common shareholders have different dividend, voting and liquidation rights, basic and diluted earnings per share have been calculated using the "two-class" method. The "two-class" method is an earnings allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings (loss).

Basic earnings per common share are computed by deducting net income distributed and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by weighted-average number of common shares outstanding during the period. Net income available to preferred shareholders is the sum of the preferred stock dividends and the preferred shareholders' portion of undistributed net income (loss).

Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income (loss) attributed to preferred shareholders results in earnings (loss) per share 10% greater than those attributed to common shareholders. Diluted earnings per share are computed similarly to the basic earnings per share except that the outstanding shares are increased to include the number of additional shares that would have been outstanding if the dilutive potential shares had been issued.

The computation of basic and diluted earnings per share is as follows:

	2003			2002			2001		
	Preferred	**Common**	**Total**	**Preferred**	**Common**	**Total**	**Preferred**	**Common**	**Total**
Basic and diluted numerator:									
Actual dividends declared	119,893	69,593	189,486	11,993	7,030	19,023	27,579	16,346	43,925
Basic and diluted allocated undistributed earnings (loss)	(12,740)	(7,497)	(20,237)	41,173	24,226	65,399	(30,297)	(17,945)	(48,242)
Allocated net income (loss) available for common and preferred shareholders	107,153	62,096	169,249	53,166	31,256	84,422	(2,718)	(1,599)	(4,317)
Basic denominator:									
Weighted average shares	30,686,172	19,666,329		30,384,640	19,666,329		30,183,665	19,666,329	
Basic earnings per share	3.49	3.17		1.75	1.59		(0.09)	(0.08)	
Diluted denominator:									
Weighted average shares	30,686,172	19,666,329		30,384,640	19,666,329		30,183,665	19,666,329	
Stock options (*)				34,419			166,632		
Weighted average shares	30,686,172	19,666,329		30,419,059	19,666,329		30,350,297	19,666,329	
Diluted earnings per share	3.49	3.17		1.75	1.59		(0.09)	(0.08)	

(*) For purposes of computing diluted earnings per share, stock options are assumed to be converted into preferred shares as of the date of issuance of the security using the treasury stock method.

15 Stock Option Plans

In 1995, the Company approved a general purchase stock option plan (the "General Plan") for Executive Officers ("Diretoria") and certain employees and a special purchase stock option plan (the "Special plan" and, together with the General Plan, (the "Plans") for members of the Board of Directors. The Plans are designed to obtain and retain the services of executives and certain employees. The classes and types of shares to be issued are determined by the Company at the exercise date. Exercise prices are established at the grant date but are reduced by dividends declared from the grant date through to the exercise date; accordingly, the Plans are accounted for as variable plans. Options granted under the Plans may be exercised as follows: 30%, 30% and 40% at the end of the third, fourth and fifth years, respectively, following the grant date. This right to exercise terminates the earlier of seven years from the grant date or when the option holder leaves the employment of the Company prior to obtaining the right to exercise the option. At December 31, 2003 all stock options granted had been exercised. No stock options were granted in 2002 and 2003.

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	2003	2002
Outstanding at beginning of year (thousands of shares)	47,700	353,000
Exercised	(47,700)	(305,300)
Outstanding and exercisable at end of year		47,700
Weighted average exercise prices (US$ per thousand shares)		
At beginning of year	2.75	4.66
Exercised	2.93	3.82
At end of year		2.75
Shares available at end of year for options that may be granted in the subsequent year (thousand of shares)	1,683,000	1,683,000
Range of exercise prices for outstanding options (US$ per thousand shares)		2.75
Year-end quoted market price of shares (based on quoted market value at the end of each year) (US$ per thousand shares)	34.96	11.31

16 Pension Plan

The Company sponsors several retirement plans covering substantially all of its employees. Prior to March 1995, the benefits program consisted of a final-pay, defined benefit pension plan with benefits based on years of service, salary and social security benefits ("Plan I"). In March 1995, a new plan was created under which retirement, disability and death benefits would be based on a defined benefits formula ("Plan II"). Plan II is partially funded through mandatory employee contributions. In May 1998, the Company established a third defined benefit plan ("Plan III") based on a formula resulting in defined benefits lower than those under the Plan II formula, and under which employees are not required to make contributions. Substantially all employees elected to transfer to Plan III from Plan II.

In May 1998 the Company established a new defined contribution plan ("Plan IV"). Contributions for Plan IV cover substantially all new employees, as new employees are not permitted to join any of the existing defined benefit plans. Contributions by the Company under Plan IV are determined based on participants' salaries. Pension costs relating to the Plan IV for the year ended December 31, 2003 were approximately US$ 331 (2002 - US$ 228).

The Company's pension plans are administered by a board of curators of a foundation, Fundação de Seguridade Social dos Empregados da CST - FUNSSEST, which is comprised of plan members, chosen among the employees of the sponsor and retired participants. The plan assets are comprised principally of time deposits and equity securities (including common shares and preferred shares of the Company with a market value of US$ 38,194 at December 31, 2003), government securities and properties. All benefits are calculated and paid in Brazilian reais.

Information with respect to the Company's pension plans, in the form required by SFAS No. 132 - "Employers' Disclosure about Pensions and Other Postretirement Benefits", for the year ended December 31, 2003 and 2002 is as follows:

	2003	2002
Change in benefit obligation		
Net benefit obligation at beginning of year	(104,469)	(144,918)
Service cost	(2,762)	(4,389)
Interest cost	(6,125)	(8,520)
Actuarial gain/(loss)	(10,359)	(3,514)
Gross benefits paid	6,336	5,131
Gain (loss) on translation	(35,933)	51,741
Net benefit obligation at end of year	(153,312)	(104,469)
Change in plan assets		
Fair value of plan assets at beginning of year	103,351	131,924
Actual return on plan assets	55,718	20,172
Employer contributions	3,573	3,056
Plan participants' contributions	86	168
Gross benefits paid	(6,336)	(5,131)
Repayment of Sponsor loan (made to employer)		6,301
Gain (loss) on translation	29,136	(53,139)
Fair value of plan assets at end of year	185,528	103,351
Funded status at end of year	32,216	(1,118)
Unrecognized net actuarial gain	(96,244)	(69,096)
Unrecognized net transition obligation	101	1,321
Unrecognized prior service cost	(16,492)	(19,166)
Accrued pension cost liability	(80,419)	(88,059)

Net pension cost (benefit), included in cost of sales, and selling, general and administrative expenses, comprises the following components:

	Year ended December 31		
	2003	2002	2001
Service cost - benefits earned during the period	2,762	4,389	6,092
Interest cost on projected benefit obligation	6,125	8,520	9,327
Expected return on plan assets	(6,151)	(7,862)	(7,601)
Amortization of net transition obligation	1,220	1,209	1,209
Amortization of prior service cost	(2,674)	(2,674)	(2,674)
Amortization of unrecognized net actuarial gain	(5,239)	(4,170)	(2,222)
	(3,957)	(588)	4,131
Participants contributions	(149)	(404)	(131)
Total periodic pension cost (benefit)	(4,106)	(992)	4,000

Assumptions used were:

	Year ended December 31		
	2003	**2002**	**2001**
Assumed annual discount rate - %	6.0	6.0	6.0
Rates of increase in compensation levels (average per year)	(i)	(ii)	(iii)
Expected long-term rate of return on assets (per year) - %	6.0	6.0	6.0
Real benefit increase (per year) - %	0.0	0.0	0.0
Capacity factor - %	98	98	98

(i) in 2003: Plan I = 0.0%; Plan II = 2.0% for 2004 and 1% after that; Plan III = 4.0% for 2004, and 2005, 3.0% between 2006 and 2008 and 2% thereafter.
(ii) in 2002: Plan I = 0.0%; Plan II = 2.0% between 2003 and 2005 and 1% after that; Plan III = 5% for 2003, 3.0% between 2004 and 2006 and 2% thereafter.
(iii) in 2001: Plan I = 0.0%; Plans II and III = 2.0% first 4 years and 1.5% thereafter.

The pension liability is treated for accounting purposes as a non-monetary liability, despite the pension disbursements being in Reais. Accordingly, the foreign currency translation gain and losses are deferred (unrecognized net actuarial gain account) to be recognized along with other actuarial gains and losses over a period of 5 years.

17 Commitments and contingencies

(a) Contingencies

Based on a case by case analysis of each issue and supported by the opinion of outside legal counsel, the Company set up provisions for probable losses for its legal proceedings involving tax, labor and civil lawsuits in the amount of US$ 39,563 (December 2002 - US$ 20,119). The Company has made restricted court deposits of US$ 13,246 (December 2002 - US$ 10,263) for these proceedings.

The Company is contesting legal proceedings in progress, involving contingent risks, which are considered as possible losses and total approximately US$ 50,000.

In 1994, the Company prosecuted a claim to assure the tax deductibility of certain charges which were suppressed by the "Plano Verão" of January 1989. A preliminary decision by the 2nd Federal Regional Court granted the Company the possibility to partially deduct such charges from its income tax base. In 2003, the Company, based on the assessment of its outside legal counsel, considered the benefit granted by the court decision to be valid and used the credit related to the above mentioned charges (not previously recognized) to offset a portion of its income tax payable. Given that the benefit granted to the Company is based on a non-definitive ruling and therefore the credit used is still contingent, the Company recognized a provision on December 31, 2003 of US$ 23,436 or the full amount of the credit used.

(b) Environmental issues

The Company is subject to Federal, State and local laws and regulations relating to the environment. These laws generally provide for control of air and effluent emissions and require responsible parties to undertake remediation of hazardous waste disposal sites. Civil penalties may be imposed for noncompliance. The Company provides for remediation costs and penalties when a loss is probable and the amount is reasonably determinable. It is not presently possible to estimate the ultimate amount of all remediation cost that might be incurred or the penalties that may be imposed; however, management does not presently anticipate that such costs and penalties, to the extent not previously provided for, will have a material adverse effect on the f position of the Company. The Company operates an environmental protection department, including an environmental quality assurance division. The Company has made substantial capital expenditures to assure existing facilities comply with environmental laws (2003 - US$ 514 - 2002 - US$ 2,930).

(c) Tax incentive program

The Company participated in a government export incentive program (BEFIEX), in which it received income tax benefits in relation to imported plant and equipment and exemptions from limitations on the use of certain tax losses (Note 4(c) (i)). This program ended on December 31, 2001 and the Company had complied with all of its obligations in regard to this program.

(d) Purchase commitments

Formal purchase commitments of the Company, relating primarily to the purchase of property, plant and equipment, amount to approximately US$ 142,000 at December 31, 2003 (2002 - US$ 213,000) and to its investment in Vega do Sul S.A. Such commitments will be fully realized by 2008.

(e) Sales agreement - associated company

O June 16, 2000, the Company entered into a ten-year sales agreement (renewable for a further three periods of ten years) with Vega do Sul S.A., to sell hot bands that will be produced as from the start-up of the hot strip mill (Note 1). Through this agreement, Vega do Sul S.A. will purchase from the Company at least 90% of its hot band requirements, which will not exceed 920 thousand of tons per year. The transaction terms and conditions will be based on the Brazilian market prices.

(f) Guarantee to loan contract signed by Vega do Sul S.A.

The Company is a joint and several guarantor together with the Arcelor Group in relation to a loan contract with BNDES signed by Vega do Sul S.A. on December 31, 2002. The balance of this loan (total once fully draw down will be equivalent to US$ 74,462 at December 31, 2002 exchange rates) at December 31, 2003 was US$ 61,268.

18 Exports from Brazil

Destination	**2003**	**2002**	**2001**
North America	448,269	489,461	411,124
Asia	441,752	272,897	175,789
Europe	87,872	128,720	189,792
Latin America	11,081	36,763	11,293
Other		2,156	412
	988,974	929,997	788,410

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, UNLESS OTHERWISE STATED

19 Related-party Transactions and Balances

	December, 31 2003						December 31, 2002
	Arcelor Group Companies (1)	Companhia Vale do Rio Doce	Pool of Japanese shareholders (2)	California Steel Industries Inc.	Vega do Sul	Total	Total
Ativo							
Accounts receivable	2,116	42	10,480	12,611	7,174	32,423	29,459
Liabilities							
Suppliers	5	13,938				13,943	12,117

	Year ended December, 31						
	2003						2002
	Arcelor Group Companies	Companhia Vale do Rio Doce	Pool of Japanese shareholders	California Steel Industries Inc.	Vega do Sul	Total	Total
Results of operations							
Net sales revenues	34,600	168	257,842	99,863	29,677	422,150	407,880
Purchase (iron ore, scrap, freight and discharge of coal)	769	214,104				214,873	172,501
Purchase of fixed assets (3)			38,044			38,044	9,661

(1) Including Sidmar N.V, Companhia Siderúrgica Belgo Mineira, Acesita S.A., Arcelor Packagin Internacional and Arcelor Internacional América Inc.

(2) Including Marubeni Corporation , Mitsui and Kawasho Corporation.

(3) Payments as a part of the fourth thermoelectric plant.

20 Financial Instruments

(a) Foreign currency risk management

The Company does not enter into financial instruments for trading or speculative purposes. As most of the sales of the Company occur in US dollars, the management believes this provides a natural economic hedge of the liabilities denominated in foreign currencies.

(b) Fair Value of Financial Instruments

The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Certain a were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. Potential income tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration.

The carrying amounts for cash and cash equivalents, accounts and notes receivable, restricted investments, and current liabilities are a reasonable estimate of their fair values. The fair value of long-term debt is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

The estimated fair values of financial instruments are as follows:

	2003		2002	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets				
Cash and cash equivalents	130,522	130,522	104,446	104,446
Trade account receivable	117,937	117,937	80,470	80,470
Financial liabilities				
Advances against export contracts	132,652	131,586	230,985	227,806
Short-term debt	10,422	10,172	13,848	13,855
Export-receivables Securitization Program	159,940	164,882	189,661	176,360
Other long-term debt	458,944	429,084	408,155	348,353

21 Profit Sharing Plan

As from January 2000, the Company modified its employee profit sharing plan to incorporate performance-based measures. The attainment of certain earnings targets, measured by indicators such as EBITDA (Earnings before interest, taxes, depreciation and amortization) and ROCE (Return on capital employed) are primary measures. Departmental goals are also established.

In 2003, the Company paid US$ 5,706 of profit sharing as advance payment (2002 - US$ 2,335) and set up a provision to complement payment related to 2003 of US$ 11,625 (2002 - US$ 9,382) included in "Other current liabilities".

22 Supplementary Information

	Beginning of year	Additions charged of costs and expenses	Deductions credit to costs and expenses	Offset against asset	End of of year
2003					
Allowances deducted from related balance sheet accounts:					
Accounts receivable	184		(105)		79
Inventory obsolescence provision	6,200				6,200
2002					
Allowances deducted from related balance sheet accounts:					
Property, plant and equipment - Impairment	11,744			(11,744)	
Accounts receivable	261		(77)		184
Inventory obsolescence provision	9,379			(3,179)	6,200
2001					
Allowances deducted from related balance sheet accounts:					
Property, plant and equipment - Impairment	1,937	9,807			11,744
Accounts receivable	288		(27)		261
Inventory obsolescence provision	18,545		(9,166)		9,379

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Companhia Siderúrgica de Tubarão

1 We have audited the accompanying consolidated balance sheets of Companhia Siderúrgica de Tubarão and its subsidiaries (the "Company") as of December 31, 2003 and 2002 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for each of the years in the three-year period ended December 31, 2003, all expressed in United States dollars. 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.

2 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 provide a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of the Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

February 13, 2004

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "S" ES

Otavio Cassou Maia
Contador CRC SP-158611/O "S" ES

FINANCIAL STATEMENTS 2003

- International Financial Reporting Standards (IFRS) in US$

CONSOLIDATED STATEMENTS OF OPERATIONS

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS

	Year ended December 31	
	2003	**2002**
Gross sales, net of discounts, returns and allowances		
Export	988,974	929,997
Domestic	370,567	56,923
Total gross sales	1,359,541	986,920
Sales and value-added tax	(75,617)	(10,778)
Net sales	1,283,924	976,142
Cost of sales	(868,401)	(776,691)
Gross profit	415,523	199,451
Selling expenses	(96,636)	(68,461)
General and administrative expenses	(58,436)	(28,492)
Loss on disposal of fixed assets	(141)	(587)
Operating income	260,310	101,911
Finance costs		
Financial income	5,186	30,021
Financial expenses	(39,840)	(33,928)
Foreign exchange gain (loss), net (Note 2 (b))	(14,777)	3,665
	(49,431)	(242)
Equity in losses of associated company	(6,139)	(8,715)
Income before taxes	204,740	92,954
Taxes on income - benefit (expense)		
Current	(19,975)	
Deferred	109,930	(165,253)
	89,955	(165,253)
Net income (loss)	294,695	(72,299)
Basic and diluted earnings (loss) per thousand shares		
Preferred	6.07	(1.50)
Common	5.51	(1.36)

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

CONSOLIDATED BALANCE SHEET

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS

	Year ended December 31	
Assets	**2003**	**2002**
Non-current assets		
Property, plant and equipment, net (Note 3)	2,812,208	2,853,461
Investments in associated company (Note 4)	35,610	19,952
Recoverable tax (Note 7)	10,993	50,959
Restricted deposits for legal proceedings (Note 16)	13,246	10,263
Loans and advances	4,087	3,112
Other	6,493	6,115
	2,882,637	2,943,862
Current assets		
Inventories (Note 6)	139,738	112,002
Advances to suppliers	3,073	2,728
Recoverable tax (Note 7)	59,399	46,554
Prepaid expenses	996	6,932
Deferred income tax (Note 5)	56,263	42,528
Trade accounts receivable, net (Note 8)	117,937	80,470
Cash and cash equivalents (Note 9)	130,522	104,446
Other	9,383	8,861
	517,311	404,521
Total assets	3,399,948	3,348,383
Shareholders' equity and Liabilities		
Shareholders' equity		
Share capital (Note 10 (a))		
Preferred shares - no par value 62,620,222,060 authorized, 31,310,111,030 issued	1,186,101	1,186,101
Common shares - no par value 39,332,658,000 shares authorized, 19,666,329,000 shares issued	802,097	802,097
Treasury shares		(11,261)
Capital and revenue reserves	245,785	37,340
Accumulated deficit	(210,343)	(134,303)
Total shareholders' equity	2,023,640	1,879,974
Liabilities		
Non-current liabilities		
Deferred income tax (Note 5)	427,416	530,676
Accrued pension cost liability (Note 15)	144	1,006
Accrued liability for legal proceedings (Note 16)	39,563	16,688
Long-term debt (Note 12)	498,357	417,225
Other	356	140
	965,836	965,735
Current liabilities		
Interest attributed to shareholders' equity, net of tax (Note 10 (f))	53,066	5,798
Dividends (Note 10 (e))		20,629
Accounts payable to related parties (Note 17)	13,943	12,117
Current portion of long-term debt (Note 12)	120,527	180,591
Short-term debt (Note 13)	10,422	13,848
Advances against export contracts (Note 14)	132,652	230,985
Payroll and related charges	26,542	20,822
Suppliers	23,748	6,776
Other	29,572	11,108
	410,472	502,674
Total shareholders' equity and liabilities	3,399,948	3,348,383

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EXPRESSED IN THOUSANDS OF U. S. DOLLARS

	Capital	Capital Reserve	Revenue reserves: Statutory	Revenue reserves: For investment and working capital	Treasury shares	Retained earnings (deficit)	Total
At January 1, 2002	1,988,198	1	3,345	28,789	(15,624)	1,894	2,006,603
Reversal of dividends				9			9
Realization of available-for-sale securities						(15,852)	(15,852)
Sales of treasury shares under the stock option plan (Note 11)				(1,569)	4,363	(1,629)	1,165
Net income for the year						(72,299)	(72,299)
Appropriations of net income							
Transfers to reserves			786	18,347		(19,133)	
Interest attributed to shareholders' equity distribution				(6,184)		(6,655)	(12,839)
Dividend distribution				(6,184)		(20,629)	(26,813)
At December 31, 2002	1,988,198	1	4,131	33,208	(11,261)	(134,303)	1,879,974
At January 1, 2003	1,988,198	1	4,131	33,208	(11,261)	(134,303)	1,879,974
Sales of treasury shares under stock option plan (Note 11)				(287)	682	(270)	125
Sales of treasury shares (Note 2 (l))					10,579	7,124	17,703
Net income for the year						294,695	294,695
Appropriations of net income							
Transfers to reserves			16,673	158,291		(174,964)	
Fiscal incentive – ADENE		33,768				(33,768)	
Interest attributed to shareholders' equity distribution						(116,656)	(116,656)
Dividend distribution						(52,201)	(52,201)
At December 31, 2003	1,988,198	33,769	20,804	191,212		(210,343)	2,023,640

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

EXPRESSED IN THOUSANDS OF U. S. DOLLARS, EXCEPT PER SHARE AMOUNTS AND NUMBER OF SHARES

	Year ended December 31	
	2003	**2002**
Cash flows from operating activities		
Net income (loss)	294,695	(72,299)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation	180,937	196,320
Deferred income tax	(109,930)	165,253
Foreign exchange (gain) loss, net	14,777	(3,665)
Equity in losses of associated company	6,139	8,715
Gain on realization of available-for-sale-securities		(23,660)
Decrease (increase) in assets		
Trade accounts receivable	(30,971)	(13,133)
Advances to suppliers and related parties	846	1,993
Recoverable tax	46,706	(20,008)
Inventories	(24,281)	21,525
Other	7,851	142
Increase (decrease) in liabilities		
Suppliers	13,202	8,233
Payroll and related charges	5,020	6,166
Accrued liability for legal proceedings, net of restricted deposits	13,808	1,183
Accrued pension cost liability	(862)	(11,988)
Other	2,121	(14,832)
Net cash provided by operating activities	420,058	249,945
Cash flows from investing activities		
Additions to property, plant and equipment	(97,164)	(89,190)
Investments in associated company	(21,797)	(19,453)
Short-term investments and others	24	26
Net cash used in investing activities	(118,937)	(108,617)
Cash flows from financing activities		
Advances against export contracts		
Issuances	206,800	224,900
Repayments	(302,900)	(246,760)
Short-term debt		
Issuances	10,000	21,765
Repayments	(10,232)	(32,275)
Long-term debt		
Issuances	124,000	73,724
Repayments	(185,958)	(111,792)
Dividends and interest attributed to shareholders' equity paid	(128,876)	(34,870)
Exercise of stock options	125	1,165
Proceeds from sale of treasury shares	17,703	
Net cash used in financing activities	(269,338)	(104,143)
Effect of exchange rate changes on cash	(5,707)	1,134
Net increase in cash and cash equivalents	26,076	38,319
Cash and cash equivalents, beginning of year	104,446	66,127
Cash and cash equivalents, end of year	130,522	104,446
Supplemental cash flow information		
Cash paid during the period for interest	36,536	40,639
Cash paid during the period for taxes	39,276	24,384
Interest capitalized in fixed assets	8,798	18,413
Significant non-cash transactions		
Financed raw materials purchases		11,668
Financed equipment purchases	36,914	13,881

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

EXPRESSED IN THOUSANDS OF U.S. DOLLARS, UNLESS OTHERWISE STATED

1 The Company and its operations

Companhia Siderúrgica de Tubarão (the "Company"), located in the State of Espírito Santo, Brazil, was incorporated in 1974 and started production in 1983. It operates an integrated steel mill for the production and sale of iron and steel products, mainly slabs and semi-finished steel plates for export.

Strategically located, the Company's infrastructure includes a road and railway system, as well as a port complex that includes the Praia Mole Marine Terminal. This structure permits the Company to reduce various significant costs, such as those related to the delivery of raw materials and shipment of production.

The Company has continuously invested in technological improvement to increase production capacity and optimize product mix. Nominal installed capacity grew from 3.0 to 4.7 million metric tons/year when the Blast Furnace II began operation in 1998, which entailed an investment of approximately US$ 235 million (based on historical exchange rates). An additional US$ 320 million (based on historical exchange rates) was invested to provide continuous casting for all slab production beginning in 1998.

The operational start-up in September 2002 of the hot strip mill (HSM), which represented an investment of approximately US$ 400 million (based on historical exchange rates), will allow the Company to access markets for products with greater value-added (coiled hot-rolled strip), especially the domestic market. The Company expects that this mill will achieve a nominal capacity of 2.0 million tons/year by February 2004. The Company expects to allocate nearly 40% of the slabs produced to the HSM mill once it is fully operational.

In April 2003, the shareholders approved new investments to increase the steel production capacity to 7.5 million ton/year as from 2006 in order to replace the production of steel slabs that will be directed to the HSM. Investments in the project are expected to total US$ 600 million, of which 70% will be financed through third-parties.

In 2001 the Company obtained a 25% ownership interest in the total and voting stocks of Vega do Sul S.A., to produce galvanized and cold-rolled steel in the state of Santa Catarina, Brazil. The remaining shares are held by an entity controlled by one of the Company's shareholders, the Arcelor Group. The plant was partially commissioned and began operations in July 2003 and once fully operational is expected to consume approximately 800 thousand metric tons/year of the Company's HSM production.

These consolidated financial statements were authorized for issue by the Company's Chief Financial Officer on February 13, 2004.

2 Summary of Significant Accounting Policies

(a) Basis of presentation and consolidation

(i) The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which differ in certain respects from accounting principles applied by the Company in its financial statements prepared in accordance with accounting practices adopted in Brazil and the regulations and resolutions established by the Brazilian Securities Commission (CVM) and the Institute of Independent Auditors of Brazil (IBRACON).

(ii) The Company has applied the principles in IFRS No. 1 "First Time Adopters".

(iii) All majority-owned subsidiaries have been consolidated, and all significant intercompany accounts and transactions have been eliminated.

(b) Basis of translation and exchange effects

The Company transacts its business in Brazilian reais (R$) and has selected the United States dollar as its measurement and reporting currency. The Company's management considers that the U. S. dollar is the currency that better reflects the economic substance of the underlying events and circumstances of the Company's operations, based on the following facts: (i) a substantial portion of the Company's sales are destined for export, (ii) the sales price of the Company's products is denominated in U.S. dollars, (iii) a high level of financing is denominated in U.S. dollars and, (iv) a high level of the Company's costs is denominated in U.S. dollars. The Company presents its financial statements in accordance with International Accounting Standard ("IAS") Nº 21 – "The effects of Changes in Foreign Exchange Rates" as interpreted by Standing Interpretation Committee ("SIC") Nº 19. The Company's Board of Directors ("Conselho de Administração") and management have historically considered the U.S. dollar as its measurement and reporting currency as this has been, and remains in their opinion, the currency in which the Company principally operates. Accordingly, the Company's management has concluded that the measurement and reporting currency continues to be the U.S. dollar.

The U.S. dollar amounts for all periods have been remeasured (translated) from reais amounts as follows: Inventories, property plant and equipment, accumulated depreciation, certain other assets and shareholders' equity are remeasured at historical rates of exchange, and the remaining assets and liabilities denominated in reais are remeasured at period-end rates (R$ 2.8892, R$ 3.5333 and R$ 2.3204 to US$ 1.00 at December 31, 2003, December 31, 2002 and December 31, 2001, respectively); statement of operations accounts are remeasured at the average rate prevailing in the month of the charge or credit to income, except those relating to assets remeasured at historical rates, which are calculated based on the assets' U.S. dollar values.

The foreign exchange gains (losses) arose from the following balances:

Year ended December 31	2003	2002
Cash and cash equivalents	(5,707)	1,134
Receivables	6,496	(1,456)
Recoverable tax	19,600	(45,566)
Deferred tax	7,051	(31,508)
Other assets	5,448	(1,944)
Payables and accruals	1,374	2,396
Loans and financing	(42,418)	66,004
Other liabilities	(6,621)	14,605
Total translation gain (loss), net	(14,777)	3,665

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into United States dollars at official exchange rates reported by the Brazilian Central Bank at each balance sheet date.

(d) Property, plant and equipment (Note 3)

Property, plant and equipment are recorded at cost less depreciation, including interest incurred during the construction of major new facilities. Interest on construction-period borrowings denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange gains or losses and interest on construction-period borrowings denominated in reais is capitalized, net of related purchasing power effect, during the period of time required to prepare and complete the assets for its intended use. Expenditures for maintenance and repairs which do not materially extend the useful lives of the related assets are expensed as incurred as operating costs.

Depreciation has been computed on a units-of-production basis, except for the shipping terminal which is depreciated on a straight-line basis. Based on estimated production depreciation will be charged over the useful economic lives of the assets as follows:

Buildings	25 years
Installations	20 years
Shipping terminal	29 to 35 years
Equipment	20 years
Vehicles	7 years

(e) Environmental and site reclamation and restoration costs

Expenditures relating to ongoing environmental and restoration programs are charged against earnings as incurred. These ongoing programs are designed to minimize the environmental impact of the Company's operations and to manage the environmental risks of its activities. Liabilities with respect to such costs are recorded at the time that they are considered probable and are reasonably estimable. Management believes that, at present, there has not been a material loss or need for a significant accrual.

The Company obtained an environmental clearance certificate from the State Secretariat for the Environment (SEAMA/IEMA) on December 31, 2003. The same affirms that there are no pending items related to penalties or environmental requirements.

(f) Recoverability of long-lived assets

Management reviews long-lived assets, primarily buildings and equipment to be held and used in the business, for the purpose of determining and measuring impairment on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Write-down of the carrying value of assets or groups of assets is made if and when appropriate.

Analyses are designed to identify circumstances that might require assessment of the recoverability of the long-lived assets and to measure any potential impairment charges. Assets are grouped and evaluated for possible impairment on the basis of the projected discounted future cash flows of the business over the estimated remaining lives of the assets as new events or circumstances arise. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the value in use of the long-lived asset. Value in use is determined primarily using discounted anticipated cash flows.

(g) Trade accounts receivable and advances to suppliers

Trade accounts receivable are stated at estimated realizable values. An allowance for doubtful accounts is provided in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

(h) Investment in associated company

Relates to the investment in Vega do Sul S.A (Note 4) in which the Company has a 25% interest in the voting capital. Vega do Sul S.A. prepares its financial statements using the U.S. dollar as its measurement and reporting currency.

(i) Inventories (Note 6)

Inventories are stated at the lower of the average of cost of purchase or production and replacement or realizable values. Allowances for slow moving or obsolete inventories are recorded when considered appropriate.

(j) Cash and cash equivalents (Note 9)

Cash and cash equivalents represent cash, bank accounts and short-term financial investments with a ready market and maturities when purchased of 90 days or less, and are stated at the lower of cost plus accrued interest or market value.

(l) Treasury shares

Treasury shares are acquired as a temporary investment and accounted for using the cost method, as a deduction from shareholders' equity. In 1998 and 1999, as authorized by the Board of Directors, the Company repurchased Preferred Shares which were held in treasury, resold, or used to offset potential dilution by the stock option plans (Note 11). Certain shares have been used to discharge obligations under the stock-based compensation plans.

During November 2003, all treasury shares were sold at market value for US$ 17,703 generating a gain of US$ 7,124, which was recorded in shareholders' equity.

(m) Pension plans (Note 15(a))

The Company accounts for pension plans in accordance with IAS No.19, "Employee Benefits".

The Company sponsors several retirement plans covering substantially all of its employees. Prior to March 1995, the benefits program consisted of a final-pay, defined benefit pension plan with benefits based on years of service, salary and social security benefits ("Plan I"). In March 1995, a new plan was created under which retirement, disability and death benefits would be based on a defined benefits formula ("Plan II"). Plan II is partially funded through mandatory employee contributions. In May 1998, the Company established a third defined benefit plan ("Plan III") based on a formula resulting in defined benefits lower than those under the Plan II formula, and under which employees are not required to make contributions. Substantially all employees elected to transfer to Plan III from Plan II.

In May 1998 the Company established a new defined contribution plan ("Plan IV"). Contributions for Plan IV cover substantially all new employees, as new employees are not permitted to join any of the existing defined benefit plans. Contributions by the Company under Plan IV are determined based on participants' salaries.

(n) Revenues recognition

Revenue comprises the invoiced sales value net of value added tax, of rebates and discounts and after eliminating sales within the Group. Revenue from sales of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.

(o) Expenses

Operating expenses are recognized in the statement of operations when incurred, unless it might be directly associated with specific items of income. In this case these expenses are recognized in the income statement on the basis of systematic and rational allocation procedures.

(p) Income taxes

Income taxes in Brazil comprise Federal income tax and social contribution, as recorded in the Company's statutory accounting records. There is no state or local income taxes in Brazil.

For the purposes of these financial statements, the effect of adjustments made to reflect the requirements of International Financial Reporting Standards, as well as differences between the tax basis of non-monetary assets and the amounts included in the statutory accounting records, prepared in accordance with accounting practices adopted in Brazil, have been recognized as temporary differences for the purpose of recording deferred income taxes. Net operating loss carryforwards are recognized when it is probable that sufficient future taxable profits will be generated to allow the realization of the deferred tax assets.

(q) Earnings per share

In calculating earnings per share the Company takes into consideration the participating rights. Net income is first reduced by dividends declared and the balance allocated to common and preferred shares to the extent that they share in earnings. Preferred shares are treated as participating securities.

Earnings and dividends per share are disclosed in amounts per thousand shares, as a lot of one thousand shares is the minimum number of shares that can be traded on the Brazilian stock exchange. Preferred Shares are entitled to a dividend 10% greater than that paid to the common shareholders. As such earnings may be capitalized or otherwise appropriated; there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed.

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The Company issued stock options (Note 11). The dilutive effect is reflected in diluted earnings per share.

(r) Accounting for derivatives

The Company maintains an overall risk management strategy to minimize significant unplanned fluctuations caused by foreign exchange rate volatility. The Company may enter into derivative instruments to protect against exchange rate movements affecting its non-US dollar denominated accounts. Market-value gains and losses on these contracts are recognized in income currently, offsetting foreign exchange gains and losses arising on the counter party accounts balances.

All derivative instruments are recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or shareholders' equity, depending on whether the derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. The Company had no transactions which have been classified as hedge transactions in shareholders' equity in the periods presented.

(s) Segment information

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

3 Property, Plant and Equipment

	December 31, 2002 Net	Additions	Reclassifications	Disposal	Depreciation	December 31, 2003 Net
Land	19,096					19,096
Buildings	468,396		(204)		(23,734)	444,458
Installations	1,629,754	5,146		(37)	(121,916)	1,512,947
Shipping terminal	19,389	191	204		(3,158)	16,626
Equipment	563,846	9,622		(92)	(35,153)	538,223
Vehicles	1,733	65		(12)	(431)	1,355
Construction in progress	151,247	128,255				279,502
	2,853,461	143,279		(141)	(184,392)	2,812,208

	2003 Cost	Accumulated depreciation	Net
Land	19,096		19,096
Buildings	688,523	244,065	444,458
Installations	2,727,123	1,214,175	1,512,948
Shipping terminal	32,772	16,146	16,626
Equipment	771,410	233,187	538,223
Vehicles	4,432	3,077	1,355
Construction in progress	279,502		279,502
	4,522,858	1,710,650	2,812,208

	2002 Cost	Accumulated depreciation	Net
Land	19,096		19,096
Buildings	688,727	220,331	468,396
Installations	2,722,048	1,092,294	1,629,754
Shipping terminal	32,377	12,988	19,389
Equipment	762,163	198,317	563,846
Vehicles	4,410	2,677	1,733
Construction in progress	151,247		151,247
	4,380,068	1,526,607	2,853,461

(i) Construction in progress at December 31, 2003 and 2002 consists of the following:

	December 31, 2003	December 31, 2002
Blast furnace equipment	81,368	76,189
Production optimization	88,634	16,426
Hot strip mill	46,862	12,466
Utility center refurbishment	8,400	4,757
Information technology	6,769	12,618
Other	47,469	28,791
	279,502	151,247

(ii) The appropriation of depreciation for the period is summarized as follows:

	Year ended December 31, 2003	Year ended December 31, 2002
Cost of production	179,576	191,801
Operation expenses	4,816	2,631
	184,392	194,432

(iii) Borrowing costs capitalized:

	Year ended December 31, 2003	Year ended December 31, 2002
Hot Strip Mill	6,544	17,675
Other	2,254	738
	8,798	18,413

4 Investment in Associated Company

	Year ended December 31, 2003	Year ended December 31, 2002
Beginning of year	19,952	9,214
Capital subscription	21,797	19,453
Equity in losses	(6,139)	(8,715)
End of year	35,610	19,952

Relates to the investment in Vega do Sul S.A., in which the Company has a 25% interest in the total and voting capital.

5 Taxes on Income

(a) Analysis of tax balances

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

	2003	2002
Current deferred tax assets, net		
Net operating loss carryforwards	56,084	42,528
Other temporary differences	179	
	56,263	42,528
Non-current deferred tax assets		
Net operating loss carryforwards	8,229	30,933
Temporary differences		
Provision for contingencies	6,202	5,284
Other	916	1,099
	15,347	37,316
Non-current deferred tax liabilities		
IFRS temporary differences		
Difference between carrying value and tax base of property, plant and equipment	(415,793)	(539,469)
Other	(3,238)	(6,915)
Net price-indexing gains (inflationary profit)	(732)	(1,197)
Accelerated depreciation	(23,000)	(20,411)
	(442,763)	(567,992)
Non-current deferred tax liabilities (net)	(427,416)	(530,676)
Total deferred tax (net)	(371,153)	(488,148)

The Company has applied IAS 12, "Income Taxes" for all periods presented. The effect of adjustments made to reflect the requirements of International Financial Reporting Standards, as well as differences between the tax basis of assets and liabilities included in the statutory accounting records, prepared in accordance with accounting practices adopted in Brazil, have been recognized as temporary differences for the purpose of recording deferred taxes against a charge or credit to income.

(b) Income tax reconciliation

The amount reported as income tax expense (benefit) in these financial statements is reconciled to the statutory composite rates as follows:

	2003	2002
Income before taxes – before equity in losses of associated companies	210,879	101,669
Income tax and social contribution at statutory composite rate of 34%	(71,699)	(34,567)
Adjustments to derive effective rate:		
Income tax on non-deductible expenses	(1,594)	(1,281)
Benefit from deductibility of interest attributed to shareholders' equity	37,166	4,580
Income tax on realization of available-for-sale-securities		(7,808)
Foreign earnings not subject to tax	23,092	17,227
Fiscal incentive – ADENE (*)	33,768	
IFRS temporary differences	69,222	(143,404)
Tax benefit (expense) as reported in the financial statements	89,955	(165,253)

(*) As a result of the fact that it is located in the area under the jurisdiction of the Agency for Development of the Northeast (ADENE) and because the steel products and energy areas are considered priority industries for regional development, as set forth in Decree 4.213/2002, the Company applied and obtained, in 2003, the right to a reduction in the income tax rate arise from the exploitation income.

The right to this benefit was processed in approval reports 0103/2003, 0104/2003, and 0105/2003 issued by the Ministry for National Integration on March 31, 2003 and the same was subsequently homologated by the Federal Revenue Service on July 31, 2003. The following tax benefits were approved for the Company:

(i) reduction of 75 percent for statutory income tax rate on profits generated as a result of Steel Slabs production, limited to 5,000,000 tons/year as from 2002 to 2011;

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(ii) reduction of 75 percent for statutory income tax on profits generated as a result of coiled hot-holled strip production, limited to 2,000,000 tons/year as from 2004 to 2013;

(iii) reduction of 75 percent for statutory income tax on profits generated as a result of energy production, limited to 300 MW/year as from 2002 to 2011.

In the year ended December 31, 2003, the income tax benefit amounted US$ 33,768. This amount is included as part of appropriated retained earnings and can be used only to absorption of losses and increase capital.

Following a reexamination by the legal department of the Regional Integration Ministry, on January 5, 2004, the Company was notified by the former, now extinct, Superintendency for Development of the Northeast (SUDENE) of its decision to annul the fiscal benefits previous granted, upon concluding that the geographical area where the Company is located would not be within the geographical area of the fiscal incentive and, therefore, the Company would no longer be entitled to such fiscal incentive.

The Company's management has consulted legal counsel and is convinced that the intended cancellation is incorrect, because applicable regulations lead to the unequivocal conclusion that the incentives cover companies that operate in the area under the jurisdiction of ADENE, which is the case of CST. Based on advice of legal counsel, the Company understands that the intended cancellation does not affect benefits already recorded during 2003. Therefore, no provision was set up for these benefits recognized in the year ended as of this date.

In order to assure full use of this tax benefit, the Company will use all available administrative and legal instruments

(c) Net operating loss carryforwards

Federal income tax and social contribution regulations currently state that tax losses available for offset are limited in any one year to 30% of annual income before tax determined in accordance with Brazilian Corporation Law; such restriction is not applicable to the Company for federal income tax purposes given the Company's participation in a government export incentive program (BEFIEX), in which it received income tax benefits in relation to imported plant and equipment and exemptions from limitations on the use of certain tax losses. The Company fulfilled all of its BEFIEX commitments which expired at December 31, 2001.

6 Inventories

	2003	2002
Finished product		
Steel slabs	9,136	32,072
Hot coil	15,916	6,832
Products in process	8,177	3,534
Raw materials	59,242	33,137
Spare parts and maintenance supplies, net realizable value	47,267	36,427
	139,738	112,002

7 Recoverable Taxes

	2003		2002	
	Current	Non-current	Current	Non-current
Sales tax credits, primarily value added tax	48,199	7,686	25,941	44,214
Withholding tax on financial income	6,265		10,336	
Prepaid sales taxes			8,633	
Other taxes and contributions	4,935	3,307	1,644	6,745
	59,399	10,993	46,554	50,959

8 Trade Accounts Receivable

	2003	2002
Customers		
Export	83,438	66,068
Domestic	34,578	14,586
Provision for impairment of receivables	(79)	(184)
	117,937	80,470

It is the Company's practice to require letters of credit for sales to foreign markets, thereby reducing the risk of default on such sales. The provision for doubtful accounts refers to old outstanding balances for which the Company has adopted measures necessary to recover these amounts; it maintains a provision for 100% against these amounts.

9 Cash and cash equivalents

	2003	2002
Brazilian reais	3,591	6,199
United States dollars	126,931	98,247
	130,522	104,446

Cash equivalents denominated in United States dollars represents investments in short-term securities and mutual funds with highly rated financial institutions.

10 Shareholders' Equity

(a) Share capital and Share rights

Total authorized share capital of the Company, up to which shares may be issued without changing the by-laws, is 62,620,222,060 Preferred Shares and 39,332,658,000 Common Shares.

Each holder of Common Shares is entitled to one vote for each share held on all matters that come before a shareholders' meeting. Preferred Shares are not redeemable, nor convertible into Common Shares, and have no voting rights, but are assured priority in the return of capital in the event of liquidation.

Pursuant to Law 9.457/97, the Preferred Shares are entitled to a dividend per share which is 10% greater than the dividend paid to Common Shares. As distributable earnings may be capitalized or otherwise appropriated, there can be no assurance that preferred shareholders will receive the 10% premium referred to above, unless earnings are fully distributed.

The minimum mandatory dividend is 25% of net income of each year, as determined in the local currency financial statements prepared in accordance with accounting practices adopted in Brazil.

(b) Shareholders' agreement

A Shareholders' Agreement provides that each party to the agreement has a right of first refusal in the event that the other party seeks to dispose of its shares in the Company, unless these are disposals to member companies of the same group. This agreement is among Aços Planos do Sul S.A. (an associated company of the Acesita S.A. and Arcelor Group as from August 1998), Companhia Vale do Rio Doce and a pool of Japanese companies lead by JFE Steel Corporation. Together, these companies own, of record, 74.67% of the common shares of the Company at December 31, 2003 and 2002.

The agreement also provides for rights to appoint members of the Company's Board of Directors (which may number up to ten persons). Parties who own at least 9.5% of the Company's Common Shares may appoint one member. Parties holding at least 15% of the Company's Common Shares may appoint two members.

In addition, at least 60% of the votes of the parties are required for certain issues regarding the corporate governance of the Company including, but not limited to (a) amendments to the Company's by-laws, (b) amendments to dividend policy, (c) changes in capital structure and (d) new investments and projects.

(c) Capital and revenue reserves

Brazilian Corporate Law and the Company'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:

(i) The statutory reserve results from appropriations from retained earnings of 5% of annual net income as stated in the statutory accounting records prepared in accordance with Brazilian Corporate Law. Such appropriations are, generally, required until the balance reaches 20% of the balance of share capital, based on the statutory accounting records. At December 31, 2003 such total capital was R$ 2,782,106 thousand, equivalent to US$ 962,933 at the exchange rate in effect at such date (R$ 2,782,106 thousand and US$ 787,396 at December 31, 2002).

(ii) The tax incentive reserve results from an option to apply a portion of income tax otherwise payable for (i) the acquisition of capital stock of companies undertaking specified government-approved projects and (ii) investment in property, plant and equipment for the Company's qualifying capital projects. The amount applied is credited to the sales and value-added tax line in the Company's statement of operations and subsequently appropriated from unappropriated retained earnings to the tax incentive reserve. No recapture provisions are required to be satisfied unless the corresponding capital reserve presented in the financial statements prepared in accordance with Brazilian Corporate law is used to pay dividends and /or interest attributed to shareholders' equity, at which time the income tax not previously paid on such credits would become due, together with penalties. The tax incentive and statutory reserves may be capitalized but are not available for distribution as cash dividends and interest attributed to shareholders' equity.

(iii) The investment and development reserve represents discretionary appropriations, ratified by the shareholders, for plant expansion and other capital projects, the amount of which is based on an approved capital budget prepared by management. After completion of the projects, the Company may elect to retain the appropriations until the shareholders vote to transfer all or a portion of the reserve to capital or to retained earnings, from which a cash dividend and interested attributed to shareholders' equity may then be paid.

(d) Retained earnings

Brazilian law permits the payment of dividends and interest attributed to shareholders' equity only in reais and from retained earnings as stated in the accounting records prepared in accordance with Brazilian Corporate Law. At December 31, 2003, such retained earnings available for distribution aggregated R$ 552,451 thousand, equivalent to US$ 191,212 at the exchange rate in effect at such date (R$ 104,491 and US$ 29,573 at December 31, 2002).

(e) Dividends

The minimum mandatory dividend is 25% on net income of each year, as determined in the local currency financial statements prepared in accordance with Brazilian Corporate Law.

Management is required by Brazilian Corporate Law to propose dividends at year-end to meet the minimum mandatory dividend requirements for the year.

(f) Interest attributed to shareholders' equity

Brazilian companies are permitted to pay limited amounts to shareholders and treat such payments as an expense for Brazilian federal income tax and social contribution purposes. This notional interest distribution is treated for accounting purposes as a deduction from shareholders' equity in a manner similar to a dividend. A tax of approximately 15% is withheld and paid (or compensated with withholding tax credits) by the Company upon credit of the interest. Interest attributed to shareholders' equity is treated as a dividend for purposes of the mandatory dividend payable by the Company. The shareholders have approved a proposal to provide interest attributed to shareholders' equity of US$ 61,097 in respect of the year ended December 31, 2003 (US$ 6,655 – December 31, 2002) which has been recorded as an obligation in these IFRS financial statements.

(g) Earnings per share

IAS No. 33, "Earnings per share" addresses computation, presentation and disclosure requirements for earnings per share. Because the preferred and common shareholders have different dividend, voting and liquidation rights, basic and diluted earnings per share have been calculated taking into consideration the allocation of earnings per share for preferred and common stock according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings (loss).

Basic earnings per common share are computed by deducting net income distributed and net income available to preferred shareholders and dividing net income available to common shareholders by weighted-average number of common shares outstanding during the period. Net income available to preferred shareholders is the sum of the preferred stock dividends and the preferred shareholders' portion of undistributed net income (loss).

Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income (loss) attributed to preferred shareholders results in earnings (loss) per share 10% greater than those attributed to common shareholders. Diluted earnings per share are computed similarly to the basic earnings per share except that the outstanding shares are increased to include the number of additional shares that would have been outstanding if the dilutive potential shares had been issued.

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The computation of basic and diluted earnings per share is as follows:

	2003			2002		
	Preferred	Common	Total	Preferred	Common	Total
Basic and diluted numerator:						
Actual dividends declared	106,884	61,973	168,857	25,002	14,650	39,652
Basic and diluted allocated undistributed earnings (loss)	79,512	46,326	125,838	(70,480)	(41,471)	(111,951)
Allocated net income (loss) available fo common and preferred shareholders	186,396	108,299	294,695	(45,478)	(26,821)	(72,299)
Basic denominator:						
Weighted average shares	30,686,172	19,666,329		30,384,640	19,666,329	
Basic earnings per share	6.07	5.51		(1.50)	(1.36)	
Diluted denominator:						
Weighted average shares	30,686,172	19,666,329		30,384,640	19,666,329	
Stock options (*)				34,419		
Weighted average shares	30,686,172	19,666,329		30,419,059	19,666,329	
Diluted earnings per share	6.07	5.51		(1.50)	(1.36)	

(*) For purposes of computing diluted earnings per share, stock options are assumed to be converted into preferred shares as of the date of issuance of the security using the treasury stock method.

11 Stock Option Plans

In 1995, the Company approved a general purchase stock option plan (the "General Plan") for Executive Officers ("Diretoria") and certain employees and a special purchase stock option plan (the "Special plan" and, together with the General Plan, the "Plans") for members of the Board of Directors. The Plans are designed to obtain and retain the services of executives and certain employees. The classes and types of shares to be issued are determined by the Company at the exercise date. Exercise prices are established at the grant date but are reduced by dividends declared from the grant date through to the exercise date; accordingly, the Plans are accounted for as variable plans. Options granted under the Plans may be exercised as follows: 30%, 30% and 40% at the end of the third, fourth and fifth years, respectively, following the grant date. This right to exercise terminates the earlier of seven years from the grant date or when the option holder leaves the employment of the Company prior to obtaining the right to exercise the option. At December 31, 2003 all stock options granted had been exercised. No stock options were granted in 2002 and 2003.

	2003	2002
Outstanding at beginning of year (thousands of shares)	47,700	353,000
Exercised	(47,700)	(305,300)
Outstanding and exercisable at end of year		47,700
Weighted average exercise prices (US$ per thousand shares)		
At beginning of year	2.75	4.66
Exercised	2.93	3.82
At end of year		2.75
Shares available at end of year for options that may be granted in the subsequent year (thousand of shares)	1,683,000	1,683,000

	2003	2002
Range of exercise prices for outstanding options (US$ per thousand shares)		2.75
Year-end quoted market price of shares (based on quoted market value at the end of each year) (US$ per thousand shares)	34.96	11.31

12 Long-term Debt

Summary	2003	2002
Brazilian Reais		
Financing of property, plant and equipment		
BNDES line of credit ((a) below)	188,926	145,906
Others (indexed to TJLP (*))		
Leases of equipment		192
U.S. Dollars		
Financing of property, plant and equipment due through 2014		
Export Receivables Securitization Program ((b) below)	159,940	189,661
KfW line of credit ((c) below) (LIBOR (**) + 0.6 % per annum)	89,854	100,191
Export notes pre-((b) below)	121,013	85,336
Others (LIBOR (**) + 0.2% to 0.6% per annum)	59,151	76,530
Total	618,884	597,816

(*) The annualized TJLP (Government nominal long-term interest rate), fixed quarterly, is 11 % as from December 31, 2003 (2002 - 10%).

(**) The six-monthly London Interbank Offered Rate - LIBOR at December 31, 2003 is 1.4% (2002 - 1.5%).

Long term debt is classified as follows:

	2003	2002
Current liabilities	120,527	180,591
Long-term liabilities	498,357	417,225
Total	618,884	597,816

(a) BNDES line of credit

The Company executed a line of credit agreement with the Brazilian National Bank for Economic and Social Development (BNDES), on December 15, 1997. The original line of credit, denominated in reais, is payable in 60 monthly installments through January 2006. In the event the TJLP exceeds 6% per annum, the differential is added to the principal balance outstanding.

On June 5, 2000, the Company signed another line of credit agreement, denominated in reais, with the BNDES. Interest becomes payable as from April 2003 through June 2010. In the event the TJLP exceeds 6% per annum, the surplus is added to the principal.

On October 28, 2003, the Company contracted with BNDES a new line of credit, denominated in reais. Tranches A through D will be used toward the enhancement of production capacity from 4.7 to 5.0 million tons/year. Tranche E and F will be used to finance the acquisition of locally manufactured equipment for the construction of the fourth thermoelectric plant. Interest is payable quarterly for all tranches and, in the event the TJLP exceeds 6% per annum, the surplus will be added to the principal.

The loans are collateralized through items on the industrial land and property, including all equipment and installations (mortgage on the Coal Yard, Coke Ovens Plant and Continuous Caster I).

				Outstanding balance	
	Original line of credit	Annual finance charges	Due date	December 31, 2003	December 31, 2002
1997 line of credit					
Tranche A	72,494	TJLP + 3.5%	February 2006	11,126	12,787
Tranche B and C	26,320	TJLP + 2%	January 2006	2,787	3,205
	98,814			13,913	15,992
2000 line of credit					
Tranche A and B	147,048	TJLP + 2.5%	June 2010	112,404	94,595
Tranche C and D	83,286	TJLP + 4%	June 2007	40,120	35,319
	230,334			152,524	129,914
2003 line of credit					
Tranche A and B	6,900	(*) + 4.25%	April 2009	1,661	
Tranche C and D	6,900	TJLP + 4.25%	December 2009	1,688	
Tranche E and F	36,388	TJLP + 3.75%	November 2012	19,140	
	50,188			22,489	
	379,336			188,926	145,906

(*) Basket of foreign currencies.

(b) Export receivables securitization

In April 1997, the Company consummated an Export Receivables Securitization Program (the "Program") securitizing then existing and future receivables generated by its wholly-owned subsidiary CST Overseas Ltd. (the "Seller"). Under the program, an off-shore master trust (the "Trust") was established to issue a series of participation certificates ("Investor Certificates") in the Trust. The Seller sold existing receivables to CST International Limited ("SPC"), an off-shore wholly-owned special purpose subsidiary of the Company established for the sole purpose of engaging in this transaction, which were then sold by the SPC to the Trust; whereby the Trust issued to the Seller a Seller Certificate. The Trust collects outstanding receivables and the proceeds are applied to amounts owing to holders of the Investor Certificates. Excess collections, as defined in the agreement, are paid to holders of the Seller Certificate.

Additionally, US$ 90,000 of Investor Certificates were issued on April 13, 1997 to the Seller, which further pledged those Investor Certificates to nine foreign trading companies, to secure then existing indebtedness outstanding under certain loan agreements with the Seller. Such Investor Certificates replace, in part, loan agreements between the Company and each trading company. The Seller also pledged its Seller Certificates as security for such indebtedness and other indebtedness.

The Trust is required to pay interest and principal on Investor Certificates on a monthly basis. If an Early Amortization Event or Accelerated Amortization Event, as defined in the Program, occurs, outstanding principal of the Investor Certificates will be repaid on an accelerated basis via allocating an increased amount of any collections of such receivables to the principal balance. In addition, if an Accelerated Amortization Event occurs, the Seller may be required to pay to the Trust an amount sufficient to pay all amounts then owing in respect of the Investor Certificates.

Early Amortization Events include certain coverage tests relating to the collection and generation of receivables and a minimum balance of shareholders' equity of the Company measured under accounting practices adopted in Brazil generally accepted accounting principles. Accelerated Amortization Events include the failure to pay scheduled amounts owing in respect of the Investor Certificates.

In addition, the Company's existing loan agreements include conditions of events of default. As from November 2002 the holders of the certificates approved, as the new basis for measuring, such events among others under US GAAP, which are detailed below: (i) Gear Ratio (indebtedness to shareholders' equity, as defined) not permitted to be greater than 2:1, at any time; (ii) Shareholders' equity not to be less than the equivalent of US$ 1,000,000; and (iii) EBITDA\Interest expenses ratio shall not less than 2.5:1 at any time. All obligations of the Seller in connection with the Program are guaranteed by the Company.

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In addition, the Company continues to obtain financing from certain creditors of the Company which financing is received by certain Investors Certificates and the Seller Certificates under the Program which are subject to the same conditions regarding guarantees and collection of the proceeds to be applied to amounts owed to holders of the Seller Certificates.

(i) In December 1999, in connection with the contract for the supply of the Hot Strip Mill and two LD Converters, the Company entered in a loan agreement to finance locally costs incurred up to US$ 103,053 relating to the project.

(ii) In January 2003, the Company consummated a financing agreement in the amount of US$ 39,155 with the Japan Bank of International Cooperation (JBIC). The proceeds of the loan will be applied to cover the purchase of the fourth thermoelectric plant and of gases recovery system. At December 31, 2003, the Company had drawn down US$ 36,914, referring to this contract.

Details of the Program are as follows:

Series	Certificate	Principal	Annual Finance Charges	Grace period (months)	Due date
1	Investor	120,000	8.22%	36	2004
2	Investor	90,000	LIBOR + 1.25%	12	2002
3 a 8	Investor	90,000	LIBOR + 0.6% a 1.9%	Up to 30	Through 2004
	Seller	224,658	LIBOR + 0.6% a 1.9%	Up to 38	Through 2007
	Seller	103,053	LIBOR + 2%	Up to 30	Through 2009
	Seller	15,662	LIBOR + 1.75% a 8.69%	Up to 17	Through 2008
	Seller	23,493	7.88% a 8.69%	Up to 65	Through 2014
		666,866			

Certificates issued to creditors through December 31, 2003 under existing debt agreements, are as follows:

	Issued Through December 31, 2002 Investor	Issued Through December 31, 2002 Seller	Issued During 2003 Seller	Total program December 31, 2003	Total program December 31, 2002
Cash proceeds	210,000	280,953	36,914	527,867	490,953
Debt agreements replaced	90,000	46,758		136,758	136,758
	300,000	327,711	36,914	664,625	627,711
Amortization, net of interest (*)	(294,378)	(211,277)	970	(504,685)	(438,050)
Balance at December 31, 2003	5,622	116,434	37,884	159,940	189,661

(*) The Company offset US$ 14,070 (December 31, 2002 - US$ 18,368) against the loan balance, corresponding to the total amounts deposited in escrow accounts. These collateral accounts are outside the Company's control and will be utilized to settle the loan.

(c) KfW line of credit

On September 6, 1999, the Company concluded with Mannesmann Demag Limitada contracts for US$ 116,512 and R$ 273,000 for the supply of imported and local equipment and materials for a Hot Strip Mill for the steel mill. Certain works were sub-contracted . Approximately 85% of the contract price amounting to US$ 99,035 is financed by KfW and guaranteed by the Federal Government of Germany. Interest is payable semi-annually in arrears at LIBOR plus 0.6% per annum. The financed amount is payable in 20 semi-annual installments as from January 15, 2003. The equipment purchased is subject to negative pledge clauses. Through December 31, 2003, the lender had made disbursements totaling US$ 99,035 and the outstanding balance was US$ 89,854.

(d) Export notes prepayment

In December 2001, the Company entered into a line of credit denominated in U.S. dollars, with interest calculated based on LIBOR plus 1.7% to 4% per annum. These debts are secured by promissory notes for the full value of the debt. Interest related to these debts is payable semiannually and the principal will be paid by 2006 on the final maturity of the debt.

(e) Siderbrás agreement

Beginning in the third quarter of 2002, the prescriptive period, in which Siderbrás (the former Federal government steel authority) might have been able to contest the arrangement with the Company to settle its debt, has expired. In this arrangement the Company had extinguished its debt with Siderbrás by providing securities in the form of court-ordered debts. As the Company has not yet received formal recognition by the creditor that the debt was extinguished, the amount of the debt had been maintained on the Company's balance sheet together with the bond at like-value (Restricted asset). The unrealized gain on extinguishment of debt (accruing from purchasing the bond at a discount and offsetting the bond at face value) had been recorded, net of tax effects in "Other comprehensive income " in shareholders' equity. In the quarter ended September 30, 2002, the gain is considered to have been realized and is recorded in the statement of operations.

The Company is currently awaiting a final decision on a declaratory action which seeks the formal extinguishment of the debt although for legal purposes the arrangement cannot be annulled.

(f) Maturities and guarantees

At December 31, 2003, the long-term portion of long-term debt matures as follows:

	Total
2005	135,190
2006	131,721
2007	66,292
2008	56,002
2009	47,565
2010 to 2014	61,587
	498,357

Long-term debt is secured as follows:

	2003
Export receivables	159,940
Property, plant and equipment	188,926
Promissory notes	121,013
Unsecured	149,005
	618,884

13 Short-term Debt

The Company's short-term borrowings represent export pre-payment notes denominated in U.S. dollars indexed to LIBOR plus interest up to 3.3% p.a. Theses debts are secured by the issuance of promissory notes to the value of the debt. Compensating balances for short-term debt are immaterial. The Company has no formal lines of credit available.

14 Advances against Export Contracts

Advances received against export commitments are obtained from commercial banks with a commitment that the products be exported. Advances are denominated in U.S. dollars and accrue interest of LIBOR + 0.3% to 4.7% per annum (2002 - LIBOR + 1.2% to 5.4% p.a.). Advances fall due within 360 days.

15 Employee Benefits

(a) Pension Plan

The Company's pension plans are administered by a board of curators of a foundation, Fundação de Seguridade Social dos Empregados da CST - FUNSSEST, which is comprised of plan members, chosen among the employees of the sponsor and retired participants. The plan assets are comprised principally of time deposits and equity securities (including Common Shares and Preferred Shares of the Company with a market value of US$ 38,194 at December 31, 2003), government securities and properties. All benefits are calculated and paid in Brazilian reais. The Company recognizes all actuarial gains and losses in the period they are generated.

Information with respect to the Company's pension plans, for the years ended December 31, 2003 and 2002 is as follows:

Change in benefit obligation	2003	2002
Net benefit obligation at beginning of year	(104,469)	(144,918)
Service cost	(2,762)	(4,389)
Interest cost	(6,125)	(8,520)
Actuarial gain/(loss)	(10,359)	(3,514)
Gross benefits paid	6,336	5,131
Gain (loss) on translation	(35,933)	51,741
Net benefit obligation at end of year	(153,312)	(104,469)

Change in plan assets	2003	2002
Fair value of plan assets at beginning of year	103,351	131,924
Actual return on plan assets	55,718	20,172
Employer contributions	3,573	3,056
Plan participants' contributions	86	168
Gross benefits paid	(6,336)	(5,131)
Repayment of Sponsor loan (made to employer)		6,301
Loss on translation	29,136	(53,139)
Fair value of plan assets at end of year	185,528	103,351
Funded status at end of year	32,216	(1,118)
Unrecognized net actuarial gain		
Unrecognized net transition obligation	101	112
Unrecognized prior service cost		
Accrued pension cost asset (liability)	32,317	(1,006)
Current portion		
Long-term portion	(144)	(1,006)

Net pension cost (benefit), included in cost of sales, and selling, general and administrative expenses, comprises of the following components:

	Year ended December 31	
	2003	2002
Service cost - benefits earned during the period	2,762	4,389
Interest cost on projected benefit obligation	6,125	8,520
Expected return on plan assets	(6,151)	(7,861)
Amortization of net transition obligation	11	
	2,747	5,048
Participants contributions	(149)	(404)
Total periodic pension cost	2,598	4,644

Assumptions used were:

Assumed annual discount rate - %	6.0	6.0	6.0
Rates of increase in compensation levels (average per year)	(i)	(ii)	(iii)
Expected long-term rate of return on assets (per year) - %	6.0	6.0	6.0
Real benefit increase (per year) %	0.0	0.0	0.0
Capacity factor - %	98	98	98

(i) in 2003: Plan I = 0.0%; Plan II = 2.0% for 2004 and 1% after that; Plan III = 4.0% for 2004 and 2005, 3.0% between 2006 and 2008 and 2% thereafter.

(ii) in 2002: Plan I = 0.0%; Plan II = 2.0% between 2003 and 2005 and 1% after that; Plan III = 5% for 2003, 3.0% between 2004 and 2006 and 2% thereafter.

(iii) in 2001: Plan I = 0.0%; Plans II and III = 2.0% first 4 years and 1.5% thereafter.

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(b) Profit Sharing Plan

As from January 2000, the Company modified its employee profit sharing plan to incorporate performance-based measures. The attainment of certain earnings targets, measured by indicators such as EBITDA (Earnings before interest, taxes, depreciation and amortization) and ROCE (Return on capital employed) are primary measures. Departmental goals are also established.

In 2003, the Company paid US$ 5,706 of profit sharing as advance payment (2002 – US$ 2,335) and set up a provision to complement payment related to 2003 of US$ 11,625 (2002 – US$ 9,382). This provision is included in other current liabilities.

(c) Compensated absences

The liability for future compensation for employee vacations earned is fully accrued as benefits are earned.

16 Commitments and contingencies

(a) Contingencies

Based on a case by case analysis of each issue and supported by the opinion of outside legal counsel, the Company set up provisions for probable losses for its legal proceedings involving tax, labor and civil lawsuits in the amount of US$ 39,563 (December 2002 - US$ 20,119). The Company has made restricted court deposits of US$ 13,246 (December 2002 - US$ 10,263) for these proceedings.

The Company is contesting legal proceedings in progress, involving contingent risks, which are considered as possible losses and total approximately US$ 50,000.

In 1994, the Company prosecuted a claim to assure the tax deductibility of certain charges which were suppressed by the "Plano Verão" of January 1989. A preliminary decision by the 2nd Federal Regional Court granted the Company the possibility to partially deduct such charges from its income tax base. In 2003, the Company, based on the assessment of its outside legal counsel, considered the benefit granted by the court decision to be valid and used the credit related to the above mentioned charges (not previously recognized) to offset a portion of its income tax payable. Given that the benefit granted to the Company is based on a non-definitive ruling and therefore the credit used is still contingent, the Company recognized a provision on December 31, 2003 of US$ 23,436 or the full amount of the credit used.

(b) Environmental issues

The Company is subject to Federal, State and local laws and regulations relating to the environment. These laws generally provide for control of air and effluent emissions and require responsible parties to undertake remediation of hazardous waste disposal sites. Civil penalties may be imposed for noncompliance. The Company provides for remediation costs and penalties when a loss is probable and the amount is reasonably determinable. It is not presently possible to estimate the ultimate amount of all remediation cost that might be incurred or the penalties that may be imposed; however, management does not presently anticipate that such costs and penalties, to the extent not previously provided for, will have a material adverse effect on the financial position of the Company. The Company operates an environmental protection department, including an environmental quality assurance division. The Company has made substantial capital expenditures to assure existing facilities comply with environmental laws (2003 - US$ 514 - 2002 - US$ 2,930).

(c) Purchase commitments

Formal purchase commitments of the Company, relating primarily to the purchase of property, plant and equipment, amount to approximately US$ 142,000 at December 31, 2003 (2002 - US$ 213,000) and to its investment in Vega do Sul S.A. These commitments are expected to be realized by 2008.

(d) Sales agreement - associated company

On June 16, 2000, the Company entered into a ten-year sales agreement (renewable for a further three periods of ten years) with Vega do Sul S.A., to sell hot bands that will be produced as from the start-up of the hot strip mill (Note 1). Through this agreement, Vega do Sul S.A. will purchase from the Company at least 90% of its hot band requirements, which will not exceed 920 thousand of tons per year. The transaction terms and conditions will be based on the Brazilian market prices.

(e) Guarantee to loan contract signed by Vega do Sul S.A.

The Company is a joint and several guarantor together with the Arcelor Group in relation to a loan contract with BNDES signed by Vega do Sul S.A. on December 31, 2002. The balance of this loan at the December 31, 2003 was US$ 61,268 (total once fully drawn down will be equivalent to US$ 74,462 at December 31, 2002 exchange rates).

17 Related-party Transactions and Balances

	December, 31 2003						December 31, 2002
	Arcelor Group Companies (1) (Shareholder)	Companhia Vale do Rio Doce (Shareholder)	Pool of Japanese shareholders (2) (Shareholder)	California Steel Industries Inc. (Shareholder)	Vega do Sul (Associate)	Total	Total
Assets							
Accounts receivable	2,116	42	10,480	12,611	7,174	32,423	29,459
Liabilities							
Suppliers	5	13,938				13,943	12,117

							Year ended December, 31 2003	2002
	Arcelor Group Companies (1) (Shareholder)	Companhia Vale do Rio Doce (Shareholder)	Pool of Japanese shareholders (2) (Shareholder)	California Steel Industries Inc. (Shareholder)	Vega do Sul (Associate)	Executive Officers	Total	Total
Results of operations								
Net sales revenues	34,600	168	257,842	99,863	29,677		422,150	407,880
Purchase (iron ore, scrap, freight and discharge of coal)	769	214,104					214,873	172,501
Purchase of fixed assets (3)			38,044				38,044	9,661
Total remuneration paid						1,760	1,760	850

(1) Including Sidmar N.V, Sollac Lorraine, Companhia Siderúrgica Belgo Mineira, Acesita S.A., Arcelor Packagin Internacional and Arcelor Internacional América Inc.

(2) Including Marubeni Corporation , Mitsui and Kawasho Corporation.

(3) Payments as a part of the fourth thermoelectric plant.

18 Risk Management

(a) Foreign currency risk management

The Company does not enter into financial instruments for trading or speculative purposes. As most of the sales of the Company occur in US dollars, management believes this provides a natural economic hedge of its liabilities exposure to foreign currencies and therefore does not enter into financial instruments for hedging purposes on a recurring basis.

Consolidated balance sheet by currency

	US$	Local currency	Total
Assets			
Permanent	2,847,818		2,847,818
Long-term receivables		34,819	34,819
Current assets	270,074	247,237	517,311
Total	3,117,892	282,056	3,399,948
Liabilities and shareholders' equity			
Current liabilities	230,053	180,419	410,472
Long-term liabilities	346,846	618,990	965,836
Shareholders' equity	2,023,640		2,023,640
Total	2,600,539	799,409	3,399,948

(b) Fair value of financial instruments

The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Certain assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. Potential income tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale or settlement have not been taken into consideration.

The carrying amounts for cash and cash equivalents, accounts and notes receivable, restricted investments, and current liabilities are a reasonable estimate of their fair values. The fair value of long-term debt is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

The estimated fair values of financial instruments are as follows:

	December 31, 2003		December 31, 2002	
	Carrying amounts	Fair Value	Carrying amounts	Fair value
Financial assets				
Cash and cash equivalents	130,522	130,522	104,446	104,446
Trade account receivable	117,937	117,937	80,470	80,470
Financial liabilities				
Advances against export contracts	132,652	131,586	230,985	227,806
Short-term debt	10,422	10,172	13,848	13,855
Export-receivables Securitization Program	159,940	164,882	189,661	176,360
Other long-term debt	458,944	429,084	408,155	348,353

(c) Credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments, trade accounts receivable and advances to suppliers. The Company limits its credit risk associated with cash and cash equivalents by placing its investments with highly rated financial institutions in short-term securities and mutual funds, substantially all of such investments are made in US dollar – denominated deposits and funds in offshore accounts. With respect to trade accounts receivable, the Company limits its credit risk by selling to a reasonably geographically dispersed customer base and by performing ongoing credit evaluations and, usually, requiring letters of credit, guarantees or collateral. In 2003, 62 % of the Company's gross sales were to ten major customers (2002 - 82%, 2001 - 84%) and two customers, individually, represented more than 10% of gross sales for the year (one customer in 2002 and one in 2001). All such customers are meeting current commitments, are operating within established credit limits and are considered by management to represent a low credit risk. The Company's customers are principally steel rerollers which transform steel slabs into steel sheets. Advances to suppliers are made only to select long-standing suppliers. The financial condition of such suppliers is analyzed on an ongoing basis to limit credit risk.

19 Segment information

The Company operates in a single business segment - operation of an integrated steel mill and sale of steel slab and hot coil production and presents segment information based on geographical location of its customers as its primary reporting format.

All operating assets of the Company are located in the State of Espírito Santo Brazil. Segment information is consistent with internal reporting guidelines and the way the Company's operations are managed.

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Net sales	**2003**	**2002**
Exports		
North America	448,752	489,461
Asia	441,752	272,897
Europe	87,872	128,720
Latin America	10,598	36,763
Other		2,156
	988,974	929,997
Domestic	370,567	56,923
	1,359,541	986,920

20 Reconciliation of shareholder's equity and net income (loss) between IFRS and accounting practices adopted in Brazil ("BR GAAP")

	2003	**2002**
Shareholders' equity under IFRS	2,023,640	1,879,974
Different criteria for:		
Translation effect	(1,187,744)	(1,535,195)
Revaluation of fixed assets	731,846	216,184
Property, plant and equipment - Interest costs capitalized	(44,553)	(68,001)
Investments in affiliated company	12,337	1,755
Other	(147)	(3,816)
Deferred income tax	419,031	546,385
Shareholders' equity under BR GAAP	1,954,410	1,037,285

	2003	**2002**
Net income (loss) as reported under IFRS	294,695	(72,299)
Different criteria for:		
Foreign exchange effect on US dollar debt under BR GAAP	75,744	(107,770)
Property, plant and equipment – Depreciation	65,390	77,520
Translation gain/loss on monetary assets	14,777	(3,665)
Investments in affiliated company	4,482	8,715
Fiscal incentive - ADENE	(33,768)	
Realization of available-for-sale securities		(23,660)
Other	70	(667)
Deferred income tax	(127,354)	168,452
Net income under BRGAAP	294,036	46,626

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Companhia Siderúrgica de Tubarão

1 We have audited the accompanying balance sheets of Companhia Siderúrgica de Tubarão and its subsidiaries (the Company) as of December 31, 2003 and 2002 and the related statements of operations and cash flow for the years then ended. 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.

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

3 In our opinion the financial statements present fairly in all material respects the financial position of the Company as of December 31, 2003 and 2002 and of the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

February 13, 2004

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "S" ES

Otavio Cassou Maia
Contador CRC SP-158611/O "S"ES