



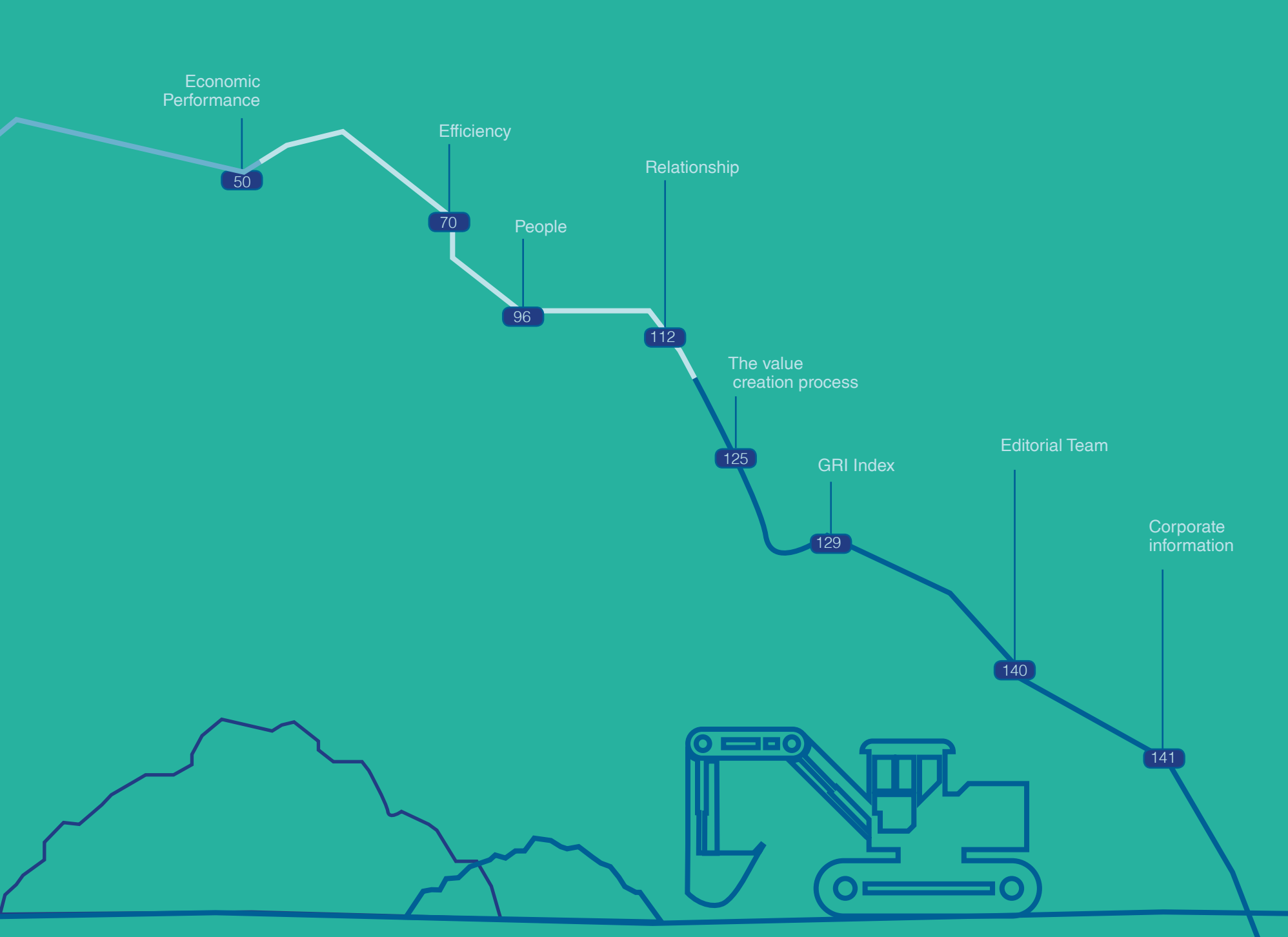
Companhia Siderúrgica Nacional

# Integrated Report

2016 and 2017

# Sum mary







**Benjamin Steinbruch**  
CEO

# Message from the CEO

GRI 102-14

In 2016, Brazil was faced with a severe economic and political crisis which, together with an unfavorable scenario in the foreign market, especially for steel, required great resilience from CSN. In 2017, the country showed its first signs of economic recovery. The figures are still timid but indicate a slow recovery in consumption and production ratios. At the same time, the foreign market remained unfavorable, particularly for steel. Against this challenging backdrop, our motto was “We shall overcome.” We are celebrating our 76th anniversary in 2017, being fully conscious of our responsibility as the first integrated steel company in Brazil and our contribution to the country’s manufacturing industry and development. We are currently one of the most efficient steel-making facilities in the world, operating in an integrated manner across the steel production chain and concentrating our activities on five complementary segments.

In the steel making area, we continued to diversify our actions and seek new markets. Accordingly, of the 4.9 million tons traded in 2016, 43% were intended for the foreign market, whether through direct exports or through sales by our subsidiaries abroad. In 2017, we produced 4.4 million tons of steel and sold 4.9 million tons. The domestic market consumed 58%, while sales on the foreign market accounted for 42%, maintaining the market diversification strategy adopted over the past years. These figures show CSN’s ability to remain competitive and rank among the companies with the lowest production costs in the world, even in the face of a domestic market that still shows signs of retraction and a foreign market characterized by high supply of steel and protectionist measures.

The efficiency and synergy in the Mining and Logistics areas enabled the company to achieve the expected results. We sold 33 million tons of iron ore in 2017, against 32.2 million tons in 2016, or a 15% increase when compared to the previous year.

In the Cement business, despite the downturn in the civil construction market, CSN continued to expand its markets and reached production capacity of 4.7 million tons per year at its plants in the states of Minas Gerais (Arcos) and Rio de Janeiro (Volta Redonda). In 2017, 3,311 thousand tons of cement were sold, an increase of 18% compared to the previous year. In 2016, 2,814 thousand tons of cement were sold, up by 29% compared to the amount reported for the previous year.

We addressed these challenges with optimism and confidence in the resumption of the country's economy and strengths. With this mindset, we stood up to this adverse scenario by working on cost reductions and leveraging our business strengths to the maximum, and as a result, our adjusted EBITDA totaled R\$4.645 billion in 2017, an increase of 14% compared to the previous year. In 2017, took advantage of opportunities on the foreign market, increasing our sales of steel abroad, as well as achieving a 21% increase in our exports in comparison to 2016.

During periods of lower demand in the domestic market, we rescheduled some equipment maintenance activities and implemented improvements to production process. These actions will bring about benefits and opportunities at the time of economic recovery, and we will be therefore ready for solid growth, with productivity and efficiency. In the two-year period, we performed maintenance on Blast Furnace 2 at the Presidente Vargas Steelworks (UPV) in Rio de Janeiro and expanded the Arcos Unit, in Minas Gerais, which is responsible for the production of clinker and cement. These investments totaled R\$1.065 billion in 2017, a decrease of 35% in relation to 2016, due to the completion of the investments in Arcos operation. We invested in steel making, in initiatives focusing on the environment, improvement projects and technology upgrade, as well as in mining.

In line with our business strategy, in 2016 we sold 100% of our interest in Metalic, a beverage can manufacturer in Maracanaú, state of Ceará. This transaction, totaling R\$372.5 million, has contributed to our financial deleveraging and was a key step in our relationship with financial institutions, given that as a result we will be able to renegotiate debt maturities and improve our repayment profile.

In the environmental area, we strengthened our management structure, expanding our dialogue with society, environmental agencies and other public bodies, always in compliance with the environmental legislation.

We also invested in a number of social initiatives through CSN Foundation. We believe that education is the foundation for the development of the country, and, therefore, all social actions, which cover the areas of culture, education, sports and environment, are based on education.



In 2016 and 2017, we intensified compliance training. CSN's efforts to ensure integrated practices have earned the Company the Pró-Ética (or "Pro-Ethics") seal

None of those achievements would have been possible without our highly dedicated and qualified staff. We place great value on the development of career plans, invest in internships and qualification programs both to attract new talents and to retain our professionals and keep them up to date. We provide training courses with a focus on health and safety to ensure proactive behavior, compliance with the legislation, and prevention of occupational injuries and diseases. Corroborating our concern about these matters, we introduced a unified Corporate Policy on Health and Safety, to mitigate and control risks and prevent occupational injuries and personal health.

In 2016 and 2017, we also intensified compliance training after the implementation of the Corporate Compliance Program, which aims to ensure that our practices comply with the main anti-corruption laws in Brazil and in the United States, the countries where our shares are listed (B3 and NYSE, respectively). In 2016, as a result of our efforts to ensure upright practices, we were awarded the Pro-Ethics seal by Brazil's Ministry of Transparency, Oversight and Control.

It is still early to say that Brazil has completely overcome the economic and political crisis. However, the outlook for the future is much better than in the previous year, providing us with even more stimulus to remain resilient and determined to contribute to the country's recovery process. A proof of our concern about efficiency is the publication of our first integrated report, ensuring transparency and demonstrating the interconnection of the factors that contribute to our ability to create value so that we may continue DOING IT WELL, DOING MORE, DOING IT FOREVER.

**Benjamin Steinbruch**  
CSN CEO



# CSN:

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GRI 102-5, 102-7

# 76 years of history



Companhia Siderúrgica Nacional is one of the most efficient integrated steel-making facilities in the world and a leader in the Brazilian steel industry. With mastery over the entire steel production chain, the company operates in the areas of steel-making, mining, logistics, cement and energy.

CSN was founded as a government-owned steel company in 1941, and became the first integrated steelmaker in Brazil, thus contributing to the country's infrastructure and development. In 1993, the Brazilian government sold 91% of its capital stock to the private sector. The company then went public and its shares are currently listed on the São Paulo Stock Exchange (B3) under ticker CSNA3, and on the New York Stock Exchange (NYSE) under ticker SID.

The Company's 75th anniversary was celebrated in all units on April 8, 2016, the International Steel Day, and featured performances by an orchestra comprised of children attending the Boy Citizen (Garoto Cidadão) program, an initiative of the CSN Foundation, in addition to a special lunch and a speech by CEO Benjamin Steinbruch.

Throughout its history, the Company consolidated its position by establishing gains through an integrated system, bringing benefits to all stakeholders of the value creation chain. With presence in 18 Brazilian states, CSN engages in mining extraction, manufacturing and trading of a wide range of steel products, including long and flat steel and metal sheets, as well as the provision of logistics services and in the generation and trading of electricity. As a result of its production process combined with high-quality management, CSN is among steel companies with the lowest production costs in the world.



INSTALLED CAPACITY OF 5.9 MILLION TONS OF CRUDE STEEL PER YEAR

INSTALLED CAPACITY OF 500 THOUSAND TONS OF LONG STEEL PER YEAR

INSTALLED CAPACITY OF 4.7 MILLION TONS OF CEMENT PER YEAR

CERTIFIED IRON ORE RESERVE IN THE CASA DE PEDRA MINE OF 2.7 BILLION TONS

CERTIFIED IRON ORE RESERVE IN THE ENGENHO MINE OF 317 MILLION TONS

# ESSENCE

GRI 102-16

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## ESSENCE, MISSION, VISION AND VALUES

### **Doing it well**

We are a benchmark in what we do and constantly seek operational excellence. We operate with passion, act like owners of our business and achieve consistent results, ensuring security, quality and customer satisfaction.

### **Doing more**

We do more with less by being innovative and committed. We constantly seek to optimize results and processes to enable continuous and responsible growth.

### **Doing it forever**

Our learning is constant so that we can always act and aim towards building a sustainable future. This is our success.



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## MISSION

To act in integrated and innovative fashion, generating perpetual and sustainable development.

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## VISION

To be the most respected and globally renowned national group, so as to strengthen what it means to be Brazilian.

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## VALUES

- Our path is one of respect for life, ethics and the planet.
- Our focus is on operational excellence;
- Our solutions are innovative and integrated;
- Our strength comes from people who make a difference;
- Our pride is TO BE CSN.

## ABILITY TO CREATE VALUE

CSN adjusted to the globalized market of the 21<sup>st</sup> century and became one of the most efficient steel companies in the world. Learn more about our manufacturing facilities on the following pages.

### Net revenue



### Adjusted EBITDA



### Net result from continuing operations





# High lights

## Sales of steel (thousand tons)

Domestic market

Subsidiaries abroad

Exports

## Sales of iron ore (thousand tons)

Domestic market

Foreign market

## Consolidated results (R\$ millions)

Net revenue

Gross profit

Adjusted EBITDA<sup>1</sup>

Adjusted net debt<sup>2</sup>

Adjusted cash/cash equivalents<sup>2</sup>

Net debt/adjusted EBITDA

<sup>1</sup>Adjusted EBITDA is calculated based on net income/loss, plus depreciation and amortization, income taxes, net financial result, share of income (loss) of investees, and other operating revenues (expenses), and includes the proportionate share of EBITDA of the jointly-owned subsidiaries MRS Logística and CBSI. Adjusted EBITDA includes interests of 60% in Namisa, 33.27% in MRS, and 50% in CBSI up to November 2015, and of 100% in Congonhas Minérios, 37.27% in MRS and 50% in CBSI as from December 2015.

2016	2017	2017 x 2016
4,858	4,922	1%
2,784	2,841	2%
1,815	1,768	(3%)
258	313	21%
36,983	32,576	(12%)
4,120	5,211	26%
32,863	27,365	(17%)
17,149	18,525	8%
4,509	4,928	9%
4,075	4,645	14%
25,831	26,268	2%
5,762	4,328	(25%)
6.32x	5.66x	-0.66x

<sup>2</sup>Adjusted Net Debt and Adjusted Cash consider interests of 33.27% in MRS, 60% in Namisa and 50% in CBSI up to November 2015. As of December 2015, these lines include interests of 100% in Congonhas Minérios, 37.27% in MRS and 50% in CBSI, and exclude forfaiting and drawee risk transactions.

# 2016

## Employees



## Total environmental expenses

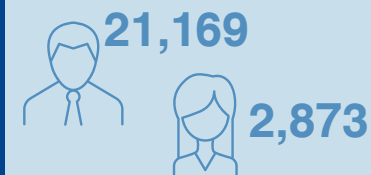


## Total personnel expenses



# 2017

## Employees



## Total environmental expenses\*



## Total personnel expenses



\*The decrease is explained by the current economic scenario and compliance with certain agreements.

# Presentation



This report presents CSN's activities in the 2016/2017 period, through the Integrated Report framework, as established by the International Integrated Reporting Council (IIRC). On the following pages, we will address our financial, human, intellectual, social and relationship, manufactured and natural capital, under the IIRC framework.

At the beginning of each chapter, topic 1 will describe the so-called inputs that CSN needs to create value (inputs, resources). The core of the organization is its business model, which uses various types of capital as inputs, and, through its corporate activities, converts them into products (products, services, sub-products and waste), i.e., this is what generates value for the company.

Subsequently, the actions carried out by CSN to generate value over the short, medium and long term are described. At the beginning of each chapter, topic 3 will address the outputs, i.e., all that goes beyond the main products and services of an organization, encompassing, for example, sub-products and waste (including emissions). Finally, topic 4 will address the values generated and the results achieved.

Adhesion to the Integrated Report model aims to inform the stakeholders of how CSN generates value by integrating the different types of capital.



# Organi zational Profile

## MANUFACTURED CAPITAL

The existing manufacturing facilities and infrastructure enable the performance of the Company's activities, and, consequently, the operation of its assets with security, independence, operational efficiency and responsibility, in line with the purpose of making the existing assets more productive and profitable. A solid infrastructure requires attention to commitments related to legislation, employee's health and safety and the surrounding environment.

## 1. What CSN needs to create value (inputs, resources)

- Complex pool of industrial infrastructure and equipment;
- Raw materials and inputs;
- Control/automation system/advanced software;
- Own infrastructure (ports, mines, plants, hydroelectric power plants);
- Logistics (different transportation modals to meet the plants' supply needs and access markets with speed and competitiveness/distribution networks).

## 2. What CSN does to create value (activities/products/services/processes)

- Transformation of resources into products;
- Development of processes, products and new technical alternatives for inputs.





### 3. Outputs

- CO<sub>2</sub> generation inherent to the process;
- Increase of quality and competitiveness in interconnected sectors;
- Operation and maintenance of distribution grids;
- Waste generation (2.9 million tons);
- Reuse of approximately 70% of the steel aggregates (Blast Furnace Slag) derived from the cement production.

### 4. Value created (Result)

- Supply of manufactured goods to various industries;
- Flat and long steel products, steel packaging, iron ore, cement, logistics services and energy generation;
- Optimized management, analysis and prevention of risks, environmental management.



# OPERATIONS

GRI 102-4, 102-7



**Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas**  
Transnordestina Logística Railway

## **Minas Gerais**

### **Arcos**

CSN Arcos

### **Congonhas**

CSN Mineração: Casa de Pedra mines and Pires processing complex

### **Igarapava**

Hydroelectric power plant

### **Uberlândia**

Prada Embalagens

## **Rio de Janeiro**

### **Itaguaí**

Solid Bulk Terminal (Tecar)  
Container Terminal (Tecon)

### **Porto Real**

CSN Porto Real

### **Resende**

Prada Embalagens

### **Volta Redonda**

Presidente Vargas Steelworks (UPV)  
Thermal power plant  
CSN Cimentos

CSN also has three subsidiaries abroad and a recovery area in Santa Catarina, which have not been included in this report:

- CSN LLC (United States)\*

Specialized in cold rolling and galvanizing processes

- Lusosider (Portugal)

Manufacturer of coated flat steel

- SWT (Germany)

Steelmaker with an installed capacity of a million tons of flat steel per year

- Criciúma (state of Santa Catarina)

Recovery area located in a former coal unit

\*On July 29, 2018, CSN concluded the sale of its total equity interest in Siderúrgica Nacional, LLC, a company based in the United States, to Steel Dynamics, Inc.

## VALUE CHAIN

GRI 102-2, 103-1, 103-2, 103-3 – Value chain management

### Mining

Iron ore is extracted from the Casa de Pedra, Engenho and Pires mines, in the state of Minas Gerais; limestone and dolomite from the Arcos Units, in the state of Minas Gerais; and tin from the ERSA Mine, in the state of Rondônia. Part of these raw materials are allocated to the Presidente Vargas Steelworks (UPV), in the state of Rio de Janeiro, for the production of steel. Limestone and dolomite are used to produce cement at the Volta Redonda and Arcos plants, in the state of Minas Gerais.

### Steel-making

UPV concentrates steel-making activities, and is one of the largest integrated steel plants in Latin America, with installed capacity of 5,9 million tons per year. CSN, one of the largest steel suppliers in the Americas and the only producer of tinplates, manufactures and sells steel to be used in the production of packaging materials for a number of segments. Its synergy with the mining and logistics areas offers competitive advantages which, together with efficiency in production, guarantees one of the lowest costs per plate in Brazil

### Processing

The flat steel coils manufactured by UPV are processed locally and shipped to other plants, where changes are made to their size, color, thickness and finishing, such as in the galvanizing process, according to each customer's needs. The Porto Real plant (Rio de Janeiro) is a national benchmark in the production of steel for the automotive industry, with a specialized galvanizing line and a Cutting Services Center. This plant has a strategic location to serve the automotive industry with great speed. CSN Paraná (Paraná), on the other hand, offers products intended for the white line segment, providing pre-painted materials and producing the Galvalume® steel, which is used in outdoor construction due to its high resistance to corrosion.





The steel for packaging is cut at the Resende Plant (Rio de Janeiro) owned by the subsidiary Prada Embalagens, increasing business agility due to its proximity to the city of Volta Redonda (Rio de Janeiro). In addition, blast furnace slag, a sub-product of steel-making processes, is reused to manufacture cement.

### Processing and distribution

Prada Distribuição engages in the processing and distribution of long and flat steel products, and its output is handled at three service centers located in the cities of Mogi das Cruzes (São Paulo), Camaçari (Bahia) and Jaboatão dos Guararapes (Pernambuco). These centers are at a strategic location to meet the supply needs of CSN's nine distribution centers: Araucária (Paraná), Bebedouro (São Paulo), Canoas (Rio Grande do Sul), Contagem (Minas Gerais), Juiz de Fora (Minas Gerais), Mauá (São Paulo), Piracicaba (São Paulo), Uberlândia (Minas Gerais) and Volta Redonda (Rio de Janeiro).

### Logistics

Iron ore is transported by railway to UPV and to Tecar, at the Itaguaí Port (Rio de Janeiro), from where steel is exported. The trains also transport inputs to the steel units, which may be produced by CSN or imported. In addition, Tecar and Tecon (Rio de Janeiro) contribute to the provision of port services. In turn, Transnordestina Railway, which is currently under construction, will be a major logistics solution for Brazil, connecting 89 cities in the northeast, in addition to interconnecting the ports of Pecém (Ceará) and Suape (Pernambuco). CSN is also responsible for the Transnordestina Logística Railway (FTL), which travels through 39 municipalities along 4,534 kilometers.

### Cement

CSN owns a cement plant in Volta Redonda (Rio de Janeiro), which uses blast furnace slag (a co-product of steel production) and clinker from the Arcos plant (Minas Gerais) as its main production inputs. Part of the slag is also shipped to Arcos

to be used in the production of cement, contributing to the efficiency of the circular economy model adopted by CSN. Therefore, the slag is used to make cement, generating synergy between the activities.

In 2016, CSN Arcos achieved industrial scale by starting the production of clinker, an essential raw material in cement production. This unit also accounts for the mining of calcitic and dolomitic limestone to support the production of metallurgical lime at UPV and of fluxes to fuel the blast furnaces.

## Energy

Energy generation projects have been in place at CSN since 1999. The company's interests in two hydroelectric power plants (Itá, in the state of Santa Catarina, and Igarapava, in the state of Minas Gerais) and the thermal plant in Volta Redonda, in the state of Rio de Janeiro, which is powered with gases from the steel-making processes, aim to secure part of its annual consumption, driving all other businesses.

## Co-products

CSN manages and creates new value for its co-products, contributing to the generation of cash and the development of the circular economy. Over 90% of the waste generated is recycled, fostering sustainable development. Among the main co-products generated are blast furnace slag and the products derived from carbochemical processes. The metal scrap generated at CSN's units is sent to UPV to be recycled in its steel-making process. During such process, for every ton of steel produced, approximately 140 kilos of by-products are generated. The highlights are the reuse of metals in steel-making processes, the processing of steel slag, and the use of 100% of blast furnace slag in the production of cement.

CSN's assets, businesses and operations are detailed below.

## Steel-making



### PRESIDENTE VARGAS STEELWORKS (UPV)

Capacity: 5.9 million tons of crude steel/ 500 thousand tons of long steel per year

#### Raw steel production (tons):

- 2017 – 4.4 million
- 2016 – 3.0 million
- 2015 – 4.3 million

#### Flat steel production (tons):

- 2017 – 3.7 million
- 2016 – 3.2 million
- 2015 – 4.0 million

#### Long steel production:

- 2017 – 204 thousand tons
- 2016 – 233 thousand tons
- 2015 – 131 thousand tons



UPV (Rio de Janeiro), which is CSN's main steel-making unit, is supplied with mineral ore, such as iron, tin, calcific and dolomitic lime, which are raw materials derived from mining activities at company-owned units, thus helping to ensure the offer of top-quality products.

UPV is one of the largest steelworks in Latin America and houses three of the five galvanizing units of the company (the others are located in Porto Real, state of Rio de Janeiro, and Araucária, state of Paraná). It also features a long steel plant, which increases synergy in production. Blast furnace slag, a co-product of steel-making, is reused in the production of cement.

#### CSN PORTO REAL

Capacity: Processing of 354 thousand tons per year (hot galvanizing, cutting services and a laser welding center), dedicated basically to the automotive industry.

Production (tons of steel):

- 2017 – 293 thousand
- 2016 – 329 thousand
- 2015 – 293 thousand

The Porto Real Unit (Rio de Janeiro) features a hot-dip galvanizing line, cutting services and a modern laser welding center, where steel plates are produced for the manufacture of car doors, roofs, hoods and bumpers, in addition to transmission line towers, dumpsters, machine parts, refrigerator and freezer doors etc. The unit has

a strategic location within an industrial park that houses the major manufacturers in the segment. This distinguishing trait, combined with the continuous search for modernization and a full-stack service center, has enabled CSN Porto Real to specialize in the supply of galvanized products to the automotive industry.

Another competitive advantage of this unit is that it features a Cutting Services Center where semi-finished parts are sold to the manufacturers' stamping plants, allowing customers to save time and reduce operational costs, as they purchase the items practically ready for assembly.

#### CSN PARANÁ

Capacity: Processing of 830 thousand tons of steel per year (galvanizing, Galvalume®, flat steel, pickled steel, pre-painted steel and plate cutting), serving mainly the white line and civil construction segments.

Production (tons of steel):

- 2017 – 616 thousand
- 2016 – 491 thousand
- 2015 – 509 thousand

CSN Paraná, which is located in the city of Araucária, in the metropolitan region of Curitiba, state of Paraná, manufactures and provides customers with a wide variety of products ranging from commercial and structural steel, cold-rolled steel, and hot-dip zinc-coated steel. Most of the production is intended for the white line segment

(refrigerators, stoves, washers and cooling devices), steel furniture and OEMs (re-rolling mills, gas cylinders, steel barrels for chemicals, juice and agribusiness applications). The highlight is the the Galvalume® steel, which is used mainly in outdoor construction due to its high resistance to corrosion.

### PRADA DISTRIBUIÇÃO

Capacity: 730 thousand tons of steel

Sales (tons of steel):

- 2017 – 176 thousand
- 2016 – 279 thousand
- 2015 – 311 thousand

Prada Distribuição engages in the processing and distribution of flat and long steel and has a diversified line of products, including blanks, coils, plates, metal sheets, UDC shapes and hot-rolled bars, structural shapes, reels, tiles, strips, steel pipes and steel decks. It also specializes in the provision of steel processing services, meeting the needs of companies all over Brazil.

Its production is distributed across three Service Centers located in Mogi das Cruzes (São Paulo), Camaçari (Bahia) and Jaboatão dos Guararapes (Pernambuco). These centers, which are strategically located, supply the nine Distribution Centers located in Araucária (Paraná), Bebedouro (São Paulo), Canoas (Rio Grande do Sul), Contagem (Minas Gerais), Juiz de Fora (Minas Gerais), Mauá (São Paulo), Piracicaba (São Paulo), Uberlândia (Minas Gerais) and Volta Redonda (Rio de Janeiro).

## Packaging

CSN has three manufacturers of steel packaging:



### PRADA EMBALAGENS

Capacity: 100 thousand tons of steel

Production:

- 2017 – 410 million units
- 2016 – 550 million units
- 2015 – 510 million units

Through Prada Embalagens (which is the result of the merger between Prada Embalagens and Rimet in 2015), CSN continues to serve the food and chemical industries. In order to derive even more synergy and improve the business, the project for restructuring the subsidiary's operations continued during the year, with the service center concentrating in Resende (Rio de Janeiro), to generate a major efficiency gain, due to its proximity to UPV.

Prada Embalagens maintained its leading position as a supplier for the food industry, being the only Brazilian company with capacity to serve the food segment for newborns and children aged three years or less, offering opportunities and growth prospects.

Prada Embalagens features the largest industrial park in Latin America dedicated to the production of steel packaging and lithography services. The plant located in the city of São Paulo, state of São Paulo, serves the food and paint industries, whereas the plant located in Resende, state of Rio de Janeiro, is responsible for the cutting and finishing of packaging materials. The activities are distributed across three branches in the cities of Lins (São Paulo), Luziânia (Goiás) and Pelotas (Rio Grande do Sul). Prada Embalagens produces and sells packaging materials and provides lithography, varnishing and assembly services.

In 2016, CSN sold 100% of its interest in the can manufacturer Cia. Metalic Nordeste in Maracanaú, state of Ceará. This transaction was settled in November 2016, for R\$372.5 million, after an analysis of the market and the financial advisory from Bradesco BBI and BB Banco de Investimento, and contributed to the Company's deleveraging. In line with its business strategy, CSN will no longer manufacture steel cans for the beverage industry.

## Mining



### CSN MINERAÇÃO

(Congonhas, Ouro Preto, Rio Acima, Itabirito and Nova Lima, Minas Gerais)

Capacity: Processing of 34 million tons of ore per year.

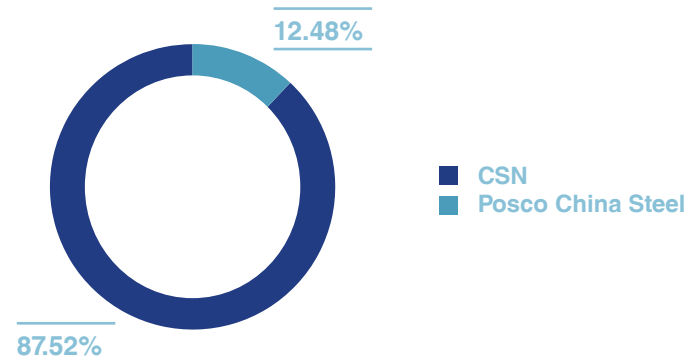
Production

- 2017 – 33.5 million tons
- 2016 – 35.6 million tons
- 2015 – 32.5 million tons

These figures reflect the volume produced and purchases of ore processed by third parties.

On November 30, 2015, a strategic alliance was established between the Company and a consortium comprising the companies ITOCHU Corporation, JFE Steel Corporation, POSCO, Ltd., Kobe Steel, Ltd., Nisshin Steel Co, Ltd. and China Steel Corp. ("Asian Consortium"), and announced in December 2014. The consortium is the result of a combination into a new company, Congonhas Minérios S.A., currently CSN Mineração S.A., of the iron ore and related logistics services of the Company and of Nacional Minérios S.A., which involve the Casa de Pedra, Engenho and Pires mines and their respective assets, the rights to operate the Tecar port terminal located in Itaguaí ("TECAR"), and 18.63% of the shares of MRS Logística S.A. ("MRS").

## Shareholding structure of CSN Mineração



After the alliance was established, CSN Mineração maintained a plan for reduction of operating expenses so as to face a scenario of lower iron ore prices. The adjustment of its operating model, together with the combination of the mining and logistics assets of CSN and Namisa (currently Minérios Nacional), enabled greater synergy. In addition, at the end of 2016, CSN acquired 50% of the joint venture CGPAR Construção Pesada S.A., engaged in earthmoving, dam and mining operations, and became its sole parent company.

**ERSA**

Installed production capacity: 3.2 thousand tons of tin per year

The tin used by the Presidente Vargas Steelworks (Rio de Janeiro) comes from the company's mining unit and foundry, ERSA, located in Ariqueemes and Itapuã do Oeste (Rondônia). In 2017, 375 tons of tin were transferred to the Presidente Vargas Steelworks, while, in 2016 and 2015, 190 and 251 tons were transferred, respectively. The unit currently extracts approximately 1.2 thousand tons of cassiterite and 3 thousand tons of tin from the foundry, per year..

- 2016
  - 140 thousand containers
  - 804 thousand tons of steel products
  - 14 tons of general cargo
- 2015
  - 152 thousand containers
  - 926 thousand tons of steel products
  - 206 tons of general cargo

**Logistics****TECON**

Capacity: 610 thousand TEUs (Twenty-Foot Equivalent Unit) or 440 thousand containers

Volume handled:

- 2017
  - 188 thousand containers
  - 989 thousand tons of steel products
  - 9 thousand tons of general cargo

Tecon, a container and general cargo terminal, managed by one of the Company's subsidiaries, Sepetiba Tecon S.A., is a hub port positioned as the largest container terminal in the state of Rio de Janeiro and one of the largest ports in Brazil in its segment. The terminal is set at a strategic location, 80 kilometers away from Rio de Janeiro and 400 kilometers away from São Paulo, i.e., between the two major consumer markets in Brazil. It operates under the one-stop shop concept, where everything can be solved locally. Local bases for Customs, for the Ministry of Agriculture, Livestock Farming, Supply and for the Ministry of Health, as well as a branch of Banco do Brasil enable quick customs clearance procedures with seven daily parameterizations, two for imports and five for exports.

Other distinguishing traits of the terminal are its vast storage area and specialized equipment, which enable the provision of container storage, handling and loading/unloading services for any type of product, and the possibility of developing dedicated operations for anchor customers. In addition, the 19.5-meter deep access channel and 14.5-meter deep berths enable the port to serve vessels with a capacity of up to 8 thousand TEUs.

The increased volume of containers handled results primarily from the beginning of new connection services with Asia, in February 2017, and with Europe, in October 2017, as well as the increase in foreign trade flow (4%) and in trade in the state of Rio de Janeiro (13%) compared to 2016, showing signs of economic recovery in Brazil.

## TECAR

Capacity: exports 45 million tons of iron ore per year and imports 5 million tons of coal, with the ability to handle other types of bulk goods, such as clinker.

Loaded and unloaded volumes:

- 2017  
Loaded 26.8 million tons of company-owned and third-party iron  
Unloaded 3.3 million tons of coal, coke, petcoke (petroleum coke), soda ash and other solid bulk goods.
- 2016  
Loaded 32 million tons of company-owned and third-party iron  
Unloaded 2.3 million tons of coal, coke and other reducing agents
- 2015  
Loaded 28.2 million tons of company-owned and third-party iron ore  
Unloaded 3.1 million tons of coal, coke and other reducing agents and 111 thousand tons of soda ash and clinker

## TRANSNORDESTINA LOGÍSTICA S.A. – TLSA AND FERROVIA TRANSNORDESTINA LOGÍSTICA – FTL

### Transnordestina Logística

(states of Piauí, Ceará and Pernambuco)

Projected capacity: 30 million tons of cargo per year

Size: 1,753 kilometers of railway

### Ferrovias Transnordestina Logística - FTL

(states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas)

Capacity: 2 million tons of cargo per year, especially petroleum by-products, cement, aluminum and iron ore

Size: 4.534 kilometers of railway

Transnordestina Logística (TLSA) is responsible for the construction of the Transnordestina Railway, which represents a major logistics solution to Brazil. As of December 31, 2017, CSN held a 46.30% interest in TLSA.

The FTL Railway, in turn, crosses some states of northeastern Brazil, consolidating its position as one of the major railways in the country.

The successful restructuring of TLSA's operations carried out at the end of 2013 enabled administrative and operational improvements over the past years. Under the new structure, the business vision was expanded and restructured, achieving financial and management gains, thus contributing to the continuity of the construction of the Transnordestina Railway.

The modern Transnordestina Logística Railway project will play an essential role in the development of Brazil, especially the northeast region, because, once implemented, this transportation modal will increase competitiveness of this region's agricultural and mineral production, fostering the development of the 89 municipalities it will travel through, interconnecting the region to the Pecém Port (Ceará) and the Suape Port (Pernambuco).

Also, the Company is now responsible for operating RFFSA's former railway network in the northeast of Brazil, currently known as Transnordestina Logística (FTL) Railway, where it holds a 90.78% interest. This railway crosses 39 municipalities in the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas.

## Cement



### CSN CIMENTOS

Capacity: 4.7 million tons of cement per year

Production (tons of cement):

- 2017 – 3.4 million
- 2016 – 2.8 million
- 2015 – 2.0 million

CSN Cimentos, which is strategically located within the President Vargas Steelworks, receives the blast furnace slag to produce cement and stands out in the market by offering CP III type cement, a high quality product when compared with other types of cement in its class.

### ARCOS

Capacity: 4.24 million tons of calcitic and dolomitic limestone, 840 thousand tons of clinker and 5.4 million tons of cement.

Production:

Mineração Bocaina (tons of limestone):

- 2017 – 5.18 million
- 2016 – 3.42 million
- 2015 – 3.48 million

Clinker Plant (tons):

- 2017 – 0.7 million
- 2016 – 0.4 million
- 2015 – 0.6 million

The Arcos unit (Minas Gerais) is responsible for the mining of limestone and dolomite to be used in the Presidente Vargas Steelworks (Rio de Janeiro), as well as for the production of clinker. Production of cement started in 2015, through the operation of its first mill. In addition, in the second half of 2016, a new clinker production line started to operate, thus adding to the operation a clinker furnace (which uses limestone from a company-owned mine) and two cement mills. In 2018, maintenance projects will be carried out in these units.

## Energy

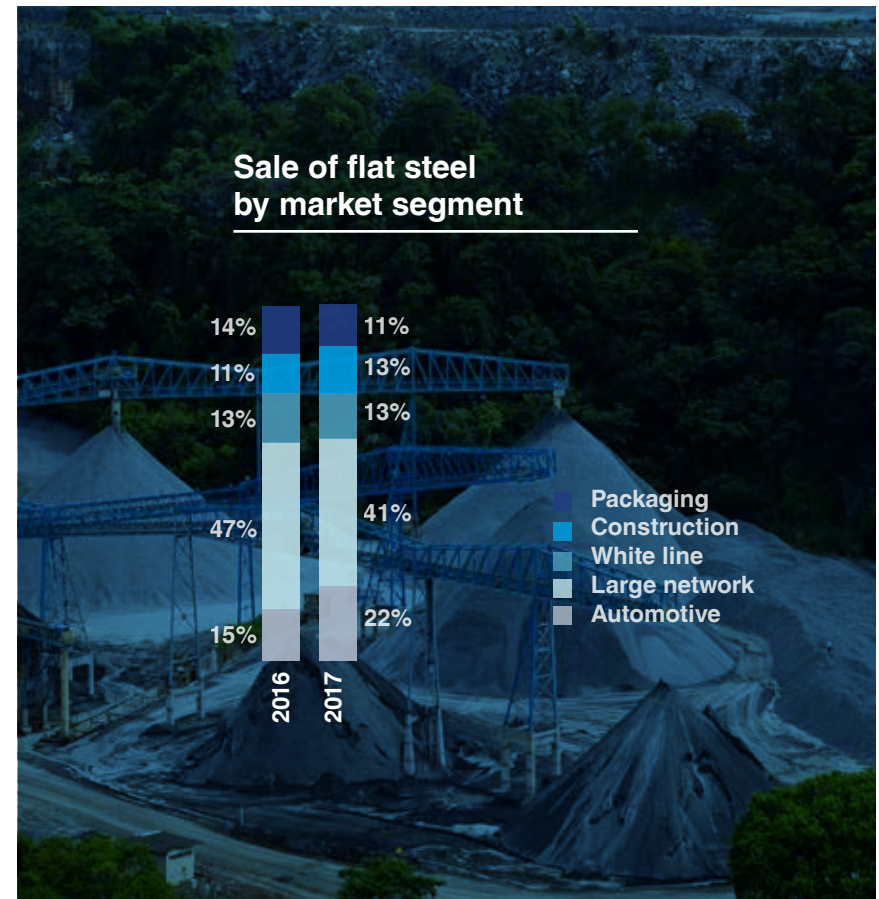
CSN, as a large energy consumer, has been investing in energy generation projects since 1999. Currently, it owns a Thermal Power Plant located at the Presidente Vargas Steelworks. Its installed capacity totals 235.2 MW and is fueled by gases from steel production processes CSN also holds interests of 29.5% in the Itá Hydroelectric Power Plant (Santa Catarina), corresponding to an average of 167MW, and 17.9% in the Igarapava Hydroelectric Power Plant (Minas Gerais), corresponding to an average of 21MW. In 2014, the Top Turbine of Blast Furnace 3 started to operate, adding another 21 MW to CSN's generation capacity.

These assets currently assure CSN of sufficient generation capacity to meet its energy needs. In order to be able to fulfill its future expansion needs, the Company frequently prospects for and reviews the feasibility of new generating assets, to maintain its self-sufficiency levels, in line with values deemed adequate for the competitive nature of its production cost.

## MARKET PRESENCE

GRI 202-1

CSN maintains an adequate position in the domestic market to meet the demands of the main industries that require steel inputs, such as the civil construction, automotive, home appliances and packaging industries. In order to maintain its competitiveness and leading position, CSN attaches great importance to the quality of its products, the reliability of its operations and the timeliness of its deliveries.



## EXPANSION OF THE ARCOS UNIT (MG)

The expansion of the Arcos Unit (Minas Gerais) was completed in 2016, after an investment of R\$1.6 billion, increasing its cement production capacity from 2.3 million tons 5.4 million tons per year, and enhancing its business opportunities in the southeastern region of Brazil.

Three distribution centers were opened in November 2015, in the cities of Uberlândia (Minas Gerais), Varginha (Minas Gerais) and Ribeirão Preto (São Paulo), to support the increase in production and the strategy for enhancing CSN's presence in the domestic market. This measure helps disseminate CSN's brand and sales to the largest number of customers possible.

The integration between Arcos (Minas Gerais) and Volta Redonda (Rio de Janeiro) occurs through the exchange of inputs. Clinker is shipped from Arcos to the mills in Volta Redonda, while blast furnace slag, a co-product of steel-making processes, is shipped from Volta Redonda to Arcos. Together with clinker, limestone and plaster, blast furnace slag produces cement.

In order to create opportunities for the local population, CSN, in partnership with the National Service for Industrial Training (SENAI), is developing the *Capacitar* Project in the town of Arcos (Minas Gerais), which qualified 120 new employees. Of these, 80% were hired to work on the plant's expansion project. During the construction works, 3.5 thousand direct jobs and 5 thousand indirect jobs were created, and subsequently 700 direct employees and 205 indirect employees were hired to work in the unit's operations.

## QUALITY MANAGEMENT

CSN Porto Real, CSN Paraná and the Presidente Vargas Steelworks ensured the maintenance of the ISO 9001:2008 and ISO TS/16949:2009 certifications.

ISO 9001 certifies the production destined for the manufacture of white line products (appliances), rods, metal sheets, wire rods and the entire flat steel product line. ISO TS16949 certifies the materials CSN supplies to various automakers, as well as its entire flat steel product line.

By maintaining these certifications, CSN ensures that its quality management system meets the standards required for the manufacture of its products.

## VALUE CREATION CAPACITY

Decision-making at CSN is based on transparency and respect for the relationship with its shareholders, investors, employees and the public in general. The Company has management mechanisms in place which are aligned with the best corporate governance practices, ensuring effective internal control and risk management processes, as well as the performance of internal and external audits.



An aerial photograph of a large dam and reservoir. The dam is a long, straight concrete structure with a spillway on the right side. The reservoir is a large body of water that fills a valley. The surrounding landscape is lush green with rolling hills and dense forests. The sky is clear and blue. The image is split vertically by a thin orange line.

# Strategic management

## INTELLECTUAL CAPITAL

CSN's structure is aligned with market and corporate governance standards, ensuring internal integration and interaction with the other stakeholders, facilitating the development of processes and delivery of products. The employees' expertise and the application of technical knowledge also support the maintenance of operations, ensuring an efficiency and sound business. On the following pages, we will describe the management procedures adopted by CSN that give us a competitive advantage and enable greater agility, control and transparency in our operations.

## 1. What CSN needs to create value (inputs)

- Information technology;
- Automation;
- Management indicators;
- Leadership;
- Management model that supports the technological development of processes and products, providing sustainable competitiveness to our business.

## 2. What CSN does to create value (activities)

- Scenario and market analysis;
- Technology research and development;
- Knowledge retention;
- Integration of knowledge and systems;
- Expansion and modernization of the industry;
- Excellence in delivery increases CSN's competitiveness.





### 3. Output

- Qualified technical management;
- Disruptive solutions for the business: circular economy;
- Investment in research.

### 4. Value created (result)

- State-of-the-art technology;
- Strategic partnerships and alliances;
- Recyclables warehouse;
- Integrated businesses;
- Efficiency gain by reducing the consumption of natural resources;
- Brand reputation.

# CORPORATE GOVERNANCE

GRI 102-18, 102-22, 102-23, 102-24, 103-1, 103-2, 103-3 – Ethics and Governance, 405-1

In line with corporate governance standards, CSN's governance framework comprises the Annual General Meeting, the Board of Directors, the Executive Board, the Audit Committee and the Fiscal Council.

## ANNUAL GENERAL MEETING

The annual general meeting is the highest body in the Company's governance structure and has powers to decide on all businesses as well as resolving on matters it deems suitable for the Company's defense and development. The Annual General Meeting is called by the Board of Directors and usually convenes within the first four months after the close of the financial year, to decide on the matters required by the law, and, on an extraordinary basis, whenever the need arises.

## BOARD OF DIRECTORS

The Board of Directors is composed of up to eleven members. They usually convene on the dates established by the annual schedule, or at least once every quarter, and, on an extraordinary basis, whenever the need arises. The Directors serve a term of office of two years, re-election being permitted. Currently, the Board of Directors is composed of five members. One seat is reserved for a representative of Company employees, as provided for in its bylaws. The composition of the Board of Directors on December 31, 2017, is as follows:

Benjamin Steinbruch	Chairman
Fernando Perrone	Director*
Yoshiaki Nakano	Director
Antonio Bernardo Vieira Maia	Director
Léo Steinbruch	Director
Fabiam Franklin	Director

\*Director up to August 15, 2018

## AUDIT COMMITTEE

The Audit Committee was created in 2005 and is composed of three independent members, one of whom is appointed chairman, and three members of the Board of Directors, to serve a term of office of two years, re-election being permitted. This Committee has autonomy in relation to the provisions of the Sarbanes-Oxley Act – Sections 301 and 407. It also has its own annual budget, which is sufficient to enable the performance of its duties, and may retain consultants, lawyers, experts and other external professionals as it deems appropriate to provide assistance in the performance of its duties.

The Audit Committee is the only committee currently in operation, acting as an advisory body to the Board of Directors, and reporting to the latter on all discussions held.

Antonio Bernardo Vieira Maia	Member
Fernando Perrone	Member*
Yoshiaki Nakano	Member

\*Member up to August 15, 2018.

## EXECUTIVE BOARD

To the extent that the guidelines and decisions issued by the Board of Directors and the General Meeting are observed, the Executive Board has powers to administer and manage the Company's business and may take all such actions and carry out all such transactions as may relate to the Company's purpose, subject to the limitations on powers set forth by the Board of Directors, as well as to the other provisions of the Company's By-Laws.

The term of office for Executive Officers is two years, and they may be re-elected. The By-Laws require the Executive Board to be composed of 2 to 9 Executive Officers, at the Board of Directors' discretion, one of whom being the Chief Executive Officer, and the others, Executive Officers. Each Executive Officer is assigned an area of activity as determined by the Board of Directors, and one of them is assigned the role of Investor Relations Officer.

As of December 31, 2017 the Executive Board consisted of the following:

Benjamin Steinbruch	Chief Executive Officer
Pedro Gutemberg Quariguasi Netto	Executive Officer
Luis Fernando Barbosa Martinez	Executive Officer
David Moise Salama	Executive Officer
Marcelo Cunha Ribeiro	Executive Officer

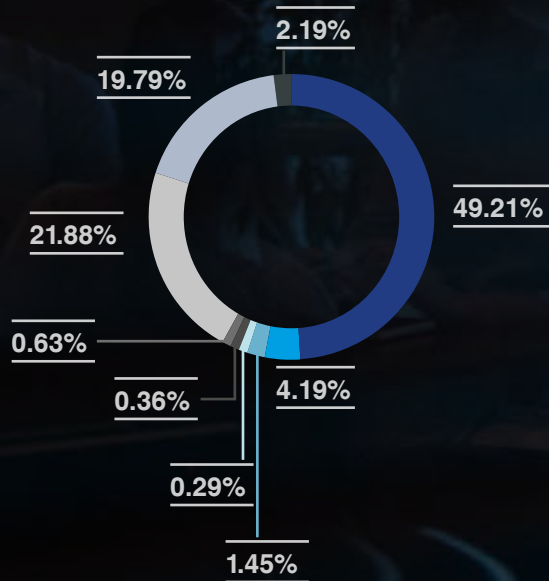
In 2016, the Executive Board consisted of the following

Benjamin Steinbruch	Chief Executive Officer
Pedro Gutemberg Quariguasi Netto	Executive Officer
Luis Fernando Barbosa Martinez	Executive Officer
David Moise Salama	Executive Officer
Fábio Eduardo de Pieri Spina	Executive Officer

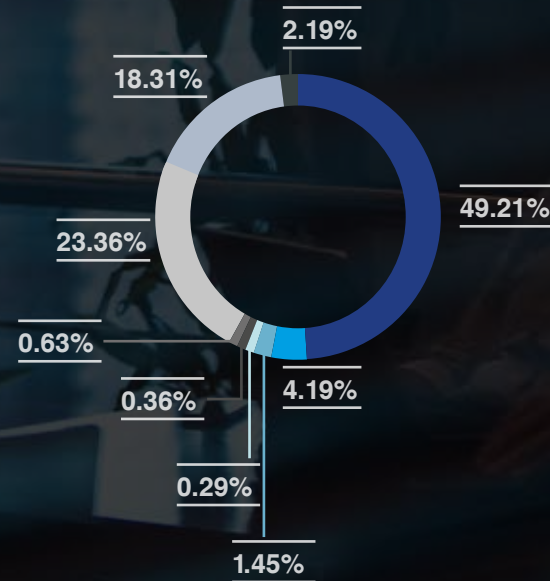
## SHAREHOLDING STRUCTURE

CSN's capital stock is divided into 1,387,524,047 common book-entry shares with no par value, and each common share is entitled to one vote on the General Meetings' resolutions. The Company's by-laws provide that its capital can be increased to as many as 2,400,000,000 shares by decision of the Board of Directors.

**CSN – Capital Structure as of December 31, 2017 (%)**



**CSN - Capital structure as of December 31, 2016 (%)**



- Vicunha Aços S.A.\*
- Rio Iaco Participações S.A.\*
- Caixa Benef. Of CSN's employees
- CPFL Participações S.A.\*
- Vicunha Têxtil S.A.\*
- BNDES Participações S/A BNDESPAR
- NYSE (ADRs)
- B3 S.A – Brasil, Bolsa, Balcão
- Cia Sid Nac Ações Tesouraria

\* Controlling Group

At Compliance Day, CSN discusses with its employees issues related to anti-corruption

## ETHICS AND TRANSPARENCY

GRI 102-16, 102-17, 103-1, 103-2, 103-3 –Ethics and Governance, 205-2



As a result of its concern about ensuring ethics in political, social and business relationships, CSN set up the Compliance department in 2016 and implemented the Corporate Compliance Program, which aims at ensuring its practices are in compliance with anti-corruption laws in Brazil and abroad, in any countries where the Company operates. The Compliance team is responsible for, among other tasks, mapping risks inherent in the business, providing training in the Code of Ethics, and ensuring compliance with laws as well as internal and external rules. The document also covers topics pertaining to human rights.

On December 9, 2016, for the International Anti-Corruption Day, CSN held its first Compliance Day, which where the theme was extensively discussed. During 2016 and 2017, virtual and on-site training programs were held on the Company's Code of Ethics and on the General Rule on Detection, Prevention and Combating of Fraud and Corruption. The related contents were revised to become more modern and accessible, and are available to all employees and third-party personnel. All our own employees as well as third parties attended the virtual or on-site compliance training sessions.

The Whistleblowing Channel was redesigned in 2016 following the retaining of an outside consulting firm. The firm has a team of psychologists who provide support for calls being handled, and receives and records the information for CSN to investigate and take any disciplinary actions. Callers are assured secrecy as to what they report and can also opt for anonymity.

CSN's efforts to ensure integrated practices have earned the Company the *Pró-Ética* (or "Pro-Ethics") seal, granted by the Ministry of Transparency, Oversight and Control in 2016. Of the 195 business which signed up for the award, only 25 were recognized for their commitment to business ethics. The program was created in partnership with *Instituto Ethos* with the aim of encouraging compliance with policies and actions required for keeping an incorruptible environment, while reducing risks of fraud and corruption.

## COMMITMENT TO SOCIAL AND ENVIRONMENTAL PRACTICES

GRI 102-12, 103-1, 103-2, 103-3 – Sustainability Strategy, 103-1, 103-2, 103-3 – Risk Management and Opportunities



As an integral part of all of its activities, CSN seeks to adopt a proactive approach when it comes to social and environmental management, paying attention to the needs of its stakeholders. Its sustainability practices have the following main objectives:

- Creating sustainable value and managing social and environmental risks.
- An optimized and efficient use of natural resources and control of potential impacts.
- Establishing, consolidating, exchanging and sharing corporate best practices for the topic

The Company constantly looks for innovative ways to overcome all challenges that may impact its various areas of activities, Accordingly, is studies and seeks actions that will strengthen the circular economy, a practice which consists of a development cycle that preserves and improves natural capital, optimizes production, and minimizes risks. In addition to extending commitment to sustainability, the model entails production process cost reductions and new business opportunities.

The Company's Environmental Management System (SGA – *learn more on page 74*) complies with the requirements of the international standard ISO 14001 and is managed by the Internal Committee on Environmental Management, which consists of experts in several fields from the Company's various sites. The Committee meets periodically and works pro-actively to prevent any potential environmental damage. The ISO 14001 standard was revised in 2015 and, as a result, all but one of the certified sites migrated to the new version in 2017. The remaining one is scheduled to migrate in 2018.

Also, at the request of its investors, since 2010 the Company has been annually reporting to the Carbon Disclosure Project (CDP) the guidelines it follows concerning climate change, supply chain and water resources. Other strategies on this theme have also been embraced by the Company: CSN has attended since 2012 the Climate Forum held by *Instituto Ethos de Responsabilidade Social*, and in 2015, the Company adhered to the initiative termed "Open Letter to Brazil on Climate Change," proposing that the Brazilian government take on a leading role during the 21<sup>st</sup> United Nations Framework Convention on Climate Change (UNFCCC), or COP-21.

CSN has been constantly working on a stakeholder mapping effort, and since 2012 has been using criteria for mapping environmental, social and economic impacts according to the Global Reporting Initiative (GRI) guidelines in all of its operations. Data and indicators obtained in that process enable monitoring of its performance and assessing its exposure to social and environmental risks and future opportunities.



## DAMS

GRI 103-1, 103-2, 103-3 – Barragens, 103-1, 103-2, 103-3 – Waste Management

The Company's social and environmental guidelines also comprise monitoring the dams that are used to contain tailings from its mining activities.

CSN has deployed the Dam Safety Plan and the Emergency Action Plan for Mining Dams (PAEBM), which meet the requirements of an ordinance of the National Department of Mineral Production (DNPM). The documents advise on how to proceed in risk situations, and also recommend training the local population with a view to helping them learn how to use sirens and escape routes in cases of emergency. Also provided are risk situation drills, as well as refresher courses in tailings dams that assess the potential impacts of a dam rupture based on mathematical modeling.

Furthermore, through the Brazilian Mining Institute (*Instituto Brasileiro de Mineração*, or IBRAM), in partnership with the Canadian website EduMine, the managers of the subject at CSN gained access to the Special Program for Tailings Dam Safety Management, developed in Canada.

According to dam classification (DNPM Ordinance 70.389/2017), all of CSN's dams are audited by independent firms specializing in the subject, in order to attest to their stability and identify preventive actions to ensure such stability.

“All of CSN's dams are audited by independent firms specializing in the subject”



### What are dams?

Dams are structures built to contain water or any other liquid from industrial processes. They can be built on compacted landfills, rockfills or concrete. They are generally used for water supply, electricity generation, irrigation and waste disposal operations, among other things.

### Where are CSN's dams located?

All CSN projects are based on solid geotechnical studies, and none of the dams are in geological fault locations. Rather, they are built on old plots of land that are outside weak zones of the earth's crust.

### What kind of waste do the CSN dams receive?

The dams managed by CSN receive mining tailings that are considered inert and sandy.

### How was the Casa de Pedra dam designed?

Casa de Pedra, the Company's main dam, was designed and built using best engineering practices. Accordingly, several laboratory and field test campaigns were conducted with a view to studying all the materials making up the dam. The Casa de Pedra dam massif was raised according to the downstream method.

### How do upstream dams work?

Upstream dams support their foundation on the very waste contained in the reservoir. The building material used to raise the dam is arranged upstream from the initial dike, and either tailings or compacted soil can be used for construction. On the raising foundation waste, field and laboratory tests are run to provide information concerning strength parameters.

### How do downstream dams work?

The raising is performed toward the outer side of the dam, whose foundation is supported by natural land. Appropriate soils from a borrowing area were used for construction.

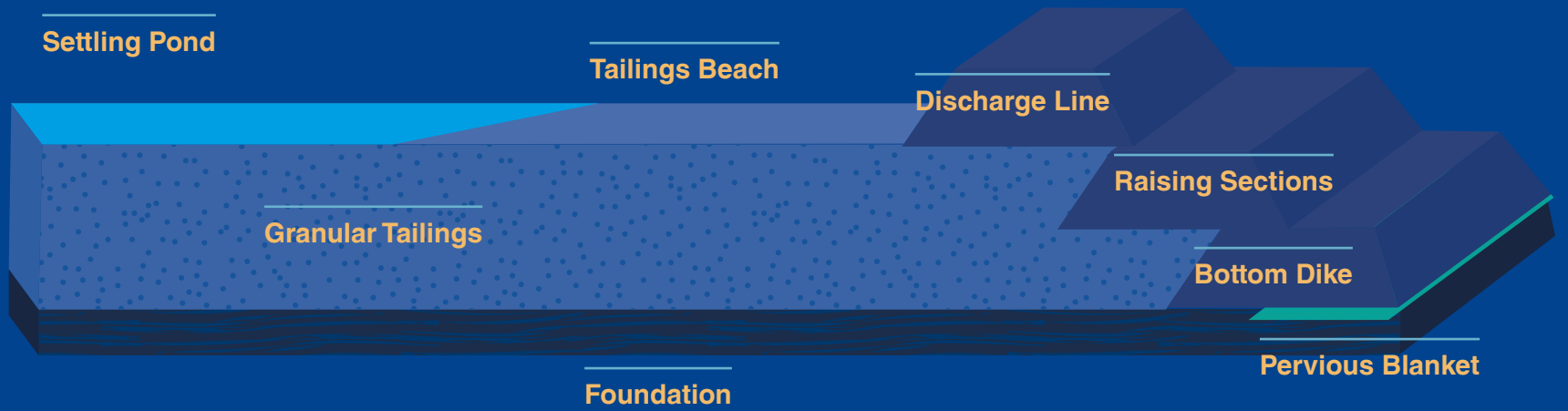
### What risk prevention actions are taken by CSN?

Monitoring activities on all dams are periodically conducted with the aid of specific instruments, visual inspection for six days of the week, hydraulic control, and external audits that issue reports specifying the current diagnosis for each dam controlled by the Company.

CSN currently has a bi-weekly dam inspection program in place that uses its own specialist team. According to inspection results, structural maintenance services are scheduled.

The drills carried out at the Casa de Pedra Dam are an educational process that aims to prepare the neighboring community to adopt an appropriate behavior in any emergency situation involving the dam. To reach that level of promptness, the following training stages are required: sensitization, knowledge of the procedure (emergency response plan), and drills to put lessons learned into practice. Those drills are initially applied at a lower complexity level, which is then raised as a function of the community's response to the drills. The variables involved in the process are simulated as close to reality as possible. It is a permanent, evolving, systemic process.

UPSTREAM RAISING



UPSTREAM UPWELLING



## Operation in Line with Industry Standards

CSN operates in compliance with the laws in force. The main statutes governing the industry are as follows:

- National Dam Safety Policy, Law 12.334/2010  
Sets forth standards for final or temporary disposal of tailings and waste. In addition, it creates the National Dam Safety Information System to provide a computer-based record of dam safety conditions.
- Resolution No. 144/2012  
Provides guidelines for implementation of the National Dam Safety Policy, application of its tools, and the operation of the National Dam Safety Information System.
- Ordinance No. 70.389/ 2017  
Creates the National Register of Mining Dams and the Integrated Safety Management System for Mining Dams, and sets forth the execution or update frequency, qualifications for technical supervisors, and the minimum contents and level of detail of the Dam Safety Plan, the Regular and Special Safety Inspections, the Periodic Dam Safety Review and the Emergency Action Plan for Mining Dams.





## CLIMATE CHANGE

GRI 102-12, 102-13

Given the outcome of the 2015 COP-21 in Paris, even though there is no specific goal for the manufacturing sector, businesses and governments will need to take a series of actions over the coming years to reduce greenhouse gas emissions and thus minimize the effects of climate change. The world's energy matrix is expected to take on a new configuration over the next few decades, changing from a fossil fuel-based matrix to one based on renewable sources. Energy conservation and preservation have great potential for contributing to a positive balance regarding greenhouse gas emissions.

An integrated operation results in efficiency gains that lead to lower carbon emissions and, as a result, mitigate the impacts of climate change.

- Mining-port-factory integration via the railway system, minimizing emissions from road logistics.
- Cement manufactured using blast furnace slag, a byproduct of the steelmaking process, thereby reducing the use of clinker and, as a result, greenhouse gas emissions.
- Diversified energy matrix given the use of two hydropower plants and reuse of gases from the steelmaking process for combined heat and power generation.

Following the Greenhouse Gas Protocol (GHG Protocol) guidelines, CSN has been taking an inventory of its greenhouse gas emissions since 2010 in pursuit of its strategy for carbon management, risk mitigation and adjustment to climate change (*learn more on page 88*). The publication of the greenhouse gas emissions inventory demonstrates the Company's transparency regarding the challenges of climate change.

CSN also takes part in forums and subscribes to documents pertaining to the theme, contributing to transparency about the management of risks and opportunities arising from climate change:

CSN HAS RECEIVED THE GHG PROTOCOL GOLD SEAL FOR THE PAST THREE YEARS IN A ROW FOR HAVING REPORTED ALL EMISSIONS FROM ITS SITES AND SUBMITTING THEM TO OUTSIDE ASSURANCE.

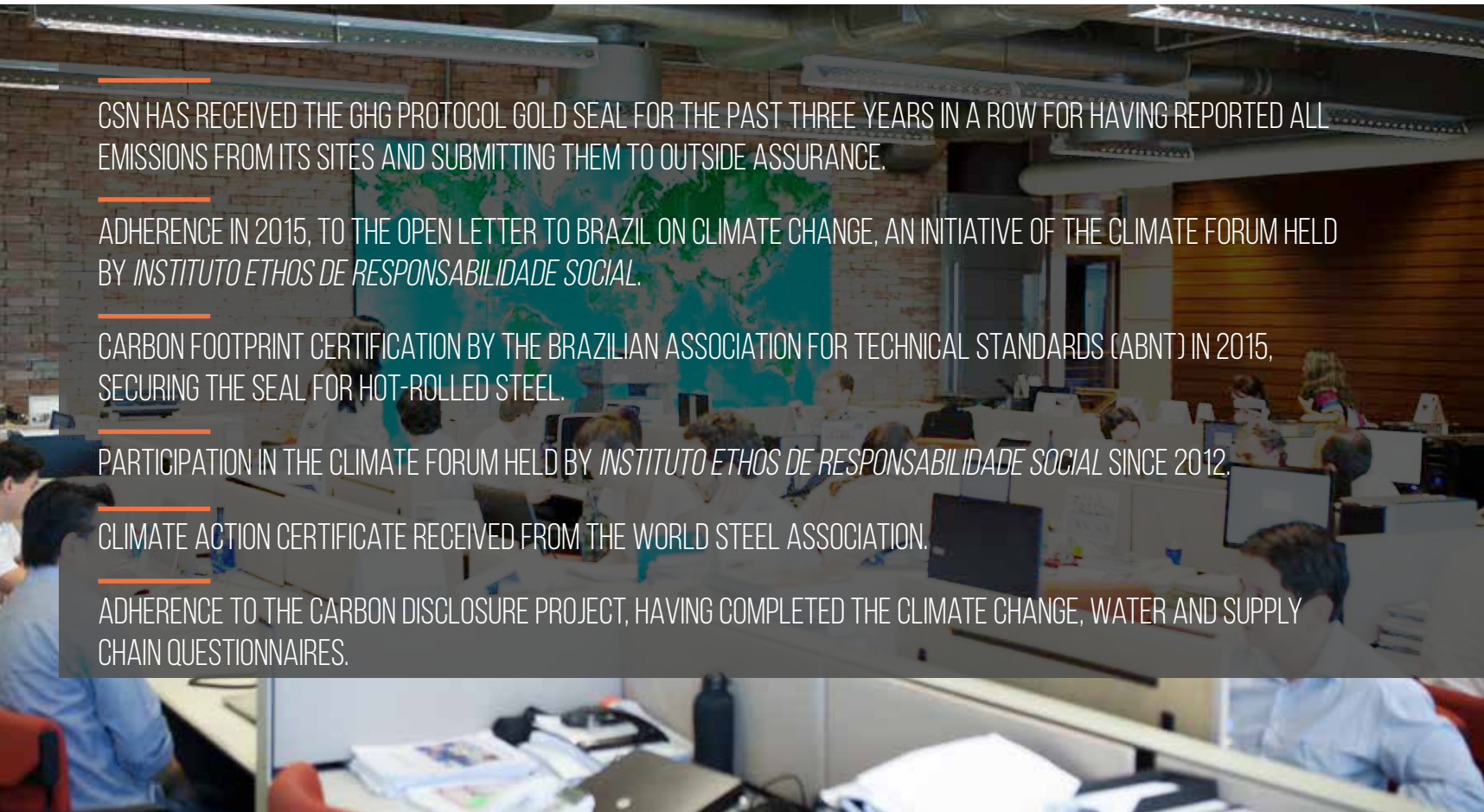
ADHERENCE IN 2015, TO THE OPEN LETTER TO BRAZIL ON CLIMATE CHANGE, AN INITIATIVE OF THE CLIMATE FORUM HELD BY *INSTITUTO ETHOS DE RESPONSABILIDADE SOCIAL*.

CARBON FOOTPRINT CERTIFICATION BY THE BRAZILIAN ASSOCIATION FOR TECHNICAL STANDARDS (ABNT) IN 2015, SECURING THE SEAL FOR HOT-ROLLED STEEL.

PARTICIPATION IN THE CLIMATE FORUM HELD BY *INSTITUTO ETHOS DE RESPONSABILIDADE SOCIAL* SINCE 2012.

CLIMATE ACTION CERTIFICATE RECEIVED FROM THE WORLD STEEL ASSOCIATION.

ADHERENCE TO THE CARBON DISCLOSURE PROJECT, HAVING COMPLETED THE CLIMATE CHANGE, WATER AND SUPPLY CHAIN QUESTIONNAIRES.



## INNOVATION AND TECHNOLOGY



The business processes supported by the SAP system underwent a major improvement in 2016 upon adoption of the High Performance Analytic Appliance (Hana) technology, a high-performance, high-speed data handling analytic tool. The system has a series of parameters that, combined with its infrastructure and the expertise

of its employees, gives CSN a competitive edge in the market. The system provides real-time interactions, cloud computing, and high-speed data management through a simple and intuitive interface.

The platform features cutting-edge technology, with benefits for the approximately 6,000 users of the Company's system, especially the Human Resources, Logistics and Operations teams, while delivering productivity improvements and resource optimization. Benefits include:

- Access to Ariba SAP Supplies Corporate Portal, the underlying platform that affords access to more than 2 million suppliers around the world, improving procurement efficiency.
- Use of cloud computing.
- Sales force automation for the cement business.
- Robust information security.

There have also been initiatives in line with the Internet of Things concept designed to improve energy management at the steelworks and to monitor mining machinery and equipment. Equipment like excavators and trucks with sensors is continuously monitored via Wireless Access Point (WAP), and data is transmitted to a control center for higher productivity and lower costs.



As a participant in a global program by IBM/SAP, CSN became the first company in Latin America to have a new server technology approved on the Hana platform. Furthermore, it has gained recognition from major organizations:

EDITORIAL FORUM, IN THE "GENERAL MANUFACTURING" CATEGORY.

IDG, IN THE "MANUFACTURES" CATEGORY.

IT MÍDIA, IN THE "STEELMAKING, METALLURGY AND MINING" CATEGORY.

CSN has also adhered to a set of good practices from Control Objectives for Information and Related Technology (COBIT), a globally recognized framework for information technology management. The Company's score is above market average, and therefore it may be certified through internationally recognized safety, audit, governance and risk seals.

In 2016 CSN signed with the funding entity Financiadora de Estudos e Projetos (Finep) a contract worth R\$173.8 million to develop the production of advanced, high-strength steels, focusing on the automotive industry and on reducing weight in vehicles. Of that amount, R\$22.6 million have already been released. Among new studies being conducted, the highlights are:

- Expanding high-strength galvanized steel supply to the Brazilian automotive industry.
- Consolidating high-strength galvanized steel for Brazil's civil construction industry.
- Consolidating supply of pre-coated steel in new colors for export.

Again in partnership with Finep, CSN has started structuring a Technology and Innovation Center at the Volta Redonda, Rio de Janeiro, site. With it, the Company will begin developing new technologies for the steelmaking process and for product and innovation development, which will make even more competitive and productive.

CSN manages its intellectual property rights to trademarks, patents and industrial designs that protect the Company and also create numerous marketing opportunities under technology transfer agreements.

## TECHNOLOGY SEMINAR

To encourage increased productivity and reduced costs and waste, CSN regularly holds its Technology Seminar (Setec), an initiative whereby employee projects are collected, and the best of them are recognized and put into practice. Among the winning projects for the past two-year period was one to reduce natural gas consumption in hot-rolling furnaces, one to reduce the cost of transforming the CSN Paraná rolling mill through process accident control, and one to recover scraps from UPV, whose historical reuse level used to be 10% and has jumped to 65%.





## VALUE CREATION CAPACITY

Governance combined with sustainability and innovation strategies and technology ensures financial returns for the Company. Learn more about its financial performance on the following pages.



The background of the slide features a dramatic landscape. The upper portion is dominated by a vast, blue sky filled with wispy, white clouds. Below the sky, a rugged, layered cliff face stretches across the horizon. The cliff shows distinct horizontal strata in shades of brown, tan, and dark grey, suggesting geological formations. The overall scene is captured in a wide-angle shot, emphasizing the scale and texture of the natural environment.

# Economic Performance

# FINANCIAL CAPITAL

GRI 103-1, 103-2, 103-3 – Business Performance

Financial capital management enables CSN to appropriately allocate funds to develop its business, invest in sustainable growth projects and ensure financial return for shareholders and investors. Sources of financial capital include shareholders' funds, issuance of debt instruments, credit from suppliers, and cash generation from the Company's own operations.



## 1. What CSN needs to create value (inputs, resources)

- Fundraising by issuing debt instruments and shares and treasury transactions;
- Purchase of equipment and infrastructure;
- Credit from suppliers;
- Revenues;
- Operating cash generation;
- Return on investments;
- Skilled workforce;
- Return on financial transactions.

## 2. What CSN does to create value (activities/products/services/processes)

- Governance and risk management;
- Compliance monitoring;
- Efficient capital allocation (inputs, equipment, production processes, logistics, technology);
- Product sales;
- Efficient tax planning;
- Competitively priced product portfolio;
- Relationships and confidence developed with the financial and money markets;
- Risk and opportunity assessments;
- Support to economic growth through CSN's impact on infrastructure and consumer goods.





### 3. Outputs

- Taxes paid to governments (1.5 billion);
- Payments to suppliers (R\$2.4 billion);
- Product portfolio meeting current and future market requirements;
- Social investments (R\$14.9 million);
- R&D investment;
- Total investment in corporate education (R\$3.7 million in the past two years);
- Economic value created (net revenue of R\$18.5 billion);
- Net revenue from energy sales (R\$408 million);
- Amount allocated to Company employees (R\$252.4 million);
- Investments in environmental protection (R\$326 million).

### 4. Value Created (Result)

- Financial soundness;
- Assurance for investors;
- Business continuity;
- Visibility for investors;
- Easy credit;
- Budgetary efficiency;
- Job and wealth creation in the markets served;
- Contribution to the country's economic development.

GRI 102-7, 201-1

Components	2014 (in R\$ thousands)	2015 (in R\$ thousands)	2016 (in R\$ thousands)	2017 (in R\$ thousands)
<b>Revenues</b>	<b>19,181,869</b>	<b>18,022,991</b>	<b>19,793,391</b>	<b>21,945,416</b>
Inputs purchased from third parties	(12,229,259)	(9,885,152)	(13,596,651)	(14,196,504)
Gross value added	6,952,610	8,137,839	6,196,740	7,748,912
Withholdings	(1,281,485)	(1,176,840)	(1,322,497)	(1,453,335)
Net value added produced	5,671,125	6,960,999	4,874,243	6,295,577
Net value added received in transfer	3,477,181	4,875,970	(390,560)	538,744
<b>Total value added to be distributed</b>	<b>9,148,306</b>	<b>11,836,969</b>	<b>4,483,683</b>	<b>6,834,321</b>
Personnel	1,690,075	1,981,402	2,031,183	2,230,733
Taxes and levies	1,353,710	1,150,868	1,216,681	1,576,352
Remuneration of third-party capital	6,216,788	7,088,748	2,079,316	2,916,007
Remuneration on own capital	(112,267)	1,615,951	(853,058)	111,229
a. interest on equity out of the retained earnings account for previous years or reserves	0	0	0	0
b. dividends	0	0	0	0
c. dividends out of the retained earnings account for previous years or reserves	0	0	0	0
d. retained earnings/ loss for the period	(105,218)	1,257,896	(934,747)	10,272
e. Non-controlling interests	(7,049)	358,055	81,689	100,957
Other	0	0	9,561	0
Income from Discontinued Operations	0	0	9,561	0
<b>Total value added distributed</b>	<b>9,148,306</b>	<b>11,836,969</b>	<b>4,483,683</b>	<b>6,834,321</b>

## ECONOMIC SCENARIO

In the external scenario, the outcome of the presidential election in the United States and protectionist measures by the European Union have raised doubts about the flow of global business. The international market is essential for good performance in the mining industry, particularly the economic behavior of China, Europe, India, Japan and Southeast Asia. The CRB index, as calculated by the Commodity Research Bureau, recorded a fall in 2016, but showed signs of recovery in 2017, with positive variation at the end of December.

In the domestic environment, the year 2017 saw signs of economic recovery in the wake of the political instability and macroeconomic crisis in the previous periods, which impacted the results of the steel industry in 2016. After two consecutive years of contraction, Brazil's GDP (gross domestic product) gained 1.0% for 2017. In 2017 there was an upturn in the manufacturing sector, which grew 1.7%. Previously, though, it recorded negative impacts, which reduced its share in the GDP to 5.2% for 2016 (IBGE). Commodity prices—according to the “Brazil Commodity Index” (IC-Br), calculated monthly by the Central Bank (BC) — displayed a 0.39% drop, after a 4.4% depreciation for 2016.

In the political front, the involvement of large corporations of the infrastructure sector in corruption schemes caused turbulence in the market, especially in 2016. The deterioration of public accounts affected the government's ability to invest, but the industries served by CSN started to show signs of recovery: car production gained 25.2% in 2017, after losing 11% in 2016, according to the National Motor Vehicle Makers Association (known for short as Anfavea); while sales of construction materials did fall 4%, they performed better than in 2016 (down 11.5%), according to the Brazilian Building Materials Industry Association (Abramat).

For 2017, the production of flat-rolled steel, for its part, was 15% higher than that in the previous year, totaling 3,679 metric tons. According to data from *Instituto Aço Brasil* (IABr), the domestic production increased by 9.9% in volume for crude steel, amounting to 34.4 million metric tons. For rolled products, domestic production totaled 22.4 million metric tons, up by 7.2% against 2016, while apparent consumption increased by 5.3% to 19.2 million metric tons, with 16.9 million metric tons in domestic sales, and 2.3 million metric tons in imports. In 2016 the industry faced competition from imports and had to handle competitive prices, especially for Chinese products. According to IABr, the domestic production of crude steel decreased 9.2% in 2016, while apparent consumption of rolled products decreased 14.4%.

## STRATEGIC PLANNING

GRI 203-1

The Company's business plan contemplated an investment for 2018 involving completion of capital projects underway and current investment projects that are essential to maintain operational capacity, environment and safety conditions. New investments will be analyzed by taking into account market conditions, as well as each project's financial strength and prospects for generating additional cash of.

Based on these guidelines, investments projected for 2018 total R\$1.1 billion, which the Company expects to finance the investments out of its own funds, loans from public and private-sector agents, and possible strategic partnerships.

## Investments expected for 2018

Industry	Amount	Allocation
Steelmaking	R\$581 million	Current investment plans for blast furnaces, technological upgrade at UPV, operational safety at UPV, and maintenance plans for the other sites.
Mining	R\$393 million	Current investment in dams, waste treatment and filtration, ongoing iron ore processing projects, and iron ore volume increase, iron ore quality improvement and maintenance plans for the sites.
Cement	R\$60 million	Maintenance plans for the Arcos, Minas Gerais, and Volta Redonda, Rio de Janeiro, sites.
Other investments	R\$54 million	Current investments in other operations (such as FTL (Ferrovia Transnordestina Logística S.A.) and Tecon (container terminal), run by Sepetiba Tecon S.A.) and corporate investments (such as in IT).

Note: The Company clarifies that the information disclosed in this section represents mere estimates based on hypothetical data that in no way constitute a pledge of performance by the Company and/or any of its officers. The projections shown in the Investments table involve market factors that are beyond the Company's control and may therefore vary.

With the primary objective of reducing the Company's financial leverage ratio, Management is committed to executing a financial agenda that may contemplate the disposal of a set of assets. However, it is not possible to confirm that such sale is highly likely to happen for any of the contemplated assets within a period of 12 months. The Company considers several sale scenarios that vary according to different macroeconomic and operational assumptions. In this context, the Company has not set aside or reclassified such assets in the financial statements as discontinued operations.

Based on mere estimates that are highly dependent on factors relating to global economic scenarios, the Company is projecting net revenue of approximately R\$22.2 billion for 2018, with annualized adjusted EBITDA around R\$5.6 billion and estimating a leverage ratio, measured as a ratio of net debt to adjusted EBITDA, of around 3.5 times on a 12-to-15-month horizon.



## ECONOMIC AND FINANCIAL PERFORMANCE FOR THE PERIOD

CSN seeks to maximize returns for its shareholders by focusing its business on five key activities: (I) mining; (II) steelmaking; (III) logistics; (IV) cement; and (V) energy. See below CSN's performance by business segment.



### MINING

In 2017, the transoceanic market for iron ore recorded intensified recovery, which began in mid-2016 as China maintained its investments in construction and infrastructure at a high level. Additionally, the shutdown of illegal high emission steel mills around the world resulted in an increase in the use of steelmaking capacity, which, combined with a higher demand for steel, enabled margins to improve and iron ore prices to rise. In that context, the iron ore quote went up 22% in 2017 against 2016, reaching an average of US\$71.32/dmt.

During 2016, CSN recorded an increase in iron ore production (+15%) and a fall in purchases (-27%). The Company increased its total sales of iron ore by 20%, totaling 36.9 million—the amount was favorably impacted by the increase in sales to third parties (+28%). Of the total sales amount, CSN Mineração sold 4.1 million metric tons to UPV (Presidente Vargas Steelworks). Net revenue from CSN's mining business added up to R\$4.582 billion, up by 44% against 2015, benefiting from higher sales volume.



### STEELMAKING

According to the World Steel Association (WSA), the world's raw steel production totaled 1.67 billion metric tons in 2017, up by 5.5% against 2016. CSN's sales volume in the international market for 2017 amounted to 2.1 million metric tons, remaining stable in relation to 2016.

In the domestic market, the main markets served by CSN are automotive, civil construction, white line (home appliances), OEM (capital goods) and metal packaging. In 2017, 2.8 million metric tons of steel were sold in the domestic market, 2% more than the domestic sales recorded for 2016.

In 2016, carrying on with its strategy of increasing value added in its product mix, the Company maintained the high share of coated products, such as galvanized items and sheet metal, in total sales volume. Net revenue showed a 3% increase in 2016 over the previous year, totaling R\$11.516 billion. The result was driven by the larger volume of steel being sold in both the domestic and export markets and by rising prices over the year, especially in the fourth quarter.

Adjusted EBITDA for 2017 amounted to R\$2.1 billion, 12% higher than in 2016. EBITDA margin moved from 16.4% in 2016 to 16.3% in 2017 and it should be noted that the margin recovery movement took place in the fourth quarter of 2017.



## LOGISTICS

In 2017, net revenue from railway logistics totaled R\$1.4 billion, with adjusted EBITDA of R\$592 million and margin of 42%. Port logistics, in turn, totaled R\$238 million, with adjusted EBITDA of R\$69 million and a 31-percent margin.

In the previous year, keeping up with the positive movement in the market, CSN's railway logistics totaled R\$1.320 billion, exceeding that reported for 2015 (R\$1.157 billion). Likewise, EBITDA grew 17%, totaling R\$550 million, and an EBITDA margin of 42% for 2016.



## ENERGY

According to *Empresa de Pesquisa Energética* (EPE), Brazil's national consumption of electricity amounted to 462 GWh by December of 2017, up by 0.8% over the same period of the previous year. In 2017, energy consumption increased by 0.3% and 1.1% in the industrial and commercial segments, respectively. Residential consumption increased 0.8% by virtue of a more favorable economic picture. In 2017, net revenue from CSN's energy business amounted to R\$408 million, with adjusted EBITDA of R\$113 million and margin of 28%.

Also according to EPE, the national consumption of electricity was 0.9% lower in 2016. Nevertheless, CSN's results for 2016 improved compared to 2015. Net revenue reached R\$269 million, against R\$245 million for 2015. EBITDA went up 51.16%, amounting to R\$65 million, with a 24-percent margin.



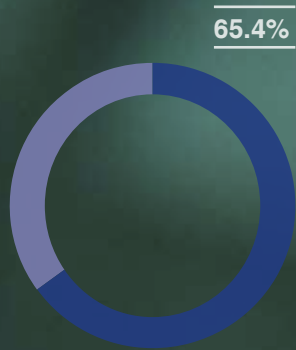


Brazil's cement production dropped by 4.4% in the past 12-month period against the same period of the previous year, keeping pace with the performance of the civil construction industry, as disclosed in the Monthly Industry Survey (PIM-PF) conducted by the IBGE (Brazilian Institute of Geography and Statistics). According to preliminary data from the SNIC (National Cement Industry Union), domestic sales of cement amounted to 53.8 million metric tons for the year 2017, down by 6.4% against the same period in the previous year. CSN's net revenue for 2017 added up to R\$487 million, while adjusted EBITDA was R\$15 million with an adjusted margin of 3%.

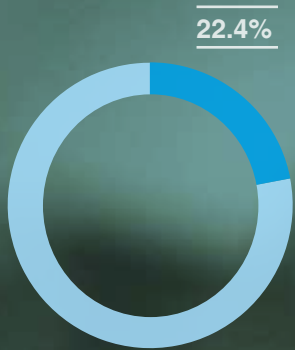
Similarly, but to a greater extent, Brazil's cement production decreased (-14.5%) in the aggregate for 2016, as did domestic sales (-11.7%), following the negative performance of the construction industry. Over the period, CSN maintained its diversification strategy, with sales of bagged materials focused on the states of Minas Gerais, Rio de Janeiro and São Paulo. Gaining market from its peers, CSN saw sales in its cement business increase by 29%, totaling 2,814 metric tons of cement, with net revenue of R\$491 million, EBITDA of R\$22 million, and a 4% margin for 2016.

### Net Revenue by Segment for 2017 (R\$ millions)

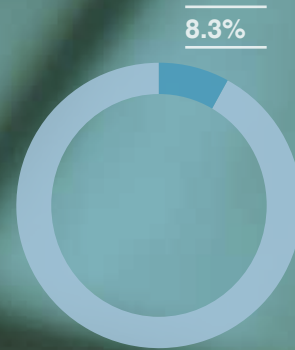
#### Steelmaking



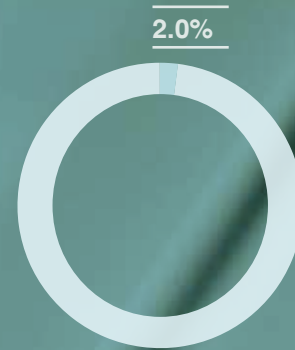
#### Mining



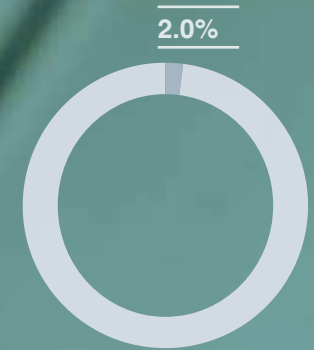
#### Logistics



#### Cement



#### Energy



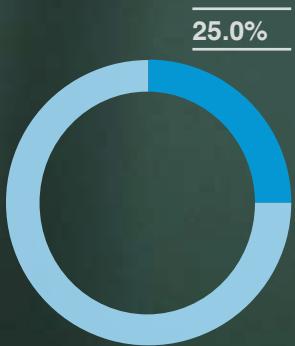
### Net Revenue by Segment for 2016 (R\$ millions)

■ Steelmaking ■ Mining ■ Logistics ■ Cement ■ Energy

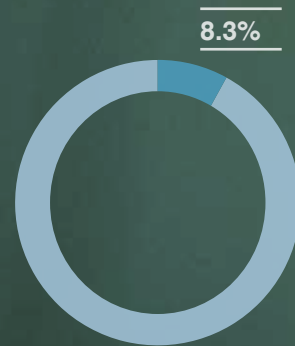
#### Steelmaking



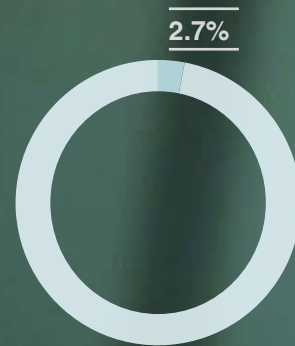
#### Mining



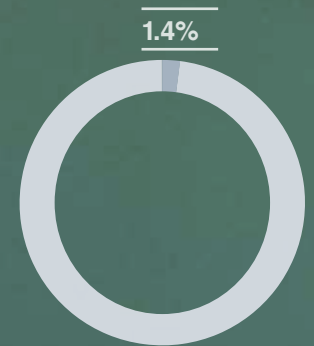
#### Logistics



#### Cement



#### Energy



### Adjusted EBITDA by Segment for 2017 (R\$ millions)

#### Steelmaking

56.7%



#### Mining

27.8%



#### Logistics

13.1%



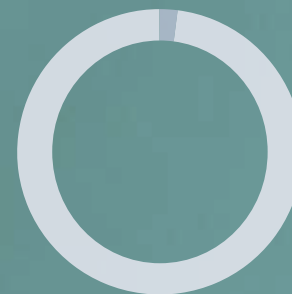
#### Cement

0.2%



#### Energy

2.2%



### Adjusted EBITDA by Segment for 2016 (R\$ millions)

■ Steelmaking ■ Mining ■ Logistics ■ Cement ■ Energy

#### Steelmaking

43.5%



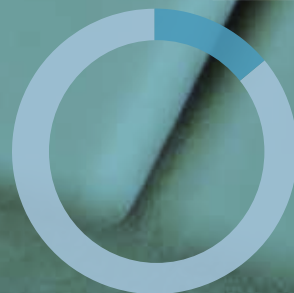
#### Mining

40.6%



#### Logistics

13.9%



#### Cement

0.5%



#### Energy

1.5%



Income for 2017 (R\$ millions)	Steelmaking	Mining	Logistics (Port)	Logistics (Railway)	Cement	Energy	Corporate Expenses/ Removal	Consolidated
Net Revenue	<b>12,959</b>	<b>4,621</b>	<b>238</b>	<b>1,417</b>	<b>487</b>	<b>408</b>	<b>(1,605)</b>	<b>18,525</b>
Domestic Market	7,819	829	238	1,417	487	408	(2,491)	8,706
<b>International Market</b>	5,140	3,792	-	-	-	-	886	9,818
<b>Cost of Sales</b>	<b>(10,538)</b>	<b>(3,006)</b>	<b>(157)</b>	<b>(1,025)</b>	<b>(513)</b>	<b>(285)</b>	<b>1,927</b>	<b>(13,596)</b>
Gross Profit	<b>2,421</b>	<b>1,615</b>	<b>81</b>	<b>392</b>	<b>(26)</b>	<b>123</b>	<b>322</b>	<b>4,928</b>
SGA expenses	(964)	(159)	(28)	(95)	(81)	(27)	(877)	(2,231)
Depreciation	659	491	16	295	122	17	(190)	1,409
<b>Proportional EBITDA for Subsidiaries under Common Control</b>	-	-	-	-	-	-	538	538
<b>Adjusted EBITDA</b>	<b>2,116</b>	<b>1,947</b>	<b>69</b>	<b>592</b>	<b>15</b>	<b>113</b>	<b>(207)</b>	<b>4,644</b>

Income for 2016 (R\$ millions)	Steelmaking	Mining	Logistics (Port)	Logistics (Railway)	Cement	Energy	Corporate Expenses/ Removal	Consolidated
Net Revenue	<b>11,516</b>	<b>4,582</b>	<b>208</b>	<b>1,320</b>	<b>491</b>	<b>269</b>	<b>(1,236)</b>	<b>17,149</b>
Domestic Market	6,980	542	208	1,320	491	269	(2,080)	7,730
<b>International Market</b>	4,536	4,040	-	-	-	-	843	9,419
<b>Cost of Sales</b>	<b>(9,393)</b>	<b>(3,099)</b>	<b>(142)</b>	<b>(914)</b>	<b>(467)</b>	<b>(196)</b>	<b>1,572</b>	<b>(12,640)</b>
Gross Profit	<b>2,123</b>	<b>1,483</b>	<b>66</b>	<b>406</b>	<b>23</b>	<b>73</b>	<b>336</b>	<b>4,509</b>
SGA expenses	(915)	(185)	(25)	(83)	(75)	(25)	(907)	(2,215)
Depreciation	679	461	13	228	73	17	(193)	1,279
<b>Proportional EBITDA for Subsidiaries under Common Control</b>	-	-	-	-	-	-	502	502
<b>Adjusted EBITDA</b>	<b>1,887</b>	<b>1,759</b>	<b>54</b>	<b>550</b>	<b>22</b>	<b>65</b>	<b>(262)</b>	<b>4,075</b>

## CONSOLIDATED INCOME

The Company's primary sources of revenue are production and sales of steel products and iron ore. Accordingly, the level of business activity in Brazil and worldwide has a strong influence on its income.

The Company sells steel products mostly in the domestic market. Therefore, one of the factors influencing its performance is the growth rate of the domestic economy, particularly in more steel-intensive industries, such as automotive, white line, and civil construction. These industries are directly influenced by the availability and cost of consumer credit. Macroeconomic policy decisions, such as the level of interest rates, or decisions that otherwise affect credit, such as taxes and other mechanisms, are permanently monitored. The impact of infrastructure projects is also a key factor, whether relating to special events or growth in certain industries, such as oil or civil construction, PAC (Growth Acceleration Program) projects, among others. Another driving factor is the balance between supply and demand for steel worldwide, which determines price levels and also influences import levels.

The following table shows the Company's consolidated net revenue:

R\$ Million		Steelmaking	Mining	Port Log.	Railway Log	Energy	Cement	Removals / Corp.	Consolidated
2017	Domestic Market	7,819	829	238	1,417	408	487	-2,491	8,707
	International Market	5,140	3,792	0	0	0	0	886	9,818
	<b>Total</b>	<b>12,959</b>	<b>4,621</b>	<b>238</b>	<b>1,417</b>	<b>408</b>	<b>487</b>	<b>-1,605</b>	<b>18,525</b>
2016	Domestic Market	6,980	542	208	1,320	269	491	-2,080	7,730
	International Market	4,536	4,040	0	0	0	0	843	9,419
	<b>Total</b>	<b>11,516</b>	<b>4,582</b>	<b>208</b>	<b>1,320</b>	<b>269</b>	<b>491</b>	<b>-1,237</b>	<b>17,149</b>
2015	Domestic Market	6,757	175	213	1,157	245	432	-1,296	7,683
	International Market	4,446	3,012	0	0	0	0	121	7,579
	<b>Total</b>	<b>11,203</b>	<b>3,187</b>	<b>213</b>	<b>1,157</b>	<b>245</b>	<b>432</b>	<b>-1,175</b>	<b>15,262</b>

NET REVENUE HIT R\$18.5 BILLION IN 2017, UP BY 8% AGAINST 2016 AS A RESULT OF PRICE ADJUSTMENTS FOR STEEL PRODUCTS.

CONSOLIDATED COST OF SALES AMOUNTED TO R\$13.6 BILLION, UP BY 7.6% COMPARED TO 2016, KEEPING PACE WITH DECREASE IN SALES VOLUME IN THE MINING SEGMENT AND PRICE INCREASE FOR RAW MATERIAL IN THE STEELMAKING SEGMENT.

GROSS PROFIT TOTALED R\$4.9 BILLION, INCREASING BY 9.3% OVER THAT FOR 2016.

THE EQUITY ACCOUNTING INCOME FOR 2017 WAS R\$109 MILLION, EXCEEDING THE R\$65-MILLION INCOME FOR 2016.



THE COMPANY HAD A NET FINANCIAL LOSS OF R\$2,464 MILLION IN 2017, AGAINST NET FINANCIAL LOSS OF R\$2,522 MILLION IN 2016.

THE CONSOLIDATED NET INCOME FOR 2017 AMOUNTED TO R\$111 MILLION. FOR 2016, THE COMPANY REPORTED CONSOLIDATED NET LOSS OF R\$ 853 MILLION.

## ADJUSTED EBITDA

Adjusted EBITDA for 2017 added up to R\$4,645 million, against R\$4,075 million for 2016, representing a 14% increase thanks to a greater contribution from the mining and steelmaking segments. To achieve this goal, efforts in 2016-2017 were centered on:

### OPERATIONAL EFFICIENCY

- Exports competitiveness
- Focus on cost reductions
- Production near full capacity
- Strict inventory control
- Synergies between business segments

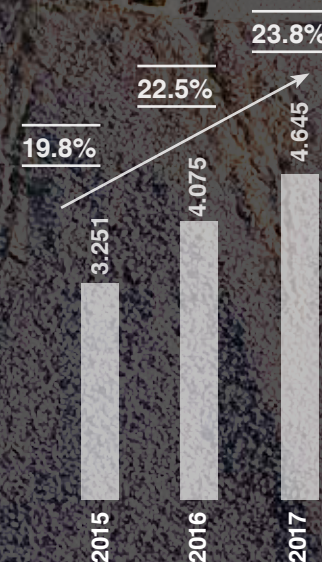
### DELIVERY OF PROJECTS

- Delivery of cement plant in Arcos, Minas Gerais
- Maintenance of blast furnace 2 at UPV

### FINANCIAL MANAGEMENT

- Financial discipline and persevering liquidity
- Focus on recovering cash generation
- Implementing actions aimed at financial deleveraging

## Adjusted EBITDA and adjusted margin (%)



## FINANCIAL INDEBTEDNESS

As of December 31, 2017, the Company's total indebtedness was R\$29.511 billion, R\$6,527 of which was short-term debts, and R\$22,984 long-term. The Company's net debt totaled R\$26.1 billion, against R\$25.5 billion as of December 31, 2016, representing a 2% increase, especially as a result of the depreciation of the Real against the US dollar, which affected its dollar-denominated loans and financing facilities, cash reduction due to repayment of principal, and interest in the amount of R\$4.2 billion.

As of December 31, 2017, the Company had a current liquidity ratio of 1.11, compared to 2.26 for December 31, 2016 and 3.23 for December 31, 2015. This 51% decrease as of December 31, 2017 was due to a cash reduction arising from the repayment of loans and from debt servicing payments, as well as increased short-term debts, part of which already renegotiated with Banco do Brasil, while negotiations with Caixa Econômica closed on August 8, 2018.

On February 13, 2018 additional funds were raised abroad in the amount US\$350 million, which were used to buy back part of the following debt securities: (i) 6.875% Senior Unsecured Guaranteed Notes maturing in 2019; and (ii) 6.50% Senior Unsecured Guaranteed Notes maturing in 2020.

The exchange rate exposure amounted to US\$1,740 million, inclusive of US\$1.0 billion worth of loans and financing liability. The hedge accounting in place at CSN correlates the project export flow in dollars with part of the future debt repayments in the same currency. As a result, the exchange rate fluctuation for part of the dollar-denominated debt is temporarily recorded in shareholders' equity, and then taken to income when dollar-denominated revenues from exports come in. It is CSN's strategy to renegotiate and advance the payment of debts with a view to both reducing interest and boosting the Company.

## INVESTMENTS

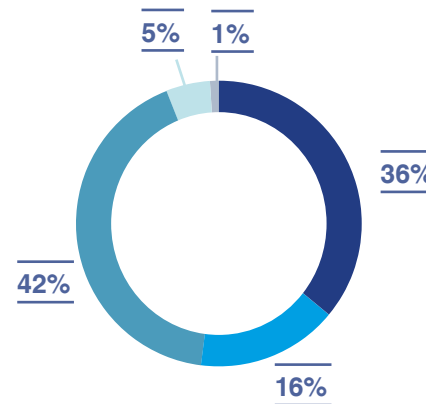
Investments for 2016 totaled R\$1.638 billion and were allocated to all of the Company's lines of business. Despite the unfavorable scenario, CSN understood that it should take advantage of the market contraction context to invest in its assets and further prepare itself for an economic upturn. Investments were made in the amount of R\$380 to upgrade facilities and expand their capacity. Of that amount, R\$42 million was used for maintenance of blast furnace 2 at UPV, which, after a 9-month downtime, was re-commissioned in October. The blast furnace maintenance service has added more than 5 years to its service life.

CSN also invested in refurbishing its coke plant to recover the furnaces in which coke, one of steelmaking main inputs, is produced. Production and, especially, the cost of steel are directly linked to the amount and quality of the coke produced. At the end of the refurbishment, the Company's coke capacity will rise, making it less dependent on coke imports. In addition, refurbishment will enhance the performance of the blast furnaces, of the flat-rolled steel plant and the generation of fuel gas, which is channeled into the thermal power station and turned into energy, yielding both cost savings and environmental gain.

Always seeking to use the best technologies and innovations in order to improve its processes, CSN also invests in upgrading automation at its steelworks, in line with the 4.0 industry standards. In this regard, it installed automatic packaging and robotic product identification systems, which are expected to impart greater reliability to the process and ensure employees' safety. Implementation is expected by the completed in 2107.

### Investments Made in 2016

■ R\$ 596 million	Steelmaking
■ R\$ 257 million	Mining
■ R\$ 692 million	Cement
■ R\$ 82 million	Logistics
■ R\$ 11 million	Other



For 2017, investments made by the Company totaled around R\$1.065 billion, and the highlights are as follows:

#### STEELMAKING

- R\$481 million, particularly for UPV (Rio de Janeiro)
- Refurbishment of coke plants
- Environmental projects (TAC-UPV)
- General equipment repairs and technological upgrade projects

#### MINING

- R\$378 million in increasing pellet feed capacity using tailings disposed of into the dams
- Current investments in dams
- Iron ore quality improvement

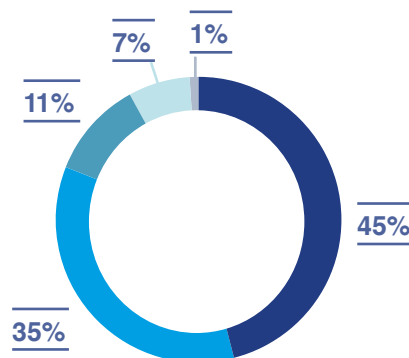
#### CEMENT

- R\$118 million to complete expansion projects in Arcos, Minas Gerais
- New clinker furnace

Maintenance projects at the other sites and some R\$88 million worth of investments in logistics operations, such as FTL and Tecon, as well as information technology.

### Investments Made in 2017

■ R\$ 378 million	Steelmaking
■ R\$ 481 million	Mining
■ R\$ 118 million	Cement
■ R\$ 76 million	Logistics
■ R\$ 12 million	Other



## RISKS AND OPPORTUNITIES

GRI 102-11, 102-15, 103-1, 103-2, 103-3 – Risk Management and Opportunities

The Company is exposed to market risks that are inherent to its business. Risks may arise from variation in interest and foreign exchange rates, as well as prices of raw materials, which can adversely affect the value of financial assets and liabilities, cash flows or future results.

On the operating front, CSN's activities and those of its subsidiaries depend on authorizations, permits, licenses and concessions from regulatory agencies, including environmental permits for infrastructure projects and concessions, such as port and railway terminals.

Regarding market, over and above direct steel imports, the Brazilian industry also faced competition from imported finished goods, which affects the entire steel supply chain. Operating with significant idle capacity during periods of low demand can expose the Company to higher production costs per unit.

More details about risk factors and the methods used to mitigate such risks can be found in CSN's Reference Form, available on the website of the Brazilian Securities Commission ([www.cvm.gov.br](http://www.cvm.gov.br)) and of the Company's Investor Relations website ([www.csn.com.br/ri](http://www.csn.com.br/ri)).

## VALUE CREATION CAPACITY

In addition to being attentive to its financial performance, CSN also prizes mitigation of environmental impacts for the sake of sustainable development and the well-being of future generations. Learn more about our environmental management on the following pages.





# Efficiency

## NATURAL CAPITAL

GRI 103-1, 103-2, 103-3 – Sustainability Strategy, 103-1, 103-2, 103-3 – Environmental Performance

CSN's activities require the use of natural resources such as water, minerals, energy, etc. These inputs are necessary for the Company to operate and are considered in the allocation of financial capital to potential opportunities or investment risks, as well as environmental impact risks. The management of resources is directly associated with best market practices, compliance with the laws in force, and permanent process assessments aiming at the lowest impact from externalities.

CSN uses Social and Environmental Management tools and Sustainability tools with a view to creating sustainable value and managing social and environmental risks, while optimizing and adding efficiency to the use of natural resources and control of potential impacts. These tools are also used to establish, consolidate, exchange and share best corporate practices pertaining to this theme. Furthermore, through CSN Foundation, not only does the Company establish bonds with the communities based in the areas where it operates, but is committed to them. Information about the project is available on the CSN Foundation's website ([www.fundacaocsn.org.br](http://www.fundacaocsn.org.br)).



## 1. What CSN needs to create value (inputs, resources)

- Natural resources;
- Mineral resources;
- Industry regulations and laws;
- Permits;
- Utilities (technologies, energy, fuels, by products).

## 2. What CSN does to create value (activities/products/services/processes)

- Steelmaking process gases reused to produce energy;
- Assessment of environmental impacts;
- Monitored consumption of natural resources;
- Recycling of process water;
- Preservation and valuation of the natural capital by optimizing resources; and stimulating system effectiveness: circular economy;
- Investment to reduce environmental impacts.







### 3. Impacts on capital (outputs)

- Water catchment by source;
- Energy consumption;
- Energy production installed capacity to serve all operations;
- Feasibility study ongoing for co-processing waste to reduce fossil fuel consumption;
- Reuse of around 70% of the slag from cement processing.

### 4. Value Created (result)

- Supply of finished product for applications in various sectors of the economy, with excellence and optimized waste management;
- Clean energy, sludge recycling, waste recycling, ferrous scrap reuse, and noise reduction;
- Environmental recovery;
- Eco-systems preserved;
- Decrease in consumption of natural resources;
- Efficiency in internal processes;
- Process assessments aiming to diminish the effects of climate change.

# ENVIRONMENTAL MANAGEMENT

GRI 201-2



For the year 2017, spending on the environment (including capitalization and funding) amounted to R\$326 million, R\$38 million of which refers to capital expenditures (CAPEX), and R\$287 million to operating expenditures (OPEX). The total environmental expenses for 2016 amounted to R\$369 million. Investments were made in more sustainable operations, among them the building of new Effluent Treatment Plants (ETPs) at UPV, in the state of Rio de Janeiro.

Environmental investments were primarily related to: (I) operation and maintenance of environmental control equipment; (II) environmental studies conducted to secure permits; (III) environmental control and monitoring; (IV) human resources (environment team); (V) Environmental Management System (SGA); (VI) sustainability projects; and (VII) compliance programs.

Every CSN operation site has a local Environment team to support the processes, and their mission is to provide quality, innovative, local environmental solutions. To this end, the teams monitor every environmental investment and spending, especially those related to the operations and the maintenance of environmental control equipment, development of studies for offset opportunities, monitoring and projects for compliance with the conditions attached to environmental permits.

CSN operates in such a way as to minimize the negative impacts of its activities, while investing in environmental preservation and education initiatives. Accordingly, to ensure a healthy and safe workplace combined with the provision of quality products, the Company manages its operations in accordance with its Environment Policy, which is entitled "SEMPRE", a Portuguese acronym for:

**Sustainable Business:** Incorporating sustainability and social and environmental responsibility into the Company's decision-making process.

**Transparent Company:** Keeping permanently open communication channels with all stakeholders in respect of social and environmental affairs.

**Continuous Improvement:** Continuously improving the performance of its activities, considering the environmental aspects an integral part of the processes.

**Protection for the Environment:** Developing and encouraging programs designed to prevent pollution and identify and manage environmental aspects, impacts, risks and opportunities.

**Respect for the Law:** Complying with the environmental regulations in force and any other environmental requirements, while seeking to achieve results that exceed those required whenever possible.

**Education and Training:** Training, educating, raising awareness and encouraging an innovative, participatory and committed behavior in our employees, so they can do their job with a sustainable development and social responsibility mindset.

Accordingly, the Company's Environmental Management System (SGA) is ISO 14001 certified in most of its sites and it keeps an open communication channel with its internal and external stakeholders, known as Green Line. It's the following CSN's business units were granted ISO 14001 certification:

- Casa de Pedra Mine (Congonhas, Minas Gerais)
- CSN Paraná (Araucária, Paraná)
- CSN Porto Real (Porto Real, Rio de Janeiro)
- Bocaina Mine (Arcos, Minas Gerais)
- Prada Distribution (Mogi das Cruzes, São Paulo)
- Sepetiba Tecon (Itaguaí, Rio de Janeiro)
- Presidente Vargas Mill (Volta Redonda, Rio de Janeiro)

The SGA system is being implemented at all other facilities, which have been following a corporate program to progressively move forward, in accordance with the ISO 14001:2015 guidelines.

CSN also works on the preventive side, because knowing the impacts, control and risks inherent in each stage of the operation makes it easier to meet market demands and requirements, while ensuring the activities are in compliance with the law and the process is operationally safe.

In 2016, the Company invested 369 million in environmental protection. In 2017, CSN invested approximately R\$326 million, as shown the table below.

ENVIRONMENTAL PROTECTION SYSTEM				Opex	Capex	Total
Air	Water	Waste	Management			
119,726,579	132,729,716	8,353,041	12,867,810	13,940,467	38,367,570	325,985,182



CSN invests in environmental preservation and education initiatives. The Company manages its operations in accordance with its Environment Policy, which is entitled “SEMPRE”

The drop is due to the current economic scenario, as well as the performance of certain agreements.

The Company makes a provision for recovery costs and environmental lawsuits where the chances of loss are probable and the amount can be reasonably estimated. That provision is included in the Company's financial statements as "Other Operating Expenses". The Company does not record the environmental liabilities related to its subsidiary Estanho de Rondônia S.A. (ERSA) in its financial statements because such liabilities are to be borne by the previous shareholders as a contractual requirement.

On December 31, 2017 a provision for environmental contingencies was made in the amount of R\$255.5 million, which the Company understands to be enough to cover all probable losses.

The most significant provisions for environmental contingencies were associated with the management of environmental liabilities arising from past operations, particularly prior to privatization, such as the remediation of old coal mines in the state of Santa Catarina, which were shut down in 1989, and environmental remediation liabilities arising from past operations in Volta Redonda, Rio de Janeiro.

These provisions compared to R\$273.5 million as of December 31, 2016 and R\$262.3 million as of December 31, 2015. The decrease in the provision for environmental liabilities for 2017 was especially due to a revision of environmental management strategies for the old, external landfill areas in Volta Redonda, Rio de Janeiro and the old coal mine areas in Santa Catarina, and to obligations regarding environmental remediation and management of conservation units for CSN Arcos, in Minas Gerais.



## INVESTMENTS IN PRESIDENTE VARGAS STEELWORKS (UPV) BENEFIT THE ENVIRONMENT

Between 2010 and 2017, CSN allocated R\$747 million to improvement projects at UPV, in Volta Redonda, Rio de Janeiro, aiming to optimize processes, reduce emissions of particulates, expand waste recycling, and reduce the consumption of natural resources. The investments were channeled to two priority work fronts: water resources, and air emissions.

The projects that were implemented involved, for example, the reuse of water in the carbochemical cooling system, and improved air emission control at the steelworks. In addition, the Company keeps conducting studies with a view to expanding process waste recycling at UPV.

The results of such investments include:

- Increase in water and effluent reuse rate to 94%;
- Minimized contamination risk in the Paraíba do Sul river;
- Reduced emissions of particulates;
- Recycled waste rate of 98%, with 2% disposed of into a landfill.

## COMMITMENT

GRI 307-1

CSN has committed to investing in improvement of production processes at UPV under a Consent Decree (TAC) signed with the state government of Rio de Janeiro on October 4, 2010 (“TAC 26/2010”).

TAC 26/2010 provided for solutions to unresolved environmental problems and ensured full continuity of the business operations, stimulating an investment of R\$216 million, which, amount, after more specific and detailed information was obtained concerning project costs, was updated to R\$260 million. An addendum to TAC 26/2010 was executed in October 2013 concerning some of the obligations under the agreement, as well as the addition of new obligations specified by the environmental agency, which resulted in an additional investment of R\$165 million, which has already been made by CSN.

In view of the expiration of TAC 26/2010 in 2015, a new TAC was executed by CSN, the State of Rio de Janeiro and the INEA (“TAC 03/2016”), requiring new investments in the amount of R\$178.4 million for adjustments at UPV, payment of environmental fines in the amount of R\$15.9 million, and payment for a compensatory measure worth R\$6 million. Such amount was allocated to environmental programs around the Volta Redonda area. For the duration of TAC 03/2016, UPV has been allowed to be in full operation under Environment Permit No. IN034283 (“AAF”).

In the context of TAC 03/2016, upon expiration of the AAF, Environmental Permit No. IN042958 was obtained under CECA/CFL Decision No. 6.141 of December 7, 2017 (“AA”), the full wording of which was published in the Rio de Janeiro State Official Gazette of December 8, 2017, page 13, provisionally ensuring UPV’s full operation until June 20, 2018 (180 days).

In addition, studies were conducted with the support of an outside consulting firm to examine the environmental conditions in the Volta Grande IV district, after a report of suspected soil contamination in that area of Volta Redonda, Rio de Janeiro. Based on the results, we can say that no chemical compounds were found, in any quantities or at any places, which could damage the health of the local population. With the support of the local Environment and Communication teams, the Company organized events to share this information with the community.

With regard to its mining operations, CSN was notified in March 2016 that a civil class action was filed against it by the State of Minas Gerais and the State Foundation for the Environment (FEAM), challenging the stability of the containment structure named BAIA 4, which was set up in an industrial area to collect fines from the iron ore filtration process. Such action was based on outdated information. CSN filed its answer, clarifying the facts and demonstrating the structural stability of BAIA 4, according to the relevant audit report. Following the clarifications provided by the Company, the plaintiffs dismissed the case. CSN kept constant dialog with the local population with a view to providing information on the workings of the dry and downstream tailings dam.

In May 2017, CSN entered into a Consent Decree with the Minas Gerais State Department of the Environment and Sustainable Development (SEMAD) as part of the application for a corrective license to operate so that environmental adjustments could be made to enable operation of a mineral treatment plant, given that the Environmental Adjustment Office of SEMAD had attested to the technical feasibility of the business venture provided that the specified control measures specified were taken.

On June 19, 2017, CSN entered into a Consent Decree with the Minas Gerais State Department of the Environment and Sustainable Development, as part of the

application for a corrective license to operate so that environmental adjustments could be made to enable operation of the business of reusing minerals disposed of into dams.

Furthermore, in October 2017, CSN Mineração entered into another Consent Decree with the Minas Gerais State Prosecution Office committing to implement in the Casa

de Pedra Dam facility certain measures set out in the Mining Dam Emergency Action Plan (PAEBM), among them some of those specified in a technical opinion issued by the State Prosecution Office's Technical Support Center (CEAT/MPMG). The document also provides general recommendations on location, construction works, dam types and audits for Casa de Pedra Dam facility B4 and B5.



### **CSN MINERAÇÃO CARRIES OUT WORKS FOR INSTALLATION OF A MAGNETIC CONCENTRATION PLANT FOR DAMS B4 AND B5**

CSN Mineração invested R\$54 million in construction works to set up a high-intensity magnetic separation plant for dams B4 and B5 at the Casa de Pedra site. The plant is going to extend the dams' service life and reduce its environmental impacts by generating less waste. In addition, it is going to contribute to expanding production at Casa de Pedra by generating high-grade iron ore.

With capacity to produce 1.1 million metric tons of pellet feed per year, the new processing plant has four high-intensity magnetic separators and processes both the iron ore tailings disposed of into dams B4 and B5 at Casa de Pedra and the waste from the central plant.

Complete in 2017, the project involved about 250 professionals.

## WASTE

GRI 103-1, 103-2, 103-3 – Waste Management, 301-1, 306-1, 306-2

Because it handles large amounts of industrial waste — 600 kg of waste and byproducts for every ton of steel produced — the Company understands that reusing and finding new purposes for it are important steps towards reducing consumption of raw materials and natural resources. Not only does the Presidente Vargas Steelworks (UPV) receive all of the scrap metal left out by the steel processing plants as raw material, but it also uses environmentally compliant and correct technologies that reduce both the use of the natural resources and the generation of tailings, thereby minimizing waste and preventing environmental pollution.

Currently, about 70% of the waste generated by the UPV operation is either internally recycled or sold by the Special Sales department. Among the main byproducts of the process are blast furnace slag and the products resulting from carbochemical processes. Highlights include the reuse of metals in the steelmaking processes, steelworks slag processing, and use of 100% of all blast furnace slag in cement production.

The two-year period saw a process of restructuring and acculturation in the area, encompassing the mapping of byproducts from the plants, the hiring of new employees, and a change in the frequency with which auctions occur, as they are now held daily by CSN's own system, with the support of the intelligence of the IT team.

The rearrangement contributed to creating more value on both the environmental and corporate fronts, and enhancing efficiency, as evidenced over the year of its implementation, in 2016, as sales grew 100% in 8 months' time.

In addition, the Special Sales and IT departments will be working together at implementing a system that allows for traceability through to the time of sale, thus ensuring the process is closed. The Special Sales department is also working with CSN Cimento to implement the co-processing technology, which entails using industrial waste as a substitute for the fuel used in cement making, upon granting of the appropriate environmental licensing.

CSN generated about 4.0 million metric tons of waste in 2017, 99.3% of which is non-hazardous. The disposal of waste from across CSN is performed by third parties.

At CSN Mineração, all processes are run according to the PO 000053 - Waste Management procedure, which describes in detail the classification, the proper way of sorting the waste, and the internal storage at the site.

### Types of Waste Generated (in 1,000 metric tons)

	Steelmaking			Mining			Logistics			Cement		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Hazardous Waste	70.44	14.37	26.30	2.23	1.12	0.86	0.39	0.13	0.78	0.09	0.16	0.19
Non-Hazardous Waste (in tons)	2,981.17	2,965.69	3,975.00	13.88	15.62	19.95*	10.35	15.47	13.20	0.9	1.11	8.94**
<b>Total</b>	<b>3,051.61</b>	<b>2,980.05</b>	<b>4,001.30</b>	<b>16.10</b>	<b>16.73</b>	<b>20.81</b>	<b>10.74</b>	<b>15.59</b>	<b>14.00</b>	<b>0.99</b>	<b>1.27</b>	<b>9.14</b>

\*The increase is due to improvements in the management and accounting process. \*\*Due to the start-up of the cement plant in Arcos, Minas Gerais.





## PROCESSING OF STEEL AGGREGATE

CSN has recently been contacted by several stakeholders for information on the steelmaking slag and steel aggregate processing process. Processing of steelmaking slag consists of magnetically recovering metals that go back into the steelmaking process. The non-metal part, known as steel aggregate, is sorted into different particle sizes and temporarily stored in a yard outside the Presidente Vargas Steelworks, known as Pátio Volta Grande. The Volta Grande yard is owned by CSN and has an area held on free lease by Harsco Metals, which runs the processing plant there. Harsco specializes in processing this type of material, complies with all relevant environmental regulations, and has a valid environmental permit to do business at the site.

“Steel aggregate” basically consists of magnesium, aluminum and calcium silicate, which are present in natural aggregates, and all characterization tests under the NBR 10004 standard that provide for the classification of solid waste state that they are class II materials, i.e. characterized as non-hazardous, thereby posing no environmental or health risks whatsoever. Concerning applications, it is sold by Harsco for different purposes, particularly for paving and earthwork. Such uses are widespread and represent an environmental gain in view of the reduced use of non-renewable, natural resources, such as those from mining rocks, sand and other primary materials. It is worth pointing out that the use of steel aggregate has been recently certified by the DNIT for use on federal railways through the drafting and approval of two Technical Specifications, namely, DNIT 406/2017 – ES – Granulometrically stabilized base with Gravel Steel– Service Specification, and DNIT 407/2017 – ES – Granulometrically stabilized subbase with Gravel Steel.

As for the questioning about the amount of steel aggregate being stored, CSN reiterates that it is a licensed yard and clarifies that the entire area is surrounded by a draining gutter that sends rain effluent to a single spot, known as “lung tank”, where it is reused for wetting internal roads at the yard and/or sent out to the effluent treatment plant. The piles of material are stable and pose no risk of sliding, and efforts have been undertaken towards finding more sustainable applications in which steel aggregate can be used more extensively, such as using it in the composition of cement.

CSN is negotiating with public bodies to donate part of this material to the recovery of Rio de Janeiro’s side roads.

## ENERGY

GRI 103-1, 103-2, 103-3 – Energy Management, 302-1, 302-4



As one of the country's leading energy consumers, CSN has a Corporate department responsible for managing its share in the energy sector. This department assesses consumption, identifies opportunities, and makes energy consumption and purchase projections. The Company has been investing since 1999 in electricity generation projects aiming to ensure the supply of a large portion of its annual consumption. Its assets in this industry are the Itá Hydropower Plant, in Santa Catarina, the Igarapava Hydropower Plant, in Minas Gerais, the Thermal Power Station that reuses steelmaking process gases, and the TRT, or Top-pressure Recovery Turbine, which operate together at the Presidente Vargas Steelworks (UPV) site, in Volta Redonda, Rio de Janeiro.

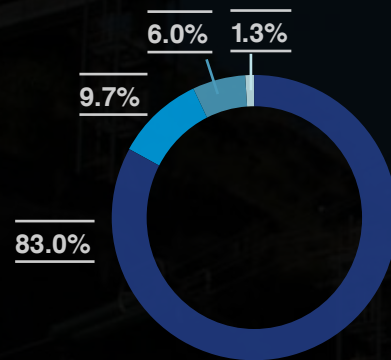
The diversification of the energy matrix was the driver of the project known as Top-pressure Recovery Turbine (TRT), which harnesses the kinetic energy contained in the gases generated by Blast Furnace 3. This process change has been supporting the Company since 2014 by increasing own generation and reducing its environmental impacts, as that kinetic energy operates via gas pressure from Blast Furnace 3.

All of CSN's energy assets have capacity to generate something really close to the amount of electricity that all production plants demand, representing a highly attractive cost avoided, since there is no payment for using the outside distribution grid, no payroll charges, not even an electric bill from the local distributor. Over 2016 the Company rolled out actions focusing on process optimization, such as the improvements to the compressors at CSN Mineração. Among the benefits from these initiatives are savings of electricity at the rate of 57.2%, lower costs, and greater safety for the compressed air system.



CSN is negotiating with public public bodies to donate part of this material to the recovery of Rio de Janeiro's side roads.

## Energy Consumption Percentage by Segment for 2016



- Steelmaking
- Cement
- Mining
- Logistics

## UPV HOSTS THE ALLIANCE PROGRAM CULTURAL SEMINAR

Since November of 2017, CSN has been a voluntary partner of the CNI (National Industry Confederation) in the development of its *Programa Aliança*, or "Alliance Program". The purpose of the program is to improve the industry's competitiveness in Brazil by taking energy efficiency actions.

Through the partnership, the Company intends to hold seminars and present projects focused on energy sustainability, while structuring short- and mid-term actions according to its energy guidelines. While reducing both consumption and costs, CSN aims to incorporate an event into its annual calendar for raising employees' awareness about the matter.

Consumption of Electricity in 2017 (GJ)		Scope 1	Scope 2
Non-renewable fuels	Metallurgical coke / CSN	18,558,176	
	Coal coke / CSN	4,274,670	
	Coal coke / Grounds / CSN	2,160,731	
	Coal coke / Small coke / CSN	290,190.8	
	Diesel / Brazil	34,324.22	
	Steelworks gas / CSN	-0.48	
	Blast furnace gas / CSN	661,260.8	
	Coke plant gas / Desulfurized/ CSN	31,747.48	
	Liquefied petroleum gas (LPG)	3,043.73	
	Natural gas	5,190,163	
	Petroleum coke	168,845.5	
Fuel oil	2.47		
Non-renewable fuels	Electricity / Brazil		1,988,099.88
	Electricity / Renewable energy		108,525.3
<b>Total</b>		<b>31,373,154</b>	<b>2,096,625.18</b>

## WATER

GRI 103-1, 103-2, 103-3 – Management of Water Resources, 303-1, 303-2, 303-3, 306-5



Management of water use has been extensively discussed both globally and locally over the past several years. Factors like population growth, urbanization, lack of sanitation and climate change tend to aggravate the shortage of water resources and/or intensify the rainy seasons. Each region has its own particular water availability characteristics, and many of them already are in a critical situation.

CSN has been prioritizing the management of resources internally, assessing water usage in its operations for efficiency in terms of increasing reuse and recycling. It is also engaged in several outside discussion forums created by trade unions, NGOs and river basin committees, such as the Mid Paraíba do Sul Basins Committee and the Paraíba do Sul River Basins Integration Committee, as well as the Rio de Janeiro State Council of Water Resources and the National Council of Water Resources. The Company has also participated in revisions of ABNT (Brazilian Association for Technical Standards) standards and industry-specific studies conducted by *Aço Brasil*, the industry's leading representative in the country. Management's strategic planning aims to:

- Prevent or respond to any operational crisis resulting from the unavailability, supply and/or quality of water;
- Assure both investors and markets of the efforts CSN has undertaken to ensure water availability to its operations and reduce water-related costs;
- Confirm our corporate values based on sustainable and equitable development by contributing to the well-being of river basins, ecosystems and communities where the company has a presence; and
- Secure CSN's license to operate.

In 2014, CSN was assisted by a specialized outside consulting firm and took the first Water Inventory for the Presidente Vargas Steelworks (UPV), the TECAR and Tecon sites, in Rio de Janeiro, as well as the Casa de Pedra and Namisa (currently Minérios Nacional) sites, in Minas Gerais, using as reference the guidelines of the document entitled "Corporate Water Disclosure Guidelines: Toward a Common Approach to Reporting Water Issues (The CEO Water Mandate)", prepared by the Global Compact in partnership with the CDP, the Pacific Institute, the World Resources Institute, and PWC. The paper provides a comprehensive reference that focuses on operational, economic and regulatory aspects to identify risks and opportunities. The primary goal was to foster knowledge of CSN's relationship with water resources, and therefore enable development of a strategic management planning.

Upon completion of the Water Inventory for its main sites, the Company was able to come up with plans and actions to improve its efficiency and reduce potential impacts. Faced with the potential risk of shortage of water resources, especially in Brazil's Southeast Region, CSN has been carrying out several actions that add efficiency to water use in its production processes, having notably achieved a rate of water reuse in excess of 94% at the Presidente Vargas Steelworks (UPV). To get to this point, CSN implemented in 2017 a water recycling and cooling system in the UPV Carbochemical plant, which resulted in a decrease in water catchment of 3,000 cubic meters per hour from the Paraíba do Sul river. With a budget of R\$80 million, not only did the project raise the site's water recycling rate, but also eliminated any possibility of oil leakage from the site to the Paraíba do Sul river.

For Mining operations, one of the goals is to reduce their impact on water streams, especially in areas where the availability of water is subject to seasonality. For this reason, at CSN Mineração, in Minas Gerais, the rate of water reuse goes as high as 89%. One example is the investment made at former Namisa (currently Minérios Nacional) to install a system for dewatering of tailings within the Pires facility, in Minas Gerais. By extracting and separating the water that accumulates in the resulting tailings, this technology will increase water reuse rate. Another action worthy of note is the use of high-pressure washers in the yard and vehicle areas.

For 2017, water catchment from resources like surface waters, ground waters and rivers, combined with the water supplied by utility companies, totaled 103.6 million cubic meters. The Steelmaking business is the top water consumer, accounting for 83% of total consumption.

A new Effluent Treatment Plant (ETP) started operations in 2016 at UPV, Rio de Janeiro, to eliminate solids before the treated effluents return to the body of water. In

the course of 2017, CSN disposed of around 107.7 million cubic meters of effluents, most of which (87%) coming from the steelmaking business.

Of all water sources significantly affected by CSN's activities, whether due to catchment or to disposal, none is located in a protected area. The Company has a strict system in place for measuring water quality before it returns to the environment, thus ensuring that water being returned has better quality than water collected. No significant leakages were recorded in any of the CSN sites in either 2016 or 2017.

- 94% of the process water at UPV is reused.
- 5% of the water is returned to the Paraíba do Sul river at higher quality level than when taken. The actual consumption is lower than 1%, as a result of evaporation in the steelmaking process.
- CSN has 35 water effluent treatment plants.
- Paraíba do Sul river water quality monitored over a 30-kilometer stretch.
- 38,000 liters of water reused per second, saving a volume big enough to supply the Rio de Janeiro metropolitan area



Water Consumption by Source (in 1.000 cu m)				
	2015	2016	2017	Variance 2016 v. 2017
Surface waters	105,482.26	101,004.55	86,849.41	-14%
Ground waters	6,388.37	6,522.52	4,503.33	-31%
Rain water directly collected and stored by the organization	16,608.93	17,874.69	11,911.03	-33%
Supply from municipal water utility	12,108.86	1,321.78	421.64	-68%
<b>Total</b>	<b>140,588.43</b>	<b>126,723.53</b>	<b>103,685.40</b>	<b>-18%</b>

Note: At some plants of the Packaging business, we use water from regional utility companies.

Planned Water Disposal (in million cu m)												
	Steelmaking				Mining				Logistics			
	2015	2016	2017	Variation 2016 v. 2017	2015	2016	2017	Variation 2016 v. 2017	2015	2016	2017	Variation 2016 v. 2017
Planned water disposal (cu m)	97.39	93.75	80.07	-15%	15.00	13.26	8.26	-38%	36.50	777.19*	7.18	-99%
Treatment method	UPV, Porto Real and Paraná treat their effluents at their own ETPs. The Prada plants have the effluents they dispose of biologically treated.				CSN Mineração treats its effluents at its own ETP, while ERSa has them physically treated.				TLSA has effluents physically treated, while TECAR and TECON have them biologically treated.			

Notes:

1. Part of the effluents disposed of by the Cement business is consolidated with those disposed of by UPV. The effluent volume disposed of by Arcos is not monitored. Its effluents are disposed of into the Green Lake.

2. TECAR and TECON have no disposal meter, and estimating their volume is a complex task because rain waters go into the process. Both of these sites submitted their effluents through biological treatment until 2016. In 2017 the sites adopted the septic tank filtering system. FTL does not monitor any disposal data.

\*The increase is due to the resumption of TLSA construction works and the need for irrigation in the process.

## EMISSIONS

GRI 103-1, 103-2, 103-3 – Emissions , 305-1, 305-2, 305-3



CSN adopts an active stance to consistently manage its liabilities and mitigate greenhouse gas emissions. A management style focused on reusing materials and reducing waste was the decisive factor in making CSN a member of a group of Brazilian companies that, in coordination with *Fundação Ellen MacArthur*, are enlarging knowledge and experiments in global circular economy and disseminating its practices. Accordingly, the Byproducts team was restructured and charged with managing and creating new purposes for materials that were previously disposed of as waste, thus contributing to cash generation and development of the circular economy.

CSN prepares an annual inventory of greenhouse gas (GHG) emissions according to the GHG Protocol guidelines, aiming to support the development of a strategy for carbon management, risk mitigation and adjustment to climate changes. The inventory of GHG emissions is prepared in order to attain the following main objectives:

- Developing the strategic management of climate change at CSN.
- Taking part in GHG emission reporting programs, in compliance with federal and state laws.
- Reporting emissions for accountability and transparency toward shareholders and stakeholders.
- Managing and controlling emissions-related risks and opportunities.
- Identification of cost cuts from GHG emission reduction initiatives.

By collecting data and individually analyzing each site, the Company can determine the appropriate performance indicators, which are directly tied to operating costs given that emissions are related to production efficiency.

Because of its integrated operating model, CSN boasts significant production efficiency improvements that lead to lower carbon emissions, among them:

- The mining–port–plant interconnection via the railway system, minimizing road logistics emissions;
- Cement production using blast furnace slag, a byproduct specific to the steelmaking process, reducing the use of clinker and, as a result, GHG emissions;
- A diversified energy matrix, with a stake in two hydropower plants;
- Reuse of steelmaking process gases for co-generation of electricity through the Thermal Power Station equipped with a top recovery turbine at the Presidente Vargas Steelworks, located in Volta Redonda, Rio de Janeiro.

The methodology used to prepare the emission inventory is consistent with key regulations governing the subject matter, using the following references:

- NBR ISO 14064.1
- GHG Protocol Corporate Standard (Revised Edition)
- IPCC (Intergovernmental Panel on Climate Change)
- Regulatory requirements—applicable regulations

The process of preparing the GHG emission inventory involves a multidisciplinary team and the participation of more than 80 people from the 15 sites where emissions are being calculated.

The emission inventory is published with a view to demonstrating the Company's transparency regarding the challenges posed by global climate change. For the third year in a row, CSN received the GHG Protocol Gold Seal for reporting the emissions from all of its sites and for having them independently verified by third-party organizations.





Presidente Vargas Steelworks (UPV)

The Company may therefore confirm that its emissions remain practically stable. Part of the slight reduction in emissions from 2014 to 2015 can be attributed to a reduction in thermal power generation and increased use of energy from the grid resulting from power purchase agreements. Another contribution to reducing emissions was provided by renewal of the fleet of vehicles at CSN's main mine, Casa de Pedra, located in the municipality of Congonhas, Minas Gerais, resulting in lower consumption of diesel.

CSN permanently monitors air quality in the regions where it operates in order to ensure air quality and air quality control in the cities involved. In Volta Redonda, Rio de Janeiro, for example, the information generated is interconnected to the system run by the Institute for the Environment of the State of Rio de Janeiro (Inea-RJ). Stacks are uninterruptedly monitored to meet the air quality parameters set by Brazilian environmental agencies.

The Araucária plant was awarded the Clima Paraná seal by the Department for the Environment and Water Resources of the State of Paraná. The purpose of the seal is to certify that the carbon footprint of Paraná-based companies is accounted for and

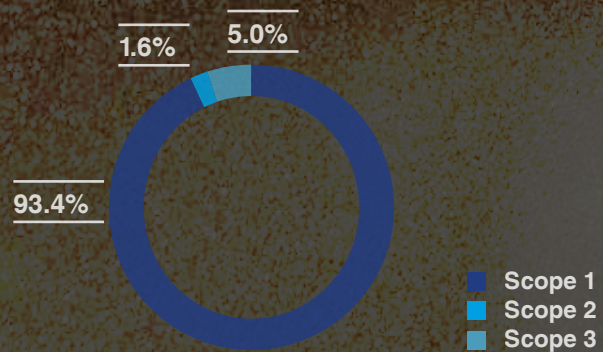
disclosed, encouraging reductions in greenhouse gas emissions. CSN was awarded the "Gold" seal, the highest category, evidencing its concern for the environment and respect for the environmental laws in force.

In addition, all trucks owned by chemical and fuel suppliers driving around CSN's plants are previously checked for any nonconformity. Vehicles with diesel engines are also sample- tested for black smoke control.

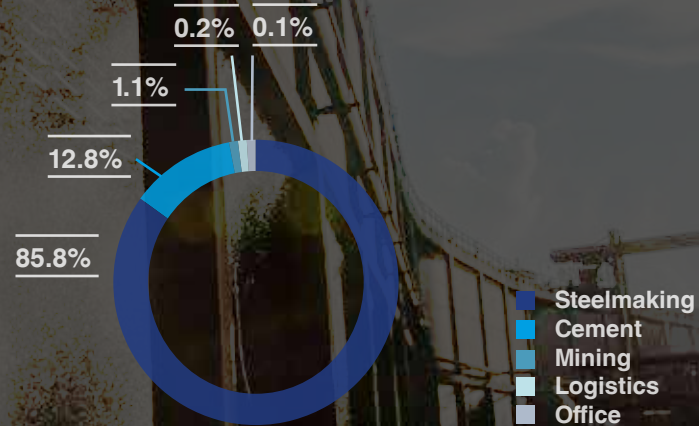
	2015	2016	2017
Scope 1	12,164,524	10,972,195	14,577,163
Scope 2	319,842	210,893	245,959
Scope 3	685,785	832,753	787,506

Note: The difference from one year to the other was especially due to the increased steel production at UPV and increased clinker production at CSN Arco. Steel production grew around 40% relative to the year 2016, while clinker production rose by 85%.

## Percentage of CO<sub>2</sub> Emissions for 2017



## Percentage of CO<sub>2</sub> Emissions (Scope 1) by Segment



Notes: Scope 1: Direct GHG emissions from sources owned or controlled by the organization.

Scope 2: Indirect GHG emissions from the generation of electricity purchased and consumed by the organization.

Scope 3: An optional reporting category considering other indirect emissions that do not fit in scope 2. They are a consequence of the organization's business, but occur at sources that are neither owned nor controlled by it.

CSN was responsible for 14.5 million tons of CO<sub>2</sub>e (tCO<sub>2</sub>e) emissions for scope 1, 245,900 tons of CO<sub>2</sub>e (tCO<sub>2</sub>e) emissions for scope 2, and 787,500 tons of CO<sub>2</sub>e (tCO<sub>2</sub>e) emissions for scope 3 over the course of 2017. Scope 1 emissions represent 93.4% of the total, meaning that most direct GHG emissions are from sources neither owned nor controlled by the organization, as shown in the chart above. Relative to 2016, there was an increase in emissions due to a rise in production. Within scope 1, 85.8% of CSN's emissions originate from the Presidente Vargas Steelworks, in Rio de Janeiro, and another significant share is associated with cement production.

The main scope 1 emissions are from UPV, in Rio de Janeiro, and from the Arcos cement plant, in Minas Gerais, which are primarily associated with the steelmaking and clinker production processes and the stationary combustion in connection with these processes.

The 2016 inventory of greenhouse gas emissions was audited by BVC (Bureau Veritas Certification), and the 2017 inventory, by Green Domus.



## BIODIVERSITY

GRI 304-1, 304-2, 304-3



Some CSN plants are located in regions that include protected areas, such as legal reserves, permanent preservation areas, private natural heritage reserves. CSN proposes to monitor and determine drivers for producing and organizing

biodiversity information and data, ensuring continuous improvement in knowledge management.

The Mid Paraíba do Sul Territorial Management program, for example, contemplates a soil use and occupation mapping of the mid Paraíba do Sul river basin, identifying priority areas for environmental recovery and restoration, with a total of 6,426 square kilometers worth of satellite imaging analyzed for structuring a database.

Near the cement and steelmaking operations in Volta Redonda, Rio de Janeiro, lies the Hemlock Forest Area of Ecological Interest (ARIE), with 131.28 hectares covered by the Brazilian Atlantic Forest biome. The conservation unit for sustainable use is owned by CSN and is part of the mid Paraíba river sub-basin. Out of its total area of 131.28 hectares, 85% is located in Barra Mansa, Rio de Janeiro, and 15% in Volta Redonda, Rio de Janeiro. The area has both local and national significance in terms of preservation of natural resources that remain untouched in the region. Aware of that significance, the Company supports and works together with *Instituto Chico Mendes de Conservação da Biodiversidade* (ICMBio) in environmental management.

In addition, CSN Mineração has a Legal Reserve area covering 1,522.16 hectares, of which 977.88 hectares are located in Congonhas, and 544.28 hectares in Ouro Branco, both in the state of Minas Gerais. The Brazilian Atlantic Forest is the prevailing biome in that reserve. Furthermore, the Company owns a Private Natural Heritage Reserve covering a total of 436 hectares in Queluzito, Minas Gerais. The tree species that can

be found in these areas include the red ipe, pink cedar, candeia palm, copaiba, inga, jequitiba and cinnamon.

The key environmental value of this vegetation for CSN Mineração is maintaining the biodiversity of an area where forest formations and villages interconnect and surround the mining areas, offering refuge spots and food sources that sustain the wild fauna and the fauna at the local river basin.

### Newly Purchased Land in Santa Catarina

CSN is working on the environmental recovery of an area of 1,130 hectares in Criciúma, Santa Catarina, where coal quarrying and mining activities were performed between 1940 and 1980. In progress since 1998, the recovery work has favored the return of animal species, such as skunks, capybaras, teals and other birds. The flora is also undergoing a revitalization process, and plants that are now thriving could not develop before the recovery efforts due to the high acidity levels of the local water courses.

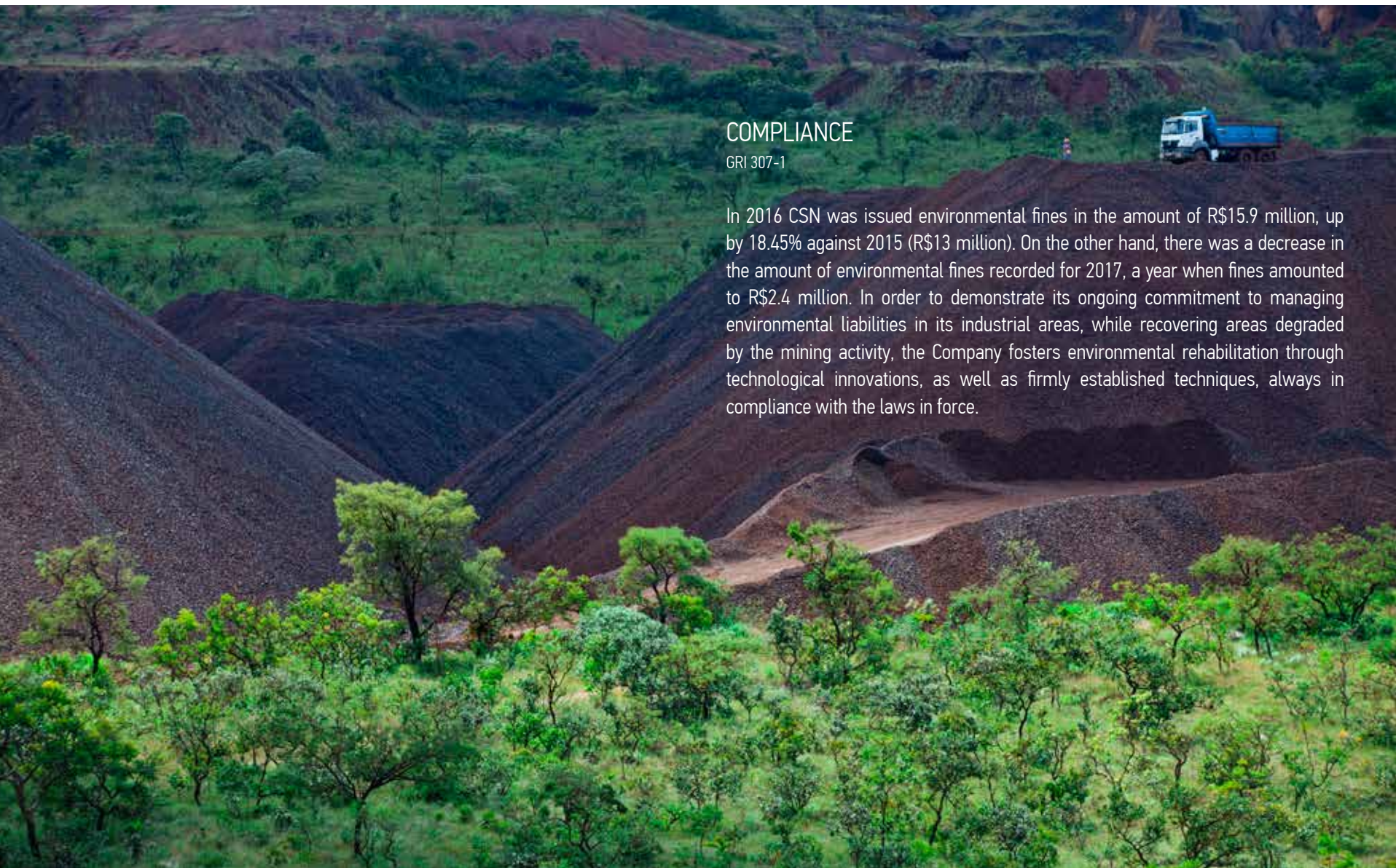
The impacts of those activities included changes in the quality of surface and ground waters, of the soil and topography, erosion, and suppression of vegetation. For this reason, part of the job consists of enriching the soil and planting trees that are native to the Brazilian Atlantic Forest, in an attempt to attract animals and other plant species. Additionally, environmental monitoring is carried out to determine whether the ecosystems are developing with quality and sustainability. To this date, none of the region's tree species has been considered threatened with extinction.

In 1998, under a Consent Decree, Brazil's Federal Prosecution Office ordered the companies that had exploited coal in those locations to recover them and restore their biodiversity. CSN has invested R\$83.7 million since then, having completed work on 546 hectares. The successful recovery efforts are crucial and reflect CSN's commitment to reclaiming the quality of life and biodiversity of areas that were impacted by its operations in the past.

## COMPLIANCE

GRI 307-1

In 2016 CSN was issued environmental fines in the amount of R\$15.9 million, up by 18.45% against 2015 (R\$13 million). On the other hand, there was a decrease in the amount of environmental fines recorded for 2017, a year when fines amounted to R\$2.4 million. In order to demonstrate its ongoing commitment to managing environmental liabilities in its industrial areas, while recovering areas degraded by the mining activity, the Company fosters environmental rehabilitation through technological innovations, as well as firmly established techniques, always in compliance with the laws in force.



## VALUE CREATION CAPACITY

In addition to a balanced environment, CSN acknowledges the importance of well-being at the workplace, which is why it maintains employee retention, training and career planning programs. Learn more about people management in the following pages.





# People





## HUMAN CAPITAL

GRI 103-1, 103-2, 103-3 – Employment and Development

CSN's people management model presupposes that its employees are its competitive edge and the best assurance that the Company will stand out in the markets it serves. CSN's actions are underpinned by five pillars, namely, attract, align, assess, develop and reward, all of which are in line with its strategic mapping and its very essence. These two elements guide not only our policies and metrics, but also the processes and systems contemplated by our management model. The combination of these factors results in engagement of employees and retention of talents, one of its major assets, in addition to enabling targets to be met, challenges to be overcome and objectives to be fulfilled.

## 1. What CSN needs to create value (inputs, resources)

- Governance and organizational structure;
- Policy, metrics and processes;
- Communication mechanisms;
- Tools suitable for the job;
- A safe and healthy environment;
- Workforce aligned with the organization's culture;
- Employees (24,042);
- Recruitment and selection.

## 2. What CSN does to create value (activities/products/services/processes)

- Dissemination of CSN's essence;
- Development and training programs;
- Talent promotion;
- Compensation and benefits;
- Employee retention (ratio of job openings filled internally).





### 3. Outputs

- Technical skill;
- Increase in productivity;
- Respect for employee and human rights;
- Contribution to local development;
- Agile responses to the marketplace.

### 4. Value Created (result)

- Reputation;
- Strong corporate vision;
- Integrity of life;
- Committed people;
- Sense of corporate belonging;
- Ethical conduct and transparency;
- Contribution to a high-performance culture;
- Pro-active, committed and accomplished professionals.

# EMPLOYEES

GRI 102-7, 102-8, 102-41, 202-1, 405-2



CSN's people management model presupposes that its employees are its competitive edge and the best assurance that the Company will stand out in the markets it serves. CSN's actions are underpinned by five pillars, which combine to result in engagement and talent retention.



## Attract

We want people of different levels and profiles who identify with our culture and values and who contribute to the Company's growth. We seek talents that can balance competencies v. deliveries v. attitudes and show potential for their future, aiming at high performance within the organization and the perpetuity of our business.



## Align

Through corporate actions and programs, we engage our employees in the Company's culture, essence, mission, vision, values, code of ethics and strategic drivers, so as to have them motivated and committed to our corporate guidelines, thereby strengthening the CSN brand and the pride of belonging to it.



## Assess

We monitor the performance (performance v. competence) of our staff, encouraging self-awareness and the development of people and teams. This monitoring action supports management practices and fosters a meritocracy culture, as well as an environment of continuous development, high performance and transparency.



## Develop

We believe in the personal growth of each employee who helps to write the history of CSN. The development of our team is one of our priorities, aiming at a culture of high performance and ensuring in-company successions.



## Reward

We recognize and reward those employees who show unique performance, creating opportunities for them to grow in direct proportion to the results they achieve.

At the close of 2017, CSN had 24,042 employees, 88% of whom were men, and 12% women. Most employees work in the steelmaking business, followed by mining and logistics.

	2015	2016	2017
Company employees	23,279	23,000	24,042
Third-party employees	19,062	12,729	10,509
<b>Total</b>	<b>42,341</b>	<b>35,729</b>	<b>34,551</b>

Note: All Company employees are covered by collective bargaining agreements.

### Employee Breakdown by Business for 2017



## INTERNSHIP AND YOUNG APPRENTICE PROGRAMS

The Company also has a program in place directed at interns from technical level courses, as well Young Apprentices. In 2016, CSN had 601 young apprentices in its staff working at all sites. The number for 2017 was 464. The purpose of this initiative is to contribute to the academic education of interns by developing skills and characteristics that will be important throughout their careers.

The Internship Program has also been redesigned to emphasize job development. The Company's model is intended to accelerate the development of young people, training talents with potential to take permanent positions in the mid and long terms, according to each intern's development interests as well as organizational requirements. The program also contributes to the country's development through education and professionalization.

## TRAINING

GRI 404-1



CSN training is divided into Corporate, Functional and Mandatory modules. The units are responsible for the Training Requirement Survey (LNT), a procedure described in the Company's training policy. This policy provides mechanisms for assessing programs implemented, thus enabling changes to be made in the event that a significant issue is identified.

CSN prizes the retention of talents having the requirements of knowledge and experience for their lines of work. Our employees' compensation is determined by their performance, how they discharge their duties, and compatibility with the salaries being paid in the market. At CSN, the lowest salary is the national minimum wage, and it is paid to minors working in an apprentice capacity. The average salary paid by the Company is R\$2,816.78 for men, and R\$3,309.19 for women. The Company has embraced the practice of keeping its employees' average salaries above the national minimum wage.

The Company has since 2016 had a variable compensation methodology in place. It is based on individual performance assessments and the results achieved by CSN and is paid as part of the Profit-Sharing Program. In this respect, a systematic assessment process has been developed whereby employees are assessed by their respective leaders. Targets are set and career plans are structured based on the results of such assessments.

While being paid a fair, market-compatible compensation, employees are also given benefits in excess of those required by the applicable laws, as agreed upon with their respective unions. A significant number of Company employees and employees of some service providers are represented by labor unions and benefit from collective salary raises or other bargaining agreements, which are subject to periodic renegotiations.

CSN constantly seeks to fulfill its social responsibility role. To that end, the Human Resources office created in 2010 a social inclusion program entitled "*Programa Incluir*", which aims to attract and integrate professionals with special needs.



	2016	2017
Average number of training hours per employee	14.50	5.45
Women	10.48	6.5
Men	15.16	5.29

◦ **SCHOOL OF LEADERS**

Since 2011, CSN has invested in School of Leaders, which is intended for managers and executives. It provides training to build transformational leadership and to expand the organizational culture, which is fundamental for generation of value. Between 2016 and 2017, the following modules were covered: Self-Awareness for Coordinators, Supervisors and Managers; First Management Challenges for Coordinators and Supervisors; Passionate Leadership and Leading Leaders for Managers; The Dimensions of Leadership for Senior Management.

◦ **THE KNOWLEDGE MERRY-GO-ROUND**

These are courses given by the Company’s executives and employees who have specific knowledge of given academic areas. They are intended to promote ongoing learning for CSN employees and to distribute knowledge in order to expand intellectual capital. In 2017, there were 923 applications for the knowledge merry-go-round program.

◦ **EDUCATIONAL INCENTIVES**

CSN provides study grants for technical, undergraduate, graduate, MBA and language courses. The program consists of educational incentives created to support an employee over the duration of the course in order to increase and improve his or her knowledge.

◦ **THE TRAINING MATRIX**

This was created to establish a method that allows the development of employees’ knowledge and skills to perform procedures established by CSN. It seeks to ensure employees are skilled and independent and give them a sense of ownership to achieve the results projected by the units.

## ASSESSMENT OF DEVELOPMENT

GRI 404-2

The organization maintains several strategies to ensure appreciation and incentive for the development of its internal personnel. One such incentive is the *SuperAção* Program, which is a performance assessment system for all CSN group employees. The results obtained shall guide the individual development plan, identify potential successors and support the recognition and reward process.

## COMMUNICATION WITH EMPLOYEES

The internal communication area is responsible for integrating several CSN departments in order to maintain a direct and flexible relationship with employees. The Company has various communication channels, including an internal television channel, as well as printed and digital publications that are available on the intranet and by emails. The contents encompass issues such as CSN operations and business, as well as campaigns on health, safety and environmental issues.

## THE RETIREMENT PREPARATION PROGRAM

The retirement preparation program is intended to provide information and prepare the internal public for the retirement phase through lectures and dynamics on social ties, financial issues, entrepreneurship, physical and mental health. Furthermore, active employees exchange experiences with retirees and community groups to build new life and career plans. This initiative is the product of a partnership between CSN and CBS.

## CBS PREVIDÊNCIA

GRI 201-3

Founded in 1960, the Companhia Siderúrgica Nacional Employee Pension Fund (CBS – Caixa Beneficente dos Empregados da Companhia Siderúrgica Nacional) is a closed private pension fund entity (EFPC) whose main objective is to manage private pension plans to ensure the well-being of its participants and their families.

In December 2017, the assets of the pension fund amounted to R\$ 5.13 billion, representing growth of 1.58% year on year. CBS employs a risk-based management model that establishes criteria to monitor market, credit and liquidity risks. As a result of its efficient fund management, the fund honors all its commitments to 34,472 participants - 20,885 of whom are active, 8,792 are retirees and 4,795 are pensioners.

In order to improve the operation model and add even more value to the equity generated in 2017, investments were made in initiatives to reach the objectives established in the Strategic Planning. This covers the period from 2017 to 2020. CBS has also invested in enhancing its governance practices and strengthening its security standards to protect its business and preserve the liquidity, solvency, and balance of managed plans. It ended the year ranking 26th according to the Brazilian Association of Closed Private Pension Entities (ABRAPP), among the approximately 300 affiliated pension funds.





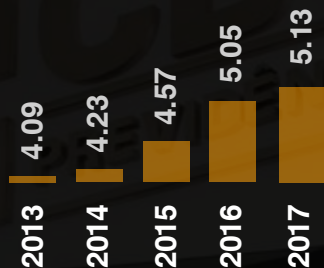
As of December  
31, 2017 CBS  
Previdência had  
34,472 participants  
distributed as  
follows:

**ACTIVE**  
**20,885**

**ASSISTED**  
**8,792**

**PENSIONERS**  
**4,795**

### Equity growth (R\$ Billion)



#### CBS PERTO DE VOCÊ

In 2016, CBS's Social Security and Financial Education Program, *CBS Perto de Você*, held a series of "Financial Education for All" lectures- both for the internal and external public. This initiative was awarded the National Strategy Financial Education (ENEF) seal in 2015. The purpose of the series of lectures is to provide information to support reflection and encourage participants to conduct their own financial planning and develop a more balanced relationship with money.



Highlights of 2016	Highlights of 2017
31 activities	48 activities
1,400 participants	1,420 participants
99% satisfaction with the topics covered	99% satisfaction with the topics covered
99% meeting participants' expectations	99% meeting participants' expectations
43% had no knowledge of financial education	47% had no knowledge of financial education
100% intend to put into practice what they had learned in the meetings	99% intend to put what they had learned in the meetings into practice

The Company sponsors CBS's Private Pension Plan to the Statutory Executive Officers. According to this plan, participants may contribute a percentage and the sponsor also matches a corresponding amount that is limited to the rules established.

## HEALTH AND SAFETY

GRI 103-1, 103-2, 103-3 – Health and safety, 403-1, 403-3



CSN has always maintained practices for and trained its employees on safety during production processes. The accident rate for our own employees in 2016 was 7.6, against 9.0 in 2017. In 2016, the Company created the corporate safety department and launched the health and safety corporate policy, which

is a preventive activity applicable to all CSN's areas of operation intended for all Company and outsourced employees. At its launch, the occupational health and safety management manual was disclosed, which contains guidance on activities for all Company employees and outsourced service providers regarding proactive behavior, compliance with legislation, mitigation and control of hazards, prevention of occupational injuries, diseases and risks.

Through its Health and Safety Management Manual, the Company is able to relate agreements and Work Plans to unique guidelines for all units of the group, taking peculiarities and local culture into account. This manual has guidelines for good practices through ten Elements that aim to encompass responsibilities and define the needs for specific prevention tools:

- EL-01. Commitment and leadership;
- EL-02. Communication;
- EL-03. Standards and procedures;
- EL-04. Behavioral dialogue;
- EL-05. Risk management
- EL-06. Change management;
- EL-07. Legal requirements;
- EL-08. Planning
- EL-09. Management of service providers;
- EL-10. Competency-based management.

One of the fundamental pillars of management is the constant incentive to adopt safe behavior: the Company believes that it is essential to promote this culture within all employees' activities, including their conduct outside the workplace. For occupational health and safety issues, 100% of CSN employees are covered by formal health and safety committees. The committees in place to address the issue at the operational, managerial and leadership levels are the following:

- CIPA (INTERNAL COMMISSION FOR THE PREVENTION OF ACCIDENTS)
- CENTRAL SAFETY COMMITTEE
- CORPORATE STEERING COMMITTEE ON OCCUPATIONAL HEALTH AND SAFETY
- LEADERSHIP COMMITTEE, CONTRACTS COMMITTEE
- CHEMICALS COMMITTEE, ERGONOMICS COMMITTEE
- NR10 COMMITTEE, OPERATIONAL SAFETY COMMITTEE
- TACTICAL SAFETY COMMITTEE, WORKING GROUPS FOR NRS (10, 12, 13, 20, 33, AND 35)
- CPATP (INTERNAL COMMISSION FOR THE PREVENTION OF PORT WORK ACCIDENTS)
- CPIOP (PERMANENT COMMISSION FOR INVESTIGATION OF PORT OPERATION OCCURRENCES)
- GERROT (ROUTINE MANAGEMENT MEETING FOR THE OCCUPATIONAL SAFETY, MAINTENANCE AND OPERATIONS AREAS)

In addition, the Company issues safety alerts to emphasize the importance of safety procedures prior to each activity and to advise employees on how to proceed in the event of doubt. To facilitate understanding, the alerts are divided by color (green, yellow and red).

As a result of its concern about the health and the quality of life of its employees, CSN undertakes behavioral development activities through which Company executives approach other employees to discuss issues related to health and safety in production activities and process.

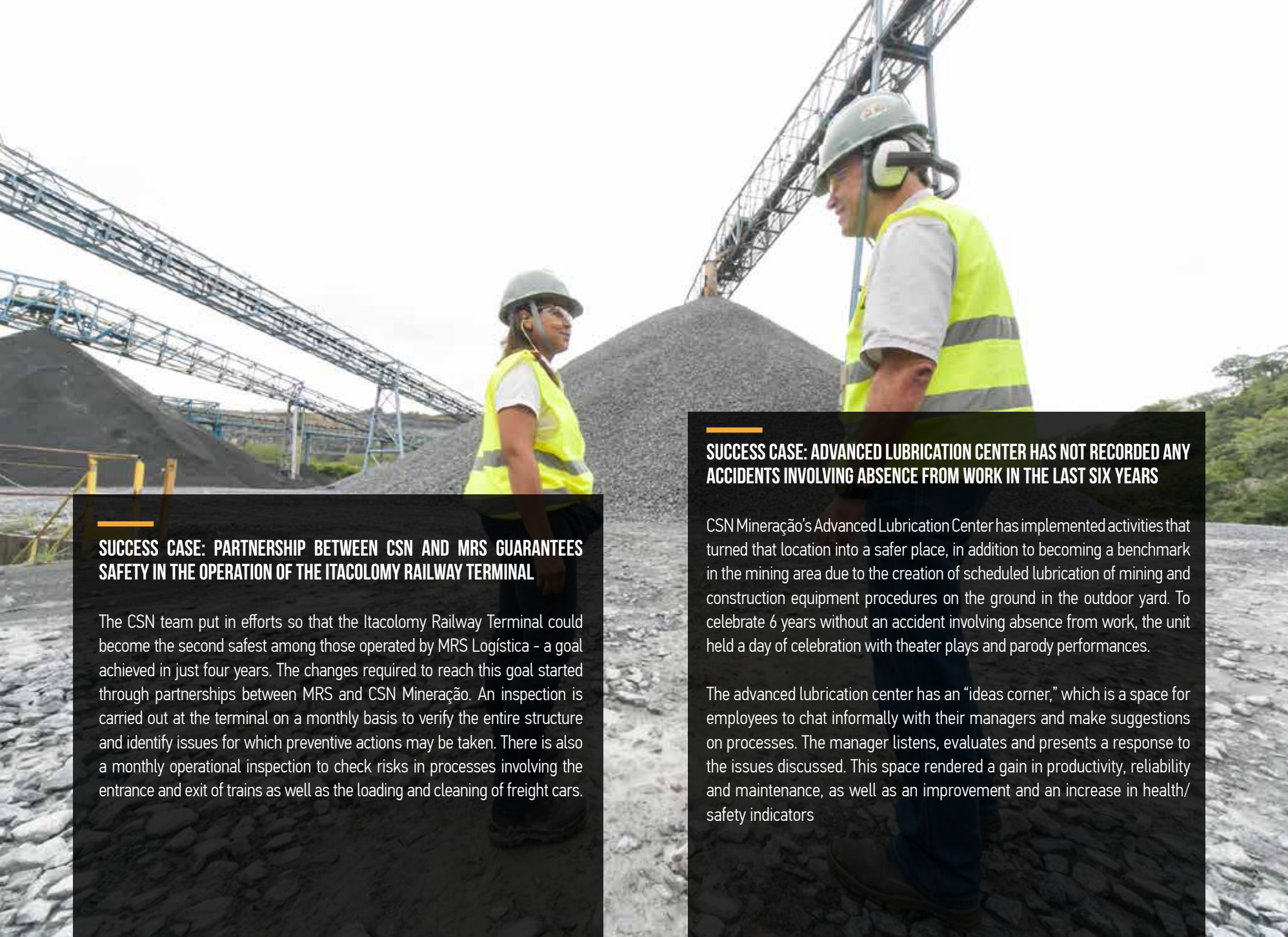
The Company also implemented the corporate health center, through which an on-site doctor and nurse work in conjunction with the occupational medical area of the units. Their main duties relate to the management of use of dental and health plans, and the definition and management of corporate protocols on occupational health.

With regard to health, throughout the two-year period, the Company's units carried out several campaigns, which included combating diseases such as influenza and H1N1.

#### Total number and rates of accidents, own and third parties

Type of accident/ region	Total 2016	Total 2017
Total accidents (monthly rate, Company only)	52	62
Total number of accidents with material damage	360	216
Total number of accidents requiring medical attention	159	304
Total number of accidents causing personal injury not involving absence from work	154	82
Total number of accidents causing personal injury involving absence from work	118	140
Total number of days lost (up to return)	4,336	4,187
Total number of (fatal) accidents	4	1
Total number of days discounted	24,000	6,510

Note: The CAF / SAF / FT accident rate for own employees in 2016 was 5.2, and in 2017, 4.3. For third parties, the rate registered in 2016 was 1.6 and 1.3 in 2017.



### **SUCCESS CASE: PARTNERSHIP BETWEEN CSN AND MRS GUARANTEES SAFETY IN THE OPERATION OF THE ITACOLOMY RAILWAY TERMINAL**

The CSN team put in efforts so that the Itacolomy Railway Terminal could become the second safest among those operated by MRS Logística - a goal achieved in just four years. The changes required to reach this goal started through partnerships between MRS and CSN Mineração. An inspection is carried out at the terminal on a monthly basis to verify the entire structure and identify issues for which preventive actions may be taken. There is also a monthly operational inspection to check risks in processes involving the entrance and exit of trains as well as the loading and cleaning of freight cars.

### **SUCCESS CASE: ADVANCED LUBRICATION CENTER HAS NOT RECORDED ANY ACCIDENTS INVOLVING ABSENCE FROM WORK IN THE LAST SIX YEARS**

CSN Mineração's Advanced Lubrication Center has implemented activities that turned that location into a safer place, in addition to becoming a benchmark in the mining area due to the creation of scheduled lubrication of mining and construction equipment procedures on the ground in the outdoor yard. To celebrate 6 years without an accident involving absence from work, the unit held a day of celebration with theater plays and parody performances.

The advanced lubrication center has an "ideas corner," which is a space for employees to chat informally with their managers and make suggestions on processes. The manager listens, evaluates and presents a response to the issues discussed. This space rendered a gain in productivity, reliability and maintenance, as well as an improvement and an increase in health/safety indicators

# ABILITY TO CREATE VALUE

CSN constantly works so that its relationship transcends its business units and encompasses society as a whole. Learn more about these practices and the work of CSN Foundation in the following pages.





# Rela tion ship







## SOCIAL AND RELATIONSHIP CAPITAL

GRI 103-1, 103-2, 103-3 – Communication and engagement

CSN is in constant dialogue with its main stakeholders: communities, suppliers, customers, employees, trade unions, trade associations, regulatory and government authorities in order to strengthen its relationship and maintain operations and representation in the market where it operates. The synergy resulting from these relationships is seen in the efficiency of local operation management, whether within each business unit or in the region it operates

## 1. What CSN needs to create value (inputs, resources)

- Communication with society;
- Relationship policies;
- Strategic partnerships and alliances;
- Proximity with customers;
- Decentralized solutions;
- Active participation in sector-wide discussions;
- Awareness of impacts.

## 2. What CSN does to create value (activities / products / services / processes)

- Contribution to sector-wide policies;
- Relationship with customers;
- Supplier network;
- Social responsibility;
- Differentiated value-added products.





### 3. Outputs

- Improvements in labor relations;
- Customized solutions for customers;
- Contribution to the raising of children and adolescents through CSN Foundation;
- More than 1,900 young people have benefited from the *Projeto Garoto Cidadão*, from CSN Foundation;
- Local development;
- Diversification of the supply chain (5,247).

### 4. Value created (result)

- Culture of Integration with the business environment;
- Stimulation of the local economy;
- Close relationship with customers and suppliers;
- Retention of customers and suppliers;
- Population growth, given the emigration incentives in the expectation of employment;
- Relationship with other industrial sectors either in terms of offering inputs or demanding what is required for its production process;
- Adding dynamism to other economic sectors:
  - Exports and foreign exchange earnings;
  - Competitiveness for sectors;
  - Expansion of the markets in which it operates;
  - Increased tax collection.

## RELATIONSHIP WITH STAKEHOLDERS

GRI 102-42, 102-43, 102-44

CSN's institutional and investor relations websites are always updated. In order to facilitate access to the Company's relevant information, those portals contain all the financial and operational publications filed with the CVM and the SEC, as well as the scheduled presentations and spreadsheets with historical data.

Another example of communication channel with stakeholders is the *Linha Verde* digital channel (telephone and email) that receives inquiries from the general public on a broad range of topics, as well as suggestions, whistleblowing and complaints related to the environment. The objective is to provide clarification and the promotion of continuous improvement of processes and management in order to reduce social and -environmental impacts. The information received is distributed internally to the professionals in charge and a specialized team must provide a response to the community within 15 days of receipt. Furthermore, a regular report on the volume of calls is forwarded to senior management.

*Linha Verde* CSN

Telephone: 0800 282 44 40

E-mail: meio.ambiente@csn.com.br

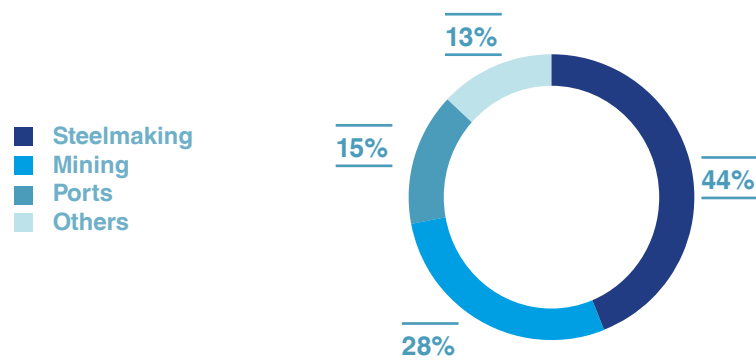
## SUPPLIERS

GRI 102-9, 204-1, 308-1

CSN has a chain of more than 5,000 suppliers, who collaborate with several services, including raw materials, logistics, transport, catering and maintenance. During 2016 and 2017, suppliers were paid just over R\$ 10 billion and R\$ 11.9 billion, respectively. Suppliers were contracted based on domestic standards as well as national and international procurement practices.

Proportion of expenses with suppliers		
	2016	2017
Steelmaking	44%	44%
Mining	22%	15%
Ports	15%	28%
Others	19%	13%

### Expenditures with suppliers in 2017 by area



The Supplies area, concentrated at the corporate level, is responsible for the contracting processes that serve all the business units. The choice of supplier is driven by predetermined procedures such as a bidding process or a request for quote, based on competence and proven reputation that guarantee the best return to CSN in terms of cost and quality.

Pursuant to the Code of Ethics, socially responsible, ethical companies that comply with legal, labor and environmental requirements are favored. Every CSN supplier, upon registering with the Ariba System, must confirm they have read the general conditions on contracting as well as the Company's code of ethics, which states among other issues that the Company does not tolerate any instances of slave or child labor and that any agreement will be terminated in the event that irregularities are identified. No actual or potential negative impacts were identified in CSN's supply chain.

#### Procurement practices

GRI 102-9

The Company operates with the following divisions in the area of supplies: raw materials, logistics, services and MRO (spare parts).

In terms of raw materials, the main categories are reducers (coal and coke), whereby all purchases are imported (USA, Colombia, China and Russia,) and transport of iron ore and reducers, 100% of which is provided by international suppliers.

At the logistics division, the main agreements relate to rail transport to supply production units and the distribution of iron ore. Highway freight agreements mainly concern the distribution of steel production.

The service agreements generally require intensive labor within the production units, highlights of which are maintenance (industrial and civil), cleaning (industrial and social) and catering. The other agreements involve the lease of machinery and equipment for production.

In MRO, approximately half of all procurement involve spare parts for the maintenance of production equipment, which include a high proportion of imported materials, purchased through national representatives.

Transactions with suppliers are undertaken by CSN on a strictly arm's length basis, as provided for in the internal policies on contracting with related parties, with due regard for common market prices and conditions. They are preceded by proper assessment of the conditions, observing the strict interest of the Company at all times.

## CUSTOMERS

To maintain its position within the market, CSN relies upon constant improvement of equipment and processes thus obtaining products with the best quality and lowest production cost. The combination of efficiency, quality and competitive value leads to customer loyalty. The Company is present in different markets, reducing its exposure to volatility risks. Nearly 20% of CSN's billing in steel products in 2016 stemmed from actions to develop new steel solutions for the market and to adjust existing products in response to regular Company customers' demands.

In order to improve service and the products offered, CSN, has been conducting customer satisfaction surveys for its cement business since 2015. The Company does not undertake customer satisfaction surveys in other areas but does monitor the indicator according to the number of complaints.

## INSTITUTIONAL RELATIONS

GRI 102-13

In the period, CSN worked to improve its channel of communication with public management bodies, positioning itself as an investor in the states in which it operates. As an agent in a strategic sector for the Brazilian economy, CSN actively participates in debates and discussions on the regulatory framework, relevant legislation and infrastructure, both in institutional terms and through the organizations of which it is a member, which include:

- Brazilian Association of Metallurgy (ABM);
- Brazilian Association of Technical Standards (ABNT);
- Latin American Steel Association (Alacero);
- National Confederation of Industries (CNI);
- Federation of Industries for the State of São Paulo (Fiesp), Rio de Janeiro (Firjan) and Minas Gerais (Fiemg);
- Business Institutes and Foundations Group (Gife);
- Aço Brasil Institute;
- Brazilian Institute of Mining (Ibram).

The Company usually maintains institutional relations with the basin committees of the units near relevant water bodies, with municipal and state environmental agendas as well as with the Brazilian Institute of the Environment and Natural Renewable Resources (Ibama), state and federal public prosecutors offices, city administrations, as well as advisory and decision-making councils, operating at all times in a transparent manner, respecting the independence of these institutions.

## SOCIETY

GRI 203-2



Steelmaking contributes to the development of local communities thanks to its high capacity to generate direct and indirect jobs. According to the Aço Brasil Institute, for every job generated in the Brazilian steel industry, 23 further jobs outside the industry are also created. The steel-producing sector is also essential for the development of other industries and thus promotes regional growth.

CSN encourages social responsibility activities and values the well-being of the communities in which it operates, actively participating in peoples' daily lives. In Congonhas (MG), for example, the Company handed to the Association of Residents of Bairro Cristo Rei and Complementação the keys to a property that will be used by the community and serve as headquarters for the Association, in addition to being equipped with a telecenter and serving as a point of support for the Military Police for the purpose of recording crime reports. Activities relating to human development and the exercise of citizenship will also be undertaken in that space.

When suspicion of contamination of the Volta Grande IV neighborhood in Volta Redonda was raised, several environmental studies were carried out by independent external consultants. All those studies attested to the environmental safety of the site.

During this two-year period, CSN presented the results of those studies to the residents, through events held by the Environment and Communication areas, and launched a voluntary sampling program so that samples could also be collected from residents' yards. The residents who signed up for the program received a personalized report from a specialist consulting firm, confirming the soil safety of their yards.



*Garoto Cidadão Program provides social and pedagogical courses for children in situations of social vulnerability*

## CSN FOUNDATION

GRI 413-1



The basis of all CSN Foundation's activities is education and it counts on the direct relationship with CSN's human resources, sustainability and institutional relations areas to

implement its initiatives. CSN Foundation aims to act as CSN's social link with the communities in and around the locations where the Company operates, acting as a transformation agent. Its main approaches are in the areas of education, culture, sports and the environment. An important characteristic is the partnership with government, given that on many occasions the Foundation hosts children sent by Social Assistance Reference Centers (Cras).

Examples of vocational training projects that the foundation currently supports include Centro de Educação Tecnológica – CET in Congonhas (MG); Escola Técnica Pandiá Calógeras in Volta Redonda (RJ) and Hotel-Escola Bela Vista, which is also located in Volta Redonda (RJ).

CSN sponsors 32 partner institution projects through incentive legislation. Institutions include GRAAC, Hospital do Câncer de Barretos, Memorial da Imigração Judaica and Hospital Albert Einstein. CSN Foundation manages the Bela Vista and Vila Business hotels and the Club Recreio in Volta Redonda. All the financial results of the projects support the performance of the Foundation's social projects.

Learn more about CSN Foundation's main social responsibility initiatives:





## HIGHLIGHTS OF 2016



CULTURE

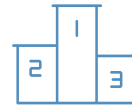
**129**  
ACTIVITIES

**32,273**  
VISITORS TO CSN  
FOUNDATION CULTURAL  
CENTER



EDUCATION

**499**  
SCHOLARSHIP  
STUDENTS



SPORT

**480**  
YOUNG PEOPLE  
ATTENDED



ENVIRONMENT

**1,990**  
ACTIVITIES  
CARRIED OUT FOR  
THE GENERAL  
PUBLIC

## HIGHLIGHTS OF 2017



CULTURE

**456**  
PRESENTATIONS

**197,703**  
SPECTATORS



EDUCATION

**568**  
SCHOLARSHIP  
STUDENTS

**2,790**  
YOUNG PEOPLE  
INVOLVED IN  
PROJECTS



SPORT

**600**  
YOUNG PEOPLE  
WITH ACCESS TO  
SPORTS TRAINING



ENVIRONMENT

**15,495**  
PEOPLE  
ATTENDED

---

## CSN FOUNDATION CULTURAL CENTER

**40** THOUSAND VISITORS IN 2017:  
RECORD ATTENDANCE  
**32,273** VISITORS IN 2016

Located in Volta Redonda (RJ), the center is now a benchmark in the production and promotion of different cultural offerings such as theater plays, dance, music, visual arts, graffiti-art and cinema. It holds a collection dedicated to Brazilian ceramics, comprising more than 500 pieces donated by Stella and Serge Daniel. The collection was built over several decades through various trips made by that couple to Brazil. In 2017, 105 activities were carried out at the CSN Foundation Cultural Center.

---

## HISTÓRIAS QUE FICAM [STORIES THAT ENDURE]

**R\$ 1.3 MILLION** FOR THE PRODUCTION OF 4 FILMS

The broadcast, promotion and consultancy program for the Brazilian documentary film is now in its 2nd edition, with production of four documentaries shown by Mostra Itinerante [Itinerant Exhibition] in 99 different events, in 38 cities in 13 Brazilian states with an audience of 4844 spectators. The winning documentary makers were chosen from the 273 entrants and the 4 selected received advisory from Brazilian filmmakers, as well as sponsorship.

---

## GAROTO CIDADÃO [CITIZEN KID]

**1,500** YOUNG PEOPLE ATTENDED TO IN 2017  
**1,500** YOUNG PEOPLE ATTENDED TO IN 2016

The initiative provides assistance 3 times a week to children and adolescents between 6 and 16 years of age and who are in situations of social vulnerability. Social and pedagogical courses such as music, dance, theater and visual arts are offered outside classroom hours for participants in 5 cities: Araucária (PR), Arcos e Congonhas (MG), Itaguaí and Volta Redonda (RJ). The coordinators of all units are psychologists, which facilitates openness and dialogue with children.

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## JOVEM APRENDIZ [YOUNG APPRENTICE]

**439** YOUNG PEOPLE IN TRAINING

Training for young people wishing to enter the labor market through a partnership with 74 companies.

---

## CAPACITAR HOTELARIA E SERVIÇOS [HOSPITALITY AND SERVICES TRAINING]

**111** YOUNG PEOPLE TRAINED IN 2017

The training program that takes place at the Bela Vista Hotel-Escola in Volta Redonda (RJ) seeks to train young people between the ages of 16 and 29 for the job market and their first job. Since 2007, it has trained more than 1,100 students.

## TECHNICAL SCHOOLS

**529** GRANTS AWARDED IN 2017  
**499** GRANTS AWARDED IN 2016

In order to prepare students for the job market and also for college, CSN Foundation grants partial and full scholarships for the Pandiá Calógeras Technical School in Volta Redonda (RJ) and Centro de Educação Tecnológica in Congonhas (MG). There are technical courses in various fields, such as metallurgy and mechatronics. Students receive education related to careers that are connected to the activities of CSN Mineração and, through the course, these individuals become young apprentices in the Company. Four of CET's current five coordinators started at CSN as young apprentices. In 2017, 529 scholarships were awarded.

## GANHAR O MUNDO (WIN THE WORLD)

**781** YOUNG PEOPLE ENROLLED AND  
**39** PRE-SELECTED IN THE TWO-YEAR PERIOD

The scholarship program in place since 2016, implemented by CSN Foundation and sponsored by CSN in partnership with Barnard College, New York University, focuses on teaching for women. The initiative aims to promote women empowerment and collaborates to build equal opportunities between genders. The program includes not only the scholarship for undergraduate studies, but also monitoring and preparation of the young people to study abroad.

- Preparatory course for undergraduate studies abroad;
- Online English course;
- Intensive English course in New York;
- International experience (pre-college program) at Barnard College;
- Scholarship for undergraduate studies at Barnard College.

## PROJETO FUTEBOL (SOCCER PROJECT)

**600** YOUNG PEOPLE ATTENDED TO IN 2017  
**480** YOUNG PEOPLE ATTENDED TO IN 2016

With sponsorship from CSN and support from CSN Foundation, children and adolescents have access to sports training. In all, 600 youngsters are part of the basic categories of Associação Esporte e Vida (DF), Osasco Audax (SP) and Volta Redonda Futebol Clube (RJ) to support initiatives in grassroots soccer in the sub-14, 15, 17 and 20 categories, in order to promote the development of athletes.

## ENVIRONMENTAL EDUCATION PROGRAM (PEA)

**15,495** PEOPLE ATTENDED TO IN 2017  
**1,990** ACTIVITIES CARRIED OUT FOR THE GENERAL PUBLIC 2016

In order to promote actions and activities for the communities in Arcos e Congonhas (MG), the Foundation runs the Environmental Education Program, which includes lectures, events, cultural activities and workshops in schools and communities. Four other municipalities in Minas Gerais benefit from the following activities: Pains, Belo Vale, Rio Acima and Ouro Preto. The program trained 172 teachers, covering 23 schools through training, awareness raising, storytelling and environmental competitions.


Implemented by the Arcos (MG) unit in partnership with CSN Foundation, the City Administration and the Arcos Recyclers Association (ARA), the "From Door to Door" campaign aims to raise public awareness for the importance of waste recycling. The city conducts selective collection of 7% of discarded material. The goal of the program is to help double that percentage.

Learn more about CSN Foundation at: [www.fundacaocsn.org.br](http://www.fundacaocsn.org.br).



## ABILITY TO CREATE VALUE

Value creation stems from financial, human, intellectual, natural and social capitals; thus, the internal areas of CSN maintain multiple interfaces, and are constantly being changed. In addition to internal dialogue, the Company is concerned about accounting for intangible assets and identifying their externalities in order to create value.



# The value creation process

## BUSINESS MODEL

In its five segments, CSN has been investing to increase the competitive advantages of its units and to review the portfolio of businesses and projects, seeking to maximize the return to its shareholders.

## PROSPECTS FOR THE FUTURE

The year 2018 will continue to be very challenging in the domestic scenario, given the political instability and the slow progress of economic recovery. Brazilian industry is beginning to see signs of recovery and work with more positive prospects for the cycle. In accordance with projections of the Brazilian Steel Institute, sales to the Brazilian domestic market are expected to grow by 4.1% in 2018, totaling 17.41 million tons. In turn, apparent consumption is expected to rise 4.9%, to 20.1 million tons.

The sector should benefit from recovery of the automotive industry, given the estimate of the National Association of Manufacturers of Automotive Vehicles (Anfavea) of an 11.7% increase in automobile licensing in 2018 and production of 3.06 million units, 13.2% higher than in 2017. Likewise, the Brazilian Association for

the Construction Materials Industry (Abramat) projects a 1% to 2% increase in billing for the construction materials sector.

The Company benefits from investments made in recent years, such as maintenance of Blast Furnace II in Volta Redonda (RJ), which increased its service life by 5 years, and the opening of the cement plant in Arcos (MG), which consolidates the unit, providing it with the strength required to meet growing internal demand when the economy recovers.

Based on the essence of Doing it Well, Doing More and Doing it Forever, CSN will continue to focus on contributing to the development of Brazilian industry, remaining focused on reducing its impacts and establishing gains through the circular economy, bringing benefits to all those involved in the value creation chain as well as maintaining its direct relationship channel with the community through activities that are also conducted by CSN Foundation.

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### Disclaimer:

*The results for 2017 and 2016 consolidate CSN Companies on the same comparative basis and in accordance with business segmentation. The statements included in this report regarding business prospects, projections and results for the Company and its subsidiaries, as well as their potential for growth, are mere forecasts and were based on management's expectations regarding the future of the Company. These expectations are highly dependent on changes in the market and on the overall economic performance of the country, industry, international markets, policies and regulations and are therefore subject to change. More information about the Company can be found on the website: [www.csn.com.br](http://www.csn.com.br)*

*The Consolidated Financial Statements for the years 2017 and 2016 are available on the website: <http://ri.csn.com.br>*

## ABOUT THE REPORT

GRI 102-40, 102-46, 102-47, 102-50

The content presented is the report of our activities in response to CSN's challenges and performance in the 2016/2017 two-year period. We have made a commitment to informing our stakeholders in a transparent way, mainly concerning how we generate shared value and guarantee the Company's perpetuity. Transparency is achieved through the quality of the information presented and clarifies to stakeholders how CSN is committed to DOING IT WELL, DOING MORE AND DOING IT FOREVER.

We follow the integrated reporting (IR) principles proposed by the IIRC (International Integrated Reporting Council), focusing on the effective perception of the connection between our business areas and the integration of our people. The financial data presented takes into consideration the detailed review of all aspects of business combination, where the mining activities were restructured and concentrated in one single main company: CSN Mineração. The review stems from a change in the interpretation of the gains allocated to controlling and noncontrolling shareholders.

In order to strengthen the content of the report, we used the GRI Standards methodology in the collection of social, economic and environmental indicators, thus contributing to qualify the message to our stakeholders.

We seek to produce a succinct document on the Company's governance, management practices, risks and opportunities. Accordingly, in 2016 we carried out an internal survey to identify the main issues and significant aspects described in each capital through intense dialogue with executives and representatives of the decision-making areas of various segments of the Company. In 2017, we revisited this list, crosschecking it with the opinion of specialists in environmental and economic aspects, as well as in CSN's segments of operations, on what is in fact important to include in the report.

Accordingly, we have developed our materiality matrix, as shown in the table below. The content was based on this matrix. The information collected includes all our operating segments - steelmaking, mining, logistics and cement - and are related to the period from January 1, 2016 to December 31, 2017.

This report was approved by the report's coordination team and by our Board of Directors.

Materiality Matrix	Correlation with capital
Business Performance	Financial capital
Sustainability strategy	Financial capital, natural capital and social and relationship capital
Value Chain Management	Manufactured capital and social and relationship capital
Environmental Performance	Natural capital
Waste Management	Natural capital
Management of water resources	Natural capital
Energy management	Natural capital
Emissions	Natural capital
Employment and development	Human capital
Health and safety	Human capital
Ethics and governance	Intellectual capital
Risk management and opportunities	Financial capital
Communication and engagement	Social and relationship capital
Dams	Intellectual capital and natural capital

In addition to all material issues, CSN has chosen to report issues related to market presence, indirect economic impacts, procurement practices, anti-corruption, biodiversity, environmental compliance, environmental assessment of suppliers, employment, training and education, diversity and equal opportunities, in response to GRI requirements.

## CORRELATION WITH SUSTAINABLE DEVELOPMENT GOALS

In addition to the principles and guidelines of the GRI Sustainability Reporting Standards (GRI Standards) and the International Integrated Report Council (IIRC), the preparation of content also considers the Sustainable Development Goals (SDG). The SDG correspond to 17 internationally agreed goals, under the auspices of the United Nations (UN), and are intended to mitigate climate change.





# GRI Index

GRI 102-55

## GRI Index

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## GRI INDICATORS SUPPLEMENT

### 102-3

Avenida Brigadeiro Faria Lima, 3400 - Itaim Bibi, São Paulo - SP, 04538-132.

### 102-5

CSN is a publicly-held Company with shares traded on the São Paulo (B3) and New York (NYSE) Stock Exchanges. It has over twenty thousand employees and is a multinational Company with business in the steel, mining, cement, logistics and energy sectors.

### 102-6

CSN serves the entire Brazilian territory and exports mainly to Europe, the United States and Asia.

### 102-8

CSN has been improving its indicators and currently compiles the report as presented.

## 102-10

There were no significant changes in the structure of capital stock or other capital structures, in the operations, in the location of suppliers, in the structure of the supply chain or in the relationships with suppliers.

## 102-41

100% of CSN's direct employees are covered by collective bargaining agreements.

## 102-45

This report includes information on the operations of CSN's plants in Brazil. Although not considered for this report, the Company also maintains three subsidiaries abroad (Germany, United States\* and Portugal) and a recovery area in the Brazilian state of Santa Catarina.

\* On July 29, 2018, CSN concluded the sale of its entire equity interest in Companhia Siderúrgica Nacional, LLC, a Company located in the United States, to Steel Dynamics, Inc.

Material topics	Boundaries: internal and external impacts	GRI Standards
Economic Performance	Employees, supply chain and shareholders	201-1 and 201-4
Sustainability strategy	Employees, clients, supply chain, environment and society	Subject addressed in the management of environmental indicators.
Value chain management	Supply chain, environment and society	102-9 and 102-10
Environmental development	Environment and society	Climate change: 201-2 Emissions: from 305-1 to 305-7 Energy: 302-1, 302-2, 302-3, 302-4 and 302-5 Water: 303-1, 303-2 and 303-3 Effluents and waste: 306-1 to 306-5
Employment and development	Employees and society	102-8 and 102-41
Health and safety	Employees	403-1 to 403-3
Ethics and governance	Employees, clients, supply chain and society	102-40 to 102-44
Risk management and opportunities	Shareholders, environment and society	102-15
Communication and engagement	Employees, clients, supply chain and society	102-40 to 102-44 and 413-1
Dams	Environment and society	Section of dams, page 41

### 102-46 and 102-47

The boundaries of the topics (themes present in the materiality and addressed in the report) are internal and external and they impact all stakeholders of the Company (*learn more on page 127*).

### 102-48

No corrections were made to information provided in previous reports.

### 102-49 and 102-51

This is the first GRI report published by CSN. The most recent previous report was published for an internal audience in 2016.

### 102-52

The reporting cycle adopted by CSN is currently bi-annual. As from the next report, the Company will disclose reports on an annual basis.

### 102-53

Queries, suggestions and considerations about the content of this report may be sent to CSN's Sustainability area: sustentabilidade@csn.com.br.

### 102-54

This report follows the "in accordance" Core option.

### 102-56

This report has not been submitted to external audit assessment. CSN received the Gold seal from the GHG Protocol for having reported the greenhouse gas emissions of all its units and these have been submitted to external verification. The financial statements were submitted to Grant Thornton Independent Auditors.

### 201-2

CSN has been improving its indicators and currently compiles the report as presented.

### 303-3

CSN has been improving its indicators and currently compiles the report as presented.

### 306-1

CSN has been improving its indicators and currently compiles the report as presented.

### 403-3

CSN carries out its activities in remote places or has professional activities that may expose workers to specific diseases - SHILLING 2 and 3. This exposure is controlled through health promotion programs and governed by the legislation in force in Brazil and in the locations where these activities are carried out.

### 404-2

CSN has been improving its indicators and currently compiles the report as presented.

405-2

partially answered

Total number of employees, broken down by area and gender

Area / gender	2016			2017		
	Female	Male	Total	Female	Male	Total
Steelmaking	902	9,731	10,633	1,023	11,122	12,145
Mining	745	4,873	5,618	786	5,243	6,029
Logistics	337	2,408	2,745	285	2,419	2,704
Packing	287	1,172	1,459	266	968	1,234
Corporate	366	732	1,098	272	319	591
Cement	141	803	944	138	745	883
Distribution	82	276	358	79	258	337
Commercial steel-making	29	116	145	24	95	119
<b>Total</b>	<b>2,889</b>	<b>20,111</b>	<b>23,000</b>	<b>2,873</b>	<b>21,169</b>	<b>24,042</b>
Subgroup of employees	Age Group		Female	Male		
Officers			2	18		
	30 to 50 years		1	6		
	> 50 years		1	12		
Executive Officers				5		
	30 to 50 years			1		
	> 50 years			4		
Board Members				9		
	30 to 50 years			3		
	> 50 years			6		
<b>Grand total</b>			<b>2</b>	<b>32</b>		



401-1

## TURNOVER

		2016		2017	
		Women	Men	Women	Men
Steelmaking	<b>Southeast</b>				
	< 30 years	55.44%	30.23%	0.00%	0.00%
	30 to 50 years	11.31%	9.67%	9.79%	11.47%
	> 50 years	10.47%	13.17%	34.35%	18.22%
	<b>South</b>				
	< 30 years	32.76%	19.43%	0.00%	0.00%
	30 to 50 years	7.97%	4.91%	15.13%	11.59%
	> 50 years	0.00%	16.67%	23.21%	16.98%
	Mining	<b>North</b>			
< 30 years		71.43%	31.08%	0.00%	0.00%
30 to 50 years		5.88%	19.89%	13.16%	16.52%
> 50 years		0.00%	4.65%	34.38%	17.69%
<b>Southeast</b>					
< 30 years		60.71%	26.23%	0.00%	0.00%
30 to 50 years		15.83%	14.69%	10.26%	15.41%
> 50 years		11.76%	13.58%	31.97%	20.18%
Logistics		<b>Northeast</b>			
	< 30 years	45.45%	47.58%	0.00%	0.00%
	30 to 50 years	26.97%	17.01%	30.00%	16.48%
	> 50 years	0.00%	7.75%	56.87%	21.20%
	<b>Southeast</b>				
	< 30 years	26.85%	20.38%	0.00%	0.00%
	30 to 50 years	19.71%	13.24%	12.96%	11.71%
	> 50 years	50.00%	11.68%	26.27%	16.34%

TURNOVER					
		2016		2017	
		Women	Men	Women	Men
Packaging	<b>Mid-west</b>				
	< 30 years	0.00%	59.09%	0.00%	0.00%
	30 to 50 years	14.29%	20.00%	20.00%	25.76%
	> 50 years	0.00%	0.00%	20.00%	52.13%
	<b>Northeast</b>				
	< 30 years	60.71%	40.22%	0.00%	0.00%
	30 to 50 years	7.69%	5.67%	0.00%	0.00%
	> 50 years	25.00%	7.69%	0.00%	0.00%
	<b>Southeast</b>				
	< 30 years	63.89%	49.52%	0.00%	0.00%
	30 to 50 years	17.88%	16.37%	32.07%	22.36%
	> 50 years	20.59%	22.22%	36.89%	29.28%
	<b>South</b>				
	< 30 years	0.00%	75.00%	0.00%	0.00%
	30 to 50 years	0.00%	22.73%	0.00%	50.00%
> 50 years	0.00%	66.67%	0.00%	41.67%	
Corporate	<b>Southeast</b>				
	< 30 years	50.94%	43.56%	0.00%	0.00%
	30 to 50 years	16.53%	11.66%	17.73%	14.15%
	> 50 years	2.50%	13.78%	34.16%	22.70%
	<b>South</b>				
	< 30 years	0.00%	16.67%	0.00%	0.00%
	> 50 years	0.00%	0.00%	0.00%	0.00%

		2016		2017	
		Women	Men	Women	Men
Cement	<b>Southeast</b>				
	< 30 years	27.59%	31.54%	0.00%	0.00%
	30 to 50 years	22.00%	14.30%	22.00%	15.58%
	> 50 years	0.00%	23.02%	39.18%	21.80%
Distribution	<b>Southeast</b>				
	< 30 years	46.77%	20.91%	0.00%	0.00%
	30 to 50 years	14.52%	11.48%	22.67%	16.97%
	> 50 years	0.00%	12.12%	15.83%	12.89%
Commercial steel-making	<b>Northeast</b>				
	< 30 years	28.57%	52.78%	0.00%	0.00%
	30 to 50 years	16.67%	11.19%	20.00%	18.18%
	> 50 years	0.00%	43.75%	41.18%	24.40%
Commercial steel-making	<b>Southeast</b>				
	< 30 years	25.00%	50.00%	-	-
	30 to 50 years	0.00%	0.00%	-	-
	<b>South</b>				
	< 30 years	0.00%	25.00%	0.00%	0.00%
	30 to 50 years	16.67%	20.83%	18.75%	62.50%
> 50 years	0.00%	50.00%	35.00%	41.18%	

Note: The turnover related to the year 2017 for the commercial steel-making, packing and corporate areas, respectively, in the Northeast region are not specified, since the unit was sold in the period.

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- Usina Presidente Vargas (UPV);
- CSN Porto Real;
- CSN Paraná;
- Prada Distribuição;
- Prada SP;
- Prada Resende;

- CSN Mineração;
- ERSA;
- CSN Cimentos;
- CSN Arcos;
- TECON - Container Terminal;
- TECAR - Solid Bulk Terminal;
- Transnordestina Logística S.A;
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