

TRUSTCO BANK CORP N Y  
Form DEF 14A  
March 31, 2011

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.\_\_\_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

TrustCo Bank Corp NY

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies: N/A
  - (2) Aggregate number of securities to which transaction applies: N/A
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A
  - (4) Proposed maximum aggregate value of transaction: N/A
  - (5) Total fee paid: N/A
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid: N/A

- (2) Form, Schedule or Registration Statement No.: N/A
- (3) Filing Party: N/A
- (4) Date Filed: N/A

5 Sarnowski Drive, Glenville, New York 12302

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Shareholders of TrustCo Bank Corp NY:

Notice is hereby given that the Annual Meeting of Shareholders of TrustCo Bank Corp NY, a New York corporation, will be held at Mallozzi's Restaurant and Banquet House, 1930 Curry Road, Rotterdam, New York 12303, on May 19, 2011, at 4:00 pm local time, for the purpose of considering and voting upon the following matters:

1. Election of Directors.
2. Approval of the TrustCo Bank Corp NY 2010 Equity Incentive Plan.
3. Approval of the TrustCo Bank Corp NY 2010 Directors Equity Incentive Plan.
4. Approval of a Nonbinding Advisory Resolution on the Compensation of TrustCo's Named Executive Officers.
5. Approval of a Nonbinding Advisory Resolution on the Frequency of an Advisory Vote on the Compensation of TrustCo's Named Executive Officers.
6. Ratification of the Appointment of Crowe Horwath LLP as TrustCo's Independent Auditors for 2011.
7. Any other business that properly may be brought before the meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ Robert M. Leonard  
Robert M. Leonard,  
Secretary

March 25, 2011

YOUR VOTE IS IMPORTANT TO US

EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED CARD AS PROMPTLY AS POSSIBLE. YOU MAY ALSO VOTE USING THE INTERNET OR TELEPHONE. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE EXERCISE OF THE PROXY.

Important Notice Regarding the Internet Availability of Proxy Materials for the Shareholder Meeting to be Held on  
May 19, 2011:

This Notice, the Proxy Statement attached to this Notice and TrustCo's Annual Report to shareholders for the year ended December 31, 2010 are available free of charge at <http://www.cfpproxy.com/6892>.



TRUSTCO BANK CORP NY

PROXY STATEMENT FOR  
ANNUAL MEETING OF SHAREHOLDERS  
May 19, 2011

This proxy statement is furnished in connection with the solicitation by the board of directors of TrustCo Bank Corp NY (also referred to as “TrustCo” or the “Company”) of proxies to be voted at TrustCo’s Annual Meeting of Shareholders. The Annual Meeting will be held at 4:00 pm local time on Thursday, May 19, 2011, at Mallozzi’s Restaurant and Banquet House, 1930 Curry Road, Rotterdam, New York 12303. This proxy statement and the form of proxy were first mailed to shareholders on or about March 25, 2011.

The record date for the Annual Meeting is March 22, 2011. Only shareholders of record at the close of business on March 22, 2011 are entitled to notice of and to vote at the Annual Meeting. Shareholders of record on that date are entitled to one vote for each share of TrustCo common stock they hold. Each share of TrustCo’s common stock has one vote, and, as of March 1, 2011, there were 77,243,816 shares of common stock outstanding.

The Annual Meeting will be held if a majority of the outstanding shares of TrustCo’s common stock, constituting a quorum, is represented at the meeting. If shareholders return a properly executed proxy card, their shares will be counted for purposes of determining a quorum at the meeting, even if they abstain from voting. Abstentions and broker non-votes count as shares present at the Annual Meeting for purposes of determining a quorum. If a shareholder owns shares in “street name” through a bank or broker, the shareholder may instruct his or her bank or broker how to vote the shares. A “broker non-vote” occurs when a shareholder who owns shares through a bank or broker fails to provide the bank or broker with voting instructions and either the bank or broker does not have the discretionary authority to vote the shares on a particular proposal or the bank or broker otherwise fails to vote the shares. Under the rules of the NASDAQ Stock Market and the New York Stock Exchange, brokers do not have discretionary authority to vote shares on proposals that are not “routine.”

Proposal 1 (Election of Directors), Proposal 2 (Approval of the TrustCo Bank Corp NY 2010 Equity Incentive Plan), Proposal 3 (Approval of the TrustCo Bank Corp NY 2010 Directors Equity Incentive Plan), Proposal 4 Advisory Resolution on the Compensation of TrustCo’s Named Executive Officers), and Proposal 5 (Advisory Resolution on the Frequency of an Advisory Vote on the Compensation of TrustCo’s Named Executive Officers), would not be considered routine matters under the NASDAQ Stock Market and New York Stock Exchange rules, so brokers do not have discretionary authority to vote shares held in street name on those items. If a shareholder wishes for his or her shares to be voted on these matters, the shareholder must provide his or her broker with voting instructions. Proposal 6 (Ratification of the Appointment of Crowe Horwath LLP as TrustCo’s Independent Auditors) is considered a routine matter, so the bank or broker will have discretionary authority to vote shares held in street name on that item.

All shares of TrustCo’s common stock represented at the Annual Meeting by properly executed proxies will be voted according to the instructions indicated on the proxy card. If shareholders return a signed proxy card but fail to instruct how the shares registered in their names must be voted, the shares will be voted as recommended by TrustCo’s board of directors. The board of directors recommends that shareholders vote:

- “For” each of the nominees for director,
- “For” approval of the TrustCo Bank Corp NY 2010 Equity Incentive Plan,
- “For” approval of the TrustCo Bank Corp NY 2010 Directors Equity Incentive Plan,
- “For” the approval of the nonbinding advisory resolution approving the compensation of TrustCo’s named executive officers,
- “For” the approval of the nonbinding advisory resolution for the advisory vote on the compensation of TrustCo’s named executive officers to be held every three years, and
  - “For” ratification of the appointment of Crowe Horwath LLP as TrustCo’s independent auditors.

If any matter not described in this proxy statement is properly presented at the Annual Meeting, the persons named in the proxy card will use their judgment to determine how to vote the shares for which they have voting authority. TrustCo does not know of any other matters to be presented at the Annual Meeting.

Any shareholder executing a proxy solicited under this proxy statement has the power to revoke it by giving written notice to the Secretary of TrustCo at its main office address at any time prior to the exercise of the proxy.

TrustCo will solicit proxies primarily by mail, although proxies also may be solicited by directors, officers, and employees of TrustCo or TrustCo’s wholly owned subsidiary, Trustco Bank. These persons may solicit proxies personally or by telephone, and they will receive no additional compensation for such services. TrustCo also has retained Regan & Associates, Inc. to aid in the solicitation of proxies for a solicitation fee of \$7,750 plus expenses and a delivery fee of \$2,250. The entire cost of this solicitation will be paid by TrustCo.

#### THE ANNUAL MEETING

A description of the items to be considered at the Annual Meeting, as well as other information concerning TrustCo and the meeting, is set forth below.

##### Proposal 1 - Election of Directors

The first item to be acted upon at the Annual Meeting is the election of two directors to serve on the TrustCo board of directors. The nominees for election as directors for three-year terms expiring at TrustCo’s 2014 Annual Meeting are Anthony J. Marinello, M.D., Ph.D. and William D. Powers. Each of the nominees is an incumbent director and was approved by TrustCo’s board of directors.

TrustCo's Certificate of Incorporation provides that TrustCo's board of directors will consist of not less than five nor more than fifteen members, with, under TrustCo's Bylaws, the total number of directors to be fixed by resolution of the board or the shareholders. Currently, the number of directors is fixed at eight.

TrustCo's Certificate of Incorporation and Bylaws require TrustCo's board to be divided into three classes, as nearly equal in number as possible, with one class to be elected each year for a term of three years.

The pages that follow set forth information regarding TrustCo's nominees, as well as information regarding the remaining members of TrustCo's board. Proxies will be voted in accordance with the specific instructions contained in the proxy card; properly executed proxies that do not contain voting instructions will be voted "For" the election of TrustCo's nominees. If any such nominee becomes unavailable to serve, the shares represented by all valid proxies will be voted for the election of such other person as TrustCo's board may recommend. Each of TrustCo's nominees has consented to being named in this proxy statement and to serve if elected. The board of directors has no reason to believe that any nominee will decline or be unable to serve if elected.

Information with regard to the business experience of each director and nominee and the ownership of common stock on December 31, 2010 has been furnished by each director and nominee or has been obtained from TrustCo's records. TrustCo's common stock is the only class of its equity securities outstanding.

INFORMATION ON TRUSTCO DIRECTORS AND NOMINEES  
 NOMINEES FOR ELECTION AS TRUSTCO DIRECTORS(1) FOR  
 THREE-YEAR TERMS TO EXPIRE IN 2014

Name and Principal Occupation(2)	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Anthony J. Marinello, M.D., Ph.D., Age 55, Physician. Director of TrustCo and Trustco Bank from 1995-present. Dr. Marinello contributes his experience as an entrepreneur operating a successful medical practice and his skills for developing and evaluating business strategies.	61,836	*
William D. Powers, Age 69, Partner, Powers & Company, LLC (consultants). Director of TrustCo and Trustco Bank from 1995-present. Mr. Powers contributes his experience as an entrepreneur operating a successful business enterprise and his skills for developing and evaluating business strategies.	162,743	*

OTHER TRUSTCO DIRECTORS(1)

Name and Principal Occupation(2)	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Dennis A. De Gennaro, Age 66, President and Chief Executive Officer, Camelot Associates, Corp. (commercial and residential home builder and developer). Director of TrustCo and Trustco Bank from 2009-present. Mr. De Gennaro is highly knowledgeable about commercial and residential real estate and contributes his organization skills and experience from operating a successful business enterprise.	55,028	*

\*Less than 1%

See footnotes on page 8.



Name and Principal Occupation(2)	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Joseph A. Lucarelli, Age 70, President, Traditional Builders (residential home builder and developer). Former President, Bellevue Builders Supply, Inc. Director of TrustCo and Trustco Bank from 1999-present. Mr. Lucarelli is highly knowledgeable about commercial and residential real estate and contributes his organization skills and experience from operating a successful business enterprise.	188,068	*
Thomas O. Maggs, Age 66, President, Maggs & Associates, The Business Insurance Brokers, Inc. (insurance broker). Director of TrustCo and Trustco Bank from 2005-present. Mr. Maggs contributes his experience as an entrepreneur operating a successful business enterprise and his skills for developing and evaluating business strategies.	15,840	*
Robert A. McCormick, Age 74, Chairman of TrustCo and Trustco Bank 2001-2008. President & Chief Executive Officer of TrustCo and Trustco Bank 1984-2002. Director of TrustCo and Trustco Bank from 1980-present. Mr. McCormick retired as an executive officer of TrustCo and Trustco Bank as of November 1, 2002. Mr. McCormick has been associated with TrustCo for more than 30 years and has vast experience with all aspects of its operations. Robert A. McCormick is the father of Robert J. McCormick.	2,022,780	2.60

\*Less than 1%

See footnotes on page 8.

Name and Principal Occupation(2)	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Robert J. McCormick, Age 47, President and Chief Executive Officer of TrustCo since January 2004, Chairman 2009 and 2010, executive officer of TrustCo from 2001-present and President and Chief Executive Officer of Trustco Bank from November 2002-present. Director of TrustCo and Trustco Bank from 2005-present. Joined Trustco Bank in 1995. Mr. McCormick contributes his skills and knowledge obtained from being the chief executive officer of the Company and Trustco Bank. Robert J. McCormick is the son of Robert A. McCormick.	1,411,727	1.81

William J. Purdy, Age 76, President, Welbourne & Purdy Realty, Inc. Chairman of the Board of Directors for TrustCo and Trustco Bank 2011. Director of TrustCo and Trustco Bank from 1991-present. Mr. Purdy contributes his knowledge regarding commercial and residential real estate, his experience as an entrepreneur operating a successful business enterprise and his skills for developing and evaluating business strategies.	64,528	*
--	--------	---

#### INFORMATION ON TRUSTCO EXECUTIVE OFFICERS

Name and Principal Occupation	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Robert T. Cushing, Age 55, Executive Vice President and Chief Financial Officer of TrustCo from January 2004-present, President, Chief Executive Officer and Chief Financial Officer of TrustCo from November 2002-December 2003. Executive officer of TrustCo and Trustco Bank from 1994-present. Joined TrustCo and Trustco Bank in 1994.	775,838	1.00

\*Less than 1%

See footnotes on page 8.

Name and Principal Occupation	Shares of TrustCo Common Stock Beneficially Owned	
	No. of Shares (3)	Percent of Class
Scot R. Salvador, Age 44, Executive Vice President and Chief Banking Officer of TrustCo and Trustco Bank from January 2004-present. Executive officer of TrustCo and Trustco Bank from 2004-present. Joined Trustco Bank in 1995.	480,203	*
Robert M. Leonard, Age 48, Secretary of TrustCo and Trustco Bank 2003-2006 and 2009-present. Assistant Secretary of TrustCo and Trustco Bank 2006-2009. Senior Vice President of TrustCo and Trustco Bank from 2010-present. Administrative Vice President of TrustCo and Trustco Bank 2004-2009. Executive officer of TrustCo and Trustco Bank from 2003-present. Joined Trustco Bank in 1986.	94,496	*
Eric W. Schreck, Age 44, Senior Vice President and Florida Regional President Trustco Bank from 2009-present. Treasurer of TrustCo Bank from 2010-present. Executive officer of Trustco and Trustco Bank from 2010-present. Joined Trustco Bank in 1989.	64,506	*
Sharon J. Parvis, Age 59, Assistant Secretary of TrustCo and Trustco Bank from 2005-present, Vice President of Trustco Bank from 1996-present. Executive officer of TrustCo and Trustco Bank from 2005-present. Joined Trustco Bank in 1987.	43,033	*
Thomas M. Poitras, Age 48, Assistant Secretary of TrustCo and Trustco Bank 2003-2006 and 2009 - present. Secretary of TrustCo and Trustco Bank 2006-2009, Vice President of Trustco Bank from 2001-present. Executive officer of TrustCo and Trustco Bank from 2005-present. Joined Trustco Bank in 1986.	77,693	*

\*Less than 1%

See footnotes on page 8.

TRUSTCO DIRECTORS, NOMINEES, AND EXECUTIVE OFFICERS AS A GROUP (14 INDIVIDUALS) BENEFICIALLY OWN 5,518,319 SHARES OF COMMON STOCK, WHICH REPRESENTS 6.95% OF THE OUTSTANDING SHARES.



Footnotes:

- (1) Directors of TrustCo Bank Corp NY are also directors of Trustco Bank.
- (2) Each of the directors has held, or retired from, the same position or another executive position with the same employer during the past five years.
- (3) Each director and executive officer named herein has sole voting and investment power with respect to the shares listed above except as noted below. Voting or investment power is shared by the spouse or other immediate family members with respect to the number of shares indicated for the following directors or executive officers: Dr. Anthony J. Marinello, 29,922 shares; William D. Powers, 154,743 shares; Robert J. McCormick, 163,515 shares; and Robert M. Leonard, 12,386 shares. Voting or investment power is held by the spouse or other immediate family members with respect to the number of shares indicated for the following directors or executive officers, each of whom disclaims beneficial ownership of such securities: Robert T. Cushing, 485,837 shares; Joseph A. Lucarelli, 23,805 shares; Dr. Anthony J. Marinello, 14,350 shares; Robert A. McCormick, 69,994 shares; Robert J. McCormick, 43,160 shares; Robert M. Leonard, 3,444 shares; and Thomas M. Poitras, 1,915 shares. Included for Robert J. McCormick are 142,129 shares in trust at Trustco Bank for which Robert J. McCormick is co-trustee, and 71,397 shares that are held by Trustco Bank as a co-trustee of trusts for the benefit of Robert J. McCormick or his family. The number of shares owned by each of the directors and executive officers includes options to acquire the following number of shares: Robert T. Cushing, 290,000 shares; Robert M. Leonard, 54,000 shares; Joseph A. Lucarelli, 13,395 shares; Thomas O. Maggs, 4,000 shares; Dr. Anthony J. Marinello, 13,395 shares; Robert A. McCormick, 532,500 shares; Robert J. McCormick, 680,000 shares; William D. Powers, 8,000 shares; William J. Purdy, 13,395 shares; Scot R. Salvador, 420,000 shares; Sharon J. Parvis, 37,935 shares; Thomas M. Poitras, 47,500 shares, and Eric W. Schreck, 29,500 shares.

Board Meetings and Committees

TrustCo's full board held nine meetings during 2010. All of the directors, except for Robert A. McCormick and Robert J. McCormick, would be considered to be "independent directors" under the listing qualifications rules for companies such as TrustCo, whose shares are traded on The NASDAQ Stock Market. TrustCo's independent directors met in executive session twice during 2010.

TrustCo maintains a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee. The charters of each of the committees may be found on TrustCo's website ([www.trustcobank.com](http://www.trustcobank.com)) under the "Investor Relations" tab.

The Nominating and Corporate Governance Committee held three meetings in 2010. The directors currently serving on the Nominating and Corporate Governance Committee are Joseph A. Lucarelli (Chairman), Dennis A. De Gennaro, Thomas O. Maggs, Dr. Anthony J. Marinello, William D. Powers, and William J. Purdy. The function of the Nominating and Corporate Governance Committee is to assist the board by recommending and reviewing individuals for consideration as directors and develop and annually review governance guidelines applicable to the Company.

TrustCo's Audit Committee held four meetings in 2010. The directors currently serving on the Audit Committee are William D. Powers (Chairman), Dennis A. De Gennaro, Joseph A. Lucarelli, Dr. Anthony J. Marinello, Thomas O.

Maggs, and William J. Purdy. The function of the Audit Committee includes the review of TrustCo's and Trustco Bank's internal audit procedures and also the review of the adequacy of internal accounting controls for TrustCo and Trustco Bank. In addition, the Audit Committee annually recommends the use of external audit firms by TrustCo and Trustco Bank in the coming year, after reviewing performance of the existing vendors and available audit resources. Please refer to the discussion under "Audit Committee" for a more detailed description of the Audit Committee's activities.

TrustCo's Compensation Committee held four meetings in 2010. The directors currently serving on the Compensation Committee are Joseph A. Lucarelli (Chairman), Dennis A. De Gennaro, Thomas O. Maggs, Dr. Anthony J. Marinello, William D. Powers, and William J. Purdy. The function of the Compensation Committee is to determine the total compensation of the chief executive officer and to review general compensation practices of TrustCo and Trustco Bank including the executive officers. Please refer to the discussion under "Compensation Committee" for a more detailed description of the Compensation Committee's activities.

TrustCo provides an informal process for shareholders to send communications to the board. Shareholders who wish to contact the board or any of its members may do so in writing to TrustCo Bank Corp NY, Attention: Corporate Secretary, P.O. Box 1082, Schenectady, New York 12301-1082.

Although TrustCo does not have a policy with regard to board members' attendance at the Annual Meeting of Shareholders, the directors are encouraged to attend such meetings, and all of the directors attended the 2010 Annual Meeting.

#### Director Nominations

Each of the nominees slated for election at the Annual Meeting was considered and selected by the Nominating and Corporate Governance Committee and unanimously approved by TrustCo's independent directors.

The Nominating and Corporate Governance Committee is appointed by the board of directors in part to review and identify individuals qualified to become board members and to recommend to the board the director nominees for the Annual Meeting of Shareholders.

As a general matter, the board believes that a candidate for board membership should have high personal and professional ethics, integrity, and values; an inquiring and independent mind, practical wisdom, and mature judgment; broad policy-making experience in business, government, or community organizations; expertise useful to TrustCo and complementary to the background and experience of other board members; willingness to devote the time necessary to carrying out the duties and responsibilities of board membership; commitment to serve on the board over a period of several years to develop knowledge about TrustCo, its strategy, and its principal operations; and willingness to represent the best interests of all of TrustCo's constituencies. Although neither the committee nor the full board of directors has a formal policy with respect to diversity, the committee and the board have a general objective of having a board that encompasses a broad range of talents and expertise and reflects a diversity of background, experience, and viewpoints.

After a potential candidate is identified, the committee will investigate and assess the qualifications, experience, and skills of the candidate. The investigation process may, but need not, include one or more meetings with the candidate by a member or members of the committee. From time to time, but at least once each year, the committee meets to evaluate the needs of the board and to discuss the candidates for nomination to the board. Such candidates may be presented to the shareholders for election or appointed to fill vacancies. All nominees must be approved by the committee and by a majority of the members of the board who are independent as defined in the NASDAQ Stock Market rules.

The committee will consider written recommendations by shareholders for nominees for election to the board. The persons identified in such recommendations will be evaluated under the same criteria and procedures used for other board candidates. Under TrustCo's Bylaws, written nominations of persons for election to the board of directors must be delivered or mailed to the board not less than 14 and not more than 50 days prior to any meeting of shareholders called for the purpose of the election of directors, or not later than 7 days prior to the meeting if less than 21 days' notice of the meeting is provided.

#### Compensation Committee

The Compensation Committee is responsible for determining the compensation of the chief executive officer and reviewing the compensation of TrustCo's and Trustco Bank's executive officers. Under the supervision and direction of the Compensation Committee, TrustCo and Trustco Bank have developed compensation policies, plans, and programs that seek to enhance the profitability of TrustCo and Trustco Bank, and ultimately enhance shareholder value, by aligning closely the financial interests of TrustCo's senior management with those of its shareholders.

Compensation Committee Report. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with the management of TrustCo and Trustco Bank. Based on this review and discussion, the Compensation Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

#### COMPENSATION COMMITTEE:

Joseph A. Lucarelli, Chairman

Dennis A. De Gennaro  
Dr. Anthony J. Marinello  
Thomas O. Maggs  
William D. Powers  
William J. Purdy

#### Audit Committee

The Audit Committee of TrustCo's board is responsible for providing independent, objective oversight of TrustCo's accounting functions, internal controls, and financial reporting process. The Audit Committee is composed of six directors, each of whom is independent under listing standards of The NASDAQ Stock Market, and each member of the Audit Committee satisfies the "financial sophistication" requirement also set forth in those listing standards. The board of directors has determined the Company does not have an Audit Committee "financial expert" serving on its Audit Committee. TrustCo's board believes that in order to fulfill all the functions of the board and the Audit Committee, each member of the board and the Audit Committee should meet all the criteria that have been established by the board for board membership and that it is not in the best interests of TrustCo to nominate as a director someone who does not have all the experience, attributes and qualifications that TrustCo seeks. Further, the board believes that the present members of the Audit Committee have sufficient knowledge and experience in financial affairs to effectively perform their duties. To assist in the performance of its duties, the Audit Committee retained Marvin and Company, PC, an independent accounting firm, as a consultant to the committee.





The Audit Committee operates under a written charter approved by the board of directors. Each year, the Audit Committee reviews the adequacy of the charter and recommends any changes or revisions that the committee considers necessary or appropriate. A copy of the Audit Committee's charter may be found on TrustCo's website ([www.trustcobank.com](http://www.trustcobank.com)) under the "Investor Relations" tab.

The following table presents fees for professional audit services rendered by Crowe Horwath LLP, TrustCo's independent accounting firm. The services included audits of TrustCo's annual consolidated financial statements for the years ended December 31, 2010 and 2009 and of the effectiveness of internal controls over financial reporting.

	2010	2009
Audit fees	\$ 356,000	\$ 313,500
Audit related fees(1)	17,100	94,000
Tax fees	--	--
All other fees	--	--
Total fees	\$ 373,100	\$ 407,500

(1)For 2010, audit related fees consisted of reviewing SEC matters and accounting research. For 2009, audit related fees consisted of audits of prior year financial statements (2008 and 2007).

It is the Audit Committee's policy to preapprove all audit and nonaudit services provided by the Company's independent accountants. In certain circumstances, the Audit Committee's policies and procedures provide the committee's chairman with the authority to preapprove services from the Company's independent accountants, which such approval is then reviewed and approved at the next Audit Committee meeting. Accordingly, all of the services described above were approved by the Audit Committee.

**Audit Committee Report.** The Audit Committee's responsibility is to monitor and oversee TrustCo's financial reporting and audit processes and to otherwise conduct its activities as provided for in its charter. Management is responsible for TrustCo's internal controls and financial reporting process. TrustCo's independent accountants for 2010, Crowe Horwath, were responsible for performing an independent audit of TrustCo's consolidated financial statements in accordance with the Standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and issuing a report thereon. TrustCo's Internal Audit Department is responsible for monitoring compliance with internal policies and procedures. In performing its oversight, the Audit Committee reviews the performance of Crowe Horwath and TrustCo's internal auditors.

In connection with these responsibilities, the Audit Committee met with management and Crowe Horwath to review and discuss TrustCo's December 31, 2010 and 2009 consolidated financial statements. The Audit Committee also discussed with Crowe Horwath the matters required to be communicated to audit committees in accordance with professional standards and received the written disclosures and a letter from Crowe Horwath required by relevant regulatory and professional standards regarding auditor communications with audit committees concerning independence.

Based upon the Audit Committee's discussions with management and the independent accountants, and its review of the information described in the preceding paragraphs, the Audit Committee has recommended that the board of directors include the audited consolidated financial statements in TrustCo's Annual Report on Form 10-K for the year ended December 31, 2010, to be filed with the Securities and Exchange Commission.

AUDIT COMMITTEE:

William D. Powers, Chairman

Dennis A. De Gennaro

Joseph A. Lucarelli

Dr. Anthony J. Marinello

Thomas O. Maggs

William J. Purdy

#### Board Leadership Structure and Role in Risk Oversight

The position of TrustCo's chairman of the board and the office of its president and chief executive officer are held by different persons. The chairman of the board, William J. Purdy, is an independent director who has been a member of the board since 1991. Mr. Purdy became chairman in January 2011 in connection with the adoption by TrustCo's board of directors of a new policy under which the positions of chief executive officer and chairman of the board will be separated and the position of chairman of the board will rotate among TrustCo's independent directors on an annual basis. Mr. Purdy is a member of the Nominating and Corporate Governance Committee, the Audit Committee, and the Compensation Committee.

The board of directors has determined that the separation of the roles of chairman of the board and chief executive officer will enhance board independence and oversight. More specifically, the board believes that separating the roles will allow the Company's president and chief executive officer, Robert J. McCormick, to better focus on developing and implementing corporate initiatives, enhancing shareholder value and strengthening our business and operations, while allowing the chairman of the board to lead the board in its fundamental role of providing advice to, and independent oversight of, management.

The board of directors as a whole is ultimately responsible for risk management oversight of TrustCo and its subsidiaries. In carrying out its responsibilities in this area, it has delegated important duties to its committees, including the Audit Committee.

The Audit Committee, whose members are independent, meets each quarter with the internal auditor and the Company's independent auditor to review all financial and public disclosures. In addition, the Compensation Committee has reviewed the Company's compensation policies and procedures and has concluded that the policies are not reasonably likely to have a material adverse affect on the Company.

The entire board reviews and approves, on an annual basis, all significant policies that address risk, including credit risk, interest rate risk, liquidity risk, and compliance risk. The board also monitors risk through reports received on a periodic basis. Annually, the board approves the Company's contingency plan as well as its insurance program.

#### Vote Required and Recommendation

The two nominees for election to the TrustCo board for three-year terms expiring at the 2014 Annual Meeting of Shareholders who receive the greatest number of votes will be elected to the board. Each nominee must, however, receive the affirmative vote of a majority of the outstanding shares of TrustCo common stock in order to be elected a director.

**THE TRUSTCO BOARD RECOMMENDS A VOTE FOR THE ELECTION OF THE TRUSTCO DIRECTOR NOMINEES AS TRUSTCO DIRECTORS, WHICH IS ITEM 1 ON THE TRUSTCO PROXY CARD.**

#### Proposal 2 - Approval of the TrustCo Bank Corp NY 2010 Equity Incentive Plan

On December 21, 2010, based on the recommendation of the Compensation Committee, the TrustCo board adopted the TrustCo Bank Corp NY 2010 Equity Incentive Plan (the "2010 Incentive Plan") and directed that the 2010 Incentive Plan be submitted to the shareholders at the Annual Meeting. Shareholder approval of the 2010 Incentive Plan will also constitute approval of the performance measures identified below under "Performance-Based Awards," for purposes of the shareholder approval requirements of Section 162(m) of the U.S. Internal Revenue Code (also referred as the "Code").

The principal features of the 2010 Incentive Plan are summarized in this proxy statement. You should read the 2010 Incentive Plan for a full statement of its legal terms and conditions. Appendix I to this proxy statement contains the full text of the 2010 Incentive Plan as proposed to be approved by the shareholders.

#### Purposes of the 2010 Incentive Plan

The purpose of the 2010 Incentive Plan is to advance the interests of TrustCo and its stockholders by providing key employees with additional incentives and motivation toward superior performance through the opportunity to acquire equity ownership in TrustCo, and by enabling TrustCo and its subsidiaries to attract and retain the services of talented employees. At the same time, the board and the Compensation Committee will work together to ensure that the plan, in conjunction with TrustCo's other compensation policies and practices, does not create risks that are reasonably likely to have a material adverse effect on TrustCo.

Under the 2010 Incentive Plan, TrustCo may grant or award stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units, performance units and performance shares to persons eligible to participate in the plan. The 2010 Incentive Plan will remain in effect, subject to the board’s right to terminate the plan earlier, until all shares of common stock subject to it have been purchased or acquired. However, no award may be granted under the plan on or after December 21, 2020.

#### Administration

The Compensation Committee will administer the 2010 Incentive Plan and, as a result, will have the authority to determine the type or types of awards to be made under the plan and to designate the employees who will receive such awards. The Compensation Committee is authorized to interpret the 2010 Incentive Plan, to adopt rules for the plan and to make all other determinations necessary for the administration of the plan.

The Compensation Committee may authorize TrustCo’s Chief Executive Officer and other senior officers to recommend recipients of awards under the plan, to determine the terms and conditions of any such awards, and to take such other actions that the Compensation Committee may take under the plan. The Compensation Committee may not, however, delegate authority to grant awards to, or take other action with respect to, participants who are subject to Section 16 of the Exchange Act or are “covered employees” as defined in Section 162(m) of the Internal Revenue Code. TrustCo’s Compensation Committee is comprised of independent members of TrustCo’s board of directors. Currently, the members of the Compensation Committee are Joseph A. Lucarelli (Chairman), Dennis A. De Gennaro, Dr. Anthony J. Marinello, Thomas O. Maggs, William D. Powers, and William J. Purdy.

#### Shares Subject to the 2010 Incentive Plan

The total number of shares of common stock that may be issued pursuant to awards of options or restricted stock under the 2010 Incentive Plan may not exceed 2,000,000, and the total number of awards of SARs, restricted stock units, performance units or performance shares may not exceed the equivalent of 500,000 shares. (TrustCo will not issue shares of common stock upon the issuance or exercise of SARs, restricted stock units, performance units or performance shares.) Such number of shares will be adjusted proportionately if there is a change in outstanding shares due to a stock dividend or split, recapitalization, merger, or other similar corporate change. The shares of common stock to be issued under the 2010 Incentive Plan may consist of authorized but unissued stock or treasury stock.

If an option or other award under the 2010 Incentive Plan expires or terminates without having been exercised in full, or if any such option is exercised or settled in a manner that results in some or all of the shares of common stock related to the option not being issued, the shares of stock otherwise subject to the option that do not become outstanding will remain available for issuance. If any other awards under the 2010 Incentive Plan are forfeited for any reason, or settled in cash in lieu of common stock or in a manner such that some or all of the shares related to the award are not issued, such shares of common stock will (unless the plan has terminated) remain available for issuance under the plan.

## Participation

As of March 1, 2011, there were approximately 162 employees of TrustCo and Trustco Bank who would be eligible to receive awards under the 2010 Incentive Plan. Historically, approximately 18 of the eligible employees have received equity awards. As of December 31, 2010, the named executive officers included in the Summary Compensation Table held vested options to purchase 1,473,500 shares of common stock at a weighted-average exercise price of \$11.88 per share, all of which were awarded under TrustCo's prior stock option plans. As of December 31, 2010, TrustCo's employees as a group (not including the executive officers) held vested options to purchase 1,035,870 shares of common stock at a weighted-average exercise price of \$10.93 per share, all of which were awarded under prior stock option plans.

Awards under the 2010 Incentive Plan are subject to the following limits:

no participant may be granted during any calendar year awards consisting of options or restricted stock that are exercisable for or relate to more than 500,000 shares of common stock (subject to adjustments for stock dividends, stock splits and similar events) and

no participant may be granted during any calendar year awards consisting of units denominated in shares of common stock (other than awards consisting of options or restricted stock) covering or relating to more than 500,000 shares of common stock (subject to adjustments for stock dividends, stock splits and similar events).

## New Plan Benefits

No awards will be granted pursuant to the 2010 Incentive Plan until it is approved by the shareholders. In addition, awards are subject to the discretion of the Compensation Committee. As a result, it is not possible to determine the benefits that will be received in the future by participants in the 2010 Incentive Plan or the benefits that would have been received by such participants if the plan had been implemented prior to the Annual Meeting. Please refer to the outstanding equity award table for a listing of options granted to the executive officers under the prior stock option plans.

## Stock Options

A stock option is the right to purchase a specified number of shares of common stock in the future at a specified exercise price and subject to the other terms and conditions specified in the option agreement and the 2010 Incentive Plan. The Compensation Committee will have complete discretion in determining the number of options granted to a participant and may grant any type of option to purchase common stock that is permitted by law at the time of grant.

Stock options granted under the 2010 Incentive Plan will be either "incentive stock options," ("ISO") which may be eligible for special tax treatment under the Internal Revenue Code, or options other than incentive stock options (referred to as "nonstatutory" or "nonqualified" stock options), as determined by the Compensation Committee and stated in the option agreement relating to the option grant. The exercise price of each option is set by the Compensation Committee but cannot be less than 100% of the fair market value of TrustCo's common stock at the time of grant (or, in the case of an incentive stock option granted to a 10% or more shareholder, 110% of that fair market value). The fair market value of TrustCo common stock is generally determined as the closing price of the stock as reported on the Nasdaq Global Select Market on the option grant date. On March 1, 2011, the fair market value of a share of TrustCo common stock was \$5.97. The exercise price of any stock options granted under the 2010 Incentive Plan may be paid in cash, by tendering previously-acquired shares having an aggregate fair market value at the time of exercise equal to the total option price, by any other means that the Compensation Committee determines to be consistent with the 2010 Incentive Plan's purpose and applicable law or by a combination of the foregoing. TrustCo may not, under the 2010

Incentive Plan, sponsor, or assist in any material way, any “cashless” exercise program pursuant to which payment for options to be exercised is made by surrendering other options, although this prohibition would not apply to third-party, broker-assisted “cashless” exercise programs.

Options awarded under the 2010 Incentive Plan will be exercisable at such times and be subject to such restrictions and conditions as the Compensation Committee may approve. The Compensation Committee will determine the period of time during which an option may be exercised, although no option may be exercisable after ten years from the date of grant (five years in the case of an ISO granted to an employee who is a ten-percent shareholder on the date of grant).

If a participant's employment with TrustCo is terminated by reason of his or her death, disability, or retirement, the participant's outstanding options will vest 100% and be deemed exercisable in full upon such termination, and the options may be exercised at any time prior to their expiration date or within three years after such date of termination, whichever period is the shorter. If the participant's employment terminates for any reason other than death, disability or retirement, or other than involuntarily for cause, the rights under any then-outstanding option granted under the 2010 Incentive Plan will terminate upon the expiration date of the option or one month after the termination date, whichever first occurs. If, however, such termination occurs after a change-in-control (as defined in the 2010 Incentive Plan), the rights under any then-outstanding option will terminate upon the expiration date of the option or three years after such date of termination of employment, whichever first occurs. Where a participant's termination of employment is involuntarily for cause, his or her rights under all options, whether or not such options are vested, will terminate immediately.

#### Stock Appreciation Rights

A "stock appreciation right" or "SAR" is the right to receive a payment from TrustCo equal to the excess of the fair market value of a share of TrustCo common stock at the date of exercise over a specified price fixed by the Compensation Committee on the date of grant, which such price may not be less than 100% of the fair market value of the stock on the date of grant. SARs may be exercised upon whatever terms and conditions the Compensation Committee, in its sole discretion, imposes upon the SARs.

Upon exercise of the SAR, the holder will be entitled to receive a cash payment of an amount determined by multiplying the difference between the fair market value of a share of common stock at the date of exercise over the price fixed by the Compensation Committee at the date of grant by the number of shares with respect to which the Stock Appreciation Right is exercised. Payment for SARs will be made in cash; at the time of grant, the Compensation Committee may establish a maximum amount per share that would be payable upon exercise of any SAR. SARs granted under the 2010 Incentive Plan will expire no later than ten years after the date of grant. In the event the employment of a participant is terminated, any SARs outstanding will terminate in the same manner as described above for options.



### Restricted Stock

Restricted stock awards are shares of TrustCo common stock that are awarded to a participant subject to the satisfaction of the terms and conditions established by the Compensation Committee. Subject to the terms and conditions of the 2010 Incentive Plan and the applicable award agreement, upon delivery of shares of restricted stock to a participant, or creation of a book entry evidencing a participant's ownership of such shares, the participant will have all of the rights of a shareholder with respect to such restricted shares.

Shares of restricted stock, however, may not be sold, pledged or otherwise transferred for such period of time as may be determined by the Compensation Committee and specified in the applicable award agreement or until the earlier satisfaction of other conditions (which may include the attainment of performance goals as described below). If a participant experiences a "separation from service" (as defined under the 2010 Incentive Plan) because of his or her death or disability during the restricted period, such period will automatically terminate, and upon a separation from service for any other reason, then any shares of restricted stock still subject to the restriction period automatically will be forfeited and returned to TrustCo.

### Restricted Stock Units

A restricted stock unit is a right to receive a payment equal to the value of a share of TrustCo common stock that is awarded to a participant subject to the satisfaction of the terms and conditions established by the Compensation Committee. Restricted stock units are similar to restricted stock, except no shares are actually awarded to a participant, and the participant will have no rights of a shareholder with respect to the restricted stock units. All restricted stock units will be settled by a cash payment determined by reference to the then-current fair market value of TrustCo common stock.

The award agreement for the grant of the restricted stock units will specify the time period and other conditions (including the performance goals described below) following which TrustCo will make payment with respect to restricted stock units. Upon a separation from service of a participant because of his or her death or disability during the restricted period, such period will automatically terminate and the participant (or his or her beneficiary or successor) will be entitled to payment with respect to the restricted stock unit. Upon a separation from service for any other reason, any restricted stock units will be forfeited and returned to TrustCo.

## Performance Units and Performance Shares

Performance units and performance shares granted to a participant are amounts credited to a bookkeeping account established for the participant. Each performance unit will have an initial value of \$100.00, and each performance share initially will represent one share of TrustCo common stock. The Compensation Committee will set performance goals that, depending on the extent to which they are met, will determine the ultimate value to the participant of the performance unit or performance share. The time period during which the performance goals must be met also is to be determined by the Compensation Committee. The performance goals and time period will be set forth in the award agreement relating to the performance units or performance shares.

After the applicable performance period has ended, a holder of a performance unit or performance share will be entitled to receive the value of the award as determined by the extent to which performance goals applicable to the award have been met. Any such payment will be in cash and may be in a lump sum or installments as prescribed by the Compensation Committee and the applicable award agreement. Holders of performance units or performance shares will have no voting rights and no rights to dividends or other distributions with respect to such units or shares.

Upon a participant's separation from service because of death, disability or retirement during a performance period, the participant will receive a prorata payment based on the number of months' service during the performance period but taking into account the achievement of performance goals during the entire performance period. Payment will be made as specified in the applicable award agreement after completion of the applicable performance period at the time payments are made to participants who did not have a separation from service during the performance period. If a participant experiences a separation from service for any reason other than death, disability, or retirement during the performance period, all performance units will be forfeited.

## Performance Goals

Awards under the 2010 Incentive Plan of restricted stock, restricted stock units, performance units, and performance shares may be subject to criteria and objectives determined by the Compensation Committee that must be satisfied or met during a specified time period as a condition to the participant's receipt, in the case of a grant of the restricted stock, of the shares of TrustCo common stock subject to such grant, or in the case of restricted stock units, performance units, or performance shares, of payment with respect to such awards.

In the case of an award intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Internal Revenue Code, the performance goals must be based on the attainment of objectively determinable performance goals based on one or more of the performance measures listed below:

- basic earnings per share,
- basic cash earnings per share,
- diluted earnings per share,
- diluted cash earnings per share,

- net income,
- cash earnings,
- net interest income,
- non-interest income,
- general and administrative expense to average assets ratio,
- cash general and administrative expense to average assets ratio,
- efficiency ratio,
- cash efficiency ratio,
- return on average assets,
- cash return on average assets,
- return on average shareholders' equity,
- cash return on average shareholders' equity,
- return on average tangible shareholders' equity,
- cash return on average tangible shareholders' equity,
- core earnings,
- operating income,
- operating efficiency ratio,
- net interest rate spread,
- growth in fees and service charges income,
- loan production volume,
- growth in loan originations and loan origination fees,
- non-performing loans,
- loan charge offs (or net charge offs),
- allowance for loan losses,
- cash flow,
- regulatory capital ratios,
- deposit levels, tangible assets,
- improvement in or attainment of working capital levels,
- maintenance of asset quality,
- strategic business objectives consisting of one or more objectives based upon meeting specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures, or
  - goals relating to capital raising and capital management,
  - pre-tax pre-provision core operating earnings,
- any other performance criteria established by the Compensation Committee, and
  - any combination of the foregoing.

If an award is intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code, the performance goals must be set by the Compensation Committee within a prescribed time period (generally, prior to the 90th day of the applicable performance period). Performance goals may be particular to an award recipient or to the department, branch, affiliate, or division in which the recipient works, or may be based on the performance of TrustCo, one or more affiliates, (including Trustco Bank) TrustCo and one or more affiliates (including Trustco Bank), or a particular line of business. Performance goals may, but need not be, based upon a change or an increase or positive result and must cover such period as the Compensation Committee may specify. Performance goals may include or exclude extraordinary charges, losses from discontinued operations, restatements and accounting changes, and other unplanned special charges such as restructuring expenses, acquisitions, acquisition expenses, including expenses related to goodwill and other intangible assets, stock offerings, stock repurchases, and loan loss provisions. However, in the case of an award intended to qualify for the Section 162(m) exemption from the limitation on deductibility, such inclusion or exclusion will be made in compliance with Section 162(m).



Upon completion of the applicable restriction or performance period, the Compensation Committee will certify the level of the performance goals attained and the amount of the award payable as a result thereof.

#### Transferability of Awards

Options, SARs, unvested restricted stock, and other awards under the 2010 Incentive Plan generally may not be sold or otherwise transferred except by will or the laws of descent and distribution.

#### Change of Control

Except as expressly provided otherwise in an award agreement, in the event of a change-in-control of TrustCo (as “change-in-control” is defined in the plan), all awards under the 2010 Incentive Plan will vest 100%. As a result, all options will become exercisable in full, the restrictions applicable to restricted stock will terminate, and performance units and performance shares will be paid out based upon the extent to which performance goals during the performance period have been met up to the date of the change-in-control, or at target, whichever is higher. All other awards, including SARs and restricted stock units, will be paid out based on the terms thereof. Depending on the nature of the change of control transaction, payment of certain awards may be delayed to comply with Section 409A of the Internal Revenue Code.

For purposes of the 2010 Incentive Plan, a “change-in-control” will mean any one or more of the following:

- any individual, corporation (other than TrustCo or Trustco Bank) or other entity or group of persons acting in concert becomes the beneficial owner of securities of TrustCo or Trustco Bank possessing 20% or more of the voting power for the election of directors of either of those Companies,
- a consolidation, merger or other business combination is consummated that involves either TrustCo or Trustco Bank (or their securities) in which holders of voting securities immediately prior to such consummation own, as a group, immediately after such consummation, voting securities of either TrustCo or Trustco Bank (or voting securities of the entity or entities surviving such transaction) having 60% or less of the total voting power in an election of directors of either of TrustCo or Trustco Bank (or such other surviving entity or entities),

during any period of two consecutive years, individuals who at the beginning of such period constituted the directors of either TrustCo or Trustco Bank cease to constitute at least a majority thereof unless the election, or nomination for election by either TrustCo or Trustco Bank shareholders, of each new director was approved by a vote of at least two-thirds of the directors of either TrustCo or Trustco Bank then still in office who were directors of either at the beginning of any such period,

removal by the stockholders of all or any of the incumbent directors of either TrustCo or Trustco Bank other than a removal for cause,

the completion of a sale, lease, exchange or other transfer is completed (in one transaction or a series of related transactions) of all, or substantially all, of the assets of either TrustCo or Trustco Bank to a party that is not controlled by or under common control with either TrustCo or Trustco Bank, or

- there is an announcement of any of the events described above.

#### Amendment and Termination

The board of directors may amend, suspend, or terminate the 2010 Incentive Plan, and the Compensation Committee may, to the extent permitted by the 2010 Incentive Plan, amend the terms of any award granted under the plan, including any Award Agreement. Subject to certain exceptions, no such change, however, may be made without first obtaining the approval of TrustCo shareholders if the amendment would:

increase the maximum number of shares that may be sold or awarded under the plan or increase the maximum award limitations set forth in the plan,

- decrease the minimum option price or grant price requirements applicable to options and SARs,
  - change the class of persons eligible to receive awards,
    - change performance goals,
- extend the duration of the plan or the period during which options or SARs may be exercised, or
- otherwise require shareholder approval to comply with any applicable law, regulation or rule.

In addition, no change to the plan or any award under the plan may be made that would materially impair the previously accrued rights of a participant without the written consent of that participant, unless the board of directors or the Compensation Committee determines that the amendment is necessary or advisable to comply with laws, regulations, rules or accounting standards.

The board or the Compensation Committee may adjust the terms and conditions of, and the criteria included in, awards in recognition of unusual or nonrecurring events or of changes in applicable laws, regulations, or accounting principles in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the 2010 Incentive Plan. Neither the board nor the Compensation Committee may make any adjustment that would cause an award that is otherwise exempt from Code Section 409A to become subject to Code Section 409A, or that would cause an award that is subject to Code Section 409A to fail to satisfy the requirements of Code Section 409A.

#### Changes in Capital

In the event of any corporate event or transaction, such as a stock dividend, stock split, recapitalization, reorganization, merger or consolidation, or spin-off, in order to prevent dilution or enlargement of participants' rights under the 2010 Incentive Plan, the Compensation Committee will adjust the number, class, and kind of securities that can be delivered under the plan and outstanding awards, the plan's limits on the number of shares that can be subject to awards granted to a single participant during a single fiscal year, and the price, as applicable, of securities subject to awards outstanding under the plan.

#### Incentive-Based Compensation Recovery

Any award granted under the 2010 Incentive Plan and any shares of common stock, cash, or other compensation received by an employee under the plan that constitutes incentive-based compensation may be subject to recovery by TrustCo under any compensation recovery, recoupment, or clawback policy that TrustCo may in the future adopt, including any policy that TrustCo may be required to adopt under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Securities and Exchange Commission rules, or the requirements of any national securities exchange on which TrustCo stock may be listed. Each such employee must promptly return any such incentive-based compensation that TrustCo determines it is required to recover from such employee under any such policy.

#### Repricing

Neither the TrustCo board nor the Compensation Committee may authorize the repricing of an award without the prior approval of shareholders. For this purpose, the term "repricing" means any of the following or any other action that has the same effect:

- to lower the exercise price or price per share of an award after it is granted,
- to purchase for cash or shares an outstanding award at a time when its exercise price or price per share exceeds the fair market value of TrustCo common stock,
- to take any other action that is treated as a repricing under generally accepted accounting principles, or

to cancel an award at a time when its exercise price or price per share exceeds the fair market value of TrustCo common stock in exchange for another award or TrustCo equity.

#### Tax Withholding Obligations

The 2010 Incentive Plan authorizes TrustCo and TrustCo affiliates to withhold all applicable taxes from any award or payment under the 2010 Incentive Plan and to take other actions necessary or appropriate to satisfy those tax obligations.

#### Certain Federal Income Tax Consequences

The following is a brief summary of certain significant United States Federal income tax consequences, under the Internal Revenue Code, regulations promulgated thereunder and judicial or ruling authorities, as in effect on the date of this summary, applicable to us and participants in connection with awards under the 2010 Incentive Plan. Such authorities are subject to change, which change may be retroactive. This summary assumes that all awards will be exempt from, or comply with, the rules under Section 409A of the Internal Revenue Code regarding nonqualified deferred compensation. If an award constitutes nonqualified deferred compensation and fails to comply with Section 409A of the Code, the award will be subject to immediate taxation and a penalty tax in the year the award vests. This summary is not intended to be exhaustive, and, among other things, does not describe state, local, or non-United States tax consequences, or the effect of gift, estate or inheritance taxes.

The grant of options under the 2010 Incentive Plan will not result in taxable income to the recipient of the option or an income tax deduction for TrustCo. However, the transfer of TrustCo common stock to an option holder upon exercise of his or her option may or may not give rise to taxable income to the option holder and a tax deduction for TrustCo depending upon whether such option is a nonqualified stock option or an incentive stock option.

The exercise of a nonqualified stock option by an option holder generally results in immediate recognition of taxable ordinary income by the option holder and a corresponding tax deduction for TrustCo in the amount by which the fair market value of the shares of common stock purchased, on the date of such exercise, exceeds the aggregate exercise price paid. Any appreciation or depreciation in the fair market value of those shares after the exercise date will generally result in a capital gain or loss to the holder at the time he or she disposes of those shares. The gain or loss will be long term or short term depending upon how long the stock is held by the participant prior to its sale.

The exercise of an incentive stock option by the option holder is exempt from income tax, although not from the alternative minimum tax, and does not result in a tax deduction for TrustCo if the holder has been an employee at all times beginning with the option grant date and ending three months before the date the holder exercises the option (or twelve months in the case of termination of employment due to disability). If the option holder has not been so employed during that time, the holder will be taxed as described above for nonqualified stock options. If the option holder disposes of the shares purchased more than two years after the option was granted and more than one year after the option was exercised, then the option holder will recognize any gain or loss upon disposition of those shares as capital gain or loss. However, if the option holder disposes of the shares prior to satisfying these holding periods (known as a "disqualifying disposition"), the option holder will be obligated to report as taxable ordinary income for the year in which that disposition occurs the excess, with certain adjustments, of the fair market value of the shares disposed of, on the date the incentive stock option was exercised, over the exercise price paid for those shares. TrustCo would be entitled to a tax deduction equal to that amount of ordinary income reported by the option holder. Any additional gain realized by the option holder on the disqualifying disposition would be capital gain. If the total amount realized in a disqualifying disposition is less than the exercise price of the incentive stock option, the difference would be a capital loss for the holder.





The granting of SARs does not result in taxable income to the recipient of a SAR or a tax deduction for TrustCo. Upon exercise of a SAR, the amount of any cash the participant receives and the fair market value as of the exercise date of any of TrustCo common stock received are taxable to the participant as ordinary income and deductible by TrustCo.

A participant will not recognize any taxable income upon the award of shares of restricted stock that are not transferable and are subject to a substantial risk of forfeiture. Dividends paid with respect to restricted stock prior to the lapse of restrictions applicable to that stock will be taxable as compensation income to the participant. Generally, the participant will recognize taxable ordinary income at the first time those shares become transferable or are no longer subject to a substantial risk of forfeiture, in an amount equal to the fair market value of those shares when the restrictions lapse. However, a participant may elect to recognize taxable ordinary income upon the award date of restricted stock based on the fair market value of the shares of TrustCo common stock subject to the award on the date of the award. If a participant makes that election, any dividends paid with respect to that restricted stock will not be treated as compensation income, but rather as dividend income, and the participant will not recognize additional taxable income when the restrictions applicable to his or her restricted stock award lapse. Assuming compliance with the applicable reporting requirements, TrustCo will be entitled to a tax deduction equal to the amount of ordinary income recognized by a participant in connection with his or her restricted stock award in TrustCo's taxable year in which that participant recognizes that ordinary income.

The granting of restricted stock units does not result in taxable income to the recipient of a restricted stock unit or a tax deduction for TrustCo. The amount of cash paid or the then-current fair market value of common stock received upon settlement of the restricted stock units is taxable to the recipient as ordinary income and deductible by TrustCo.

The granting of a performance unit or performance share generally should not result in the recognition of taxable income by the recipient or a tax deduction by TrustCo. The payment or settlement of a performance unit or performance share should generally result in immediate recognition of taxable ordinary income by the recipient equal to the amount of any cash paid or the then-current fair market value of the shares of common stock received, and a corresponding tax deduction by TrustCo. If the shares covered by the award are not transferable and subject to a substantial risk of forfeiture, the tax consequences to the participant and TrustCo will be similar to the tax consequences of restricted stock awards, described above.

Generally, any amount that is treated as ordinary income (compensation) will be subject to applicable withholding requirements.

Under Section 162(m) of the Internal Revenue Code, TrustCo may be limited as to federal income tax deductions to the extent that total annual compensation in excess of \$1 million is paid to TrustCo's principal executive officer and each of its other four most highly compensated executive officers (other than the principal executive officer) who are employed by TrustCo on the last day of the taxable year. However, certain "performance-based compensation" the material terms of which are disclosed to and approved by TrustCo shareholders is not subject to this deduction limitation. The 2010 Incentive Plan has been structured with the intention that compensation resulting from stock options and SARs granted under the 2010 Incentive Plan will be qualified performance-based compensation and, assuming the 2010 Incentive Plan is approved by the shareholders, deductible without regard to the limitations otherwise imposed by Section 162(m) of the Code. The 2010 Incentive Plan allows the Compensation Committee discretion to award restricted stock, performance shares, performance units, cash-based awards, and other stock-based awards that are intended to be qualified performance-based compensation, as described under "Performance-Based Awards" above.

Under certain circumstances, accelerated vesting, exercise or payment of awards under the 2010 Incentive Plan in connection with a "change of control" of TrustCo might be deemed an "excess parachute payment" for purposes of the golden parachute payment provisions of Section 280G of the Code. To the extent it is so considered, the participant holding the award would be subject to an excise tax equal to 20% of the amount of the excess parachute payment, and TrustCo would be unable to claim a tax deduction for the excess parachute payment.

#### Vote Required and Recommendation

The affirmative vote of a majority of all of TrustCo's issued and outstanding shares of common stock is required to approve the adoption of the TrustCo Bank Corp NY 2010 Equity Incentive Plan. Abstentions on properly executed proxy cards and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as a vote "against" this proposal. Dissenters' rights are not available to shareholders who object to the proposal.

**THE TRUSTCO BOARD RECOMMENDS THAT TRUSTCO SHAREHOLDERS VOTE FOR THIS PROPOSAL, WHICH IS ITEM 2 ON THE TRUSTCO PROXY CARD.**

#### Proposal 3 - Approval of the Trustco Bank Corp NY 2010 Directors Equity Incentive Plan

On December 21, 2010, based on the recommendation of TrustCo's Compensation Committee, the board adopted the TrustCo Bank Corp NY 2010 Directors Equity Incentive Plan (the "2010 Directors Plan") and directed that the 2010 Directors Plan be submitted to the shareholders at the Annual Meeting.

The principal features of the 2010 Directors Plan are summarized in this proxy statement. You should read the 2010 Directors Plan for a full statement of its legal terms and conditions. Appendix II to this proxy statement contains the full text of the 2010 Directors Plan as proposed to be approved by the shareholders.

### Purposes of the 2010 Directors Plan

The purpose of the 2010 Directors Plan is to advance the interest of TrustCo and its stockholders by attracting and retaining members of the board and to encourage them to acquire a larger ownership stake in us. The board believes that the resulting increased proprietary interest in TrustCo increases directors' incentives to continue active service and to oversee the Company's continued success and growth.

Under the 2010 Directors Plan, the Compensation Committee may grant or award stock options, SARs and restricted stock to members of the board who are not also TrustCo's officers or employees. The 2010 Directors Plan will remain in effect, subject to the board's right to terminate the plan earlier, until all shares of common stock subject to it have been purchased or acquired. However, no award may be granted under the plan on or after December 21, 2020.

### Administration

The Compensation Committee will administer the 2010 Directors Plan and, as a result, will have the authority to determine the type or types of awards to be made under the plan and to designate the directors who will receive such awards. The Compensation Committee is authorized to interpret the 2010 Directors Plan, to adopt rules for the plan and to make all other determinations necessary for the administration of the plan.

TrustCo's Compensation Committee is comprised of independent members of the board of directors. Currently, the members of the Compensation Committee are Joseph A. Lucarelli (Chairman), Dennis A. De Gennaro, Dr. Anthony J. Marinello, Thomas O. Maggs, William D. Powers, and William J. Purdy.

### Shares Subject to the 2010 Directors Plan

The total number of shares of TrustCo common stock that may be issued pursuant to awards of options or restricted stock under the 2010 Directors Plan may not exceed 250,000, and the total number of awards of SARs may not exceed the equivalent of 250,000 shares. (TrustCo will not issue shares of common stock upon the issuance or exercise of SARs.) Such number of shares will be adjusted proportionately if there is a change in TrustCo outstanding shares due to a stock dividend or split, recapitalization, merger, or other similar corporate change. The shares of common stock to be issued under the 2010 Directors Plan may consist of authorized but unissued stock or treasury stock.

If an option or other award under the 2010 Directors Plan expires or terminates without having been exercised in full, or if such an option is exercised or settled in a manner that results in some or all of the shares of common stock related to the option not being issued, the shares of stock otherwise subject to the option that do not become outstanding will remain available for issuance. If any other awards under the 2010 Directors Plan are forfeited for any reason, or settled in cash in lieu of common stock or in a manner such that some or all of the shares related to the award are not issued, such shares of common stock will (unless the plan has terminated) remain available for issuance under the plan.

## Participation

As of March 1, 2011, there were seven members of the TrustCo board who would be eligible to receive awards under the 2010 Directors Plan. As of March 1, 2011, board members (other than Robert J. McCormick, who is not eligible to participate in the 2010 Directors Plan) held options awarded under prior directors option plans to purchase 60,185 shares of common stock at a weighted-average exercise price of \$10.79 per share. (The foregoing amount does not include options held by Robert A. McCormick that were awarded to him when he was an officer of TrustCo. The amount of these options is described in the discussion relating to Proposal 1 and also in the discussion relating to director compensation.)

Awards under the 2010 Directors Plan are subject to the following limits:

no director may be granted during any calendar year awards consisting of options or restricted stock that are exercisable for or relate to more than 5,000 shares of common stock (subject to adjustments for stock dividends, stock splits and similar events) and

no director may be granted during any calendar year awards consisting of SARs covering or relating to more than 5,000 shares of common stock (subject to adjustments for stock dividends, stock splits and similar events).

## New Plan Benefits

No awards will be granted pursuant to the 2010 Directors Plan until it is approved by shareholders. In addition, awards are subject to the discretion of the Compensation Committee. As a result, it is not possible to determine the benefits that will be received in the future by directors in the 2010 Directors Plan or the benefits that would have been received by such directors if the plan had been implemented prior to the Annual Meeting. Please refer to the discussion of director compensation for a listing of options granted to directors under prior stock option plans.

## Stock Options

The Compensation Committee will have complete discretion in determining the number of options granted to a director and may grant any type of option to purchase TrustCo common stock that is permitted by law at the time of grant.

Stock options granted under the 2010 Directors Plan will be “nonstatutory” or “nonqualified” stock options. The exercise price of each option is set by the Compensation Committee but cannot be less than 100% of the fair market value of TrustCo common stock at the time of grant. Under the plan, the fair market value of the common stock is generally determined as the closing price of the stock as reported on the NASDAQ Global Select Market on the option grant date. On March 1, 2011, the fair market value of a share of TrustCo common stock was \$5.97. The exercise price of any stock options granted under the 2010 Directors Plan may be paid in cash, by tendering previously-acquired shares having an aggregate fair market value at the time of exercise equal to the total option price, by any other means that the Compensation Committee determines to be consistent with the 2010 Directors Plan’s purpose and applicable law, or by a combination of the foregoing. TrustCo may not, under the 2010 Directors Plan, sponsor, or assist in any material way, any “cashless” exercise program pursuant to which payment for options to be exercised is made by surrendering other options, although this prohibition would not apply to third-party, broker-assisted “cashless” exercise programs.

Options awarded under the 2010 Directors Plan will be exercisable at such times and be subject to such restrictions and conditions as the Compensation Committee may approve. The Compensation Committee will determine the period of time during which an option may be exercised, although no option may be exercisable after ten years from the date of grant.

If a director's service to the board is terminated by reason of his or her death or disability, the director's outstanding options will vest 100% and be deemed exercisable in full upon such termination, and the options may be exercised at any time prior to their expiration date or within three years after such date of termination, whichever period is the shorter. If the director's service terminates for any reason other than death or disability, or other than involuntarily for cause, the rights under any then-outstanding option granted under the 2010 Directors Plan will terminate upon the expiration date of the option or one month after the termination date, whichever first occurs. Where a director's termination of service is involuntarily for cause, his or her rights under all options, whether or not such options are vested, will terminate immediately.

#### Stock Appreciation Rights

Directors also may be awarded SARs under the 2010 Directors Plan. SARs, if granted, may be exercised upon whatever terms and conditions the Compensation Committee, in its sole discretion, imposes upon the SARs. Upon exercise of the SAR, the holder will be entitled to receive a cash payment of an amount determined by multiplying the difference between the fair market value of a share of common stock at the date of exercise over the price fixed by the Compensation Committee at the date of grant (which may not be less than the fair market value of a share of TrustCo common stock on that date) by the number of shares with respect to which the Stock Appreciation Right is exercised. Payment for SARs will be made in cash; at the time of grant, the Compensation Committee may establish a maximum amount per share that would be payable upon exercise of any SAR. SARs granted under the 2010 Directors Plan will expire no later than ten years after the date of grant. In the event the employment of a director is terminated, any SARs outstanding will terminate in the same manner as described above for options.

#### Restricted Stock

Directors may be awarded shares of restricted stock under the 2010 Directors Plan, with any such awards being subject to the satisfaction of terms and conditions established by the Compensation Committee. Subject to the terms and conditions of the plan and the applicable award agreement, upon delivery of shares of restricted stock to a director, or creation of a book entry evidencing a director's ownership of such shares, the director will have all of the rights of a shareholder with respect to such restricted shares. Shares of restricted stock may not be sold, pledged or otherwise transferred for such period of time as may be determined by the Compensation Committee and specified in the applicable award agreement or until the earlier satisfaction of other conditions. If a director's service to the board is terminated by reason of death or disability during the restricted period, such period will automatically terminate, and upon a separation from service for any other reason, any shares of restricted stock still subject to the restriction period automatically will be forfeited and returned to TrustCo.

### Transferability of Awards

Options, SARs and unvested restricted stock under the 2010 Directors Plan generally may not be sold or otherwise transferred except by will or the laws of descent and distribution.

### Change of Control

Except as expressly provided otherwise in an award agreement, in the event of a change-in-control of TrustCo (as “change-in-control” is defined in the plan), all awards under the 2010 Directors Plan will vest 100%. As a result, all options will become exercisable in full, the restrictions applicable to restricted stock will terminate and SARs will be paid out based on the terms thereof. Depending on the nature of the change of control transaction, payment of certain awards may be delayed to comply with Section 409A of the Internal Revenue Code. A change-in-control has the same definition in the 2010 Directors Plan as in the 2010 Incentive Plan.

### Amendment and Termination

The board of directors may amend, suspend or terminate the 2010 Directors Plan, and the Compensation Committee may, to the extent permitted by the 2010 Directors Plan, amend the terms of any award granted under the plan, including any Award Agreement. Subject to certain exceptions, no such change, however, may be made without first obtaining the approval of TrustCo shareholders if the amendment would:

• increase the maximum number of shares of TrustCo common stock that may be sold or awarded under the plan or  
• increase the maximum award limitations set forth in the plan,

- decrease the minimum option price or grant price requirements applicable to options and SARs,
- change the class of persons eligible to receive awards,
- extend the duration of the plan or the period during which options or SARs may be exercised, or
- otherwise require shareholder approval to comply with any applicable law, regulation or rule.

In addition, no change to the plan or any award under the plan may be made that would materially impair the previously accrued rights of a director without the written consent of that director, unless the board of directors or the Compensation Committee determines that the amendment is necessary or advisable to comply with laws, regulations, rules or accounting standards.

The board or the Compensation Committee may adjust the terms and conditions of, and the criteria included in, awards in recognition of unusual or nonrecurring events or of changes in applicable laws, regulations, or accounting principles in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the 2010 Directors Plan. Neither the board nor the Compensation Committee may make any adjustment that would cause an award that is otherwise exempt from Code Section 409A to become subject to Code Section 409A, or that would cause an award that is subject to Code Section 409A to fail to satisfy the requirements of Code Section 409A.

#### Changes in Capital

In the event of any corporate event or transaction, such as a stock dividend, stock split, recapitalization, reorganization, merger or consolidation or spin-off, in order to prevent dilution or enlargement of directors' rights under the 2010 Directors Plan, the Compensation Committee will adjust the number, class and kind of securities that can be delivered under the plan and outstanding awards, the plan's limits on the number of shares that can be subject to awards granted to a single director during a single fiscal year, and the price, as applicable, of securities subject to awards outstanding under the plan.

#### Repricing

Neither the TrustCo board nor the Compensation Committee may authorize the repricing of an award without the prior approval of shareholders. For this purpose, the term "repricing" means any of the following or any other action that has the same effect:

- to lower the exercise price or price per share of an award after it is granted,
- to purchase for cash or shares an outstanding award at a time when its exercise price or price per share exceeds the fair market value of TrustCo common stock,
- to take any other action that is treated as a repricing under generally accepted accounting principles, or
- to cancel an award at a time when its exercise price or price per share exceeds the fair market value of TrustCo common stock in exchange for another award or Trustco equity.

#### Tax Withholding Obligations

The 2010 Directors Plan authorizes TrustCo and its affiliates to withhold all applicable taxes from any award or payment under the 2010 Directors Plan and to take other actions necessary or appropriate to satisfy those tax obligations.



#### Certain Federal Income Tax Consequences

The United States federal income tax consequences applicable to TrustCo and directors in connection with awards under the 2010 Directors Plan will be substantially the same as those discussed above under “Certain Federal Income Tax Consequences” with respect to the 2010 Incentive Plan.

#### Vote Required and Recommendation

The affirmative vote of a majority of all of TrustCo’s issued and outstanding shares of common stock is required to approve the adoption of the TrustCo Bank Corp NY 2010 Directors Equity Incentive Plan. Abstentions on properly executed proxy cards and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as a vote “against” this proposal. Dissenters’ rights are not available to shareholders who object to the proposal.

**THE TRUSTCO BOARD RECOMMENDS THAT TRUSTCO SHAREHOLDERS VOTE FOR THIS PROPOSAL, WHICH IS ITEM 3 ON THE TRUSTCO PROXY CARD.**

#### Proposal 4 - Advisory Resolution on the Compensation of TrustCo’s Named Executive Officers

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) requires that TrustCo provide shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of the named executive officers as disclosed in this proxy statement, including the Compensation Discussion and Analysis and the tabular disclosure regarding the compensation of the named executive officers and the accompanying narrative.

This proposal (often referred to as a “say-on-pay” proposal), gives TrustCo shareholders the opportunity to endorse, or not endorse, the compensation of the named executive officers. The vote on the proposal is not intended to address any specific element of executive compensation. Further, the vote is advisory, which means that it is not binding on TrustCo, its board of directors or the Compensation Committee. It is expected, however, that the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions.

As discussed in more detail in the Compensation Discussion and Analysis, TrustCo seeks to offer a compensation structure designed to compare favorably with its competitive peer group while taking into account the experience and responsibilities of the particular executive officer and to provide compensation incentives that promote the enhancement of shareholder value, and the total executive compensation opportunity for TrustCo’s executive officers is intended to create a compensation program that maximizes executive talent and rewards a high level of performance.

#### Resolution

In light of the foregoing, TrustCo is asking shareholders to vote on the following resolution at the Annual Meeting:

**RESOLVED**, that the shareholders of TrustCo Bank Corp NY approve, on an advisory basis, the compensation of the named executive officers, as disclosed in TrustCo’s Proxy Statement for the 2011 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2010 Summary Compensation Table and the other related tables and narrative disclosure.



### Vote Required and Recommendation

The affirmative vote of a majority of all of TrustCo's issued and outstanding shares of common stock is required to adopt the foregoing resolution approving the compensation of TrustCo's named executive officers. Abstentions on properly executed proxy cards and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as a vote "against" this proposal. Dissenters' rights are not available to shareholders who object to the proposal.

**THE TRUSTCO BOARD RECOMMENDS THAT TRUSTCO SHAREHOLDERS VOTE FOR THIS PROPOSAL, WHICH IS ITEM 4 ON THE TRUSTCO PROXY CARD.**

### Proposal 5 - Advisory Resolution on the Frequency of an Advisory Vote on the Compensation of TrustCo's Named Executive Officers

The Dodd-Frank Act also requires that shareholders be given the opportunity to vote, on a nonbinding, advisory basis, as to how frequently TrustCo should seek future "say on pay" advisory votes on the compensation of the named executive officers.

More specifically, TrustCo is asking whether shareholders would prefer that the say on pay advisory vote occur every year, every two years or every three years. (Shareholders also may, if they wish, abstain from casting a vote on this proposal.) The board of directors will take into consideration the outcome of the resolution when considering the frequency of the advisory vote on executive compensation in the future.

After careful consideration, the TrustCo board has determined that an advisory vote on executive compensation that occurs every three years is the most appropriate alternative for the Company, and the board therefore recommends that you vote for a say on pay advisory vote every third year. In the view of the board, such an advisory vote will provide shareholders with the time period necessary to evaluate the effectiveness of the longer-term elements of TrustCo's compensation program in relation to TrustCo's business performance over that period. The three-year time period will also provide TrustCo's board and the Compensation Committee a sufficient amount of time to respond to shareholder concerns expressed in connection with the previous "say on pay" vote and will allow shareholders to better evaluate the effect of changes to TrustCo's compensation procedures, policies, and practices since that previous vote.

The board also recognizes, however, that shareholders may have different views as to the best approach for the Company and looks forward to hearing from shareholders as to their preferences on the frequency of the say on pay advisory vote.

Because the vote on the frequency of the say on pay advisory vote also is advisory, it is not binding on the board or TrustCo in any way. It is expected, however, that the board of directors and the Compensation Committee will take the outcome of the vote into account when considering the frequency of future advisory votes on executive compensation.

## Resolution

Shareholders may cast a vote on the preferred voting frequency by selecting the option of one year, two years or three years (or abstain) when voting in response to the following resolution:

RESOLVED, that the shareholders of TrustCo Bank Corp NY determine, on an advisory basis, whether the preferred frequency of an advisory vote on the executive compensation of the Company's named executive officers as set forth in the Company's proxy statement should be every year, every two years, or every three years.

## Vote Required and Recommendation

The board of directors will consider the alternative (every year, every two years, or every three years) receiving the highest number of votes as the recommendation of TrustCo shareholders with respect to the frequency of the advisory vote on executive compensation. Dissenters' rights are not available to shareholders who object to the proposal.

**THE TRUSTCO BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE OPTION OF EVERY THREE YEARS ON THIS PROPOSAL, WHICH IS ITEM 5 ON THE TRUSTCO PROXY CARD.**

## Proposal 6 - Ratification of the Appointment of Independent Public Accounting Firm

The Audit Committee of TrustCo's board of directors has recommended, and the board of directors on February 15, 2011 has reappointed Crowe Horwath as TrustCo's independent accountants for the year ending December 31, 2011. At the Annual Meeting, stockholders will consider and vote on the ratification of the engagement of Crowe Horwath for the fiscal year ending December 31, 2011. Representatives of Crowe Horwath are expected to be present at the Annual Meeting to make a statement if they so desire and are also expected to be available to respond to appropriate questions that may be raised.

## Vote Required and Recommendation

The affirmative vote of a majority of all of TrustCo's issued and outstanding shares of common stock is required to ratify the appointment of Crowe Horwath as TrustCo's independent accountants for the year ending December 31, 2011. Abstentions on properly executed proxy cards and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as a vote "against" this proposal. Dissenters' rights are not available to shareholders who object to the proposal.

**THE TRUSTCO BOARD RECOMMENDS THAT TRUSTCO SHAREHOLDERS VOTE FOR THIS PROPOSAL, WHICH IS ITEM 6 ON THE TRUSTCO PROXY CARD.**

## Other Matters

TrustCo's board of directors is not aware of any other matters that may come before the Annual Meeting. However, the proxies may be voted with discretionary authority with respect to any other matters that may properly come before the Annual Meeting.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The objectives of TrustCo's compensation program are to attract, retain and motivate outstanding executive talent.

The Company seeks to offer a compensation structure that is designed to compare favorably with our competitive peer group while taking into account the experience and responsibilities of the particular executive officer and to provide compensation incentives that promote the enhancement of shareholder value. TrustCo combines both annual and long-term cash and equity incentives with its overall business plans and objectives. The total executive compensation opportunity for our executive team is intended to create a compensation program that maximizes executive talent and rewards a high level of performance. It is the intention of the compensation program to reward executive officers for achieving the objectives of TrustCo through their best efforts and dedication of their time and attention to the affairs of the Company.

The Compensation Committee of the board of directors has the responsibility of establishing annual salaries and reviewing and implementing bonuses and long-term incentives for the Company's senior executive officers (Messrs. McCormick, Cushing, Salvador, Leonard, and Schreck) and also assists the senior management of the Company, including the Chief Executive Officer, in making compensation decisions with respect to the Company's other executive officers. It is the aim of the Compensation Committee to determine salary and benefit levels of executive compensation (including the compensation of the Chief Executive Officer) principally upon the basis of overall corporate performance. In making any such determination, the Compensation Committee will consider a number of factors including TrustCo's and Trustco Bank's attainment of net income goals, how the Company performs against its peers in the banking environment, total asset targets, overall profitability from year to year, banking experience of individual officers, scope of responsibility within the overall organization, performance, and particular contributions to TrustCo and Trustco Bank during the course of the year. The Compensation Committee also considers other relevant factors, including involvement in the community, which might better position the organization to serve the immediate needs of Trustco Bank's market. The Committee uses discretion when determining compensation levels and considers all of the above criteria. It does not assign a specific weight to any of these factors. During 2010, the Compensation Committee used information provided by the Human Resources Department of Trustco Bank, SNL Financial's 2010 Executive Compensation Review and SMART Business Advisory & Consulting LLC, a subsidiary of LECG LLC, a compensation consultant, in evaluating compensation levels and the structure of benefits paid to all of its executive officers.

For purposes of comparing the Company's compensation system with others, the Compensation Committee utilizes an industry group comprised of all New York, New Jersey and Florida based banks and thrifts with assets of \$2 billion to \$10 billion (as of September 30, 2010) who did not receive equity investments from the federal government under the T.A.R.P. (Troubled Asset Relief Program) program. The Committee chose to omit companies that participated in the T.A.R.P. program because those companies are under certain restrictions relating to capital requirements, and executive compensation and in the Committee's view, tended to be poorer performing institutions. Consequently, the committee did not believe that these institutions were sufficiently comparable to the Company such that they should be included in the peer group. The resulting peer group contained 14 banks, of which seven were based in New York, five were based in New Jersey and two were based in Florida. The committee felt that since the Company's major market areas are in Upstate New York, Downstate New York/Northern New Jersey and Florida, these comparably sized companies were a reasonable representation of its peers. TrustCo also has branch offices in Vermont and Massachusetts, but it views those offices as extensions of its Upstate New York franchise. TrustCo had total assets as of December 31, 2010 of approximately \$4.0 billion.

The members of the peer group are:

BankAtlantic Bancorp. ( Florida)	NBT Bancorp Inc (New York)
Capital City Bank Group, Inc. (Florida)	Northfield Bancorp, Inc (New Jersey)
Community Bank Systems, Inc. (New York)	Oritani Financial Corp (New Jersey)
Dime Community Bancshares, Inc. (New York)	Provident Financial Services (New Jersey)
Hudson Valley Holding Corp (New York)	Provident New York Bancorp (New York)
Intervest Bancshares Corporation (New Jersey)	Smithtown Bancorp, Inc (New York)
Kearny Financial (New Jersey)	Tompkins Financial Corporation (New York)

While TrustCo is of similar size to the members of the peer group, the Compensation Committee also takes into consideration in determining the compensation of the Company's senior executives what the committee considers to be the unique size of TrustCo's executive group as compared to other financial institutions. TrustCo and Trustco Bank currently operate with three senior executive officers, all of whom have a very broad scope of responsibilities, whereas the committee believes the other institutions in this peer group have a larger pool of such officers. Messrs. McCormick, Cushing, and Salvador have all of the Company's operating departments reporting to them including the departments headed by Mr. Leonard, and Mr. Schreck. Further, utilizing recent performance data, the Compensation Committee concluded TrustCo's overall performance compared favorably with that of the peer group. Through September 30, 2010, TrustCo's return on average equity was (on an annualized basis) 11.83% compared to a peer group median of 4.63% and a peer group average of -7.88%. For the same period, TrustCo's return on average assets and efficiency ratio were (on an annualized basis) 0.80% and 49.95%, respectively, compared to a peer group median of 0.70% and 59.41%, respectively, and a peer group average of 0.13% and 61.36%, respectively. Lastly, the committee compared nonperforming assets to total assets as of September 30, 2010. TrustCo's ratio was 1.44% compared to a peer group median of 1.67% and a peer group average of 3.68%. In general, the Compensation Committee believes the Company's compensation levels are appropriate when all factors are considered as discussed above.

For 2010 there were three basic elements to TrustCo's compensation program, each of which has sub-elements: annual compensation (comprised of salary and bonus), long-term compensation (comprised of stock options and performance bonus programs), and retirement (comprised of defined benefit pension plan, profit sharing/401(k) plan, and supplemental retirement plan). As a general matter, compensation decisions with respect to each of the basic elements of the compensation program are made independently of the decisions made with respect to the other elements. The Compensation Committee does, however, consider the total compensation paid or payable to an officer when making compensation decisions.

#### Annual Compensation Components

For 2010, the annual compensation for TrustCo's executive officers was comprised of salary and a payment which replaced the Company's previous annual contribution to each executive officer's Supplemental Retirement Plan (SERP).

**Salary.** Annual salary is the base compensation for the Company's officers and is designed to reward officers for services rendered by them during the year. The salaries for TrustCo officers are established based upon the scope of their respective responsibilities, taking into account competitive market compensation paid by the peer group for similar positions along with the performance of these companies relative to the performance of the Company. Salaries are reviewed at least annually and are also reviewed upon the request of the board of directors.

For 2011, based upon its review of the compensation paid by members of the peer group and based on TrustCo performance against the peer group, the Compensation Committee recommended that the base salary for Robert J. McCormick remain at \$880,000. The committee increased the salary for Mr. Salvador from \$460,000 in 2010 to \$510,000 for 2011, and increased the salary for Mr. Cushing from \$610,000 in 2010 to \$640,000 for 2011. The committee believes that the executive officers' performance in 2010 led to the Company substantially outperforming the peer group.

By way of comparison, for 2009 (the most recent period for which such information was available) the median chief executive officer total compensation for the peer group was \$1,443,000 compared to \$1,269,000 for Mr. McCormick. The median total compensation for the next top executive officers of the peer group for 2009 was \$747,000 and \$543,000, compared to \$882,000 for Mr. Cushing and \$681,000 for Mr. Salvador. For 2009, the median chief executive officer base salary for the peer group was \$454,757 compared to \$880,000 for Mr. McCormick. The median base salary for the next top executive officers for 2009 was \$286,594 and \$274,148 compared to \$610,000 for Mr. Cushing and \$460,000 for Mr. Salvador. For 2010, total compensation for Mr. McCormick was \$1,264,124, Mr. Cushing \$930,641 and Mr. Salvador \$697,069. In determining the compensation, the Compensation Committee is of the opinion that the base salary of the Company's senior executive officers (and their total compensation) be competitive with the peer group, taking into account the scope of their respective responsibilities, the compensation paid by the peer group for similar positions and the performance of the Company relative to the peer group.

In determining the compensation for Mr. Leonard, and Mr. Schreck, the Compensation Committee takes into consideration the Company's overall financial performance along with the performance of the individual and the responsibilities each officer holds within the organization, each officer's experience and the goals of each department for which the officer has responsibility. After a recommendation from Mr. McCormick, and discussion with the Compensation Committee, the base salary for Leonard was increased from \$150,000 to \$170,000 and the base salary for Mr. Schreck was increased from \$225,000 to \$235,000.





Annual Bonus. During its 2010 meetings, after reviewing the total compensation program which included no incentive component for the top three executive officers, the committee determined that the Executive Officer Incentive Plan should be reinstated and modified.

Through 2008, the bonus component of TrustCo annual compensation for Messrs. McCormick, Cushing, and Salvador was provided under the Executive Officer Incentive Plan pursuant to which annual bonuses were determined based upon the Company's return on equity (as defined in the plan). In 2008, the committee concluded that determining bonus eligibility based on return on equity made the Executive Officer Incentive Plan too restrictive due to conditions within the financial institutions industry and that the plan did not provide for the committee to consider other factors that would appropriately reflect management's performance. Those conditions continued throughout 2009 and 2010, in the committee's view. Therefore, in 2008, and continuing for 2009 and 2010, the Executive Officer Incentive Plan was frozen, and no bonuses were paid under it.

In light of the financial institutions industry conditions, however, the committee also concluded that the executive officers total cash compensation should remain at current levels despite the freezing of the Executive Officers Incentive Plan because in the committee's view it was appropriate in a time of economic uncertainty for the executive's cash compensation to be less dependent on the achievement of performance standards and that the other, more long term focused aspects of the Company's compensation program, such as option awards and the performance bonus plan, were sufficient to continue to motivate the executive officers.

The revised Executive Officer Incentive Plan would decrease the maximum bonus amount from 125% of the executive's base salary to 25% and would change the criteria for obtaining a bonus from a return on average equity threshold to performance measures defined in the plan compared to a peer group approved by the committee. The committee will set the new performance measures and levels annually. The committee feels strongly that the revised incentive plan will motivate the executive's without encouraging undue risk-taking. Based on the median total compensation paid to the peer group as previously discussed, the committee felt that there should be additional long-term compensation should the Company outperform its peer group. If each of Messrs. McCormick, Cushing, and Salvador earn the maximum bonus amount, they would receive \$220,000, \$160,000 and \$127,500 respectively.

The annual bonuses for the Company's other executive officers, including Mr. Leonard and Mr. Schreck, are paid pursuant to the Trustco Bank Senior Incentive Plan, which is designed to provide participants with the opportunity for annual incentive awards for achievement of objectives as established by the Chief Executive Officer, Mr. McCormick. The Compensation Committee annually reviews and approves the decisions made under the Senior Incentive Plan. A major component of the decision-making with respect to awards under the plan is Trustco Bank's performance under its profit plan. For each year, a profit plan is developed and submitted to the board of directors for approval. The profit plan establishes targeted levels for return on assets, total assets, total deposits, and net income. The participant's bonus amount, measured as a percentage of annual salary of a participant, is determined in the sole discretion of the Chief Executive Officer, with such determination taking into account Trustco Bank's performance in the year just ended with respect to the profit plan and the participant's contribution to such performance. The return on equity of the Company and Trustco Bank and other performance measures are also taken into account. For 2010, Mr. McCormick determined, after reviewing Trustco Bank's performance, that the incentive award to be made to each of Mr. Leonard, and Mr. Schreck should be 26% of base salary, which amounted to \$37,704 and \$58,500, respectively.

## Employment Agreements

As discussed in more detail below, TrustCo and Trustco Bank have entered into employment agreements (which are substantially identical to each other) with Messrs. McCormick, Cushing, and Salvador that generally provide for their annual compensation, termination and severance benefits, change of control benefits, and various other personal benefits. The Compensation Committee reviews the terms and conditions of the employment agreements in connection with its annual consideration of the Company's compensation programs. Each of the employment agreements renewed for a new three-year term effective January 1, 2011. After a review, the committee felt no changes were necessary to the existing agreements.

As described below, after discussion with the executive officers, the committee decided to freeze the TrustCo and Trustco Bank SERP as of December 31, 2008. The employment agreements now provide that the executive officers will receive an amount annually, in addition to base salary, equal to the incremental amount that would have been credited for the year to the executive's supplemental account balance under the SERP as such plan was in effect on December 31, 2007, and had it not been amended to cease additional benefit accruals following December 31, 2008. The change would result in no additional benefit for the executive officers except they would receive an amount equal to the annual SERP contribution plus related interest directly instead of upon their retirement. The executives also may now participate in TrustCo's Profit Sharing/401(k) Plan. The amounts already accrued in the SERP will remain deferred until the executive officer retires or is otherwise entitled to receive the balance in the SERP.

## Long-Term Incentive Program

In addition to annual compensation, TrustCo also has implemented a long-term incentive compensation program. TrustCo believes that motivation with respect to long-term goals is achieved through an ownership culture that encourages long-term performance by executive officers through the use of stock-based awards. TrustCo's long-term incentive program includes equity incentives and its Performance Bonus Plan.

**Equity Incentives.** In 2010, the committee and the board of directors approved the TrustCo Bank Corp NY 2010 Equity Incentive Plan, the terms of which are discussed in more detail under Item 2 "TrustCo Corp NY 2010 Equity Incentive Plan." The Plan was established to advance the interests of TrustCo and its shareholders by providing to executive officers an opportunity to acquire equity ownership in the Company along with the incentive advantages inherent in that equity ownership.

It is the responsibility of the Compensation Committee to determine the time and amount of awards and the other terms and conditions of the awards, including the exercise price, vesting schedule, and expiration dates. The Compensation Committee's actions are ultimately judgments based upon the committee's ongoing assessment and understanding of TrustCo and its executive officers, the performance of its executive officers, and whether an award would provide an appropriate incentive to the executive officers' contribution to TrustCo's future performance. Awards are designed to ensure each executive officer has a sense of ownership in the financial growth of the Company.

In 2010, no grants were issued under the Company's existing 2004 Stock Option Plan. The committee felt a better strategy was to design a new long-term incentive plan. The committee felt the structure of the 2010 Equity Incentive Plan was more appropriate in motivating the executive officers in building shareholder value while not encouraging undue risk taking.

Performance Bonus Plan. The second aspect of TrustCo's long-term incentive program is its Performance Bonus Plan, which generally provides compensation to the Company's senior executive officers (Messrs. McCormick, Cushing, and Salvador) in the event of a change in control of the Company. The Compensation Committee believes that regional banking institutions such as the Company are continually subject to being acquired by third parties. It is the belief of the Compensation Committee that following a "change of control" (as defined in the Performance Bonus Plan) TrustCo's senior executive officers would not have the same level of responsibility as they currently have with TrustCo and that their compensation would thus be adversely affected by the control change. Because executives may perceive significant risks regarding acquisition transactions (such as the risk of reduced authority and compensation described above), TrustCo and Trustco Bank implemented a Performance Bonus Plan that, along with the change in control benefits available under the employment agreements, is designed to encourage highly qualified executives to remain with the Company and to attract other executives as may be necessary. Through the Performance Bonus Plan, senior executive officers are encouraged to remain with TrustCo and Trustco Bank and seek to increase shareholder value.

Under the Performance Bonus Plan, the senior executive officers have been awarded units, the ultimate value of which is based upon the appreciation in value of TrustCo's common stock between the date of the award and the occurrence of a "change in control" as defined in the plan. The units so awarded vest fifteen days prior to the scheduled closing date of a change in control, upon the occurrence of an unannounced change in control, or upon a participant's termination of employment for reasons other than cause within one year prior to a change in control. Payment to a participant under the plan must be made within ten days after the change in control.

The Compensation Committee believes that the definition of change in control (which is substantially the same as the definition contained in the senior executives' employment agreements and is substantially the definition set forth in the U.S. Treasury Department regulations under Section 409A of the Internal Revenue Code) is customary within the banking industry and that the circumstances under which change in control payments would be made are reasonable. (The change in control definition is described below under "Executive Compensation Payments and Awards.") Each of the Company's senior executive officers has been awarded an equal number of Performance Bonus Units. The Company does not make annual awards of units under the Performance Bonus Plan; rather, the units were awarded at the plan's inception in 1997 and have subsequently been awarded only when a person becomes a senior executive officer.

The Compensation Committee believes the Performance Bonus Plan continues to enhance the goal of an ownership culture through long-term incentives thereby advancing the interest of the Company and its shareholders.

#### Retirement Plans

The retirement plans available to TrustCo's officers and employees include the Retirement Plan of Trustco Bank, the Trustco Bank Profit Sharing/401(k) Plan, and the Company's Supplemental Retirement Plan.

Retirement Plan and Profit Sharing/401(k) Plan. The Trustco Bank Retirement Plan is a defined benefit pension plan pursuant to which annual retirement benefits are based on years of service to a maximum of 30 years and average annual earnings of the highest five consecutive years during the final ten years of service. The defined benefit retirement plan is fully funded by Trustco Bank contributions. The Retirement Plan was "frozen," in 2006 and there will be no new participants in the plan. Participants in the plan during 2006 are entitled to benefits accrued as of December 31, 2006. TrustCo and the Compensation Committee believe that, for companies nationwide, the primary vehicle for employee retirement benefits is the 401(k) savings plan. To meet increased employee expectations in this regard, TrustCo enhanced its Profit Sharing Plan in 2006 to include a 401(k) feature, thereby making this the primary retirement plan for TrustCo.

Each of the executive officers named in this proxy statement participates in the Retirement Plan. Previously, until 2009, the senior executive officers were not eligible to participate in the Profit Sharing/401(k) Plan in light of their participation in the Executive Officer Incentive Plan, and the negative aspect that their participation in the plan could have had on other plan participants. Beginning January 1, 2009, TrustCo's senior executive officers became eligible to participate in the Profit Sharing/401(k) Plan following the freezing of the Executive Officer Incentive Plan. When the Executive Office Incentive Plan was reinstated effective February 1, 2011, the executive officers once again became ineligible to participate in the Profit Sharing/401(k) Plan. However, the Compensation Committee felt that, based on the changes made to the Executive Officer Incentive Plan that substantially reduced the maximum bonus amount payable, the executive officers should be able to participate in the Profit Sharing/401(k) Plan, and the committee recommended the adoption of an amendment to the plan authorizing executive officer participation.

Supplemental Retirement Plan. The SERP is an unfunded, nonqualified, and non-contributory deferred compensation plan. The amounts of supplemental retirement benefits payable under the plan are actuarially calculated to achieve a benefit at normal retirement that approximates the difference between (i) the total retirement benefit the participant would have received under the Trustco Bank Retirement Plan without taking into account limitations on compensation, annual benefits, and years of service and (ii) the retirement benefit the participant is projected to receive under the Trustco Bank Retirement Plan at normal retirement (up to a maximum of \$7,000,000). The Company's annual contribution to the SERP (through 2008) and its current direct cash payments to each participant (which are described below) are determined pursuant to a formula set forth in the plan. The Compensation Committee had established the plan to provide the supplemental benefits described above; however, neither the annual contributions to the SERP nor the direct annual payments to be made to the senior executive officers beginning in 2009 in lieu of the SERP contributions were specifically evaluated by the Compensation Committee in determining annual compensation

The Compensation Committee believes that the SERP together with the Retirement Plan and the Profit Sharing/401(k) Plan promote executive retention and allow the executive to focus on the long-term success of TrustCo. Participation in the SERP is limited to a select group of executives of TrustCo who are highly compensated employees, and an employee must be selected by the board of directors to participate in the Plan. In December 2008, as a result of the effect of Section 409A of the Internal Revenue Code and its implementing regulations, which added, under certain circumstances, a six-month period prior to the executive receiving the vested benefit that would be paid upon retirement or separation from service, TrustCo's senior executives made a recommendation to the Compensation Committee to freeze the SERP effective December 31, 2008 and requested that the amount of the Company's annual contribution to the SERP plus interest for each officer instead be paid directly to each officer. The committee considered the request and decided to add a corresponding amendment to the SERP such that the annual increment to be added to the SERP plus interest be paid directly to the executive officer (in addition to the SERP amendments already under consideration by the committee to achieve compliance with Section 409A of the Internal Revenue Code) to freeze future Company contributions to the SERP. All assets currently accrued in the SERP will remain until the separation of service of the executive.

#### Executive Compensation Payments and Awards

The following table sets forth, for the fiscal year ended December 31, 2010, the compensation paid to or accrued on behalf of the most highly compensated executive officers of TrustCo. Each of the executive officers described in the following table (with the exception of Robert M. Leonard and Eric W. Schreck) has an employment agreement and a supplemental retirement agreement.

## Summary Compensation Table

(a)	Year	(1) Salary (\$)	(1) Bonus (\$)	Stock Awards (\$)	(2) Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	(3) Change in Pension Value and Nonqualified Deferred Compensation (\$)	(4) All Other Compensation (\$)	Total (\$)
							(h)	(i)	
Robert J. McCormick	2010	880,000	-	-	-	-	16,661	367,463	1,264,124
President & Chief Executive Officer, TrustCo and Trustco Bank	2009	880,000	-	-	-	-	15,438	373,374	1,268,812
Robert T. Cushing	2008	380,000	342,000	-	132,000	-	11,018	230,598	1,095,616
Executive Vice President & Chief Financial Officer, TrustCo and Trustco Bank	2010	610,000	-	-	-	-	25,570	295,071	930,641
Executive Vice President & Chief Financial Officer, TrustCo and Trustco Bank	2009	610,000	-	-	-	-	24,399	248,085	882,484
Scot R. Salvador	2008	305,000	274,500	-	66,000	-	20,755	211,766	878,021
Executive Vice President & Chief Banking Officer, TrustCo and Trustco Bank	2010	460,000	-	-	-	-	11,987	225,082	697,069
Executive Vice President & Chief Banking Officer, TrustCo and Trustco Bank	2009	460,000	-	-	-	-	10,984	210,223	681,207
Robert M. Leonard	2008	225,000	202,500	-	66,000	-	7,312	145,458	646,270
Secretary, TrustCo and Trustco Bank and Senior Vice President, Trustco Bank	2010	150,000	37,704	-	-	-	10,090	32,731	230,525
Eric W. Schreck	2009	130,000	28,600	-	-	-	9,363	20,709	188,672
Treasurer, TrustCo and Senior Vice President, Trustco Bank	2008	120,000	26,400	-	8,800	-	6,812	11,574	173,586
Eric W. Schreck	2010	225,000	58,500	-	-	-	7,861	41,264	332,625
Treasurer, TrustCo and Senior Vice President, Trustco Bank									

## Summary Compensation Table Footnotes:

(1) The bonus payments included in column (d) for Messrs. McCormick, Cushing, and Salvador were calculated in accordance with the Executive Officer Incentive Plan and any supplemental bonus approved by the board of

directors. No bonuses were paid to or accrued for these executives during 2010 and 2009. The bonus payments for Mr. Leonard and Mr. Schreck are based upon the Trustco Bank Senior Incentive Plan. The operation of these plans is discussed in the “Compensation Discussion and Analysis.”

<sup>(2)</sup>Included in column (f) is the grant date fair value, calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 “Compensation-Stock Compensation” for the stock option awards in 2008 (no option grants were made in 2010 and 2009). The assumptions made in the valuation of the awards are described in the footnotes to TrustCo’s consolidated financial statements for the years ended December 31, 2010 and 2009.

- (3)The information contained in column (h) is derived from the increase in value of vested benefits accrued under the Trustco Retirement Plan. See the table “Pension Benefits” for more details on the methodology followed to perform these calculations and a discussion of TrustCo and Trustco Bank retirement benefits generally.
- (4)Included in column (i) are all other compensation paid to the named executive officers including tax expenses (of \$34,700, \$43,300, \$33,200, \$11,400 and \$11,400 for Messrs. McCormick, Cushing, Salvador, Leonard, and Schreck, respectively, for 2010) incurred on personal use of auto, health insurance, tax planning assistance, and personal use of clubs. Also included in this column is compensation paid for 2010 pursuant to the Employment Agreements of Messrs. McCormick, Cushing, and Salvador, which provide for each of them to receive an amount equal to the incremental amount that would have been credited to them for 2010 under the TrustCo Supplemental Retirement Plan had such plan not been amended to cease additional benefit accruals following December 31, 2008. For 2010, the Company paid \$280,000, \$188,700, and \$141,000 to Messrs. McCormick, Cushing, and Salvador, respectively. TrustCo sponsors a 401(k)/Profit Sharing Plan for all employees where the Company offers to match employee contributions to certain limits. For 2010, the Company match for the 401(k)/Profit Sharing Plan for Messrs. McCormick, Cushing, and Salvador was \$11,025, for Mr. Leonard \$6,500, and for Mr. Schreck \$10,100.

TrustCo and Trustco Bank have entered into employment contracts with Messrs. McCormick, Cushing, and Salvador. Under these agreements, which are substantially the same, each officer’s annual compensation is his base salary (in 2010, \$880,000, \$610,000, and \$460,000, respectively). In subsequent years, the annual base salary of each officer may not be less than his annual base salary for the preceding calendar year, and each officer is entitled to participate fully in any disability, death benefit, retirement, executive incentive compensation, or pension plans maintained by TrustCo or Trustco Bank. Commencing in 2009, in addition to the annual compensation, each executive is to be paid annually an amount equal to the incremental amount plus interest that would have been credited for the year to the executive’s supplemental account balance under the Trustco Supplemental Retirement Plan as the plan was in effect on December 31, 2007, and had it not been amended to cease additional benefit accruals following December 31, 2008.

Upon termination of the executive’s employment due to retirement, disability, death, or termination of executive for any reason other than good cause (as defined in the employment agreements) within two years after a change in control (also as defined in the agreements), TrustCo must, for the longer of the life of the executive or the life of his spouse, reimburse the executive or his spouse for otherwise unreimbursed medical expenses, including medical insurance premiums. These benefits are in addition to the general disability, death benefit, retirement, and pension plans maintained by TrustCo and Trustco Bank. The employment agreements generally define retirement as the earliest retirement date applicable to the executive in question under the Retirement Plan of Trustco Bank. The term “disability” is defined as a mental or physical condition (i) in the opinion of a physician mutually agreed upon by the board of directors of TrustCo and Trustco Bank and the executive officer that will prevent the executive officer from carrying out the material job responsibilities or duties to which he was assigned at the time the disability was incurred, and (ii) is expected to last for an indefinite duration or a duration of more than six months.



In the event the employment of Messrs. McCormick, Cushing or Salvador is terminated for any reason other than good cause or retirement at the mandatory retirement age within twelve months prior to a change in control, or a change in control occurs while the executive is employed by either or both of TrustCo or Trustco Bank, then the executive will receive an amount equal to 2.99 times his then-current annual compensation, to be paid in a single lump sum within 10 days of termination. The employment agreement also provides for a gross-up payment in the event that the amount payable upon an officer's termination under the employment agreement or any other agreement is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code. In addition, each employment agreement provides for the payment in full of each officer's retirement, pension, and profit sharing plan compensation; the cost of any legal expenses incurred as a result of such termination; and, unless the termination was for good cause, the transfer of the executive officer's company car (at book value) and country club membership.

Under the employment agreements, "good cause" means the executive's commission of an act of fraud, embezzlement, or theft constituting a felony against either of TrustCo or Trustco Bank as finally determined by a court of competent jurisdiction or an unequivocal admission by the executive.

Also under the employment agreements, a "change in control" means a change in the ownership of TrustCo, a change in the effective control of TrustCo or Trustco Bank, or a change in the ownership of a substantial portion of the assets of TrustCo or Trustco Bank (as provided in Section 409A of the Internal Revenue Code and any guidance or regulations under Section 409A). These regulations provide the following:

- subject to certain exceptions specified in the agreements, a change in the ownership of TrustCo or Trustco Bank occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of TrustCo that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of TrustCo or Trustco Bank;
- a change in the effective control occurs only on the date that either: (i) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of TrustCo or Trustco Bank possessing 30% or more of the total voting power of the stock of TrustCo or (ii) a majority of members of TrustCo's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of TrustCo's board of directors prior to the date of the appointment or election; or
- a change in the ownership of a substantial portion of TrustCo's or Trustco Bank's assets occurs on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from TrustCo or Trustco Bank that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of TrustCo immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of TrustCo, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Each of the employment agreements defines “termination” to include the unilateral election of the executive to terminate this agreement and his employment with TrustCo and Trustco Bank after a change of control or the executive otherwise experiences a “separation from service” with TrustCo and Trustco Bank as that term is defined under Section 409A of the Internal Revenue Code.

TrustCo and Trustco Bank must provide indemnification rights and benefits to each executive to the fullest extent permitted by law and the charter or bylaws of TrustCo and Trustco Bank. Any amendment or revision to such charter or bylaws that adversely affects the indemnification rights or benefits available to the executive under such charter or bylaws as of January 1, 2008 will not be effective against the executive unless the executive has consented in writing to such amendment or revision. Further, the indemnification provided under the agreements will be in addition to any other rights to which the executive may be entitled under the charter or bylaws of TrustCo and Trustco Bank or any statute, other agreement, vote of stockholders or disinterested directors, or otherwise.

#### Awards Under Option Plans

For 2010, there were no grants of stock options or other equity-based awards, nor did any of the executive officers whose compensation is disclosed in this proxy statement exercise any previously granted stock options. The following table sets forth a summary of the outstanding equity awards at December 31, 2010.

Name	Number of Securities		Option Exercise Price (\$)	Option Expiration Date(1)
	Underlying Unexercised Exercisable (#)	Underlying Unexercised Options (#)		
R o b e r t J . McCormick	300,000	0	13.55	11/19/2014
	200,000	0	12.15	01/21/2015
	120,000	80,000	9.91	06/01/2017
	60,000	90,000	8.29	06/02/2018
	100,000	0	13.55	11/19/2014
Robert T. Cushing	100,000	0	12.15	01/21/2015
	60,000	40,000	9.91	06/01/2017
	30,000	45,000	8.29	06/02/2018
	50,000	0	11.83	07/24/2012
Scot R. Salvador	150,000	0	13.55	11/19/2014
	100,000	0	12.15	01/21/2015
	90,000	60,000	9.91	06/01/2017
	30,000	45,000	8.29	06/02/2018
	23,000	0	9.75	03/16/2011
R o b e r t M . Leonard	7,500	0	11.83	07/24/2012
	7,500	0	13.55	11/19/2014
	7,500	0	12.15	01/21/2015
	4,500	3,000	9.91	06/01/2017
	4,000	6,000	8.29	06/02/2018

Name	Number of Underlying Securities Unexercised Options Exercisable (#)	Number of Underlying Securities Unexercised Options Exercisable (#)	Option Exercise Price (\$)	Option Expiration Date(1)
Eric W. Schreck	7,500	0	11.83	07/24/20
	7,500	0	13.55	11/19/20
	7,500	0	12.15	01/21/20
	3,000	3,000		

A Certificate of Registration has been issued in the name of JPMorgan Chase Bank, as our ADR Depositary, and is maintained by the *Ita Corretora de Valores S.A.*, our ADR Custodian, on behalf of our ADR Depositary. Pursuant to the Certificate, our ADR Custodian and our ADR Depositary are able to convert dividends and other distributions with respect to the common shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs surrenders its ADSs for common shares, that holder will be entitled to continue to rely on our ADR Depositary's Certificate of Registration for only five business days after the surrender, following which the holder must obtain its own Certificate of Registration. Thereafter, unless the common shares are held pursuant to Resolution no. 2,689 or direct foreign investment regulations, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, those common shares, and the holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See "Item 10.E.1. Brazilian Tax Considerations".

A non-Brazilian holder of common shares may experience delays in obtaining a Certificate of Registration, which may delay remittances abroad. This kind of delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Under current Brazilian legislation, the Brazilian government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Brazilian government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Brazilian government directives. See "Item 3.D.2. Risk Factors Relating to Brazil Controls and Restrictions on U.S. dollar Remittances".

For a description of the foreign exchange markets in Brazil, see "Presentation of Financial and Other Information" in this Annual Report.

### E. Taxation

The following is a summary of certain United States federal income and Brazilian tax consequences of the ownership of common shares or ADSs by an investor that holds the common shares or ADSs as capital assets. This summary does not purport to address all

material tax consequences of the ownership of our common shares or ADSs, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of our common shares, investors that hold common shares or ADSs as part of a straddle or a hedging or conversion transaction or investors whose functional currency is not the U.S. dollar), some of which may be subject to special rules.

This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) and Brazil as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect. In addition, this summary is based in part upon the representations of our ADR Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

Although there is, at present, no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of common shares or ADSs.

The discussion does not address any aspects of United States taxation other than federal income taxation or any aspects of Brazilian taxation other than income taxation, gift and inheritance taxation and capital taxation. Prospective investors are urged to consult their tax advisors regarding the United States federal, state and local and the Brazilian and other tax consequences of owning and disposing of common shares and ADSs.

## **1. Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of common shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of common shares, has obtained a Certificate of Registration with respect to its investment in common shares as a U.S. dollar investment (in each case, a "non-Brazilian holder"). It is based on Brazilian law as currently in effect. Any change in such law may change the consequences described below. The following discussion summarizes the principal tax consequences applicable under current Brazilian law to non-Brazilian holders of common shares or ADSs; it does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Each non-Brazilian holder of common shares or ADSs should consult their own tax advisor concerning the Brazilian tax consequences of an investment in common shares or ADSs.

### ***Taxation of Dividends and Interest on Stockholders' Equity***

Dividends, including dividends paid in kind, paid by us (i) to our ADR Depositary in respect of the common shares underlying the ADSs or (ii) to a non-Brazilian holder in respect of common shares will generally not be subject to income tax for distribution of profits earned as from January 1996.

Since 1996, Brazilian companies have been permitted to pay limited amounts of interest on stockholders' equity to holders of equity securities and to treat those payments as a deductible expense for purposes of its Brazilian income tax. The purpose of the tax law change was to encourage the use of equity investments as opposed to indebtedness to finance corporate activities. As a general rule, income tax is withheld on interest payments at the rate of 15%. However, Article 8 of Law no. 9,779, dated January 20,

1999, provides that payment of income to a beneficiary residing in a country considered a tax haven under Brazilian law is subject to a withholding income tax at the rate of 25%. Tax haven is defined as any country that taxes income at a rate lower than 20%. The Brazilian tax authorities may take the position that the 25% rate applies to payments on interest on stockholders' equity if the beneficiary of those interest payments is located in a country considered to be a tax haven.

### ***Taxation of Gains***

Gains realized outside Brazil by a non-Brazilian holder on the disposition of ADSs to another non-Brazilian holder are not subject to Brazilian tax. The deposit of common shares in exchange for ADSs is not subject to Brazilian tax provided that a Certificate of Registration has been issued under Resolution no. 2,689 with respect to the common shares. In the event a Certificate has not been obtained, the deposit of common shares in exchange for ADSs may be subject to Brazilian capital gains tax at the rate of 15%. The withdrawal of common shares upon surrender of ADSs is not subject to Brazilian tax.

Gains realized outside Brazil by a non-Brazilian holder on the disposition of common shares to another non-Brazilian holder are not subject to Brazilian tax. Non-Brazilian holders are subject to an income tax imposed at a rate of 15% on gains realized on sales or exchanges of common shares that occur in Brazil to or with a resident of Brazil other than on a Brazilian stock exchange. However, if such a sale is made on a Brazilian stock exchange (a) by a non-Brazilian holder with a Resolution no. 2,689 Certificate of Registration or (b) within three business days of the withdrawal of the common shares upon surrender of ADSs and the proceeds thereof are remitted abroad within the three-day period, no withholding tax will be imposed. The "gain realized" as a result of a transaction on a Brazilian stock exchange is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost, without any correction for inflation, of the shares sold. The "gain realized" as a result of a transaction that occurs other than on a Brazilian stock exchange will be calculated based on the foreign currency amount registered with the Central Bank.

### ***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil to individuals or entities resident or domiciled within that state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of common shares or ADSs.

Brazilian currency resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with an investment in the common shares or the ADSs and those made under Resolution 2,689) are subject to *the Imposto sobre Operações de Crédito, Câmbio e Seguro ou relativas a Títulos ou Valores Mobiliários* (Financial Transaction Tax or "IOF"). While at present the IOF tax rate is zero, the Brazilian government may increase the IOF tax rate at any time to a maximum of 25%.

The *Contribuição Provisória Sobre a Movimentação de Valores e de Créditos e Direitos de Natureza Financeira* ("CPMF" tax) is levied on all funds transfers in connection with financial transactions in Brazil. The rate of the CPMF tax is up to 0.38% . Under current law the CPMF is scheduled to expire on December 31, 2007.

## **2. U.S. Federal Income Tax Considerations**

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of common shares or ADSs that is (i) a citizen or resident of the United States, (ii) a corporation organized under the laws of the United States or any state, (iii) an estate the income of which is subject to United States federal income tax without regard to its source, or (iv) a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust or a trust validly electing to be taxed as a United States person. A "Non-U.S. Holder" is any beneficial owner of common shares or ADSs that is not a partnership or a United States person for United States federal income tax purposes.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the common shares represented by those ADSs, and exchanges of common shares for ADSs, and ADSs for common shares, will not be subject to United States federal income tax.

### ***Taxation of Dividends***

*U.S. Holders.* Under the United States federal income tax laws, and subject to the passive foreign investment company rules discussed below, U.S. Holders will include in gross income the gross amount of any dividend (including payments considered "interest" in respect of stockholders' equity under Brazilian Law) paid (before reduction for Brazilian withholding taxes) by us out of our current or accumulated earnings and

profits (as determined for United States federal income tax purposes) as income when the dividend is actually or constructively received by the U.S. Holder, in the case of common shares, or by our ADR Depositary, in the case of ADSs. If you are a noncorporate U.S. Holder, dividends paid to you before January 1, 2009 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15%, provided that you hold the common shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex dividend date and meet other holding period requirements. Dividends we pay with respect to the common shares or ADSs will be qualified dividend income, provided that, in the year that you receive the dividend, the common shares or ADSs are readily tradable on an established securities market in the United States. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the *real* payments made, determined at the spot *real*/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The resulting gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a return of capital to the extent of the U.S. Holder's basis in the common shares or ADSs and thereafter as capital gain.



Subject to certain limitations, the Brazilian tax withheld will be creditable against the U.S. Holder's U.S. federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, but generally will be treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income").

Distributions of additional common shares to U.S. Holders with respect to their common shares or ADSs that are made as part of a pro rata distribution to all our stockholders generally will not be subject to United States federal income tax.

*Non-U.S. Holders.* Dividends paid to a Non-U.S. Holder in respect of common shares or ADSs will not be subject to United States federal income tax unless those dividends are effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for the Non-U.S. Holder to be subject to United States taxation on a net income basis in respect of income from common shares or ADSs), in which case the Non-U.S. Holder generally will be subject to tax in respect of the dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax". You may be subject to a branch profits tax at a reduced rate as may be specified by an applicable income tax treaty.

### ***Taxation of Capital Gains***

*U.S. Holders.* Subject to the passive foreign investment company rules discussed below, upon a sale or other disposition of common shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's tax basis (determined in U.S. dollars) in the common shares or ADSs. Generally, the holder's gain or loss will be capital gain or loss and any gain or loss will be income or loss from sources within the United States for foreign tax credit limitation purposes. Capital gain of a noncorporate U.S. Holder that is recognized before January 1, 2009 is generally taxed at a maximum rate of 15% where the property is held for more than one year.

*Non-U.S. Holders.* A Non-U.S. Holder will not be subject to United States federal income tax in respect of gain recognized on a sale or other disposition of common shares or ADSs unless:

- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by that Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for that Non-U.S. Holder to be subject to U.S. taxation on a net income basis in respect of gain from the sale or other disposition of the common shares or ADSs); or

- in the case of a Non-U.S. Holder who is an individual, that holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply.

Effectively connected gains realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax". You may be subject to a branch profits tax at a reduced rate as may be specified by an applicable income tax treaty.

### **Backup Withholding and Information Reporting**

*U.S. Holders.* Dividends paid on, and proceeds from the sale or other disposition of, common shares or ADSs to a U.S. Holder generally will be subject to the information reporting and backup withholding, currently at a rate of 28%, unless the U.S. Holder provides an accurate taxpayer identification number or otherwise establishes and exemption. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that certain required information is furnished to the IRS.

*Non-U.S. Holders.* If common shares are held by a Non-U.S. Holder through the non-U.S. office of a non-U.S. related broker or financial institution, backup withholding and information reporting generally would not be required. Information reporting, and possibly backup withholding, may apply if the common shares are held by a Non-U.S. Holder through a U.S., or U.S.-related, broker or financial institution, or the U.S. office of a non-U.S. broker or financial institution and the Non-U.S. Holder fails to provide appropriate information. Information reporting and backup withholding generally will apply with respect to ADSs if the Non-U.S. Holder fails to provide appropriate information. Non-U.S. Holders should consult their tax advisors regarding the application of these rules.

#### ***Additional U.S. Federal Income Tax Considerations***

*PFIC Rules.* We believe that common shares and ADSs should not be treated as stock of a passive foreign investment company (often referred to as a PFIC) for U.S. federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change.

In general, we will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held our ADSs or common shares, either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, a U.S. Holder that did not make a "mark-to-market election" or "QEF election", each as described below, would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of common shares or ADSs and (b) any "excess distribution" by CSN to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the common shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the common shares or ADSs during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the common shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the common shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each year.

The special PFIC tax rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election (i) to "mark to market" with respect to the common shares or ADSs (a "mark-to-market election") or (ii) to have us treated as a "qualified electing

fund" (a "QEF election") and we provide certain required information to holders. The QEF and mark-to-market elections only apply to taxable years in which the U.S. Holder's common shares or ADSs are treated as stock of a PFIC. We intend to provide U.S. Holders of common shares or ADSs with U.S. addresses (including our ADR Depositary), and to other registered stockholders on request, with information as may be required to make a QEF election effective. Our ADR Depositary has agreed to distribute the necessary information to registered holders of ADSs.

A U.S. Holder that makes a mark-to-market election must include for each year in which the U.S. Holder's common shares or ADSs are treated as shares of a PFIC, as ordinary income, an amount equal to the excess of the fair market value of the common shares or ADSs at the close of the taxable year over the U.S. Holder's adjusted basis in the common shares or ADSs, and is allowed an ordinary loss for the excess, if any, of the adjusted basis over the fair market value of the common shares or ADSs at the close of the taxable year, but only to the extent of the net amount of previously included mark-to-market inclusions. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. Your basis in the common shares or ADSs will be adjusted to reflect any such income or loss amounts.

A U.S. Holder that makes a QEF election will be currently taxable on its pro rata share of our ordinary earnings and net capital gain (at ordinary income and capital gain rates, respectively) for each of our taxable years, regardless of whether we distributed the income and gain. The U.S. Holder's basis in the common shares or ADSs will be increased to reflect taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of basis in the common shares or ADSs and will not be taxed again as a distribution to the U.S. Holder.

In addition, notwithstanding any election you make with regard to the common shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for U.S. federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC or, in certain cases, QEF inclusions.

A U.S. Holder who owns common shares or ADSs during any year that we are a PFIC must file Internal Revenue Service Form 8621.

#### **H. Documents on Display**

Any documents that we filed with the SEC, including this Annual Report and its exhibits, may be inspected and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website that contains registration statements, reports and other information regarding registrants, such as CSN, that file electronically with the SEC at <<http://www.sec.gov>>.

#### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a number of different market risks arising from our normal business activities. Market risk is the possibility that changes in interest rates or currency exchange rates or commodity prices will adversely affect the value of our financial assets, liabilities or expected future cash flows and earnings. We developed policies aimed at managing the volatility inherent in certain of these natural business exposures. We use financial instruments, such as derivatives, in order to achieve the main goals established by our Board of Directors to minimize the cost of capital and maximize the returns on financial assets, while observing, as determined by our Board of Directors, parameters of credit and risk. Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices defined in the contract. Only well-understood, conventional derivative instruments are used for these purposes. These include futures and options traded on regulated exchanges and "over-the-counter" swaps, options and forward contracts. Because the derivatives we use for these purposes are only used as hedges and not for trading purposes, our exposure to market risk created by these derivatives is offset by the opposite exposure arising from the asset, liability or transaction being hedged.

#### **Market Risk Exposures and Market Risk Management**

Our Treasury Department is responsible for managing our market risk exposures. We use a "Risk Management System" in order to:

- help us understand market risks;
- reduce the likelihood of financial losses; and
- diminish the volatility of financial results.

The principal tools used by our Treasury Department are:

- "Sensitivity Analysis", which measures the impact that movements in the price of different market variables such as interest rates and exchange rates will have in our earning and cash flows.
- "Stress Testing", which measures the worst possible loss from a set of consistent scenarios to which probabilities are not assigned. The scenarios are deliberately chosen to include extreme changes in interest and currency exchange rates.

Following is a discussion of the primary market risk exposures that we face together with the analysis of the exposure to each one of them:

**Interest Rate Risk**

We are exposed to interest rate risk on short- and long-term instruments and as a result of refinancing of fixed-rate instruments included in our consolidated debt. Consequently, as well as managing the currency and maturity of debt, we manage interest costs through a balance between lower-cost floating rate debt, which has inherently higher risk, and more expensive, but lower risk, fixed-rate debt. As a general policy, we attempt to maintain a 1:2 ratio between our floating-rate and fixed-rate debt. We can use swaps, options and other derivatives to maintain this ratio.

We are basically exposed to the following floating interest rates:

- (i) U.S. dollar LIBOR, due to our floating rate dollar-denominated debt (usually trade-finance related), to our cash position held offshore in U.S. dollars, which is invested in short-term instruments, and to the cost of hedging U.S. dollar liabilities in the short-term,
- (ii) TJLP (Long Term Interest Rate), due to *real*-denominated debt indexed to this interest rate,
- (iii) IGP-M (Brazilian inflation index), due to *real*-denominated debt indexed to this inflation index, and
- (iv) CDI (benchmark Brazilian real overnight rate), due to our cash held in Brazil (onshore cash) and to our CDI indexed debt.

<b>Exposure as of Dec 2004 *</b>	<b>notional</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Thereafter</b>
<b>U.S. dollar</b>								
<b>LIBOR</b> (amortiz)	490	111	117	46	45	65	45	62
interest (fixed part)		11	7	6	5	4	2	5
<b>U.S. dollar fixed rate</b>								
(amortiz)	1.682	237	33	142	338	63	55	815
Interest		147	134	127	119	85	80	262
<b>Euro fixed rate</b>								
(amortiz)	9	3	3	3	1			
Interest		0,5	0,3	0,1	0,0			
<b>Euro floating rate</b>								
(amortiz)	3	2	2					
interest (fixed part)		0,2	0,1					
	38	18	20					

<b>Yen fixed rate</b> (amortiz) Interest		2	1					
<b>UMBNDDES</b> (amortiz) interest (fixed part)	60	12	12	12	11	6	4	3
<b>CDI</b> (amortiz) interest (fixed part)	245	0	245					
<b>IGPM</b> (amortiz) interest (fixed part)	94	0	0	0	94			
<b>TJLP</b> (amortiz) interest (fixed part)	75	18	18	18	16	5		
<b>Exposure as of Dec 2003 *</b>	<b>Notional</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>
<b>U.S. dollar LIBOR</b> (amortiz) interest (fixed part)	387	62	109	80	30	29	29	46
<b>U.S. dollar fixed rate</b> (amortiz) Interest	1.409	306	237	33	112	308	33	379
<b>Euro fixed rate</b> (amortiz) Interest	11	3	3	3	3	1		
<b>Euro floating rate</b> (amortiz) interest (fixed part)	5	1	2	2				
<b>Yen fixed rate</b> (amortiz) Interest	54	16	18	20				
<b>UMBNDDES</b> (amortiz) interest (fixed part)	72	12	12	12	12	11	6	7
		4	3	2	2	1	1	0,3



<b>CDI</b> (amortiz)	404	0	179	225			
interest (fixed part)		2	0,7				
<b>IGPM</b> (amortiz)	138	0	0	52	0	87	
interest (fixed part)		10	10	21	10	10	
<b>TJLP</b> (amortiz)	85	16	16	16	16	15	5
interest (fixed part)		8	6	4	3	1	0,2

Table of Contents

\* All figures in U.S. dollars. This table shows our exposures that aggregate to at least US\$10 million. As we do not control (or did not control) the financial positions of some entities partially owned by us (ITASA, Lusosider, MRS, Galvasud in 2003, and Sepetiba Tecon), their debt and the consequent exposure are not included in the table. Because of the already mentioned reasons and because we primarily use Brazilian GAAP controls, the numbers shown in the table do not add up to 100% of our debt and might differ, within some margin, from the numbers shown in this report.

Our cash and cash equivalent instruments were as follows:

	2004	2003	Exposure
Cash in <i>reais</i> :	796	810	CDI
Cash in U.S. dollars:	317	441	U.S. dollar LIBOR

The table below shows the average interest rate and the average life of our debt. The interest rates did not change significantly from 2003 to 2004 because of the debt we carry is all on an accrual basis and, in the case of our fixed rate debt issued in U.S. dollars, the longer maturities, which offset the decreasing credit spreads applied to *real*-denominated notes.

	2004 Avg rate%	Avg life	2003 Avg rate%	Avg life
<b>U.S. dollar LIBOR</b>	2.13	3.75	1.71	3.37
<b>U.S. dollar fixed rate</b>	9.10	6.24	8.96	4.81
<b>Euro fixed rate</b>	4.92	2.16	5.01	2.65
<b>Euro floating rate</b>	6.03	1.53	6.18	2.08
<b>Yen fixed rate</b>	5.46	1.53	5.72	2.08
<b>UMBNDDES</b>	4.13	3.19	4.41	3.66
<b>CDI</b>	106.8 of CDI	2.00	106.8 of CDI and CDI + 2.5	2.56
<b>IGPM</b>	11.18	4.00	10.27	4.25
<b>TJLP</b>	7.82	2.64	8.07	3.15

During 2004, we decided to not hedge our U.S. dollar fixed-rate exposure due to the low level of U.S. interest rates and to the flat shape of the U.S. dollar yield curve. We then started to use one-month dollar-*real* futures contracts listed at BM&F (Brazilian derivatives exchange) instead of over the counter 360-days dollar-*real* swap contracts. As a consequence, the duration of our U.S. dollar fixed-rate hedge became shorter: from 146 days in 2003 to a little less than 1 month in 2004 (see tables below).

Table of Contents

<b>As of Dec 2004</b>	Notional (in U.S. dollar million)	Average interest rate % (U.S. dollar)	Average maturity (days)
Swaps (U.S. dollar fixed- rate versus CDI)	15	4.55	13
Futures (U.S. dollar fixed- rate versus CDI)*	10	2.36	138
Futures (U.S. dollar- <i>real</i> )*	1,191	2.6864	33
Non-deliverable forwards (U.S. dollar- <i>real</i> )	150	2.7523	33

\* daily reset

<b>As of Dec 2003</b>	Notional (in U.S. dollar million)	Average interest rate (U.S. dollar)%	Average maturity (days)
Swaps (U.S. dollar fixed- rate versus CDI)	1,227	5.96	148
Futures (U.S. dollar fixed- rate versus CDI)*	85	1.63	104

\* daily reset

***Foreign Currency Exchange Rate Risk***

Fluctuations in exchange rates can have significant effects on our operating results, which in filings with the SEC are presented in U.S. dollars. Therefore, exchange rate fluctuations affect the values of our *real*-denominated assets, the carrying and repayment costs of our *real*-denominated financial liabilities, our *real*-denominated production costs, the cost of *real*-denominated capital items and the prices we receive in the Brazilian market for our finished steel products. We attempt to manage our net foreign exchange rate exposures, trying to balance our non-*real* denominated assets with our non-*real* denominated liabilities. We have significant hedging activities, but at any given time we may still have significant foreign currency exchange rate risk exposure.

Our exposure to U.S. dollar is due to the following contract categories:

- (i) U.S. dollar-denominated debt;
- (ii) offshore cash;

- (iii) currency derivatives;
- (iv) U.S. dollar indexed accounts payable and receivable (usually related to international trade, i.e., imports and exports); and
- (v) offshore investments: assets that we bought offshore and that are denominated in U.S. dollars on our balance sheet.

	<b>2004</b>	<b>2003</b>
<b>U.S. dollar Liabilities</b>		
fixed rate	1,682	1,409
floating rate	490	387
UMBNDDES*	60	72
trade accounts payable	148	95
other**	130	219
<b>U.S. dollar Assets</b>		
offshore cash and cash equivalents	317	441
derivatives (futures contracts)	1,201	85
derivatives (swaps and NDFs)	165	1,227
trade accounts receivable	128	107
offshore investments (net of cash)	1,096	309
<b>Total U.S. dollar Exposure</b>	<b>397</b>	<b>(12)</b>

\* UMBNDDES is an index calculated and published by BNDES (Brazilian development bank), which reflects the movement of a currency basket against the Brazilian real. We consider UMBNDDES debt as U.S. dollar indexed exposure because of the correlation between them: 0.995575 in 2003, 0.996330 in 2004, and 0.998977 up to May 31<sup>st</sup> 2005.

\*\* other includes (i) debt in foreign currencies that we do not have majority control (such as Galvasud's, MRS', Tecon's) and that comprise our total exposure in foreign currency debt; (ii) a long Euro exposure of 15 million Euros is included - 24 million Euro of trade receivables which is partially offset by 9 million of Euro indexed debt - and (iii) a US\$38 million Yen exposure. The company is not hedging its Yen and Euro exposures against the U.S. dollar but, due to some correlation between those currencies against the Brazilian *real*, it hedges the U.S. dollar component of such exposures.

The long U.S. dollar position at December 31, 2004 is due to the increase in the offshore investments that took place in late December 2004 as a consequence of changing the domicile of a few of our subsidiaries. The position increased from approximately US\$800 million to US\$1.4 billion and remained partially open at such date.

Offshore investments: we have capitalized our offshore subsidiaries domiciled in U.S. dollar-based countries with equity investments, and those investments are accounted as U.S. dollar investments. The result is that they work as assets indexed to U.S. dollar from an earnings perspective. The income (or loss) from these investments' currency variation (not the operational income) appears in the Brazilian GAAP income statement as *Equivalência Patrimonial* (close to equity revaluation or equity in results of affiliated companies), after taxes and before net income. Therefore offshore equity has a hedging effect from an earnings perspective; however it does not necessarily hedge from a cash flow perspective as there is no guarantee that, if the offshore subsidiary were to be sold, the value of the investment would be recovered. As the cash held by these companies in U.S. dollars affects hedging from a cash flow perspective, we view that separately.

Commodity Price Risk

Fluctuations in the price of steel and some of the commodities used in producing steel, such as zinc, aluminum, tin, coal, coke and energy, can have an impact on our earnings. Currently, we are not hedging our exposure to commodity prices. Our biggest commodity price exposure is the price of steel and coal, but there are no liquid instruments that provide an effective hedge against their price fluctuations.

**PART II****Item 15. Disclosure Controls and Procedures**

An evaluation as of December 31, 2004 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and acting Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to management, including the Chief Executive Officer and acting Chief Financial Officer, to allow timely decisions regarding required disclosure as of the end of our most recent fiscal year. No changes in our internal controls over financial reporting occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. When we discovered a foreign exchange translation error in our US GAAP financial statements, we promptly took remedial action by restating our financial results and filing this amendment to our 2004 Annual Report to reflect such changes.

**Item 16.****A. Audit Committee Financial Expert**

Although our Board of Directors has determined the members of our Audit Committee, neither of them meets the requirements of an "audit committee financial expert", as defined by the SEC and, therefore, as it is permitted by the SEC regulation, we will not have an audit committee financial expert. While the members of our audit committee have financial skills and experience, they primarily have experience with Brazilian generally accepted accounting principles, and thus would not qualify as audit committee financial experts under the SEC's definition.

**B. Code of Ethics**

We have adopted a Code of Ethics, since 1998, reinforcing our ethical standards and values, that applies to all of our employees, including executive officers and directors.

Given its importance, copies of the Code of Ethics were distributed to each employee of the organization, to the Board of Directors and the Audit Committee members, who have signed a Commitment Letter, which reinforces the compromise with the established values.

Our Code of Ethics is in compliance with the SEC requirements for codes of ethics for senior financial officers. A copy of our Code of Ethics is also available on our website ([www.csn.com.br](http://www.csn.com.br)).

**C. Principal Accountant Fees and Services**

Our interaction with our independent auditors with respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditors and are otherwise permissible under applicable rules and regulations. For the fiscal years ending December 31, 2003 and 2004, Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte") acted as our independent auditors. During fiscal year 2004, we hired Deloitte to carry out other work not directly related to the auditing of our financial statements, largely consisting of compliance review on tax matters; those services do not infringe Deloitte's independence. The following table describes the services rendered and the remuneration paid.

	<b>Year ending December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(In thousands of US\$)</i>	
Audit Fees	390	508
Audit-Related Fees	148	579
Tax Fees	51	125
All Other Fees	60	25
Total	649	1,237

"Audit Fees" are the aggregate fees billed by Deloitte for the audit of our consolidated financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements. "Audit-Related Fees" are fees charged by Deloitte for services that are reasonably related to the performance of the audit or review of our financial statements. "Tax Fees" are fees for professional services rendered by Deloitte for tax compliance services. Fees disclosed under the category "All Other Fees" represent services rendered in 2004 related to assistance to a non-consolidated subsidiary.



**Pre-approval Policies and Procedures**

Board approval is required before engaging independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, our Board of Directors pre-approves all audit and non-audit services provided by Deloitte.

**E. Purchases of Equity Securities**

Since the beginning of 2004, in accordance with the limits and provisions of CVM's Instruction #10/80, our Board of Directors approved a number of share buyback programs. The first program was announced on April 29, 2004, and the amount approved was up to 4.7 million shares. The expiration date of the first program was July 27, 2004. The second program was announced on July 28, 2004, and the amount approved was up to 7.2 million shares. The expiration date of the second program was November 1, 2004. The third program was announced on October 27, 2004, and the amount approved was up to 6.4 million shares. The expiration date of the third program was February 11, 2005. The fourth program was announced on December 22, 2004, and the amount approved was up to 5.0 million shares. The fifth program was announced on May 26, 2005, and superseded the fourth program. The amount approved was up to 15.0 million shares. The expiration date of the fifth program is May 26, 2006. As of December 31, 2004, 10,023,599 shares were held in treasury, after several purchases made during 2004. We have called an extraordinary shareholders' meeting in order to approve the cancellation of 14,849,009 of our shares currently held in treasury.

The following table sets forth our purchases of our equity securities during each month in 2004:

<b>Period in 2004</b>	<b>(a) Total number of shares purchased</b>	<b>(b) Average price paid per share<sup>(1)</sup></b>	<b>(c) Total number of shares purchased as part of publicly announced program</b>	<b>(d) Maximum number of shares that may be yet purchased under the programs</b>
May (from May 19 until May 31)	517,600	11,169	517,600	4,188,280
June (from June 1 until June 30)	3,470,600	12,075	3,470,600	717,680
July				
August (from Aug 4 until Aug 10)	760,199	15,038	760,199	6,439,801
September				
October (from Oct 14 until Oct 21)	82,000	14,509	82,000	6,357,801
November (from Nov 12 until Nov 30)	3,383,900	17,771	3,383,900	2,973,100

December (from Dec 1 until Dec 14)	1,809,300	18,219	1,809,300	5,000,000
---------------------------------------	-----------	--------	-----------	-----------

(1) Translated from *reais* into U.S. dollars based on the average exchange rate during the applicable month.

**PART III****Item 18. Financial Statements**

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-R
Consolidated financial statements - Restated:	
Balance sheets as of December 31, 2003 and 2004	FS-1
Statements of Operations for the years ended December 31, 2002, 2003 and 2004	FS-3
Statements of cash flows for the years ended December 31, 2002, 2003 and 2004	FS-4
Statements of changes in stockholders' equity for the years ended December 31, 2002, 2003 and 2004	FS-6
Notes to consolidated financial statements - Restated	FS-8

**Item 19. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
1.1	By-laws of CSN, as amended to date.*
2.1	Amended and Restated Deposit Agreement, dated as of November 1, 1997, and as further amended on November 13, 1997 and as of June 10, 2004, among CSN, JPMorgan Chase Bank, as depositary, and the registered holders from time to time of the American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs (File no. 333-115078) filed with the SEC on April 30, 2004).
4.1	Casa de Pedra Mine Agreement, dated March 15, 2001, by and between CSN and Companhia Vale do Rio Doce.*
12.1	Section 302 Certification of Chief Executive Officer and Acting Chief Financial Officer.
13.1	Section 906 Certification of Chief Executive Officer and Acting Chief Financial Officer.**

---

(\*) English translation.

(\*\*) Furnished, not filed.

**SIGNATURE**

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

January 20, 2006

Companhia Siderúrgica  
Nacional

By: /s/ Benjamin  
Steinbruch

Name: Benjamin  
Steinbruch  
Chief Executive  
Officer and Acting  
Title: Chief  
Financial Officer

By: /s/ Otvio de Garcia  
Lazcano

Name: Otvio de Garcia  
Lazcano  
Title: Financial Director

**Certification**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Benjamin Steinbruch, certify that:

1. I have reviewed this annual report on Form 20-F of Companhia Siderúrgica Nacional;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and I have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Omitted in accordance with the guidance of SEC Release no. 33-8238
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: January 20, 2006

By: /s/ Benjamin Steinbruch

Name: Benjamin Steinbruch  
Chief Executive Officer  
Title: and Acting Chief  
Financial Officer

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1,350, the undersigned officer of Companhia Siderrgica Nacional (the "Company"), hereby certifies, to such officer's knowledge, that the Company's annual report on Form 20-F for the year ended December 31, 2004 (the "Report") fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 20, 2006

By: /s/ Benjamin Steinbruch

Name: Benjamin Steinbruch  
Chief Executive Officer  
Title: and Acting Chief  
Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Companhia Siderúrgica Nacional**  
**Consolidated Financial Statements**  
**For the Years Ended December 31, 2002, 2003 and 2004 (Restated)**  
**And Report of Independent Registered Public Accounting Firm**

---



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
COMPANHIA SIDERÚRGICA NACIONAL - CSN  
Rio de Janeiro, Brazil

We have audited the accompanying consolidated balance sheets of Companhia Siderúrgica Nacional and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Companhia Siderúrgica Nacional and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 25, the Company has restated its consolidated financial statements for the years ended December 31, 2004, 2003 and 2002.

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
Rio de Janeiro, Brazil,

June 6, 2005 (except with respect to the matters discussed in Note 25, as to which the date is January 17, 2006).

---

**Companhia Siderúrgica Nacional**  
 Consolidated Balance Sheets  
 Expressed in millions of United States dollars

---

<b>Assets</b>	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	As Restated, see Note 25	As Restated, see Note 25
<b>Current assets</b>		
Cash and cash equivalents	1,251	970
Short-term investments		143
Trade accounts receivable, net	368	382
Inventories	281	819
Derivative assets	79	
Recoverable taxes	105	284
Deferred income taxes	131	204
Other	95	105
	<b>2,310</b>	<b>2,907</b>
<b>Property, plant and equipment, net</b>	<b>1,874</b>	<b>2,143</b>
<b>Investments in affiliated companies</b>	<b>55</b>	<b>188</b>
<b>Goodwill</b>	<b>30</b>	<b>45</b>
<b>Other assets</b>		
Derivative assets		129
Restricted investments	27	30
Restricted deposits for legal proceedings	173	219
Intercompany accounts	21	23
Deferred income taxes	295	257
Other	232	216
	<b>748</b>	<b>874</b>
	<b>5,017</b>	<b>6,157</b>

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



**Companhia Siderúrgica Nacional**

Consolidated Balance Sheets  
Expressed in millions of United States dollars  
(continued)

<b>Liabilities and stockholders equity</b>	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	As Restated, see Note 25	As Restated, see Note 25
<b>Current liabilities</b>		
Trade accounts payable	152	242
Payroll and related charges	34	42
Taxes payable	194	261
Interest on stockholders equity	85	90
Current portion of long-term debt	27	
Short-term debt and advances on export contracts	430	430
Accrued finance charges	72	57
Derivative liabilities	199	27
Other	35	67
	<b>1,228</b>	<b>1,216</b>
<b>Long-term liabilities</b>		
Accrued pension cost	224	226
Long-term debt and debentures	2,274	2,357
Accrual for contingencies	476	968
Other	8	64
	<b>2,982</b>	<b>3,615</b>
<b>Stockholders equity</b>		
Common stock 400,000,000 shares (no par value) authorized 286,917,045 shares issued outstanding 276,893,446 at December 31, 2004 and 286,917,045 at December 31, 2003	2,447	2,447
Capital surplus	53	53
Treasury stock 10,023,599 shares at December 31, 2004		(153)
Retained earnings		
Appropriated	255	310
Unappropriated	78	529
Accumulated other comprehensive loss	(2,026)	(1,860)

**807**                      **1,326**

**5,017**                    **6,157**

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

FS - 2

---

**Companhia Siderúrgica Nacional**

## Consolidated Statements of Operations

Expressed in millions of United States dollars, except share data

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	As Restated, see Note 25	As Restated, see Note 25	As Restated, see Note 25
<b>Operating revenues</b>			
Domestic sales	1,570	1,843	2,895
Export sales	599	1,077	1,008
	<b>2,169</b>	<b>2,920</b>	<b>3,903</b>
Sales taxes	315	322	735
Discounts, returns and allowances	12	50	84
<b>Net operating revenues</b>	<b>1,842</b>	<b>2,548</b>	<b>3,084</b>
<b>Cost of products sold</b>	<b>994</b>	<b>1,457</b>	<b>1,407</b>
<b>Gross profit</b>	<b>848</b>	<b>1,091</b>	<b>1,677</b>
<b>Operating expenses</b>			
Selling	127	176	156
General and administrative	110	96	109
Other	47	133	50
	<b>284</b>	<b>405</b>	<b>315</b>
<b>Operating income</b>	<b>564</b>	<b>686</b>	<b>1,362</b>
<b>Non-operating income (expenses), net</b>			
Financial income	466	(260)	(126)
Financial expenses	(219)	(304)	(384)
Foreign exchange and monetary gain			
(loss), net	(891)	325	153
Other, net	(30)	14	(6)
	<b>(674)</b>	<b>(225)</b>	<b>(363)</b>
<b>Income (loss) before income taxes and equity in results of affiliated companies</b>	<b>(110)</b>	<b>461</b>	<b>999</b>

<b>Income taxes</b>			
Current	25	(125)	(289)
Deferred	190	88	(2)
	<b>215</b>	<b>(37)</b>	<b>(291)</b>
<b>Equity in results of affiliated companies</b>	<b>(71)</b>	<b>9</b>	<b>51</b>
<b>Net income</b>	<b>34</b>	<b>433</b>	<b>759</b>
<b>Basic and diluted earnings per common share</b>	<b>0.12</b>	<b>1.51</b>	<b>2.68</b>
<b>Weighted average number of common shares outstanding (in thousands)</b>	<b>286,917</b>	<b>286,917</b>	<b>283,476</b>

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

**Companhia Siderúrgica Nacional**  
Consolidated Statements of Cash Flows  
Expressed in millions of United States dollars

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	As Restated, see Note 25	As Restated, see Note 25	As Restated, see Note 25
<b>Cash flows from operating activities</b>			
Net income	34	433	759
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	122	119	139
Foreign exchange and monetary loss (gain), net	891	(325)	(153)
Accrual for contingencies	29	384	478
Accrual for derivatives	(112)	176	(223)
Residual value of equipment retired	30	31	5
Deferred income taxes	(190)	(88)	2
Equity in results of affiliated companies	71	(9)	(51)
Other	12	(28)	73
Decrease (increase) in operating assets			
Trade accounts receivable and other	(168)	112	30
Short-term investments			(143)
Inventories	11	(24)	(493)
Recoverable taxes	50	(52)	(129)
Restricted deposits for legal proceedings	(21)	(11)	(30)
Other	(58)	(19)	34
Increase (decrease) in operating liabilities			
Trade accounts payable	48	(41)	65
Payroll and related charges	6	(14)	(11)
Accrued pension cost		(9)	(33)
Other	51	(66)	5



<b>Net cash provided by operating activities</b>	<b>806</b>	<b>569</b>	<b>324</b>
--	------------	------------	------------

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

FS - 4

---

**Companhia Siderúrgica Nacional**  
Consolidated Statements of Cash Flows  
Expressed in millions of United States dollars

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	As Restated, see Note	As Restated, see Note	As Restated, see Note
<b>Cash flows from investing activities</b>	25	25	25
Additions to property, plant and equipment	(264)	(210)	(178)
Acquisition of investments	(42)	(34)	(137)
Business acquisition of GalvaSud, net of cash acquired			(19)
Loans to related parties	(13)	(4)	(1)
<b>Net cash used in investing activities</b>	<b>(319)</b>	<b>(248)</b>	<b>(335)</b>
<b>Cash flows from financing activities</b>			
Short-term debt, net borrowings and repayments	(263)	(709)	(722)
Long-term debt			
Proceeds	536	1,517	745
Repayments	(561)	(35)	(8)
Treasury stock			(153)
Dividends and interest on stockholders equity paid	(60)	(278)	(242)
<b>Net cash provided by (used in) financing activities</b>	<b>(348)</b>	<b>495</b>	<b>(380)</b>
Effects of changes in exchange rates on cash and cash equivalents	(113)	79	110
<b>Increase (decrease) in cash and cash equivalents</b>	<b>26</b>	<b>895</b>	<b>(281)</b>
Cash and cash equivalents, beginning of year	330	356	1,251
<b>Cash and cash equivalents, end of year</b>	<b>356</b>	<b>1,251</b>	<b>970</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION**

**Cash paid during the year for:**

Interest, net of interest capitalized	145	166	305
Income tax and social contribution, including			
withholding income tax	13	51	112

**Acquisition of business:**

Fair value of assets acquired, including goodwill			109
Fair value of liabilities assumed			(80)
Purchase price			29
Cash acquired			(10)
Purchased price, net of cash acquired			19

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

FS - 5

---

**Companhia Siderúrgica Nacional**

Consolidated Statements of Changes in Stockholders' Equity

Expressed in millions of United States dollars, except for share data

**Movement of Common Shares****(quantities):****Years ended December 31,**

	<b>2002</b>	<b>2003</b>	<b>2004</b>
	As Restated, see Note 25	As Restated, see Note 25	As Restated, see Note 25
Opening balance (*)	286,917,045	286,917,045	286,917,045
Treasury Stock acquisition			(10,023,599)
Balance, end of year	<b>286,917,045</b>	<b>286,917,045</b>	<b>276,893,446</b>

(\*) Adjusted for the effect of reverse stock split. See Note 15a

**Common stock**

Balance, beginning and end of year	<b>2,447</b>	<b>2,447</b>	<b>2,447</b>
------------------------------------	--------------	--------------	--------------

**Capital surplus**

Balance, beginning and end of year	<b>53</b>	<b>53</b>	<b>53</b>
------------------------------------	-----------	-----------	-----------

**Treasury stock**

Stock acquisition			(153)
-------------------	--	--	-------

Balance, end of year			<b>(153)</b>
----------------------	--	--	--------------

**Accumulated other comprehensive loss****Cumulative translation adjustments**

Balance, beginning of year	(2,021)	(2,151)	(2,026)
Change in the year	(130)	125	166

Balance, end of year	<b>(2,151)</b>	<b>(2,026)</b>	<b>(1,860)</b>
----------------------	----------------	----------------	----------------

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



**Companhia Siderúrgica Nacional**

Consolidated Statements of Changes in Stockholders' Equity

Expressed in millions of United States dollars

(continued)

	Years ended December 31,		
	2002	2003	2004
	As Restated, see Note 25	As Restated, see Note 25	As Restated, see Note 25
<b>Retained earnings</b>			
<b>Appropriated</b>			
Investment reserve			
Balance, beginning of year	416	226	169
Addition to reserve		169	
Transfer from (to) unappropriated			
retained earnings	(190)	(226)	15
Balance, end of year	<b>226</b>	<b>169</b>	<b>184</b>
Legal reserve			
Balance, beginning of year	85	56	86
Addition to reserve		18	33
Transfer from (to) unappropriated			
retained earnings	(29)	12	7
Balance, end of year	<b>56</b>	<b>86</b>	<b>126</b>
Total balance, end of year	<b>282</b>	<b>255</b>	<b>310</b>
<b>Unappropriated retained earnings</b>			
Balance, beginning of year	(234)	(124)	78
Net income	34	433	759
Dividends and interest on stockholders			
equity	(143)	(258)	(253)
Appropriation from (to) reserves	219	27	(55)
Balance, end of year	<b>(124)</b>	<b>78</b>	<b>529</b>
<b>Total retained earnings (accumulated loss)</b>	<b>158</b>	<b>333</b>	<b>839</b>
<b>Total stockholders' equity</b>	<b>507</b>	<b>807</b>	<b>1,326</b>

<b>Comprehensive income (loss)</b>			
Net income	34	433	759
Translation adjustments for the year	(130)	125	166
<b>Total comprehensive income (loss)</b>	<b>(96)</b>	<b>558</b>	<b>925</b>

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

FS - 7

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**1 The Company and its operations**

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

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

	<b>Ownership (%)</b>				
	<b>2003</b>		<b>2004</b>		
	Direct	Indirect	Direct	Indirect	
CSN Overseas	100.00		100.00		Fin Op Ste Pro Ser
INAL - Indústria Nacional de Aços Laminados	99.99		99.99		Cer Tra Ele
CSN Energia	99.90		99.90		Pov Tra
CSN Export	100.00		100.00		com Fin
CSN Islands	100.00		100.00		Op Fin
CSN Islands II	100.00		100.00		Op Fin
CSN Islands III	100.00		100.00		Op Fin
CSN Islands IV	100.00		100.00		Op Fin
CSN Islands V	100.00		100.00		Op Fin
CSN Islands VII	100.00		100.00		Op Fin
CSN Islands VIII	100.00		100.00		Op



CSN Islands IX			100.00		Fin Ope Par in c com thro equ stak Par in c com thro equ stak Ste Pro Ser
CSN Participações Energéticas	99.70		99.70		Cer Dor Con Dor Con Me Par in c com thro equ stak Fin
CSN I	99.67		99.67		Fin Ope Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
GalvaSud (1)	51.00		15.29	84.71	Par in c com thro equ stak Fin
Cia. Siderúrgica do Ceará	99.99		99.99		Fin Ope Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
FEM Projetos, Construções e Montagens	99.99		99.99		Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
Cia. Metalic Nordeste	99.99		99.99		Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
CSN Steel	100.00		100.00		Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
CSN Iron (2)				100.00	Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
CSN Energy	100.00		100.00		Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
Energy I		100.00		100.00	Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
CSN Cayman Management Services	0.01	99.99	0.01	99.99	Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
		100.00		100.00	Par in c com thro equ stak Par in c com thro equ stak Tra con Ser
CSN Panama	99.99		99.99		Par in c com thro equ stak Par in c com thro equ stak Tra con Ser

CSN Iron (2)		100.00								thro equ stak Fin Ope Par in c com thro equ stak Ma por serv Par in c com thro equ stak Par in c com thro equ stak Par in c com thro equ stak Ste Pro
CSN Aceros		100.00				100.00				
Sepetiba Tecon			20.00	80.00	20.00	80.00				
Tangua				100.00		100.00				
CSN Holding LLC						100.00				
CSN Partner LLC						100.00				
Companhia Siderúrgica Nacional LLC						100.00				

FS - 8

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

1) GalvaSud: Until June 2004, the Company jointly-controlled GalvaSud with another shareholder, Thyssen-Krupp Stahl ( TKS ). In June 2004, the Company increased its equity participation from 51% to 100% by acquiring the shares owned by TKS, and as of that date the Company started consolidating GalvaSud. See note 10.

2) CSN Iron: In October 2004, CSN Panama transferred the total of its investment in CSN Iron to CSN Steel.

**2 Summary of significant accounting policies**

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( US GAAP ), management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. The Company s consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment, impairment of goodwill, allowance for doubtful accounts receivable, contingent liabilities, employee post-retirement benefits and other similar evaluations. Although these estimates are based on the Company s knowledge of current events and actions that the Company may undertake in the future, actual results may vary from these estimates.

**(a) Basis of presentation**

The consolidated financial statements have been prepared in accordance with US GAAP, which differ in certain respects from the Brazilian accounting principles applied by the Company in its statutory financial statements prepared in accordance with the accounting practices adopted in Brazil and rules and regulations of the *Comissão de Valores Mobiliários* the Brazilian Securities Commission or CVM.

The U.S. dollar amounts for the periods presented have been translated from the Brazilian *real*, the Company s functional currency, into U.S. dollars; the Company s reporting currency, in accordance with the criteria set forth in Statement of Financial Accounting Standards ( SFAS ) No. 52 Foreign Currency Translation ( SFAS 52 ). Accordingly, the Company has translated all assets and liabilities into U.S. dollars at the exchange rate of R\$2.8892 and R\$2.6544 to US\$1.00 at December 31, 2003 and 2004, respectively, and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the applicable period. The translation gain or loss resulting from this translation process is included as a component of accumulated other comprehensive loss in stockholders equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the Brazilian *real* are included in the results of operations as incurred.

Stockholders' equity included in the financial statements presented herein differs from that included in the Company's statutory accounting records as a result of differences between the variations in the U.S. dollar exchange rate and in the indices mandated, until June 30, 1997, when Brazil was considered to have a highly inflationary economy, for indexation of the statutory financial statements and adjustments made to reflect the requirements of US GAAP.

**(b) Basis of consolidation**

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

FS - 9

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**(c) Inventories**

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

**(d) Investments in affiliated companies and other investments**

The Company uses the equity method of accounting for all long-term investments for which it owns at least 20% of the investee's outstanding voting stock or has the ability to exercise significant influence over operating and financial policies of the investee. Joint ventures in which the Company has a majority interest, but, through stockholders agreements, does not have effective management control are also accounted for under the equity method, such as GalvaSud until June 2004. The equity method requires periodic adjustments to the investment account to recognize the Company's proportionate share in the investee's results, reduced by receipt of investee dividends and interest from stockholders' equity. Losses are recorded on equity investments with negative stockholders' equity where applicable.

The Company accounts for its investment securities at cost in accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), which are classified as held to maturity.

Other investments are accounted for at cost.

**(e) Property, plant and equipment**

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

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

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

**(f) Recoverability of long lived assets**

In accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS 144), management reviews long lived assets, primarily property, plant and equipment to be used in the business, for the purpose of determining and

measuring impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. SFAS 144 requires the recognition of an impairment loss when the estimate of undiscounted future operating cash flows expected to be generated by the asset is less than its carrying value. Measurement of the impairment loss is based on the fair value of the asset, as determined based on quoted market prices, discounted cash flows or appraisals.

**(g) Revenues and expenses**

Revenues are recognized when the products have been delivered to the customer or shipped and the risk of ownership has passed to the customer, persuasive evidence of the basis of the sale exists, the price is fixed or determinable and collectibility is reasonably assured. Expenses and costs are recognized on the accrual basis. Shipping and handling costs, classified as selling expenses and expensed as incurred, amounted to US\$62.0, US\$102.0 and US\$105.6 for the years ended December 31, 2002, 2003 and 2004, respectively.

FS - 10

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

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

Revenues from the sale of electricity through the *Mercado Atacadista de Energia* (the MAE ) now denominated *Câmara de Comercialização de Energia Elétrica* (the CCEE ) are recorded on an accrual basis in accordance with information registered on the CCEE and communicated to the Company by the CCEE.

**(h) Environmental and remediation costs**

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

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

**(i) Research and development**

Expenditures for research and development of new products were US\$8 in each of 2002, 2003 and 2004. All such costs are expensed as incurred.

**(j) Accrued pension cost**

Accrued pension costs are determined in accordance with SFAS No. 87 *Employers Accounting for Pensions* ( SFAS 87 ). Amortization of the net transition obligation existing at January 1, 1995, when the Company first adopted SFAS 87, has been computed retroactively as if it were established on January 1, 1989, which is the date that SFAS 87 first became applicable for non-U.S. pension funds.

The Company provides disclosures related to its employee pension and post-retirement benefits in accordance with SFAS No. 132 (revised 2003) *Employers' Disclosure About Pensions and Other Post-retirement Benefits*, an amendment of FASB Statements No. 87, 88 and 106 ( SFAS 132R ).

**(k) Accrual for contingencies**

The Company accounts for contingencies in accordance with SFAS 5 *Accounting for Contingencies* .

**(l) Employee profit participation plan**

The parent company sponsors an employee profit participation plan for all parent company employees, which is based on annual EBITDA (earnings before interest, income taxes, depreciation and amortization) determined on the basis of the Company's statutory financial statements. The plan establishes the distribution of up to a maximum of twice the normal payroll paid in the month of December, provided the EBITDA margin (EBITDA as a percentage of revenues) is equal to or greater than 40%, limited to one month's salary per employee plus a specified amount (US\$ 822.00 in 2004). Expenses related to the employee profit participation plan are recorded in general and administrative expenses and amounted to US\$17, US\$16 and US\$16 in 2002, 2003 and 2004, respectively.

FS - 11

---



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**(m) Compensated absences**

A liability for employee compensation of vacation benefits is recognized on the accrual basis.

**(n) Income taxes**

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

**(o) Statements of cash flows**

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

**(p) Earnings per share**

The Company presents its earnings per share in accordance with SFAS No. 128 Earnings Per Share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the year. Because the Company does not have any potentially dilutive common shares outstanding, diluted earnings per share is equal to basic earnings per share. The effects of stock splits are reflected retroactively in the calculation of earnings per share for all periods presented.

**(q) Concentration of credit risk**

Financial instruments that potentially subject CSN to concentrations of credit risk are cash and cash equivalents, trade accounts receivable and derivatives. CSN limits its credit risk associated with cash and cash equivalents and derivatives by placing its investments with (1) highly-rated financial institutions in very short-term applications and (2) Brazilian government notes. With respect to trade accounts receivable, CSN limits its credit risk by performing ongoing credit evaluations and, depending on the results of the evaluation, requiring letters of credit, guarantees or collateral. CSN's products are utilized in a wide variety of industry segments, therefore accounts receivable and sales are not concentrated in one single industry and, accordingly, management does not believe significant concentration of credit risk with respect to any one industry exists.

**(r) Comprehensive income (loss)**

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

FS - 12

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**(s) Interest attributed to stockholders**

As of January 1, 1996, Brazilian corporations are allowed to attribute interest on stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate ( TJLP ) determined by the Brazilian Central Bank (approximately 10%, 11% and 9.75% for years 2002, 2003 and 2004, respectively). Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves, determined in each case on the basis of the statutory financial statements. The amount of interest attributed to stockholders is deductible for income tax purposes. Accordingly, the benefit to the Company, as opposed to making a dividend payment, is a reduction in income tax charge equivalent to the statutory rate applied to such amount. Income tax is imposed on interest payments at the rate of 15%. The Company opted to pay such tax-deductible interest to its stockholders, and has therefore accrued the amounts due as of December 31, 2004 with a direct charge to stockholders' equity.

**(t) Treasury Stock**

Treasury stock consists of the Company's own stock which has been issued and subsequently reacquired by the Company and has not been reissued or cancelled. Such treasury stock is carried at cost of acquisition.

**(u) Segment information**

SFAS No. 131 Disclosures about Segments of Enterprise and Related Information ( SFAS 131 ) requires that a business enterprise supplementally disclose certain financial information about its various and distinct operating activities. Such information is to be presented from the point of view of how operating and financial decisions are made for each business sector. The Company has adopted SFAS 131 for all years presented, as further disclosed in Note 20.

**(v) Derivative Financial Instruments**

As of January 1, 2001, the Company adopted SFAS No. 133 Accounting for Derivative Financial Instruments and Hedging Activities , as amended by SFAS Nos. 137, 138 and 149. Those standards require that the Company recognize all derivative financial instruments as either assets or liabilities on the Company's balance sheet and measure such investments at fair value. Changes in fair value are recognized each period in current results.

Refer to Note 22 for additional information on derivatives.

**3 Recently issued accounting pronouncements**

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , which amends Chapter 4 of ARB No. 43 that deals with inventory pricing. The Statement clarifies the

accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. Under previous guidance in paragraph 5 of ARB No. 43, Chapter 4, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs might be considered to be so abnormal, under certain circumstances, as to require treatment as current period charges. This Statement eliminates the criterion of so abnormal and requires that those items be recognized as current period charges. Also, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for fiscal years beginning after June 1, 2005, although earlier application is permitted for fiscal years beginning after the date of issuance of this Statement. Retroactive application is not permitted. Management is analyzing the requirements of this new Statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

FS - 13

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets*, an amendment of Accounting Principles Board ( APB ) No. 29. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. Management will apply this Statement in the event exchanges of non-monetary assets occur in fiscal periods beginning after June 15, 2005.

In September 2004, the FASB issued FSP EITF Issue 03-1-1, which delayed the effective date of paragraphs 10-20 of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Paragraphs 10-20 of EITF Issue No. 03-1 give guidance on how to evaluate and recognize an impairment loss that is other than temporary. Application of these paragraphs has been deferred pending issuance of proposed FSP EITF Issue 03-1a. Management is analyzing the requirements of this new EITF and believes that its adoption will not have any significant impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123-R, *Share-Based Payment*. This Statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for: (a) equity instruments of the company, such as stock compensation, or (b) liabilities, such as those related to performance units, that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. The Company currently accounts for stock compensation using the intrinsic value method prescribed in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123-R, which is effective for the Company beginning in the first quarter of fiscal year 2006, eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, and generally requires that such transactions be accounted for using prescribed fair-value-based methods. Management is currently analyzing the requirements of this new Statement and its potential impact on the Company's financial position, results of operations and cash flows.

**4 Business acquisitions**

**Cia Metalic Nordeste**

In November 2002, the Company acquired 100% of the shares of Cia Metalic Nordeste ( Metalic ) as part of its strategy to expand into the tin-coated products market. Metalic is the only two-piece steel can producer in Brazil, and it has approximately 7% of the Brazilian packaging market for carbonated drinks. The total purchase price paid amounted to R\$108.5 million (US\$30) and was paid in 12 monthly installments, which commenced in November 2002, indexed as of July 1, 2002 by the General Market Price

Index ( IGPM ) published by the Fundação Getúlio Vargas, plus interest of 12% per year. This transaction was accounted for using the purchase method in accordance with SFAS 141, with the purchase price being allocated to the assets acquired and liabilities assumed based on their respective fair values. As a result of this transaction, the Company initially recognized goodwill in the amount of US\$46, which was classified in other assets in 2002 pending completion of purchase accounting. In December 2003, the Company reallocated US\$20 from the initial goodwill recorded in this acquisition to property, plant and equipment to reflect the fair value of Metallic s assets acquired in November 2002, completing the purchase accounting for this acquisition. See Note 11 for impairment test of goodwill.

FS - 14

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**Lusosider**

In June 2003, the Company, through its subsidiary, CSN Steel, acquired a 50% equity participation in Lusosider Projectos Siderúrgicos, a Portuguese steel company producing hot-dip galvanized products and tin mill products, for EUR10.84 million (US\$12). The investment is being accounted for in accordance with the equity method. This transaction was made in line with the Company's planning for international development.

**CSN Aceros**

In November 2003, the Company and CVRD entered into a share purchase and sale contract. The Company increased its interest from 37.5% to 100% in CSN Aceros, and thereby became, through its subsidiary CSN Panama, the majority shareholder of Sepetiba Tecon. The Company initially recognized goodwill in the amount of US\$25 and classified the goodwill under other assets in the balance sheet for the year ended December 31, 2003 pending finalization. The purchase accounting allocation was finalized in 2004 and the US\$25 was reallocated to Other Assets as intangible assets, concession agreement.

**GalvaSud**

Incorporated in May 1998 through a joint venture between CSN (51.0%) and TKS (49.0%), GalvaSud began its operational activities in December 2000. GalvaSud operates a galvanizing line for hot immersion and laser lines. On June 22, 2004, the subsidiary, CSN I, acquired 8,262,865,920 common shares of GalvaSud in exchange for the full payment of all GalvaSud financial debts, and also acquired for US\$26.8 the shares held by TKS. After the acquisition, CSN became the holder of a 15.29% stake on a direct basis and 84.71% stake on an indirect basis of GalvaSud's capital stock, by means of its wholly-owned subsidiary CSN I.

This transaction was accounted for using the purchase method resulting in goodwill in the amount of US\$41.

**5 Income taxes**

Income taxes in Brazil comprise federal income tax and social contribution (which is an additional federal income tax). The statutory rates applicable for each of the three years presented herein are: 25% for federal income tax and 9% for social contribution. The amounts reported as income tax expense in the financial statements are reconciled to the statutory rates as follows:

<b>Years ended December 31,</b>		
<b>2002</b>	<b>2003</b>	<b>2004</b>
As	As	As
Restated, see Note	Restated, see Note	Restated, see Note
25	25	25

<b>Income (loss) before income taxes and equity in results of affiliated companies</b>	<b>(110)</b>	<b>461</b>	<b>999</b>
Federal income tax and social contribution at			
statutory rates	37	(157)	(340)
Adjustments to derive effective tax rate			
Interest on stockholders' equity	27	29	31
Nontaxable income from operations outside Brazil	7	49	61
Reversal of tax contingencies	32		
Summer plan (see note 18 tax contingencies, social contribution and income tax)		128	12
Other permanent differences	67	(34)	(32)
Other temporary differences	45	(52)	(23)
<b>Tax benefit (expense) per statements of operations</b>	<b>215</b>	<b>(37)</b>	<b>(291)</b>

FS - 15



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

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

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
<b>Current assets</b>		
Tax loss carryforwards	53	86
Deductible temporary differences	78	118
<b>Net current deferred tax assets</b>	<b>131</b>	<b>204</b>
<b>Non-current assets</b>		
Tax loss carryforwards	109	
Deductible temporary differences	123	209
Accrued pension cost	76	77
Property, plant and equipment basis difference	(13)	(29)
<b>Non-current deferred tax assets</b>	<b>295</b>	<b>257</b>

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

The deferred tax assets related to income tax loss carryforwards and social contribution negative basis carryforwards, in the amounts of US\$162 and US\$86 as of December 31, 2003 and 2004, respectively, were recognized based on the history of CSN's profitability and on the expectation of future profitability. These benefits are expected to be completely realized in 2005. Tax loss carryforwards do not expire under Brazilian tax law.

**6 Cash and cash equivalents**

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
<b>Cash in hand and bank deposits</b>		
Local currency	27	31
<b>Time deposits (up to 90 days)</b>		
U.S. dollars	441	317
<b>Investment Funds</b>		

Local currency	783	622
<b>Total</b>	<b>1,251</b>	<b>970</b>

Management has been investing surplus cash in time deposits and investment funds. Investments funds are comprised, mainly, of short-term Brazilian Government bonds with maturity of three months or less when purchased.

FS - 16

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**7 Short-term investments**

Short-term investments are comprised of short-term Brazilian Government bonds, which are classified as trading securities and valued at fair value. Trading gains relating to securities held at year end amounted to US\$3 and US\$16 for the years ended December 31, 2003 and 2004, respectively.

**8 Trade accounts receivable**

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
Domestic	309	285
Export Denominated in U.S. dollars	107	128
	416	413
Allowance for doubtful accounts	(48)	(31)
<b>Total</b>	<b>368</b>	<b>382</b>

**Supplementary information valuation and qualifying accounts for accounts receivable:**

	Allowance for Doubtful Accounts
Balance as of December 31, 2001	(35)
Additions - Selling expenses	(5)
Translation adjustment	12
Balance as of December 31, 2002	(28)
Additions - Selling expenses	(15)
Translation adjustment	(5)
Balance as of December 31, 2003	(48)
Release - Selling expenses	20
Translation adjustment	(3)

Balance as of December 31, 2004 (31)

During 2001 and 2002, the Company recorded receivables aggregating US\$183 (translated at the December 31, 2004 exchange rate) in respect of its MAE now denominated CCEE electric energy sales, based on prices furnished by the CCEE. During 2004, the total energy produced by CSN was consumed in the process of production, and CSN Energia did not have any surplus of electric energy for sale. As a result of a partial settlement of the receivables related to these sales, the Company received US\$ 7 (US\$26 in 2002 and US\$95 in 2003) translated at the December 31, 2004 exchange rate.

The Company maintained a receivable balance related to the energy sales in the amount of US\$37 as of December 31, 2004 (US\$41 as of December 31, 2003). From the receivable balance, the amount of US\$29 as of December 31, 2004 (US\$32 as of December 31, 2003) is due by concessionaires with court injunctions suspending the corresponding payments. The Company's management believes that an allowance of doubtful accounts is not necessary in view of the measures taken by the agencies.

FS - 17

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

No single customer accounted for more than 10% of total trade accounts receivable at December 31, 2003 or 2004, or total revenues in any of the three years in the period ended December 31, 2004. As of December 31, 2003 and 2004, the Company fully provided for the receivables from certain customers, after negotiations over past due accounts failed.

Allowance for doubtful accounts is in an amount considered by management to absorb eventual losses on uncollectible accounts.

**9 Inventories**

	As of December 31,	
	2003	2004
Finished goods	69	192
Products in process	45	89
Raw material	83	423
Spare parts and maintenance supplies	81	108
Other	3	7
<b>Total</b>	<b>281</b>	<b>819</b>

**10 Investments in affiliated companies**

	As of and for the years ended December 31,						
	Direct Ownership	Direct Ownership	Investments		Equity in results of affiliated companies		
	2003	2004	2003	2004	2002	2003	2004
<b>Investments in affiliated companies</b>	<b>Total</b>	<b>Total</b>					
<b>Infrastructure/ energy</b>							
MRS Logística	32.22%	32.22%	19	53	(24)	13	46
Itá Energética	48.75%	48.75%		94	(9)	(1)	14
			<b>19</b>	<b>147</b>	<b>(33)</b>	<b>12</b>	<b>60</b>
<b>Steel</b>							
GalvaSud	51.00%	(2)			(12)		
Lusosider	50.00%	50.00%	36	41		(1)	1
Projectos							

## Siderúrgicos

			<b>36</b>	<b>41</b>	<b>(12)</b>	<b>(1)</b>	<b>1</b>
			<b>55</b>	<b>188</b>	<b>(45)</b>	<b>11</b>	<b>61</b>
<b>Provision for loss on investments(3)</b>							
<b>Infrastructure</b>							
Companhia							
Ferroviária do							
Nordeste	49.99%	49.99%	(1)	(12)		(7)	(10)
Sepetiba Tecon	(1)				(4)		
			<b>(1)</b>	<b>(12)</b>	<b>(4)</b>	<b>(7)</b>	<b>(10)</b>
<b>Steel</b>							
GalvaSud	51.00%	(2)	(2)		(15)	5	
CSN Aceros	37.50%	(1)			(7)		
			<b>(2)</b>		<b>(22)</b>	<b>5</b>	
			<b>(3)</b>	<b>(12)</b>	<b>(26)</b>	<b>(2)</b>	<b>(10)</b>

(1) Started consolidating in 2003

(2) Started consolidating in 2004

(3) Recorded as others long-term liabilities

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**MRS Logística ( MRS ) and Companhia Ferroviária do Nordeste ( CFN )**

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

On November 30, 2003, the Company increased its interest in CFN from 32.40% to 49.99% by acquiring from CVRD its interest.

**CSN Aceros and Sepetiba Tecon**

CSN Aceros owns 80% of Sepetiba Tecon, and CSN directly owns the remaining 20%. In November 2003, CSN increased its ownership of CSN Aceros to 100% and, as a result, CSN Aceros and Sepetiba Tecon became consolidated subsidiaries. Sepetiba Tecon owns the concession and operates a container terminal in the State of Rio de Janeiro, through which the Company transports most of its steel exports.

**Itá Energética**

Formed in July 1996, this special-purpose company was responsible for the construction of the Itá hydroelectric facility, a 1,450 MW power facility that was built on the Uruguay river in southern Brazil. On December 31, 2004, the investment in Itá Energética, in the amount of US\$94 (US\$75 in 2003), was transferred from investments for sale in other assets to permanent investment. This investment has been accounted for in accordance with equity method since 1996.

**GalvaSud**

A joint venture formed in May 1998 with TKS, GalvaSud began producing Galvanew for the automobile industry in December 2000. The GalvaSud plant is located in the State of Rio de Janeiro, approximately 45 km from the Presidente Vargas Steelworks. On June 22, 2004, the subsidiary, CSN I, purchased 8,262,865,920 common shares of GalvaSud for US\$137, in exchange for the full payment of all GalvaSud financial debts, and also acquired for US\$29 the shares held by TKS which represented 49% of GalvaSud's capital. After the acquisition, CSN became the holder of a 15.29% stake on a direct basis and 84.71% stake on an indirect basis of GalvaSud's capital stock, through its wholly-owned subsidiary, CSN I. This transaction generated a Goodwill of US\$41.

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The following table summarizes the fair value of total assets and liabilities of GalvaSud at the date of acquisition:

	Fair value
Current assets	30
Property, plant and equipment	95
Other assets	12
Total assets	137
Current liabilities	143
Long-term liabilities	18
Liabilities	161
Net liabilities	(24)

**GalvaSud Pro Forma**

The following summary presents the Company's unaudited pro forma condensed results of operations for the years ended December 31, 2003 and 2004, as if the GalvaSud acquisition had been completed at the beginning of each period. The pro forma information is only presented for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results:

	<b>2003</b>			<b>2004</b>		
	As Restated, see Note 25			As Restated, see Note 25		
	<b>CSN Consolidated</b>	<b>GalvaSud before acquisition</b>	<b>Pro Forma</b>	<b>CSN Consolidated</b>	<b>GalvaSud</b>	<b>Pro Forma</b>
			<b>(unaudited)</b>			<b>(unaudited)</b>
Net operating revenues	2,548	106	2,654	3,084	33	3,117
Cost and operating expenses	(1,862)	(90)	(1,952)	(1,722)	(25)	(1,747)
Operating income	686	16	702	1,362	8	1,370



Non-operating income (expenses), net	(225)	(1)	(226)	(363)	(28)	(391)
Income before income taxes and equity	461	15	476	999	(20)	979
Income taxes	(37)	(5)	(42)	(291)		(291)
Equity	9	(5)	4	51	10	61
Net income	433	5	438	759	(10)	749

The amount involved in this acquisition, including the payment of debts and the amount paid to TKS totaled US\$166. This acquisition resulted in goodwill of US\$41, which is not deductible for tax purposes.

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**11 Goodwill**

	As of and for the years ended December 31,				
	Goodwill		Impairment charges		
	2003	2004	2002	2003	2004
<b>Infrastructure</b>					
MRS Logística	4	4			
	<b>4</b>	<b>4</b>			
<b>Steel</b>					
GalvaSud		41			
Cia Metalic Nordeste	26				26
	<b>26</b>	<b>41</b>			<b>26</b>
	<b>30</b>	<b>45</b>			<b>26</b>

The impairment of US\$26 was recorded in other operating expenses. The method used to compute the fair value was the present value of estimated future cash flow; which showed that the projection of previously anticipated cash flow of the operation will not be realized.

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**12 Property, plant and equipment****As of December 31, 2003**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	14		14
Buildings	69	4	65
Equipment	2,650	916	1,734
Furniture and fixtures	20	15	5
Vehicles	4	3	1
Others	48	20	28
	<b>2,805</b>	<b>958</b>	<b>1,847</b>
Construction in progress	27		27
	<b>2,832</b>	<b>958</b>	<b>1,874</b>

**As of December 31, 2004**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	21		21
Buildings	134	13	121
Equipment	3,032	1,142	1,890
Furniture and fixtures	23	18	5
Vehicles	5	4	1
Others	79	31	48
	<b>3,294</b>	<b>1,208</b>	<b>2,086</b>
Construction in progress	57		57
	<b>3,351</b>	<b>1,208</b>	<b>2,143</b>

Construction in progress consists principally of a group of investments in equipment in order to improve the productivity of the Company's production units and quality of its products. The main investments are in the area of environmental protection, cost reduction, infrastructure and automation, and information and telecommunication technologies. In 2002, 2003 and 2004, capitalized interest amounted to US\$12, US\$8 and US\$1, respectively.

As of December 31, 2003 and 2004, the fixed assets securing financial obligations amounted to US\$799 and US\$669, respectively.

**13 Restricted investment**

As part of a receivable securitization program instituted by CSN Export, the Company was required to establish a restricted account as collateral for CSN Export's obligations under the program.

The amount of restricted investments, equals the highest principal amount due of the restricted account on any remaining payment date with respect to the related senior notes then outstanding, together with interest and fees and other expenses due on maturity of the securitization program (see note 14 (b)). The yield received on the deposit approximates money market rates.

FS - 22

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**14 Loans and financing**

	As of December 31,							
	2003				2004			
	Long-term		Short-term		Long-term		Short-term	
	CSN	Subsidiaries	CSN	Subsidiaries	CSN	Subsidiaries	CSN	Subsidiaries
<b>Foreign Currency</b>								
Pre-payment Securitized Receivables	18	9	20	17	100		25	
Euronotes		251		16		344		
BNDES/Finame	268	929	53	185	215	1,104	53	
Financed imports	95		25		82	22	15	
ECA-bilateral agreements	41		17		23		20	
Advances on export contracts			55					
Other	41	30	6	11	33	31	3	
	<b>463</b>	<b>1,219</b>	<b>176</b>	<b>229</b>	<b>453</b>	<b>1,501</b>	<b>116</b>	
<b>Denominated in Brazilian Reais</b>								
BNDES/Finame	65		18		56	2	18	
Debentures	542		3		339			
Other	3	9		4	3	3		
	<b>610</b>	<b>9</b>	<b>21</b>	<b>4</b>	<b>398</b>	<b>5</b>	<b>18</b>	
<b>Current portion of Long-term debt</b>								
Principal	(27)							
	<b>1,046</b>	<b>1,228</b>	<b>197</b>	<b>233</b>	<b>851</b>	<b>1,506</b>	<b>134</b>	

<b>Total of loans and financing</b>	<b>2,274</b>	<b>430</b>	<b>2,357</b>	<b>430</b>
---	--------------	------------	--------------	------------

Loans with certain agents contain certain restrictive clauses, with which the Company is in compliance.

**(a) Short-term**

At December 31, 2004, the Company's short-term borrowings, incurred for the purpose of financing working capital, had annual interest rates ranging from 1.875% to 7.875% per annum (from 3.60% to 4.02% at December 31, 2003).

FS - 23

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**(b) Long-term**

At December 31, 2004, the Company's long-term debt had annual interest rates as follows:

	<b>% per annum</b>	<b>CSN</b>	<b>Subsidiaries</b>
<b>Denominated in local currency</b>			
	TJLP plus		
Long-term interest rate ( TJLP )	5.5% to 9%	56	5
General price index ( IGP-DI )		3	
	106.5% to		
Interbank interest rate ( CDI )	107% of CDI	245	
General index of market price ( IGPM )	IGPM plus 10%	94	
		398	5
<b>Denominated in foreign currency</b>			
United States dollar (including Libor, if			
any)	1.99 to 10.75	374	1,501
Japanese yen	5.65 to 7.75	20	
Others	9.6 to 12.14	59	
		<b>453</b>	<b>1,501</b>
		851	1,506
			<b>2,357</b>

Indices (average) applied to debt in each year are as follows:

%

	<b>2002</b>	<b>2003</b>	<b>2004</b>
TJLP Long-term interest rate	10.25	12.01	10.18
CDI Interbank deposit certificate	19.09	23.28	16.17
IGPM General index of market price	25.31	8.71	12.41
United States dollar exchange rate change	52.27	(18.23)	(8.13)
Japanese yen exchange rate change	68.15	(9.30)	(3.97)
IGP DI General index of market price	26.41	7.67	12.14

The long-term portion of the Company's debt outstanding at December 31, 2004 becomes due as follows:

2006	522
2007	157
2008	441
2009	55
2010 and thereafter	1,182
<b>Total</b>	<b>2,357</b>



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

 Security for the Company's debt outstanding at December 31, 2004 was as follows:

Property, plant and equipment	669
Notes receivable from foreign clients	707
Imports	104
Bank guarantee	75
<b>Total</b>	<b>1,555</b>

In March 2002, the Company issued R\$690 million (US\$292) of *real*-denominated debentures in two tranches: a three-year tranche of R\$540 million (US\$228) bearing interest at the CDI plus 2.75% per annum, and a four-year tranche of R\$150 million (US\$64), indexed to the IGP-M and bearing interest at 13.25% per annum. The proceeds were available for general corporate purposes, including debt repayment.

In conformity with the terms of the Private Deed for Issuance of Nonconvertible Unsecured Debentures of Companhia Siderúrgica Nacional's First Issuance, dated as of January 10, 2002, and in compliance with the provisions of CVM instruction n° 358, the Company's Board of Directors approved at the meeting held on January 7, 2004 the redemption of all second series debentures covered by the deed, representing a total of fifteen thousand (15,000) debentures in the total amount of R\$150 million (US\$51), which occurred on February 9, 2004. On August 31, 2004, the Board of Directors approved the redemption of all first series debentures, issued in 2002, representing a total of fifty four thousand (54,000) debentures in the total amount of R\$540 million (US\$191), which occurred on October 4, 2004. The repurchases had no impact on the Company's results, because the debentures were purchased at their recorded values.

In December 2003, the Company issued R\$900 million (US\$312) of *real*-denominated debentures in three tranches: a R\$250 million (US\$85.5) tranche with a three-year maturity and bearing interest at 106.5% of CDI, a R\$400 million (US\$136) tranche with a three-year maturity and bearing interest at 107% of CDI, and a R\$250 million (US\$85.5) tranche with a five-year maturity, indexed to the IGP-M and bearing interest at 10% per annum.

The table below represents the financings by the Company through its subsidiaries during 2004:

Subsidiary	Description	Principal amount	Issue Date	Maturity Date	Interest (%) per annum
CSN Islands VIII	Notes Securitized	US\$200	Jan/04	Dec/13	9.75
CSN Export	Receivables	US\$162	Jun/04	May/12	7.427

The funds raised in the foregoing table were added to working capital, increasing the Company's liquidity.

**15 Stockholders' Equity**

**(a) Capital**

At the Annual and Extraordinary General Meeting held on April 29, 2004, CSN approved the proposal made by the Board of Directors on March 30, 2004 to reverse split the shares of capital stock, whereby each share of capital stock first became represented by 4 shares, followed by a reverse split of these shares in the proportion of 1,000 shares for 1 share, which resulted in a reverse split of 250 shares into 1, as well as the change in the share-to-ADR ratio of 1 share to 1 ADR. The Company's capital stock on December 31, 2003 and 2004 was comprised of 286,917,045 common shares after giving retroactive effect to this reverse stock split. Each common share entitles the owner to one vote.

FS - 25

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**(b) Treasury Shares**

The Board of Directors approved share buyback programs by the Company to hold in treasury for subsequent sale and/or cancellation, made in accordance with the limits and provisions of CVM's Instruction # 10/80.

Treasury shares as of December 31, 2004 were as follows:

Number of Shares Purchased	Total Amount Paid for Shares (in US\$)	Per Share Cost (in US\$)		
		Minimum	Maximum	Average
10,023,599	153	10.55	19.43	14.99

While maintained in treasury, these shares are not entitled to receive dividends and have no property rights or voting rights. As of December 31, 2004, the market value of the shares held in treasury amounted to US\$190.

**(c) Appropriated retained earnings**

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

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

**(d) Dividends and interest on stockholders' equity**

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

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the Company's statutory accounting records. At December 31, 2003 and 2004, retained earnings as stated in the statutory accounting records was equal to zero. In addition, in accordance with the statutory accounting records, appropriated retained earnings at December 31, 2003 included the amount of US\$169, related to the investment reserve, which could be transferred to unappropriated retained earnings and paid as dividends and interest on stockholders' equity, if approved by the stockholders.

At December 31, 2004, the amount of US\$90 recorded in appropriated retained earnings was transferred to interest on stockholders' equity and classified under current liabilities for payment in 2005.

FS - 26

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**16 Pension plan**

**(a) Description of the plans**

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

Until January 1996, CBS had only a defined benefit plan with benefits based on years of service, salary and social security benefits. On December 27, 1995, the *Secretaria de Previdência Complementar* (the Brazilian Government 's Secretary for Supplementary Social Security or the SPC ) approved the implementation of a new benefit plan as of January 1996, called the *Plano Misto de Benefício Suplementar* (the Hybrid Plan ), structured in the form of a defined contribution plan. Employees hired after that date can only join the new hybrid plan. Additionally, all active employees who were participants in the old defined benefit plan were offered the opportunity to switch to the new hybrid plan. As of December 31, 2004, CBS had 24,031 participants, of whom 18,253 were contributors (24,325 and 18,929, respectively, at December 31, 2003), enrolled in its benefit plans, including 7,411 active (7,504 at December 31, 2003) and 16,620 retired (16,821 at December 31, 2003) employees. Of the total participants, 16,324 belong to the defined benefit plan and 7,707 to the hybrid plan.

CBS 's assets comprise principally shares of CSN, government securities and properties. At December 31, 2004, CBS owned 10,419,688 common shares of CSN with a market value at December 31, 2004 of US\$198 (US\$144 at December 31, 2003). CBS also had at December 31, 2004, 249,080 thousand quotas (equity interests) of the *Clube de Investimento CSN*, an investment club comprised of CSN 's employees and itself a shareholder of CSN, with a recorded value of US\$35.2 (249,080 thousand quotas with a recorded value of US\$25.3 at December 31, 2003). Pension assets totaled R\$1.6 billion (US\$570) and R\$1.9 billion (US\$716) at December 31, 2003 and 2004, respectively. CBS 's fund managers seek to match the plan assets with benefit obligations over the long-term. Brazilian pension funds are subject to certain restrictions relating to their ability to invest in foreign assets and consequently, the funds primarily invest in Brazilian securities. Under its current investment strategy, pension assets of the Company registered the following allocation as of December 31, 2004:

- 23.5% in nominal bonds to guarantee the short-term liabilities;
- 20.5% in inflation-indexed assets to guarantee the long-term liabilities;
- 46.9% in stocks to increase the expected long term return;
- 4.8% in real estate as a strategy of diversification; and
- 4.3% in loans to participants.



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

The following table sets forth the CBS's assets allocation as of December 31, 2004:

<b>Segments</b>	<b>US\$</b>	<b>%</b>
Fixed Income Investment	222	44.0
Variable Income Investment	237	46.9
Real Estate	24	4.8
Others	22	4.3
<b>Total</b>	<b>505</b>	

**(b) Expected long-term rate of return on assets**

The expected return on assets of each benefit plan was determined by CBS based on the return expectancy for each asset category, as well as the target allocation of assets between those categories specified in the plans' investment policy for year 2005. The resultant rates are shown on the tables below.

<b>Asset Category</b>	<b>Assets Allocation (%)</b>		<b>Weighted-Average Expected</b>	<b>Rate of Return (%)</b>
	<b>12/31/2003</b>	<b>12/31/2004</b>	<b>Target</b>	<b>*</b>
Debt Securities	44.6%	46.9%	43.3%	14.5%
Equity Securities	46.8%	44.0%	47.7%	17.6%
Real State	4.9%	4.8%	4.6%	11.3%
Loans	3.7%	4.3%	4.4%	17.6%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>15.9%</b>

\* Nominal rates. Although the target allocation; together with the expected long-term rate of return for each asset category, results in an expected return rate of 15.94%, the Company decided to adopt a more prudent rate of 13.40% (8% real and 5% inflation).

**(c) Defined contribution plan**

The defined contribution plan is funded through contributions of the Company and the participants to the plan. CSN has committed to contribute to the plan a percentage of the salary of each participant, ranging from 3% to 5%. Contributions made by the Company to the plan during 2002, 2003 and 2004 amounted to US\$2.7, US\$4.0 and US\$4.7, respectively.





**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**(d) Defined benefit plan**

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

**Change in benefit obligation**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>
Projected benefit obligation at beginning of year	246	342
Service cost	1	1
Interest cost on PBO	38	41
Actual benefits payments	(36)	(41)
Effect of curtailment		4
Effect of settlement		(25)
Effect of exchange rate changes	55	32
Actuarial loss	38	29
<b>Projected benefit obligation at end of year</b>	<b>342</b>	<b>383</b>

**Change in plan assets**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>
Fair value of plan assets at beginning of year	106	212
Actual return on plan assets	101	84
Employer contributions	15	21
Employee contributions	3	1
Actual benefits payments	(36)	(41)
Effect of settlement		(25)
Effect of exchange rate changes	23	17
<b>Fair value of plan assets at end of year</b>	<b>212</b>	<b>269</b>

**Accrued pension cost liability**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>
Funded status, excess of projected benefit obligation over plan assets	130	114
Net actuarial gain	94	112

<b>Accrued pension cost liability</b>	<b>224</b>	<b>226</b>
---------------------------------------	------------	------------

**Periodic pension cost**

Net periodic pension cost includes the following components:

	<b>Dec 31, 2002</b>	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>
Service cost	1	2	
Interest cost on projected benefit obligation	27	38	44
Return on plan assets	(14)	(16)	(26)
Net amortization and deferral	(7)	(2)	(7)
	<b>7</b>	<b>22</b>	<b>11</b>
Employees contributions	(1)	(2)	(1)
<b>Net periodic pension cost</b>	<b>6</b>	<b>20</b>	<b>10</b>

FS - 29

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The expected net periodic pension cost, calculated in accordance with SFAS 87 for the year ending December 31, 2005, amounts to R\$4.9 million (US\$1.9 translated at the December 31, 2004 exchange rate) for the defined benefit plan.

Interest cost	48.9
Expected return on assets	(34.7)
Amortizations	(11.4)
Periodic post retirement benefit cost	2.8
Expected employee contributions	(0.9)
Net periodic pension cost	1.9

Actuarial assumptions used for the calculations were:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Discount rates	Inflation plus 8%	Inflation plus 8%	Inflation plus 8%
Rates of increase in compensation levels	Inflation plus 1%	Inflation plus 1%	Inflation plus 1%
Expected long-term rate of return on assets	Inflation plus 8%	Inflation plus 8%	Inflation plus 8%

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

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

**Funded status**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>
Actuarial present value of:		
Vested benefit obligation	325	382
Non-vested benefit obligation	17	1
<b>Total accumulated benefit obligation</b>	<b>342</b>	<b>383</b>
Projected benefit obligation	343	384

Fair value of plan assets	(212)	(269)
Unfunded position	<b>131</b>	<b>115</b>
Net actuarial gain	93	111
Accrued pension cost liability	<b>224</b>	<b>226</b>

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

---

FS - 30

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**(e) Expected contributions**

**Defined benefit plan**

The expected Company's contributions for 2005, amounting to R\$55.1 million (US\$20.8 translated at the December 31, 2004 exchange rate), were estimated based on the actual cost for each valued plan as of the valuation date. The expected benefits payments for 2005, amounting to R\$108.1 million (US\$39 translated at the December 31, 2004 exchange rate), were estimated based on the projected benefit payroll as of the valuation date.

The estimated future benefits payments are as follows:

2005	39
2006	40
2007	41
2008	43
2009	44
2010 to 2014	238

**Hybrid plan**

The expected Company's contributions for 2005 for the defined benefits portion amount to R\$1.5 million (US\$0.6 translated at the December 31, 2004 exchange rate) and for the defined contribution portion amount to R\$9.5 million (US\$3.6 translated at the December 31, 2004 exchange rate).

The estimated future benefits payments are as follows:

2005	2
2006	2
2007	2
2008	2
2009	2
2010 to 2014	16

**(f) Migration from defined benefit plan to defined contribution plan**

On December 4, 2003, the Deliberative Council of CBS approved the implementation of two important processes:

Reopen the offer to participants in the defined benefit plan to switch to the defined contribution plan. As of December 31, 2004, 397 employees had transferred to the defined contribution plan, representing approximately 82% of the employees that remained as participants in the defined benefit plan.

FS - 31

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Retired participants of the defined benefit plan who committed to contribute a percentage of their benefit beyond the normal contribution were offered to limit this extra contribution to 8% of their benefit. At the end of the process 1,800 retired participants had agreed to the proposal, corresponding to 90% of the retired participants that remained in the defined benefit plan.

**Curtailment/ settlement reconciliation as of January 1, 2004.**

	Before Curtailment (A)	Effect of Curtailment (B)	After Curtailment (C)=(A)+(B)	Effect of Settlement (D)	After Settlement (C) + (D)
. Projected Benefit Obligation(PBO)	342	4	346	(25)	321
. Fair Value of Plan Assets	(212)		(212)	25	(187)
. Funded Status	130	4	134		134
Unrecognized Gains (Losses)	94	(4)	90	(6)	84
Accrued (Prepaid Pension Cost)	224		224	(6)	218

- With respect to active participants, the effect of the PBO due to the curtailment (column B) is equal to the difference between values transferred to the defined contribution plan and the previously calculated liability. With respect to retirees that had adhered to the limit of 8% of their additional contributions, the effect would be equal to the difference between the liability calculated after the limitation and the previous liability.
- The effect of settlement (column D) over the PBO, as well as over the plan assets is identical, both of them being reduced by the portion of the assets transferred to the defined contribution plan.
- The portion of the Unrecognized (Gains)/Losses to be immediately recognized due to the settlement (column D) equals the settlement ratio (calculated as described by FASB statements) multiplied by the total Unrecognized (Gains)/Losses.

**17 Employee benefits**

In addition to the pension fund, the Company makes monthly contributions based on the amount of payroll for government pension, social security and severance indemnity plans, and such payments are expensed as incurred. Also, certain severance payments are due upon dismissal of employees, consisting principally of one month's salary and a severance payment calculated at 40% plus 10% (according to Supplementary Law No. 110/2001) of the accumulated contributions made to the government severance indemnity plan on behalf of the employee. Amounts paid on dismissal totaled US\$6, US\$4 and US\$6 for the years ended December 31, 2002, 2003 and 2004, respectively. Based on current operating plans, management does not expect that amounts of future severance indemnities will be material.

## **18 Commitments and contingencies**

### **(a) Accruals and deposits**

CSN and its subsidiaries are party to certain legal proceedings in Brazil arising in the normal course of business, regarding tax, labor, civil and other issues.



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The Company believes that any loss in excess of the amounts provided for in respect of such contingencies will not have a material adverse effect on the Company's results of operations or financial position.

For those contingencies for which an adverse outcome has been deemed probable, the Company has recorded an accrual for losses. The contingencies amounting to approximately US\$200 for which an adverse outcome was evaluated as possible, as per SFAS 5, were not accrued.

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

	As of December 31, 2003		As of December 31, 2004	
	Deposits	Accrual	Deposits	Accrual
<b>Short-term</b>				
Labor		2		3
Civil		1		3
		<b>3</b>		<b>6</b>
<b>Long-term</b>				
Labor	6	21	12	45
Civil		16		25
Tax				
IPI		56		268
Social contribution	53	15	83	131
Income tax	76	149	81	151
PIS/COFINS - Law No. 9,718/99		78		98
CPMF		65		105
Other tax	24	50	41	71
Other	14	26	2	74
	<b>173</b>	<b>476</b>	<b>219</b>	<b>968</b>

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

**Labor contingencies**

For 2004, these are primarily represented by 5,400 (2,900 in 2003) labor claims in which CSN is the defendant. For 2004, the amount of the accrual for these contingencies was US\$45 (US\$21 in 2003). Most of the lawsuits are related to CSN's joint liability with

independent contractors, wage equalization, additional payments for unhealthy and hazardous activities, overtime and disagreement between employees and the Brazilian government over the amount of severance payable by CSN.

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

The most recent lawsuits originating from CSN's joint liability with independent contractors have generally been decided in favor of CSN due to procedures that have been adopted by the Company in order to inspect and assure the compliance of the wage payments and social charges withdrawals by the independent contractors, which have been in operation since 2000.

The higher increase in labor claims has originated from lawsuits relating to severance payable by CSN as discussed above.

FS - 33

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**Civil**

These are mainly claims for indemnities among the civil judicial processes in which the Company is involved. Such proceedings, in general, originated from occupational accidents and diseases related to industrial activities of the Company. For all these disputes, until December 31, 2004 the Company accrued the amount of US\$25 (US\$16 as of December 31, 2003).

**Tax contingencies**

• ***Imposto sobre produto industrializado - IPI (Excise Tax) presumed credit on inputs***

The Company brought an action pleading the right to a tax credit with respect to the acquisition of the Company's goods that were exempted, immune, non-taxed goods, or taxed at zero rate. A preliminary decision was obtained authorizing the use of these credits.

As of December 31, 2004, the accrual related to the total credits used to offset IPI tax payable amounted to US\$231 (US\$56 in 2003). The actual amount payable is updated by Selic (Special System for Settlement and Custody) a Brazilian interest rate for tax purposes.

• ***IPI premium credit over exports***

The Company brought an action pleading the right to the *IPI* premium credit with respect to exports and a favorable decision was obtained authorizing the use of these credits.

As of December 31, 2004, the credits used to offset IPI tax payable amounted to US\$37, as updated by Selic.

• ***Social contribution and income tax***

The Company claims that, in connection with the correction of the distortion in the calculation of the basis for the income tax and social contribution as a result of the use of the Consumer Price Index ( *IPC* ) of January 1989 (referred to as the *Summer Plan* ), it is entitled to a refund of 51.87% of the tax liability determined under the *Summer Plan*. In the first quarter of 2003, the *Tribunal Regional Federal* - TRF, the regional tax court, confirmed lower court rulings establishing that the percentage to which CSN is entitled is 42.72% (Jan/89) minus the applicable index of 10.14% (Feb/89). As a result, as of December 31, 2002, CSN reversed US\$32, or approximately half, of its accrual for this tax liability. CSN is pursuing the balance of its claim. Therefore, the Company has registered as of December 31, 2004, a provision in the amount of US\$23 (US\$21 in 2003).

In February 2003, the Company was assessed by tax authorities based on its prior years social contribution and income tax. On August 21, 2003, the Federal Revenue Agency canceled such tax assessment but, in November 2003, the Company was reassessed, on the same matter. Therefore, the Company has recorded an accrual as of December 31, 2004 in the amount of US\$144 (US\$143 in 2003).

The Company filed an action questioning the assessment of social contribution on income in respect of export revenues, based on the Constitutional Amendment n° 33/01. On March 10, 2003 the Company obtained an initial decision authorizing the exclusion of export revenues from the calculation, as well as offsetting amounts paid on these revenues from 2001. On December 31, 2004, the offsetting amounts were US\$115, which includes legal costs.

FS - 34

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

• **PIS/COFINS Law No. 9,718/99**

CSN is appealing the legality of Law No. 9,718/99, which increased the PIS and COFINS (social financial contribution tax) calculation basis and imposed this tax on the revenue of CSN. The amount of this accrual was US\$98 at December 31, 2004 (US\$78 at December 31, 2003). CSN obtained a favorable verdict in the lower court and the suit is going through a compulsory review by the TRF.

• **CPMF- Provisional contribution on financial activities tax**

CSN has been appealing the CPMF (Provisional Contribution on Financial Activities) tax since the promulgation of Constitutional Amendment No. 21/99. The amount of this accrual was US\$105 as of December 31, 2004 (US\$65 as of December 31, 2003). CSN obtained a favorable verdict in the lower court and the suit is on appeal to the TRF. The most recent precedents by the courts have not been favorable to CSN's position. A loss is probable.

• **Other tax accruals**

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

**(b) Other commitments and contingencies**

• **Anti-trust penalty**

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

• **Environmental Regulation**

The Company is subject to Brazilian federal, state and municipal environmental laws and regulations governing air emissions, waste water discharges, and solid and hazardous waste handling and disposal. The Company is committed to controlling the substantial environmental impact caused by steelmaking, mining and port operations, in accordance with international standards and in compliance with environmental laws and regulations in Brazil. The Company believes that it is in substantial compliance with applicable environmental requirements.

The Brazilian Federal Constitution gives both the federal and state governments power to enact environmental protection laws and issue regulations under such laws. In

addition, the Company is subject to municipal environmental laws and regulations. While the Brazilian Government has power to promulgate environmental regulations setting forth minimum standards of environmental protection, state governments have the power to enact more stringent environmental regulations. Most of the environmental regulations in Brazil are thus at the state and local level rather than at the federal level. The environmental regulations of Rio de Janeiro State, in which the Presidente Vargas steelworks is located, are plant specific. Thus, specific goals and standards are established in operating permits or environmental accords issued to each company or plant that complement the standards and regulations of general applicability and are required to be maintained throughout the life of the permit or accord. The terms of such operating permits are subject to change and are likely to become stricter. All of the Company's facilities have operating permits, except for the Sepetiba coal terminal, which operates under a specific environmental accord, as described below.

FS - 35

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

The Company records an accrual for remediation costs and environmental lawsuits when a loss is probable and the amount can be reasonably estimated. The Company does not anticipate that costs for environmental lawsuits, to the extent not previously accrued, will have a material adverse effect on its consolidated financial position. The accrual for environmental contingencies in the amount of R\$ 11 million (US\$4) relates mainly to penalties and lawsuits imposed on the Company's coal mines, which have been decommissioned since 1989; fines related to consent orders issued between 1986 and 1998 on the Presidente Vargas Steelworks; and provisional costs on environmental remediation that applies to old landfill's liabilities around the main steelworks.

The Company operates a corporate environmental department managed under an Environmental Management System (EMS), compliant with ISO 14001 requirements. The Company received the ISO 14001 Certificate for its iron ore mining operations in December 2000 and for its steelmaking units and limestone mining operations in December 2002. All certifications have been periodically renewed.

Since privatization, the Company has invested heavily in environmental and other clean-up programs. Total environmental expenditures (capitalized and expensed) during the past three years were as follows: 2002 R\$123.0 million (US\$42.1 million); 2003 R\$151.2 million (US\$51); 2004 R\$159.4 million (US\$54.4). Of the R\$159.4 million (US\$54.4) spent in 2004, capital expenditures constituted R\$11.7 million (US\$4.0) and environmental maintenance and operating costs constituted R\$147.7 million (US\$50.5).

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

The Accord was considered completed by the Rio de Janeiro State Environmental Authority in May 2003. Between July and October, all operations permits of Presidente Vargas Steelworks were recovered, and remain valid for 5 years. The Company had invested under the FEEMA Accord an aggregate of R\$263.6 million (US\$125.4 based on the average exchange rate at the date of the cash disbursement), completing all 130 items, and spent R\$13 million (US\$6.2) on new infrastructure and community services. Total expenditures related to the FEEMA Accord stated in *reais* are increased due to the impact of *real* devaluation on investments indexed in foreign currency.

As a result of these expenditures and the Company's continuing compliance with the FEEMA Accord, one third of the environmental fines on the Presidente Vargas Steelworks of R\$36 million (US\$20) have been dismissed as of December 2003. During 2004, the procedure to dismiss the remaining two thirds of these environmental fines was

suspended, but the Company believes these remaining fines will eventually be dismissed.

From 2002 to 2004, soil investigations were made in the neighboring areas of Presidente Vargas Steelworks at Volta Redonda, as a consequence of the FEEMA Accord. These areas had received landfills of solid waste from operations. The survey pointed out two areas of land that require environmental remediation. The clean-up activities are planned to be implemented until the end of 2010, at a projected total cost of R\$25 million (US\$8.6), which is fully accrued.

FS - 36

---



**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

The Company also entered into an accord relating to environmental matters at the Presidente Vargas Steelworks with the city of Volta Redonda in January 1995 (the January 1995 Accord ). Under the January 1995 Accord, the Company invested R\$1.4 million (US\$0.8) in an environmental quality program designed to preserve the environment and provide assistance to the Volta Redonda community. The program's priority is to compensate the city of Volta Redonda for environmental damage allegedly caused by the Presidente Vargas Steelworks. This program, requiring total expenditures of R\$16.4 million (US\$5.6), has been suspended since 2000 as a result of an appeal by the state public attorney's office, and it is still awaiting a court's final decision.

On November 30, 2001, the Company entered into a commitment, which is similar to the January 2000 amendment of the FEEMA Accord, with SEMADS - Rio de Janeiro State, Secretariat for Environment and Sustainable Development (the SEMADS Accord ), in which it undertook to bring the Sepetiba coal terminal into compliance with applicable environmental laws and regulations by May 31, 2004. The Company was unable to meet the deadline due to, among other things, a weather-related accident and has requested an extension of the deadline. An amendment to this SEMADS Accord was signed on May 28<sup>th</sup>, 2004, and extends the deadline for the completion to December 2006. Pursuant to the SEMADS Accord, the Company has already installed equipment and systems to control and monitor air emissions, as well as sea pollution from port activities and handling imported coal. The total amount involved in the original SEMADS Accord was approximately R\$4.6 million (US\$1.6); the additional obligations amount to approximately R\$5.1 million (US\$1.8) . Approximately R\$2.3 million (US\$0.8) remains to be spent and is fully accrued.

Prior to 1990, the Company operated coal mining facilities in the Santa Catarina State. As a part of these operations, it and other companies used waste ponds, as well as landfills for sulfur containing solid wastes. The state environmental authority has required 11 mining Companies CSN among them and the Federal Government to take environmental corrective actions to restore the waste ponds and landfill areas. CSN has developed and has begun to implement a restoration plan consisting of 13 Consent Orders signed with the Santa Catarina State Environmental Authority, with a total projected cost of approximately R\$20 million (US\$6.8) which R\$11 million (US\$4.1) are accrued. In 2001, this effort remedied the first areas with good results. The aggregate expenditures on this remediation in the last three years were R\$0.7 million (US\$0.2) in 2002; R\$2.4 million (US\$ 0.8) in 2003 and R\$4.2 million (US\$1.4) in 2004.

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**19 Guarantees**

The parent company provides guarantees on obligations of its subsidiaries to third parties. The parent company has also provided guarantees for obligations of certain of its affiliates as follows:

	<b>Currency</b>	<b>Notional (in USD '000)</b>	<b>Expiration Date</b>	<b>Conditions</b>
MRS Logística S.A.	R\$	1,336.0 <sup>(1)</sup>	Dec 01, 2026	Guarantee given to the Federal Union, together with all other members in the consortia, for MRSs lease obligation assumed in the concession agreement.
CFN - Companhia Ferroviaria do Nordeste	R\$	6.8	Oct 3, 2005	Join guarantee of BNDES financing
Cia Metalic Nordeste	R\$	1.8	May 15, 2008	Invoices/ guarantee given to Banco Santos referring to contracts for the financing of equipment
Cia Metalic Nordeste	R\$	2.7	Jan 27, 2003 to Jan 30, 2006	Invoices/ guarantee given to BEC Provin and ABC Brasil referring to working capital contracts
Cia Metalic Nordeste	R\$	7.6	Jan 15, 2006	Guarantee given to the BNDES, for contracts referring to financing of machinery and equipment
CSN Iron	US\$	79.3	Jan 06, 2007	Promissory Note of Eurobond

				operation
CSN Island III	US\$	75.0 <sup>(2)</sup>	Apr 21, 2005	Installment of guarantee by CSN in Bond issuance
CSN Island V	US\$	150.0 <sup>(2)</sup>	Jul 07, 2005	Installment of guarantee by CSN in Bond issuance
CSN Island VII	US\$	275.0 <sup>(2)</sup>	Dec 09, 2008	Installment of guarantee by CSN in Bond issuance
CSN Island VIII	US\$	550.0 <sup>(2)</sup>	Dec 16, 2013	Installment of guarantee by CSN in Bond issuance
CSN Island IX	US\$	200.0 <sup>(2)</sup>	Jan 15, 2015	Installment of guarantee by CSN in Bond issuance
CSN Overseas	US\$	20.0 <sup>(2)</sup>	Oct 29, 2009	Installment of guarantee by CSN in Promissory Notes issuance
Inal	R\$	1.4	Mar 15 and Apr 15, 2006	Guarantee for equipment financing
Inal	US\$	1.4	Mar 26, 2008	Guarantee for equipment financing
Sepetiba Tecon	US\$	33.5	Dec 30, 2004 to Sep 15, 2013	Guarantee for equipment acquisition and implementation of terminal financing
CFN - Companhia Ferroviaria do Nordeste	R\$	8.7	Apr 5, 2005	Join guarantee of BNDES financing
CFN - Companhia Ferroviaria do Nordeste	R\$	9.0	Nov 13, 2009	Join guarantee of BNDES

financing

- 
- (1) Total notional amount, for which the Company is contingently liable limited to its participation in the consortium.
  - (2) Finance subsidiaries 100% owned by the Company which, fully and unconditionally, guarantees the installments.

**Other commitments**

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

FS - 38

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**20 Segment and geographical information**

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

The Company has five officials on its Board of Executive Officers (including the Chief Executive Officer) reporting to the CEO. Each one of them is responsible for a sector: Operations, Commercial, Infrastructure/ Energy, Investments and Subsidiary Administration.

The Chief Executive Officer is responsible for finance operations, legal, corporate human resources, CBS (CSN's Pension Fund) and procurement. The Operations Executive Officer is responsible for the manufacturing of CSN's steel, steel products and information technology. The Commercial Executive Officer is responsible for the sales and marketing of CSN's steel products. The Infrastructure/Energy Executive Officer is responsible for the Company's mines, investments in logistics (railways and ports), real estate, logistics and power generation. The Investments Executive Officer is responsible for future capacity expansions and opportunities in the international markets analysis, as well as for investor relations and accounting controls. The Subsidiary Administration Executive Officer is responsible for communications, CSN Foundation and for the affiliated companies.

Information presented to top management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with the accounting practices adopted in Brazil together with certain relatively minor intersegment allocations.

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

Information for the functions of the CEO, Investments Executive Officer and Administration and Participations Executive Officer are being presented aggregated under Corporate and Investments.

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

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

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**Year ended December 31, 2002**

As Restated, see Note 25

	<b>Steel</b>	<b>Corporate and Investments</b>	<b>Infrastructure/ Energy</b>	<b>Consolidated</b>
<b>Results</b>				
<b>Revenues</b>				
Domestic sales	1,534		36	1,570
Export sales	599			599
Sales taxes	(315)			(315)
Discounts, returns and allowances	(12)			(12)
Cost and operating expenses	(1,250)		(28)	(1,278)
Financial income		466		466
Financial expenses		(219)		(219)
Foreign exchange and monetary loss		(891)		(891)
Other non-operating income		(30)		(30)
Income taxes		215		215
Equity in results of affiliated companies	(26)	(7)	(38)	(71)
<b>Net income (loss)</b>	<b>530</b>	<b>(466)</b>	<b>(30)</b>	<b>34</b>
<b>Other information</b>				
<b>Total assets</b>	<b>2,700</b>	<b>809</b>	<b>146</b>	<b>3,655</b>
Capital expenditures	256	1	7	264
Investments in affiliated companies			5	5
Goodwill			3	3
Depreciation and amortization expenses	(122)			(122)
<b>Sales by geographic area</b>				
Asia	70			70
North America	216			216
Latin America	102			102
Europe	155			155
Others	56			56

Export sales	<b>599</b>		<b>599</b>
Domestic sales	1,534	36	1,570
Total	<b>2,133</b>	<b>36</b>	<b>2,169</b>

FS - 40

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**Year ended December 31, 2003**

As Restated, see Note 25

	<b>Steel</b>	<b>Corporate and Investments</b>	<b>Infrastructure/ Energy</b>	<b>Consolidated</b>
<b>Results</b>				
<b>Revenue</b>				
Domestic sales	1,837		6	1,843
Export sales	1,077			1,077
Sales taxes	(321)		(1)	(322)
Discounts, returns and allowances	(50)			(50)
Cost and operating expenses	(1,840)		(22)	(1,862)
Financial income		(260)		(260)
Financial expenses		(304)		(304)
Foreign exchange and monetary gain		325		325
Other non-operating income		14		14
Income taxes		(37)		(37)
Equity in results of affiliated companies	4		5	9
<b>Net income (loss)</b>	<b>707</b>	<b>(262)</b>	<b>(12)</b>	<b>433</b>
<b>Other information</b>				
<b>Total assets</b>	<b>3,438</b>	<b>1,401</b>	<b>178</b>	<b>5,017</b>
Capital expenditures	180		30	210
Investments in affiliated companies	36		19	55
Goodwill	26		4	30
Depreciation and amortization expenses	(112)		(7)	(119)
<b>Sales by geographic area</b>				
Asia	125			125
North America	387			387
Latin America	185			185



Edgar Filing: TRUSTCO BANK CORP N Y - Form DEF 14A

Europe	280		280
Others	100		100
Export sales	1,077		1,077
Domestic sales	1,837	6	1,843
Total	<b>2,914</b>	<b>6</b>	<b>2,920</b>

FS - 41

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**Year ended December 31, 2004**

As Restated, see Note 25

	<b>Steel</b>	<b>Corporate and Investments</b>	<b>Infrastructure / Energy</b>	<b>Consolidated</b>
<b>Results</b>				
Revenue				
Domestic sales	2,895			2,895
Export sales	1,008			1,008
Sales taxes	(735)			(735)
Discounts, returns and allowances	(84)			(84)
Cost and operating expenses	(1,722)			(1,722)
Financial income		(126)		(126)
Financial expenses		(384)		(384)
Foreign exchange and monetary gain		153		153
Other non-operating income		(6)		(6)
Income taxes		(291)		(291)
Equity in results of affiliated companies.	2		49	51
Net income (loss)	<b>1,364</b>	<b>(654)</b>	<b>49</b>	<b>759</b>
<b>Other information</b>				
Total assets	<b>4,468</b>	<b>1,397</b>	<b>292</b>	<b>6,157</b>
Capital expenditures	154		24	178
Investments in affiliated companies	41		147	188
Goodwill	41		4	45
Depreciation and amortization expenses	(128)		(11)	(139)
<b>Sales by geographic area</b>				
Asia	65			65
North America	604			604
Latin America	79			79

Edgar Filing: TRUSTCO BANK CORP N Y - Form DEF 14A

Europe	230	230
Others	30	30
Export sales	1,008	1,008
Domestic sales	2,895	2,895
Total	<b>3,903</b>	<b>3,903</b>

FS - 42

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Revenues by steel products from export sales:

	<b>Metric Tons (in thousands) (unaudited)</b>			<b>U.S.Dollars</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<u>Export sales</u>						
Slabs	345	361	44	78	130	24
Hot-rolled	482	750	417	123	296	247
Cold-rolled	157	138	96	41	66	90
Galvanized	461	329	576	194	285	430
Tin Mill	363	387	312	163	300	217
Total	1,808	1,965	1,445	599	1,077	1,008

**21 Related parties**

Transactions with related parties, relating primarily to purchases and sales in the ordinary course of business and other intercompany operations, resulted in the following balance sheet and income statement amounts. Banco Fibra is used by the Company in its foreign currency swap arrangements and management of an exclusive investment fund and receives a commission for these services.

Balances at December 31, 2003 and 2004 and transactions for the years ended December 31, 2002, 2003 and 2004 with related parties are as follows:

	<b>2002</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Expenses (Revenues)</b>
SePETIBA Tecon	5		6
MRS Logística	1	15	40
Ferrovias Centro-Atlântica			11
GalvaSud	7		(39)
CBS		179	12
Fundação CSN			1
Private Investments Funds	67	18	
<b>Total</b>	<b>80</b>	<b>212</b>	<b>31</b>

2003

	Assets	Liabilities	Expenses (Revenues)
MRS Logística		13	54
GalvaSud	3		(64)
Itá Energética	15		44
CFN	17		
Lusosider	23		
CBS		224	14
Fundação CSN			1

FS - 43

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Private Investments Funds	456	29	
<b>Total</b>	<b>514</b>	<b>266</b>	<b>49</b>
			<b>2004</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Expenses (Revenues)</b>
MRS Logística	11	6	56
GalvaSud			(12)
Itá Energética	1		46
CFN	20		
Lusosider	29		
CBS		226	21
Fundação CSN			3
Private Investments Funds	717	5	84
<b>Total</b>	<b>778</b>	<b>237</b>	<b>198</b>

**22 Derivatives****22.1 General description and accounting practices**

Although most of the Company's revenues are denominated in Brazilian *reais*, as of December 31, 2003 and December 31, 2004, US\$2,102 and US\$2,399, respectively; of the Company's debt was basically denominated in foreign currencies, which includes short and long-term debt and accrued finance charges. Accordingly, the Company is exposed to market risk from changes in foreign exchange rates and interest rates. The Company manages risk arising from fluctuations in currency exchange rates, which affect the amount of Brazilian *reais* necessary to pay foreign currency denominated obligations, by using derivative financial instruments, primarily cross-currency swaps with financial institutions.

While such instruments reduce the Company's foreign exchange risks, they do not eliminate them. Credit risk exposure is managed by restricting the counterparties on such derivative instruments to major financial institutions with high credit quality. Therefore, management believes that the risk of nonperformance by the counterparties is remote.

The Company's contracts do not meet the criteria to qualify as the hedge of an exposure to foreign currency or interest rate risk. Therefore, the Company has accounted for the derivative transactions by calculating the unrealized gain or loss at each balance sheet

date, and changes in the fair value of all derivatives are recorded in current operations.

For the year ended December 31, 2004, a net unrealized loss of US\$17 (gain of US\$26 on December 31, 2003 and loss of US\$7 on December 31, 2002), net of income tax effects of US\$9 (US\$13 on December 31, 2003 and US\$4 on December 31, 2002), was recorded in the statements of income under others within non-operating income (expenses), net, as a consequence of changes in the fair value of derivative financial instruments.

On December 31, 2004, the consolidated position of outstanding derivative agreements was as follows:

	Agreement	Notional Amount	Market value Gain (loss)
	Maturity		
Foreign Exchange swap	Jan 2 <sup>nd</sup> and Jan 12th, 2005	US\$ 30.7	(US\$13.7)

FS - 44

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

Equity swap(*)	July 28th, 2006	US\$ 49.2	US\$130.1
NDF (non deliverable forwards) contracted by exclusive funds	Feb 1st, 2005	US\$150	(US\$3.6)
US Dollar Futures contracts contracted by exclusive funds	Feb 1st, 2005	US\$ 1,003	(US\$9.6)

(\*) Refers to non-cash swap under which, at the end of the contract, the counterparty remunerates at the variation of equity assets, in as much the Company's subsidiary, CSN Steel, undertakes to remunerate the same notional updated value at the pre-fixed rate of 7.5% per annum.

**22.2 Detailed transactions****a) Foreign exchange swap agreements U.S. dollars**

The Company entered into cross-currency swap agreements (intended to protect the Company from the effect that a devaluation of the *real* would have in its liabilities denominated in foreign currency). Basically, the Company swapped its indebtedness index from the U.S. dollar to the Interbank deposit certificate-CDI. The notional amount of these swaps aggregated on December 31, 2004 was US\$30.7 (US\$1,286 on December 31, 2003). The significant decrease in the notional amount of cross currency swaps was largely caused by (i) the maturity of most of the swap transactions during 2004, which accounted for a realized loss of US\$162 and (ii) the decision of the Company to use future contracts as its primary hedging instrument. The contracts outstanding at December 31, 2004 and 2003 were as follows:

Issued date	Maturity Date	Market Value			Issued date	Maturity date	Market Value		
		2002	2003	2004			2002	2003	2004
04/18/02	04/29/03	2.1			07/26/02	02/25/03	0.8		
04/18/02	04/29/03	5.4			07/26/02	06/27/03	0.8		
04/19/02	04/29/03	2.2			07/26/02	04/15/03	8.8		
04/22/02	01/20/03	1.3			07/26/02	04/15/03	1.8		
04/24/02	04/29/03	3.1			07/26/02	04/01/03	9.1		
04/25/02		6.2			07/26/02		1.8		



Edgar Filing: TRUSTCO BANK CORP N Y - Form DEF 14A

	04/29/03			04/01/03	
04/25/02	03/25/03	4.3		07/26/02	04/29/03 0.9
04/29/02	02/25/03	2.2		07/26/02	03/25/03 0.9
05/15/02	05/09/03	0.7		07/26/02	03/18/03 12.1
06/06/02	06/02/03	0.6		07/26/02	02/25/03 1.7
06/26/02	01/02/03	0.3		07/26/02	02/25/03 3.5
07/02/02	06/27/03	0.8		08/07/02	08/04/03 0.6
07/03/02	05/29/03	0.8		08/29/02	02/24/03 0.3
07/25/02	07/21/03	4.1		09/03/02	08/08/03 0.4
07/25/02	07/18/03	1.4		09/11/02	03/10/03 7.8
07/26/02	04/01/03	3.5		09/11/02	03/10/03 0.7
07/26/02	04/01/03	1.7		09/11/02	03/10/03 1.0
07/26/02	04/15/03	1.7		10/09/02	03/25/03 (0.1)
07/26/02	04/15/03	2.6		11/01/02	10/27/03 (0.6)
07/26/02	04/15/03	1.7		11/29/02	07/01/04 2.8
07/26/02	04/15/03	2.6		12/02/02	02/03/03 (0.2)
07/26/02	04/01/03	3.5		12/02/02	02/03/03 (0.4)
07/26/02	03/25/03	1.7		12/02/02	06/02/03 (0.9)
07/26/02	03/25/03	1.7		12/03/02	06/02/03 (0.4)

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

07/26/02	03/25/03	0.9		12/03/02	06/02/03	(0.4)	
07/26/02	02/25/03	1.7		12/12/02	06/10/03	(0.4)	
01/09/03	01/02/04	(2.6)		05/30/03	05/24/04		(2.8)
01/17/03	01/02/04	(4.5)		06/04/03	05/31/04		(0.8)
01/20/03	01/02/04	(8.1)		06/04/03	05/31/04		(0.8)
02/03/03	01/02/04	(3.3)		06/04/03	07/01/04		(1.5)
02/24/03	02/02/04	(5.3)		06/05/03	05/31/04		(1.7)
03/05/03	01/02/04	(5.2)		06/05/03	06/01/04		(1.6)
03/05/03	01/03/05	(2.7)	(8.4)	06/24/03	06/17/04		(3.1)
03/07/03	03/01/04	(19.3)		06/24/03	06/18/04		(2.1)
03/10/03	03/01/04	(19.9)		06/25/03	06/17/04		(2.3)
03/10/03	07/15/04	(2.9)		06/25/03	06/18/04		(1.4)
03/17/03	02/02/04	(26.3)		06/26/03	06/16/04		(1.7)
03/17/03	03/18/04	(4.5)		06/30/03	06/23/04		(0.3)
03/18/03	04/01/04	(2.1)		07/16/03	07/01/04		(0.5)
03/18/03	07/01/04	(1.7)		07/16/03	07/09/04		(2.7)
03/24/03	03/18/04	(5.8)		07/16/03	07/12/04		(1.0)
03/25/03	03/18/04	(4.3)		07/17/03	08/12/04		(0.7)
03/31/03	01/23/04	(5.8)		07/18/03	05/19/04		(0.9)
03/31/03	03/18/04	(3.2)		07/18/03	07/09/04		(0.6)
03/31/03	04/01/04	(8.3)		08/01/03	05/19/04		(1.2)
03/31/03	07/15/04	(4.9)		08/01/03	09/16/04		(0.8)
04/14/03	07/01/04	(1.7)		08/01/03	11/10/04		(0.7)
04/15/03	07/01/04	(1.6)		08/07/03	04/01/04		(0.4)
04/25/03	07/01/04	(1.7)		08/12/03	08/04/04		(0.9)
04/25/03	08/12/04	(0.9)		08/12/03	08/05/04		(1.0)
04/30/03	10/13/04	(0.5)		08/12/03	08/06/04		(2.1)
05/13/03	05/10/04	(1.2)		08/12/03	08/09/04		(1.2)
05/13/03	12/15/04	(0.2)		08/14/03	04/01/04		(1.6)
05/14/03	05/03/04	(3.4)		08/14/03	01/12/05		(1.2) (5.3)
05/15/03	05/03/04	(3.5)		10/31/03	10/25/04		(0.1)
05/29/03	04/01/04	(5.4)		11/28/03	07/01/04		(0.7)
				11/28/03	10/01/04		(0.2)
<b>Total</b>						<u>111.2</u>	<u>(199.4)</u> <u>(13.7)</u>

**b) Non Deliverable Forwards (NDF)**

On December 31, 2004, the Company also had local NDFs (non-deliverable forwards) registered at CETIP (a local clearing house) with a market value of US\$3.6 (loss). These contracts will mature on February 1, 2005 and have an aggregated notional of US\$150. The average forward exchange rate for these contracts is R\$2.7523 to US\$1.

**c) Foreign Exchange Future Contracts**

As of December 31, 2004, the Company had a long position of 20,015 contracts under U.S. dollar futures listed on BM&F (Bolsa de Mercadorias e Futuros - the Brazilian

derivatives exchange): this is equivalent to US\$1,003. The market value of these contracts amounts to US\$9.6 (loss) as of December 31, 2004: as the value date always occurs on the following day, the value of the contract is reset to zero after the market closes and there is a cash provision to be settled on the next day.

FS - 46

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

**d) Equity swap agreements**

The contracts outstanding at December 31, 2003 and 2004 were as follows:

Issued date	Maturity date	Volume	Receivable		Payable		Market value	
			2003	2004	2003	2004	2003	2004
04/07/2003	07/28/2006	35.8	96.5	137.7	(38.9)	(44.1)	57.6	93.6
04/09/2003	07/28/2006	5.6	15.0	21.4	(6.1)	(6.9)	8.9	14.5
04/10/2003	07/28/2006	2.0	5.4	7.7	(2.1)	(2.4)	3.3	5.3
04/11/2003	07/28/2006	1.0	2.8	4.0	(1.1)	(1.3)	1.7	2.7
04/28/2003	07/28/2006	1.1	2.7	3.8	(1.2)	(1.3)	1.5	2.5
04/30/2003	07/28/2006	0.1	0.2	0.3	(0.1)	(0.1)	0.1	0.2
05/14/2003	07/28/2006	0.2	0.5	0.7	(0.2)	(0.2)	0.3	0.5
05/15/2003	07/28/2006	0.4	1.1	1.6	(0.5)	(0.5)	0.6	1.1
05/19/2003	07/28/2006	1.0	2.8	4.1	(1.1)	(1.3)	1.7	2.8
05/20/2003	07/28/2006	0.3	0.7	1.0	(0.3)	(0.3)	0.4	0.7
05/21/2003	07/28/2006	0.4	1.2	1.7	(0.4)	(0.5)	0.8	1.2
05/22/2003	07/28/2006	0.3	1.0	1.4	(0.3)	(0.4)	0.7	1.0
05/28/2003	07/28/2006	0.4	1.2	1.7	(0.5)	(0.5)	0.7	1.2
05/29/2003	07/28/2006	0.4	1.2	1.7	(0.4)	(0.5)	0.8	1.2
06/05/2003	07/28/2006	0.1	0.3	0.4	(0.1)	(0.1)	0.2	0.3
<b>Total</b>		<b>49.1</b>	<b>132.6</b>	<b>189.2</b>	<b>(53.3)</b>	<b>(60.4)</b>	<b>79.3</b>	<b>128.8</b>

The net unrealized gain related to these contracts amounted to US\$128.8 as of December 31, 2004 (US\$79.3 in 2003).

**23 Fair value of financial instruments, other than derivatives**

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

The financial instruments recorded in the parent Company's balance sheet as of December 31, 2003 and 2004, in which market value differs from the book value, are as follows:

	Book Value		Fair Value	
	2003	2004	2003	2004

Loans and financing (short and long term)	2,803	2,844	2,861	2,773
---	-------	-------	-------	-------

The amounts presented as market value were calculated according to the conditions that were used in local and foreign markets on December 31, 2004, for financial transactions with identical features, such as: volume and term of the transaction and maturity dates. Mathematical methods are used presuming there is no arbitrage between the markets and the financial assets. Finally, all the transactions carried out in non-organized markets (over-the-counter market) are contracted with financial institutions previously approved by the Company's Board of Directors.

FS - 47

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

**(a) Exchange Rate Risk**

Although most of the revenues of the Company are in Brazilian *reais*, as of December 31, 2004, US\$2,362 of the Company's consolidated loan and financing debt were denominated in foreign currency (US\$2,087 in 2003). As a consequence, the Company is subject to changes in exchange rates and manages the risk of these rate fluctuations to the value in Brazilian *reais* that will be necessary to pay the liabilities in foreign currency, using derivative financial instruments, mainly futures contracts, swaps and forward contracts and FX option agreement, as well as investing of a great part of its cash and funds available in securities remunerated based on U.S. dollar exchange variation.

**(b) Credit Risk**

The credit risk exposure with financial instruments is managed through the restriction of counterparties in derivative instruments to large financial institutions with high quality of credit. Thus, management believes that the risk of non-compliance by the counterparties is insignificant. The Company neither maintains nor issues financial instruments with commercial aims. The selection of clients as well as the diversification of its accounts receivable and the control on sales financing terms by business segment are procedures that CSN adopts to minimize occasional problems with its trade partners. Since part of the Company's funds available is invested in the Brazilian government bonds, there is exposure to the credit risk with the government.

**24 Subsequent events**

**(a) Offering**

On January 21, 2005, the Company's subsidiary Islands IX, issued US\$ 200 in notes. These notes mature in 2015, and pays an interest at a rate of 10% per annum. The funds obtained in this issuance were used for working capital, hence increasing the Company's liquidity.

**(b) CSN and CVRD Agreement Sales of Iron Ore**

On March 21, 2005, the Company and CVRD executed a purchase and sale agreement regarding a total of 54,700 thousand tons of iron ore, produced in Casa de Pedra mine with Asia as its final destination.

This agreement is the first long term sale of iron ore due to the expansion of Casa de Pedra mine and it marks the beginning of the sales of iron ore in large scale. The commercial conditions of the agreement closed with CVRD are subject to the international market.

**(c) BNDES Participações S.A. BNDESPAR**

In April 2005, BNDESPAR increased its stake in CSN to 18,085,295 shares (equivalent to 6.30% of total capital stock as of this date), as a result of the exchange of the debentures of Vicunha Siderurgia S.A. for shares which were owned by Vicunha Siderurgia S.A., according to the terms and conditions of the deed of debentures of Vicunha Siderurgia S.A. After such transaction, Vicunha Siderurgia stake of the company decreased from 46.48% to 40.53% .

**(d) ERSA Estanho de Rondônia S.A - ERSA**

On April 7, 2005, the Company executed a share purchase and sale agreement between Companhia Estanho de Rondônia (ERSA) and BRASCAN Brasil Ltda. for the acquisition of all ERSA s shares.

FS - 48

---

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

The amount of the acquisition was US\$38 of which US\$29 was paid upon the transfer of ERSA's shares to CSN and the amount of US\$9 will be paid at the end of 2005, upon the occurrence of certain events.

This transaction is being accounted for using the purchase method in accordance with SFAS141, with the purchase price being allocated to the assets acquired and liabilities assumed based on the respective fair value. Such allocation will be completed during 2005.

**(e) Share Buyback**

On December 21, 2004, CSN's Board of Directors approved a new purchase of up to 5,000,000 common shares of the Company, to be held in treasury for subsequent sale and/or cancellation, in conformity with Article 3 of CVM Instruction # 10/80, through trading at the São Paulo Stock Exchange (BOVESPA), for 180 days starting on December 22, 2004. In March 2005, the Company bought 950,000 shares at an average price of US\$23.94 per share.

**(f) Payment of dividends and interests on stockholders' equity (Amounts translated into US\$ at the current exchange rate at December 31, 2004).**

In April 2005, the Company, at its annual stockholders' meeting, declared a dividend of R\$2,029 million (US\$764). This dividend and the amount of R\$239 million (US\$90) of interest on stockholders' equity accrued as of December 31, 2004 will be paid on June 14, 2005, resulting in an aggregate payment of US\$896 or US\$3.2 per share.

**25 Restatement of previously issued financial statements**

Subsequent to the issuance of the Company's consolidated financial statements for the year ended December 31, 2004, the Company discovered that an inadvertent error was made in the translation process of the financial statements of the Company's off-shore finance subsidiaries from Brazilian reais into US dollars. The error resulted in the misclassification of the foreign currency exchange effects related to the translation of these subsidiaries in accumulated other comprehensive loss in stockholders' equity instead of consolidated results of operations. This error had no impact on total stockholders' equity or cash flows as of and for the years ended December 31, 2004, 2003 and 2002 and all other years not presented herein.

Set forth below is a comparison of the previously reported and restated statements of income for the years ended December 31, 2004, 2003 and 2002 and the previously reported and restated amounts of accumulated other comprehensive loss and retained earnings at December 31, 2004, 2003 and 2002.

	As of and for the year ended December 31,					
	2004		2003		2002	
		Restated				Restated



	Previously reported		Previously reported	Restated	Previously reported	
Foreign exchange and monetary gain (loss), net	249	153	426	325	(1,087)	(891)
Net income (loss)	855	759	534	433	(162)	34
Basic and diluted earnings (loss) per common share	3.02	2.68	1.86	1.51	(0.56)	0.12
Translation adjustment for the year		166		125		(130)
Accumulated other comprehensive loss	(1,818)	(1,860)	(1,888)	(2,026)	(1,912)	(2,151)
Retained earnings	797	839	195	333	(81)	158

FS - 49

**Companhia Siderúrgica Nacional**

Notes to the Consolidated Financial Statements

Expressed in millions of United States dollars, unless otherwise stated

---

The effects of the restatement on the opening balances of retained earnings and accumulated other comprehensive loss at January 01, 2002 were as follows:

	Previously reported	Restated
Accumulated other comprehensive loss	(1,978)	(2,021)
Retained earnings	224	267

\* \* \* \*

FS - 50

---