

NATIONAL STEEL CO
Form 6-K
August 08, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of August, 2018
Commission File Number 1-14732

COMPANHIA SIDERÚRGICA NACIONAL

(Exact name of registrant as specified in its charter)

National Steel Company

(Translation of Registrant's name into English)

Av. Brigadeiro Faria Lima 3400, 19º e 20º andares
São Paulo, Estado de São Paulo
CEP 04538-132

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports
under cover Form 20-F or Form 40-F. Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

São Paulo, August 7, 2018

2Q18 Earnings Release

Companhia Siderúrgica Nacional (CSN) (BM&FBOVESPA: CSNA3) (NYSE: SID) **announces today its results for the second quarter of 2018 (1Q18)** in Brazilian reais, and its consolidated financial statements, which are presented in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and with the accounting practices adopted in Brazil, which are fully convergent with international accounting standards, issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM), pursuant to CVM Instruction 485 of September 1, 2010. The comments presented herein refer to the Company's second quarter of 2018 (2Q18) and comparisons refer to the first quarter of 2018 (1Q18) and second quarter of 2017 (2Q17). The Brazilian real/US dollar exchange rate was R\$3.8558 as at June 30, 2018, R\$3.3238 as at March 31, 2018 and R\$3.3082 as at June 30, 2017.

2Q18 financial and operating highlights

- **Generation of adjusted EBITDA of R\$1,420MM**, an increase of 58% compared to the 2Q17 and 14% compared to the 1Q18, with EBITDA margin of 24%, due to better performance in all segments.
- **Increase in steel sales volume in the domestic market** reached 798 thousand tons, an increase of 22% compared to the same period in 2017.
- **Mining adjusted EBITDA reached R\$533MM, an increase of 21% compared to the 1Q18**, with iron ore sale volumes increase, foreign exchange gains and better realized price against the Platts index, reaching EBITDA margin of 40%.
- **Increase of 10% in cement sales compared to the 1Q18, totaling 890 thousand tons – EBITDA of R\$42MM compared to R\$12MM in the 1Q18.**
- **Free cash flow, before financing activities, totaled R\$1.598MM in the 2Q18, compared to R\$521MM in the 1Q18.**
- **Net profit of R\$1,190MM in the 2Q18**, due to the gain accrued from the sale of CSN LLC, totaling R\$2,7 billion for the year.

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|--|--------------|--------------|--------------|------------|-----------|
| Steel sales (thousand tons) | 1,174 | 1,277 | 1,321 | 13% | 3% |
| - Domestic market | 652 | 782 | 798 | 22% | 2% |
| - Subsidiaries abroad | 457 | 436 | 449 | (2%) | 3% |
| - Export | 64 | 60 | 74 | 15% | 23% |
| Iron ore sales (thousand tons) | 7,818 | 7,474 | 8,130 | 4% | 9% |
| - Domestic market | 1,307 | 1,309 | 1,376 | 5% | 5% |
| - Foreign market | 6,511 | 6,165 | 6,754 | 4% | 10% |
| Consolidated result (R\$ million) | | | | | |
| Net revenue | 4,311 | 5,066 | 5,687 | 32% | 12% |
| Gross profit | 985 | 1,381 | 1,563 | 59% | 13% |
| Adjusted EBITDA ¹ | 896 | 1,242 | 1,420 | 58% | 14% |
| Adjusted net debt ² | 26,754 | 26,508 | 27,125 | 1% | 2% |
| Adjusted cash/cash equivalents | 4,545 | 3,070 | 4,357 | (4%) | 42% |
| Adjusted net debt/adjusted EBITDA | 5.67x | 5.82x | 5.34x | (0.33)x | (0.48)x |

¹ Adjusted EBITDA is calculated based on net profit/loss, plus depreciation and amortization, income tax, net finance income (costs), share of profit (loss) of investees and other operating income (expenses), and includes the proportionate share of EBITDA of the jointly-owned subsidiaries MRS Logística and CBSI. Adjusted EBITDA includes 100% in CSN Mineração, 37.27% in MRS and 50% in CBSI.

² Adjusted net debt and adjusted cash account for 100% stake in CSN Mineração, 37.27% in MRS and 50% in CBSI.

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2Q18

CSN´s consolidated result

- In the 2Q18, **net revenue** totaled R\$5,687 million, an increase of **12%** and **32%** compared to the 1Q18 and 2Q17, respectively. The improvement in performance compared to the 1Q18 was due to the increase in steel product prices, increase in volumes and prices in the mining segment and expansion of the railway logistics, cement and energy segments.
- In the 2Q18, **cost of sales** totaled R\$4.124 million, an increase of **12%** compared to the 1Q18, due to the larger volume of sales in the period and increase in raw material prices (coal and coke) as a result of the US dollar appreciation against Brazilian real, as well as increase in general manufacturing costs.
- In the second quarter of 2018, **gross profit** totaled R\$1,563 million, a significant increase of **59%** compared to the 2Q17, and increase in gross margin by 4.7 p.p. against the same comparison basis, from 22.8% to 27.5%, due to the recovery of the steel and mining margin.
- In the 2Q18, **general and administrative expenses** totaled R\$113 million, a decrease from **2.5% (2Q17) to 2.0% (2Q18)** of net revenue. **Selling expenses** totaled R\$470 million, or 8.3% of net revenue, a reduction of **2.8 p.p.** compared to the 2Q17 (11.1% of net revenue).
- In the 2Q18, **other net income** totaled R\$542 million arising mainly from the gain on the sale of CSN LLC (R\$1,150 million), partially compensated for the depreciation of Usiminas' shares in the period, representing a loss of R\$516 million at fair value through profit or loss.
- In the 2Q18, **net financial result**, totaled R\$989 million. **Financial expenses (ex-exchange variation)** continue to decrease, by virtue of the decrease in Selic rate, generating a **reduction of R\$195MM** compared to the 2Q17. Monetary and exchange variations were strongly impacted by exchange variation in the period, generating a negative

amount of R\$ 1,905 million, with the increase in *hedge accounting* positions softening the final result.

| | | | |
|---|--------------|--------------|----------------|
| Financial Result - IFRS | (829) | (594) | (989) |
| Financial Revenues | 84 | 43 | 48 |
| Financial Expenses | (912) | (637) | (1,037) |
| Financial Expenses (ex-exchange rates variation) | (683) | (523) | (489) |
| Result with Exchange Rate Variation | (229) | (113) | (548) |
| Monetary and Exchange Rate Variation | (461) | (138) | (1,905) |
| Hedge Accounting | 227 | 24 | 1,353 |
| Derivatives Result | 5 | 1 | 3 |

- **Share of profit of investees** totaled R\$27 million in the **2Q18**, compared to R\$25 million in the 1Q18, mainly due to the better results in MRS.

| | | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|--------------|
| MRS Logística | 54 | 33 | 46 | 39% | (15%) |
| CBSI | 1 | 1 | 1 | - | - |
| TLSA | (5) | (3) | (8) | 167% | 60% |
| Arvedi Metalfer BR | 1 | 0 | (2) | - | - |
| Eliminations | (11) | (6) | (10) | 67% | (9%) |
| Share of profit of investees | 40 | 25 | 27 | 8% | (33%) |

- In the **2Q18**, the Company recorded **net profit of R\$1,190 million**, compared to the net profit of R\$1,486 million in the 1Q18, due to the recognition of the sale of CSN LLC and partial reversal of the provision for recognition of deferred income tax gains.

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2Q18

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|---|--------------|--------------|--------------|-------------|--------------|
| Net profit (loss) for the period | (640) | 1,486 | 1,190 | - | (20%) |
| (-) Depreciation | 356 | 305 | 312 | (12%) | 2% |
| (+) Income tax and social contribution | 145 | 559 | (635) | - | - |
| (+) Finance income (costs), net | 829 | 594 | 989 | 19% | 66% |
| EBITDA (ICVM 527) | 689 | 2,944 | 1,855 | 169% | (37%) |
| (+) Other operating income (expenses) | 99 | (1,797) | (542) | - | (70%) |
| (+) Share of loss of investees | (39) | (25) | (27) | (31%) | 8% |
| (-) Proportional EBITDA in jointly-owned subsidiaries | 147 | 119 | 134 | (9%) | 13% |
| Adjusted EBITDA | 896 | 1,242 | 1,420 | 58% | 14% |

¹The Company's adjusted EBITDA excludes equity interest and other operating income (expenses) as these items should not be considered when calculating the cash flow generated from operating activities.

- **Adjusted EBITDA** totaled **R\$1,420 million**, compared to R\$1,242 million in the 1Q18, an increase of 14% due to an improvement in all segments. **Adjusted EBITDA margin reached 23.9%**, an increase of 0.4 p.p. compared to the previous quarter.

Adjusted EBITDA margin is calculated based on Adjusted EBITDA divided by Adjusted net revenue, which includes 100% stake in CSN Mining, 37.27% in MRS and 50% in CBSI, beginning December/15.

Free Cash Flow

In **2Q18**, generation of operating cash, measured by Free Cash Flow, was R\$ 1,598 million, influenced by the sale of LLC. Considering only the recurring operation, R\$ 73MM was generated in the period, due to the negative variation of working capital, impacted by higher inventories. In the last 12 months, recurring Free Cash Flow reached R\$ 1,395 million.

Debt

In June 30, 2018, adjusted net debt totaled R\$27,125 million, while net debt/EBITDA ratio, calculated based on the adjusted EBITDA for the last twelve months, reached 5.34x. In the quarter, the deleveraging effects from the increased EBITDA LTM, in addition to the sale of LLC, reduced the net debt/EBITDA ratio by 0.8x. However, these effects were partially offset by the exchange rate changes on the debt, representing a final reduction of 0.48x.

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2Q18

Foreign exchange exposure

The net foreign exchange exposure of the consolidated balance sheet was US\$1,035 million as at June 30, 2018, as shown in the table below. It should be noted that within the net foreign exchange exposure, a liability of US\$1.0 billion is included in line item “Borrowings and financing” related to the perpetual bond, which, due to its nature, will not require disbursement for settlement of the principal amount in the foreseeable future.

The hedge accounting adopted by CSN correlates the projected export inflow in US dollars with part of the scheduled debt payments in the same currency. As a result, the exchange rate changes in the US dollar-denominated debt is temporarily recorded in equity and subsequently recorded in profit or loss when revenues in US dollars from exports occur. In this quarter, the increased number of US debt instruments designated as hedge accounting, increased with additional export volumes, mitigated further volatility.

| | |
|---|----------------|
| Cash | 244 |
| Trade receivables | 322 |
| Other | 4 |
| Total assets | 571 |
| Borrowings and financing | (4,236) |
| Trade payables | (175) |
| Other payables | (5) |
| Total liabilities | (4,417) |
| Natural foreign exchange exposure (assets - liabilities) | (3,846) |
| Derivatives, net | - |

| | |
|---|----------------|
| Cash flow hedge accounting | 1,307 |
| Foreign exchange exposure, net | (2,539) |
| Perpetual bond | 1,000 |
| Foreign exchange exposure, net (ex-bond) | (1,539) |

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4

EARNINGS RELEASE

2Q18

Investments

Investments totaled R\$263 million in the 2Q18, an increase of 18% compared to the 1Q18, arising mainly due to the project seasonality. The increase in steel expenses refers to the investments for the improvement of coking and sintering performance.

| | | | | | | |
|---------------------------------|------------|------------|------------|------------|--------------|------------|
| Steel | 92 | 102 | 119 | 168 | 481 | 65 |
| Mining | 60 | 106 | 115 | 97 | 378 | 116 |
| Cement | 24 | 20 | 34 | 40 | 118 | 23 |
| Logistics | 13 | 11 | 19 | 33 | 76 | 18 |
| Other | 0 | 0 | 6 | 6 | 12 | 2 |
| Total investments - IFRS | 190 | 239 | 293 | 344 | 1,065 | 223 |

Working capital

To calculate working capital, CSN adjusts its assets and liabilities as demonstrated below:

- Trade receivables: excludes dividends receivable, advances to employees and other receivables;
- Inventories: excludes warehouse, which is not part of the cash conversion cycle, and will be subsequently recorded in property, plant and equipment when consumed;
- Advanced taxes: solely composed of income tax and social contribution included in line item "Recoverable taxes";
- Taxes payable: composed of line item "Taxes payable", in current liabilities, plus taxes in installments;
- Advances from customers: recognized in line item "Other payables", in current liabilities;

Accordingly, working capital invested in the Company's business **totaled R\$2,959 million in the 2Q18, increasing the financial cycle in 5 days**, compared to the **1Q18**, mainly due to the trucker strike and high raw material prices, which impacted the increase in inventories by R\$394 million compared to the prior quarter.

| | | | | | |
|---------------------------|--------------|--------------|--------------|------------|--------------|
| Assets | 6,252 | 6,252 | 6,924 | 672 | 672 |
| Trade receivables | 2,300 | 2,146 | 2,269 | 123 | (31) |
| Inventories | 3,744 | 4,064 | 4,458 | 394 | 714 |
| Prepaid taxes | 207 | 42 | 197 | 155 | (10) |
| Liabilities | 2,655 | 3,869 | 3,965 | 96 | 1,310 |
| Trade payables | 2,078 | 3,253 | 3,226 | (27) | 1,148 |
| Payroll and related taxes | 294 | 233 | 265 | 31 | (30) |
| Taxes payable | 183 | 288 | 337 | 50 | 154 |
| Advances from customers | 100 | 95 | 137 | 42 | 37 |
| Working capital | 3,597 | 2,383 | 2,959 | 576 | (638) |
| | | | | | |
| Receipt | 41 | 33 | 31 | (2) | (10) |
| Payment | 59 | 79 | 70 | (9) | 11 |
| Inventories | 106 | 99 | 97 | (2) | (9) |
| Financial cycle | 88 | 53 | 58 | 5 | (30) |

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2Q18

Business segment reporting

The Company maintains integrated operations in five business segments: steel, mining, logistics, cement and energy. The main assets and/or companies comprising each segment are presented below:

Beginning 2013, the Company no longer proportionally consolidated its jointly-owned subsidiaries Namisa, MRS and CBSI. For purposes of preparation and presentation of the information by business segment, Management maintained the proportional consolidation of the jointly-owned subsidiaries, as historically presented. For purposes of reconciliation of the consolidated result, the amounts recorded by these companies are not included in “Corporate expenses/elimination”. After the closing of 2015, after the combination of the mining assets (Casa de Pedra, Namisa and Tecar), the consolidated result includes this new company’s information as a whole.

Net revenue by segment – 2Q18 (R\$ million)

Adjusted EBITDA by segment – 2Q18 (R\$ million)

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6

EARNINGS RELEASE

2Q18

| | | | | | | |
|--|----------------|--------------|-------------|--------------|-------------|--------------|
| Net revenue | 4,093 | 1,331 | 64 | 370 | 113 | 15 |
| Domestic market | 2,421 | 225 | 64 | 370 | 113 | 15 |
| Foreign market | 1,672 | 1,106 | - | - | - | - |
| CPV | (3,276) | (855) | (49) | (262) | (74) | (122) |
| Gross profit | 817 | 477 | 15 | 108 | 39 | 3 |
| SG&A | (264) | (45) | (9) | (25) | (7) | (2) |
| Depreciation | 155 | 102 | 5 | 64 | 4 | 3 |
| Proportional EBITDA - jointly-owned subsidiaries | - | - | - | - | - | - |
| Adjusted EBITDA | 708 | 533 | 12 | 147 | 36 | 4 |

| | | | | | | |
|--|----------------|--------------|-------------|--------------|-------------|--------------|
| Net revenue | 3,674 | 1,152 | 66 | 331 | 91 | 13 |
| Domestic market | 2,291 | 219 | 66 | 331 | 91 | 13 |
| Foreign market | 1,384 | 933 | - | - | - | - |
| CPV | (2,900) | (795) | (46) | (244) | (66) | (125) |
| Gross profit | 774 | 356 | 20 | 87 | 24 | 2 |
| SG&A | (234) | (21) | (10) | (23) | (7) | (2) |
| Depreciation | 150 | 106 | 4 | 65 | 4 | 2 |
| Proportional EBITDA - jointly-owned subsidiaries | - | - | - | - | - | - |
| Adjusted EBITDA | 690 | 442 | 14 | 128 | 22 | 1 |

| | | | | | | |
|---------------------|----------------|--------------|-------------|--------------|-------------|--------------|
| Net revenue | 3,055 | 1,067 | 52 | 364 | 111 | 11 |
| Domestic market | 1,749 | 246 | 52 | 364 | 111 | 11 |
| Foreign market | 1,305 | 821 | - | - | - | - |
| CPV | (2,628) | (742) | (38) | (244) | (71) | (120) |
| Gross profit | 426 | 325 | 15 | 121 | 40 | (13) |
| SG&A | (271) | (42) | (7) | (23) | (7) | (2) |

| | | | | | |
|--|------------|------------|-----------|------------|-----------|
| Depreciation | 172 | 124 | 4 | 65 | 6 |
| Proportional EBITDA - jointly-owned subsidiaries | - | - | - | - | - |
| Adjusted EBITDA | 327 | 408 | 12 | 163 | 39 |

CSN's Steel Results

According to the World Steel Association (WSA), the **global crude steel production** totaled **453.9** million tons (Mton) in the 2Q18, an **increase of 5.4%** compared to the 2Q17. **Asia** produced **319.6** Mton in the 2Q18, an **increase of 6.3%** compared to the same period in 2017, while the **European Union** and **North America** increased by **1.7%** and **2.7%**, respectively, on the same comparison basis.

- In the **2Q18**, CSN's **splate production** totaled 996 thousand tons, a decrease of 5% compared to the 1Q18 due to corrective maintenance. In turn, the **production of flat rolled products in the 2Q18 remained stable** compared to the 1Q18 and 4% above compared to the 2Q17, totaling 981 thousand tons. **According to the Brazilian Steel Institute (IABr)**, in the second quarter of 2018, **the domestic sales** totaled **6.4 million** tons of steel, an **increase of 5%** compared to the prior year. The **apparent consumption** totaled **5.1 million** tons, an **increase of 9%** compared to the same period of last year. **Brazilian steel production** totaled **8.5 million** tons, an **increase of 1%**.

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2Q18

| | | | | | |
|---|--------------|--------------|------------|-------------|--------------|
| Plate production | 1,070 | 1,050 | 996 | (5%) | (7%) |
| Third-party plates | 38 | 0 | 0 | - | (100%) |
| Total plates (UPV + third parties) | 1,108 | 1,050 | 997 | (5%) | (10%) |
| Total flat rolled products | 943 | 978 | 981 | 0% | 4% |
| Total long rolled products | 56 | 40 | 53 | 31% | (5%) |

- CSN's **total sales** reached 1,321 thousand tons of steel products in the **2Q18**, an increase of **3%** and **13%** compared to the 1Q18 and 2Q17, respectively.

- In the **2Q18** the steel volume sold by CSN in the **domestic market** totaled 798 thousand tons, an increase of **2%** compared to the 1Q18 and 22% compared to the 2Q17. Out of this total, 748 thousand tons refers to flat steel products and 50 thousand tons to long steel products. The **expansion of the automotive and OEM market significantly increased hot rolled flat steel products (+29% YoY) and galvanized items (+38% YoY)**.

- In the **foreign market**, CSN's sales in the **2Q18** totaled 523 thousand tons, an increase of 5% compared to the immediately prior quarter. In this period, 74 thousand tons were directly exported and 449 thousand tons were sold by foreign subsidiaries, out of which 142 thousand tons by LLC, 212 thousand tons by SWT and 95 thousand tons by Lusosider.

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2Q18

- In the 2Q18, CSN maintained its high **market share of coated products** as a percentage of total sales volume (44% in the 2Q18), following the strategy of adding more value to its product mix. Sales of coated products such as galvanized items and metallic sheets accounted for 56% of flat steel sales, considering all markets in which the Company operates. In the **foreign market**, the market share of coated products increased from 81% in the 1Q18 to 84% of flat steel sales in the 2Q18.

According to **ANFAVEA**(National Association of Automobile Manufacturers), **in the second quarter of 2018, the production of vehicles, light commercial vehicles, trucks and buses** totaled 734,774 thousand units, **an increase of 12.73%**, compared to the same period of prior year. **The exports**, in turn, reduced the performance, totaling 198,816 thousand vehicles sold, **a decrease of 2%** compared to the same period of prior year. Anfavea estimates an increase of 11.9% in vehicles produced in 2018, for 3.02 million units.

According to **ABRAMAT**(Brazilian Association of Building Material Industry), the accumulated **building material sales** decreased by **4,7%** through June 2018, compared to the June 2017, however, the association estimates an increase of 1,5% in the industry revenues, despite a reduction of 0,4% in 1H18.

According to **IBGE** (Brazilian Institute of Geography and Statistics), **home appliance production** referring to data accumulated from 12 months to May, **registered a 13.8% increase**, compared to the same period accumulated in 2017.

According to **INDA** (National Institute of Steel Distributors) in the **2Q18**, distribution purchases **increased by 11.2%** compared to the 2Q17. **Accumulated imports in the 2Q18 increased by 16.9%** compared to the same period in 2017, a total volume of 335.8 thousand tons.

- **Net steel revenue** totaled R\$4,093 million in the 2Q18, an increase of **11%** and **34%** compared to the 1Q18 and 2Q17, respectively, mainly due to an increase in sales in the domestic and foreign markets and higher average steel prices, both in the domestic market (+3% compared to the 1Q18) and foreign market (+17% compared to the 1Q18).
- **Cost of sales in the 2Q18** increased by 13% compared to the 1Q18, totaling R\$3,276 million, mainly due to the increase in raw material prices (coal HCC, coke and pellets) and corrective maintenance.
- **Plate production cost** in the **2Q18** totaled R\$1,635/t, an increase of 11% compared to the 1Q18. The increase in the prices of the main raw materials was also impacted by the exchange rate variation in the period.
- **Adjusted EBITDA** totaled R\$708 million in the **2Q18**, an increase of 2.6% compared to R\$690 million in the 1Q18, due to the increase in sales volume, as well as the challenging scenario during the trucker strike. The adjusted EBITDA margin in the 2Q18 reached 17.3%, or a decrease of 1.5 p.p. compared to the immediately prior quarter.

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2Q18

CSN's Mining Results

In the **2Q18**, the steel production in China was 238 Mt, reaching a record quarterly production and representing an increase of 13% compared to 1Q18. However, the cut in production of sintering and trade tensions have negatively impacted prices. In this regard, **iron ore price ratio in the 2Q18 reached US\$65.35/dmt (Platts, Fe62%, N. China), on average, a decrease of 12% compared to the 1Q18**. The US dollar variation between the periods was 11.1%, which offset, in domestic currency, the decrease in iron ore prices.

The drop in the overall supply of **high silica ore** resulted in a **strong reduction of 50% in the market discount of this impurity in 2Q18**, compared to the 1Q18.

In regards to **maritime freight**, the BCI-C3 (Tubarão-Qingdao) route reached an average of US\$17.41/wmt in the **2Q18, an increase of 16%** compared to the prior quarter driven by higher transoceanic volumes and superior oil prices.

- In the **2Q18, iron ore production totaled** 6.7 million tons, an increase of 10% compared to the 1Q18, mainly due to the mining plan, lower rainfall index of the period and efforts to mitigate the restrictions imposed by the truck drivers' strike. **Iron ore purchases** totaled 1,878 thousand tons in the **2Q18**, an increase of 26% compared to the 1Q18.
- **Iron ore sales** totaled 8.1 million tons in the **2Q18**, an increase of 9% compared to the 1Q18, out of which 1.4 million tons were sold to Presidente Vargas Plant (+5%).

| | | | | | |
|-------------------------------------|--------------|--------------|--------------|------------|-----------|
| Iron ore production | 7,948 | 6,129 | 6,744 | 10% | (15%) |
| Ore purchased from third parties | 167 | 1,487 | 1,878 | 26% | 1.027% |
| Total production + purchases | 8,114 | 7,616 | 8,621 | 13% | 6% |
| Sales to UPV | 1,307 | 1,309 | 1,376 | 5% | 5% |
| Volume sold to third parties | 6,511 | 6,165 | 6,754 | 10% | 4% |
| Total sales | 7,818 | 7,474 | 8,130 | 9% | 4% |

The production and sales volumes considered a 100% stake in CSN Mineração.

In the **2Q18**, **mining net revenue** totaled R\$1,331 million, an increase of **16%** compared to the immediately prior quarter due to the decrease in sales volumes (+9%) and appreciation of the US dollar against Brazilian real. The CIF + FOB unit revenue in the **2Q18** totaled **US\$56.8/wmt**, an increase of 2% compared to the prior quarter, due to improved quality and higher demand for low alumina products.

Realized iron ore price by CSN Mineração

(CIF + FOB* - US\$/wmt delivered in China)

- **Mining sales cost** totaled R\$855 million in the **2Q18**, an increase of 7% compared to the 1Q18, due to the increase in the sales volume in the period (+9%).

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2Q18

- Despite the decrease in the Platts index in the quarter compared to the prior quarter, **adjusted EBITDA margin reached 40% in the 2Q18, or an increase of 1.7 p.p. compared to the 1Q18**, and **adjusted EBITDA reached R\$533 million in the 2Q18**, an increase of 21% compared to the 1Q18, due to the increased volume, lower unit cost of iron ore volume in vessels and better realized price, in addition to the US dollar appreciation of 11.1% against Brazilian real.

CSN's Logistics Results

Railway logistics: In the **2Q18**, **net revenue** totaled R\$370 million, generating **adjusted EBITDA** of R\$147 million and **adjusted EBITDA margin** of 40%.

Port logistics: In the **2Q18**, Sepetiba Tecon shipped 114 thousand tons of steel products, in addition to 98 thousand tons of general cargo and approximately 56 thousand containers. In the 2Q18, **net revenue** totaled R\$64 million, due to the significant increase in general cargo volume and balance against container and steel volumes, generating **adjusted EBITDA** of R\$12 million and **adjusted EBITDA margin** of 18%.

| | | | | | |
|-------------------------------------|-----|-----|-----|-------|---------|
| Container volume (thousand units) | 39 | 65 | 56 | (13%) | 45% |
| Steel volume (thousand ton) | 212 | 219 | 114 | (48%) | (46%) |
| General cargo volume (thousand ton) | 1 | 31 | 98 | 215% | 17.991% |

CSN's Energy Results

According to **EPE (Energy Research Company)**, **domestic electric consumption in Brazil** decreased by **0.4%** in June over the same period of the previous year. The industrial segment posted an increase in energy consumption of **1.9%** in the first half of 2018 versus the same period last year. The residential and commercial sectors increased energy consumption by **1.5%** and **0.4%**, respectively, against the same period in 2017.

In the **2Q18**, **net energy revenue** totaled R\$113 million (+24% compared to the 1Q18) due to the increase in energy sales in the free market, with **adjusted EBITDA** of R\$36 million and **adjusted EBITDA margin** of 32%.

CSN's Cement Results

In the **second quarter of 2018**, **cement sales in the domestic market** totaled 12.9 million tons, according to the preliminary industry data, disclosed by the **SNIC** (National Cement Industry Union), an increase of solely **0.14%** compared to the second quarter of 2017.

According to the **SNIC** data, **sales volume in the second quarter was significantly impacted** due to the trucker strike, representing a decrease of 20.3% in May compared to the same period in 2017.

In the **2Q18**, **CSN's cement sales** totaled 890 thousand tons, an increase of 10% compared to the 1Q18, representing **net revenue** of R\$152 million, despite of the adverse strike scenario. Adjusted **EBITDA** reached R\$42 million (+248%), with **adjusted EBITDA margin** of 28%, or an increase of 18.6 p.p. compared to the prior quarter, mainly due to the increased prices and volumes.

| | | | | | |
|------------------|-----|-----|-----|-----|----|
| Total production | 841 | 775 | 876 | 13% | 4% |
| Total sales | 831 | 806 | 890 | 10% | 7% |

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EARNINGS RELEASE

2Q18

Capital market

In the **second quarter of 2018**, the CSN's shares depreciated by 1.8%, while the Ibovespa index depreciated by 14%. The daily traded volume (CSNA3) on B3, in turn, totaled R\$81.2 million. On the New York Stock Exchange (NYSE), the Company's American Depositary Receipts (ADRs) depreciated by 24%, while Dow Jones increased by 2.65%. The daily traded volume (SID) of the Company's ADRs on NYSE totaled US\$6.3 million.

| | |
|---|------------------|
| Number of shares (in thousands) | 1,387,524 |
| Market value | |
| Closing price (R\$/share) | 7.86 |
| Closing price (US\$/ADR) | 2.02 |
| Market value (R\$ million) | 10,906 |
| Market value (US\$ million) | 2,832 |
| Total return including dividends and interest on capital | |
| CSNA3 | (1.8%) |
| SID | (24%) |
| Ibovespa | (14%) |
| Dow Jones | 2.65% |
| Volume | |
| Daily average (thousand shares) | 9,422 |
| Daily average (R\$ thousand) | 81,222 |
| Daily average (thousand ADRs) | 2,641 |
| Daily average (US\$ thousand) | 6,310 |
| <i>Source: Bloomberg</i> | |

Conference Call in Portuguese with Simultaneous Translation into English August 08th, 2018

03:00 p.m. (US EDT)

04:00 p.m. (Brasília time)

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Some of the statements contained herein are forward-looking statements that express or imply expected results, performance or events. These perspectives include future results that may be influenced by historical results and the statements under 'Outlook'. Actual results, performance or events may differ materially from those expressed or implied by the forward-looking statements as a result of several factors, such as the general and economic conditions in Brazil and other countries, interest rate and exchange rate levels, protectionist measures in the USA, Brazil and other countries, changes in laws and regulations and general competitive factors (on a global, regional or national basis).

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EARNINGS RELEASE

2Q18

SALES VOLUME CONSOLIDATED (thousand tonnes)

| | | | | | |
|--------------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| <u>Flat Steel</u> | <u>592</u> | <u>737</u> | <u>748</u> | <u>11</u> | <u>156</u> |
| Slabs | - | - | - | - | - |
| Hot Rolled | 216 | 271 | 278 | 7 | 62 |
| Cold Rolled | 117 | 157 | 142 | (15) | 25 |
| Galvanized | 191 | 242 | 263 | 21 | 72 |
| Tin Plates | 68 | 67 | 66 | (1) | (2) |
| Long Steel UPV | 60 | 45 | 50 | 5 | (10) |
| DOMESTIC MARKET | 652 | 782 | 798 | 16 | 146 |
| <u>Flat Steel</u> | <u>316</u> | <u>280</u> | <u>310</u> | <u>30</u> | <u>(6)</u> |
| Hot Rolled | 14 | 35 | 24 | (11) | 10 |
| Cold Rolled | 24 | 17 | 26 | 9 | 2 |
| Galvanized | 232 | 191 | 200 | 9 | (32) |

| | | | | | |
|------------------------------|-------------------|---------------------|---------------------|------------------|-------------------|
| Tin Plates | 46 | 37 | 61 | 24 | 15 |
| Long Steel (profiles) | 205 | 216 | 212 | (4) | 7 |
| FOREIGN MARKET | 521 | 496 | 523 | 27 | 2 |
| <u>Flat Steel</u> | <u>909</u> | <u>1,017</u> | <u>1,059</u> | <u>42</u> | <u>150</u> |
| Slabs | - | - | - | - | - |
| Hot Rolled | 230 | 306 | 301 | (5) | 71 |
| Cold Rolled | 141 | 174 | 168 | (6) | 27 |
| Galvanized | 423 | 433 | 463 | 30 | 40 |
| Tin Plates | 115 | 104 | 126 | 22 | 11 |
| Long Steel UPV | 60 | 45 | 50 | 5 | (10) |
| Long Steel (profiles) | 205 | 216 | 212 | (4) | 7 |
| TOTAL MARKET | 1,174 | 1,277 | 1,321 | 44 | 147 |

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EARNINGS RELEASE

2Q18

INCOME STATEMENT

CONSOLIDATED – Corporate Law (thousands of Brazilian reais)

| | | |
|---|--------------------|--------------------|
| Net Revenues | 4,310,609 | 5,065,950 |
| Domestic Market | 1,962,864 | 2,515,270 |
| Foreign Market | 2,347,745 | 2,550,680 |
| Cost of Goods Sold (COGS) | (3,325,893) | (3,684,743) |
| COGS, excluding depreciation | (2,977,952) | (3,386,399) |
| Depreciation allocated to COGS | (347,941) | (298,344) |
| Gross Profit | 984,716 | 1,381,207 |
| Gross Margin (%) | 23% | 27% |
| Selling expenses | (477,063) | (454,860) |
| General and administrative expenses | (106,801) | (102,385) |
| Depreciation allocated to SG&A | (7,829) | (6,831) |
| Other operation income (expense), net | (99,025) | 1,796,928 |
| Share of profits (losses) of investees | 39,393 | 24,851 |
| Operational Income before Financial Results | 333,391 | 2,638,910 |
| Net Financial Results | (828,619) | (593,704) |
| Income before social contribution and income taxes | (495,228) | 2,045,206 |
| Income Tax and Social Contribution | (144,728) | (558,711) |
| Profit/(Loss) for the period | (639,956) | 1,486,495 |

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EARNINGS RELEASE

2Q18

BALANCE SHEET

Corporate Law (thousands of Brazilian reais)

| | | |
|---|-------------------|-------------------|
| Current assets | 11,881,496 | 13,086,676 |
| Cash and cash equivalents | 3,411,572 | 3,511,332 |
| Short-term investments | 735,712 | 741,184 |
| Trade receivables | 2,276,215 | 2,388,157 |
| Inventories | 4,464,419 | 5,131,411 |
| Other current assets | 993,578 | 1,314,592 |
| Non-current assets | 33,328,474 | 33,117,864 |
| Long-term receivables | 2,591,594 | 2,671,027 |
| Investments | 5,499,995 | 5,340,373 |
| Property, plant and equipment | 17,964,839 | 17,807,367 |
| Intangible assets | 7,272,046 | 7,299,097 |
| Total assets | 45,209,970 | 46,204,540 |
| Current liabilities | 10,670,050 | 10,456,884 |
| Payroll and related taxes | 252,418 | 264,689 |
| Suppliers | 2,460,774 | 3,226,249 |
| Taxes payable | 264,097 | 316,129 |
| Borrowings and financing | 6,526,902 | 5,831,919 |
| Other payables | 1,059,901 | 732,693 |
| Provision for tax, social security, labor and civil risks | 105,958 | 85,205 |
| Non-current liabilities | 26,251,691 | 27,526,328 |
| Borrowings and financing | 22,983,942 | 24,594,168 |
| Deferred Income Tax and Social Contribution | 1,173,559 | 859,593 |
| Other payables | 129,323 | 135,346 |
| Provision for tax, social security, labor and civil risks | 719,133 | 749,757 |
| Other provisions | 1,245,734 | 1,187,464 |
| Shareholders' equity | 8,288,229 | 8,221,328 |
| Paid-in capital | 4,540,000 | 4,540,000 |
| Capital reserves | 30 | 32,720 |
| Acumulated (Losses) / Profits | (1,291,689) | 1,340,624 |
| Other comprehensive income | 3,779,032 | 867,515 |

| | | |
|---|-------------------|-------------------|
| Non-controlling interests | 1,260,856 | 1,259,757 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 45,209,970 | 46,204,540 |

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15

EARNINGS RELEASE

2Q18

CASH FLOW STATEMENT CONSOLIDATED - Corporate Law (In Thousand of R\$)

| | |
|--|------------------|
| Net cash generated by operating activities | 459,217 |
| (Net Losses) / Net income attributable to controlling shareholders | 1,471,863 |
| Loss for the period attributable to non-controlling interests | 14,632 |
| Charges on borrowings and financing raised | 462,685 |
| Charges on borrowings and financing granted | (11,175) |
| Depreciation, depletion and amortization | 315,872 |
| Share of profits (losses) of investees | (24,851) |
| Deferred income tax and social contribution | 438,797 |
| Provision for risks | 1,046 |
| Foreign exchange and monetary variations, net | 51,488 |
| Write off fixed assets and intangible | 1,780 |
| Adjusted shares - VJR | (1,936,389) |
| Environmental liabilities and Deactivation Provisions | (3,270) |
| Net gain on sale of foreign subsidiary | |
| Other provisions | 39,857 |
| Working Capital | 254,746 |
| Accounts Receivable | 112,946 |
| Trade Receivables – Related Parties | (24,304) |
| Inventory | (420,862) |
| Interest receive - Related Parties | (10,408) |
| Taxes to be offset | (1,156) |
| Judicial Deposits | (12,443) |
| Suppliers | 606,335 |
| Payroll and related taxes | (19,827) |
| Taxes (Refis) | 1,673 |
| Due to related parties | 4,605 |
| Other | 18,187 |
| Others Payments and Receipts | (617,864) |
| Interest paid | (617,864) |

| | | |
|--|--------------------|----------|
| Cash Flow from Investment Activities | (213,570) | 1 |
| Purchase of intangible assets | | |
| Purchase of property, plant and equipment | (223,270) | |
| Related parties loans | (36,362) | |
| Short-term investment, net of redeemed amount | 6,685 | |
| Net cash received from the sale of a foreign subsidiary | | |
| Cash from the sale of Usiminas' shares | 39,377 | |
| Cash Flow from Financing Companies | (1,423,065) | (|
| Borrowings and financing raised | 1,320,776 | |
| Borrowing amortizations - principal | (2,190,683) | |
| Borrowing costs | (51,156) | |
| Dividends to minority shareholders | (502,002) | |
| Disposal of shares in treasury | | |
| Foreign Exchange Variation on Cash and Cash Equivalents | | |
| Free Cash Flow | (1,177,418) | 1 |

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