Acerinox, S.A. and subsidiaries

Audit Report,
Consolidated Financial Statements and
Consolidated Directors' Report
at 31 December 2017

Report of the Independent Auditors on the Consolidated Financial Statements

To the shareholders of Acerinox, S.A.:

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Acerinox, S.A. (the parent company) and subsidiaries (the Group) at 31 December 2017, consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income , the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements for 2017 present fairly, in all material respects, the Group's consolidated financial position at 31 December 2017 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU), and other provisions of the applicable financial reporting framework applicable in Spain.

Basis of the opinion

We have performed our audit in accordance with legislation governing audits in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those of independence that are relevant to our audit of the consolidated financial statements in Spain in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than audit and no situations or circumstances have arisen that compromised our necessary independence in accordance with that legislation.

We believe that the audit evidence we have obtained is sufficient and adequate to provide a basis for our opinion.

Key Audit Matters (KAM)

The key audit matters are those which, in our professional opinion, have been considered to be the most significant risks during our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion of these matters.

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Key Audit Matters (KAM)	How the matters were handled during the course of the audit
Recovery of goodwill	
The Group's goodwill totalling €69,124 thousand at 31 December 2017 is associated with the 2002 acquisition of a controlling interest in the company Columbus Stainless, Ltd. At least at the year-end, the Group estimates the recoverable value of this asset, as is indicated in Notes 2.7, 2.10 and 7.1 of the accompanying notes to the consolidated financial statements. The Group uses cash flow projections based on financial budgets approved by management to calculate the recoverable value, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Group are summarized in Note 7.1 to the accompanying notes to the consolidated financial statements. Changes in these variables and estimates made by management may give rise to significant variations in the calculations performed and, therefore, in the analysis of the recovery of goodwill. This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.	We first gained an understanding of the relevant processes and controls associated with the evaluation of the impairment of goodwill by Group management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by Group management. We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by Group management, against those actually attained in 2017. We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rate for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group. As a result of our tests and analyses, we consider that Group management's conclusions regarding the absence of impairment and the disclosures in the accompanying consolidated financial statements are adequately supported and consistent with the information currently available.
Recovery of property, plant and equipment	
The Group's non-current assets represent a substantial part of its net assets. Of them, of particular importance is property, plant and equipment (Note 8 of the accompanying notes to the consolidated financial statements), which at the year-end makes up 42% of the Group's total consolidated assets at 31 December 2017. As is explained in Notes 2.10 and 8.1 of the accompanying notes to the consolidated financial statements, the carrying amount of these assets is reviewed at the end of each year in order to assess whether or not there is any indication of their impairment. If there are any such indications, the Group estimates the recoverable value of the asset concerned. Note 8.1 provides details of the Cash Generating Units that present indications of impairment. No impairment was recognized in 2017.	The starting point of our procedures consisted of gaining an understanding of the relevant processes and controls associated with the evaluation of the impairment of property, plant and equipment by Group management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by Group management. We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by Group management, against those actually attained in 2017. We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rate for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group.

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
The Group uses cash flow projections based on financial budgets approved by management to calculate the recoverable value, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Group are summarized in Note 8.1 to the accompanying notes to the consolidated financial statements. Changes in these variables and estimates made by management may give rise to significant variations in the conclusions reached and, therefore, in the analysis of the recovery of the indicated property, plant and equipment. This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.	As a result of our tests and analyses, we consider that Group management's conclusions regarding the absence of impairment and the disclosures in the accompanying consolidated financial statements are adequately supported and consistent with the information currently available.
Recovery of deferred tax assets	
The Group recognized €170,602 thousand in deferred tax assets, net of €35,247 thousand in deferred tax liabilities, whose recovery depends on the generation of taxable income in future years (Notes 2.18, 3.f and 18.3.3 of the accompanying notes to the consolidated financial statements). The recovery of these deferred tax assets is analysed by the Group through an estimation of taxable income over 10 years based on the business plans prepared by the various Group companies and the planning possibilities allowed by the tax legislation applicable to each company and tax group. As a result, the conclusion regarding the recovery of the deferred tax assets that are presented in the consolidated balance sheet is subject to significant judgment and estimations by Group management with respect to both future taxable income and the tax legislation in force in the various jurisdictions in which the Group operates. This, together with the materiality of this heading, means that this matter is one of significant attention during our audit.	We first gained an understanding and assessed the criteria used by the Group to estimate the possibility that the deferred tax assets may be applied and recovered in subsequent years, in accordance with the business plans. Based on the business plans prepared by Group management, we have analysed the key assumptions, estimates and calculations used, comparing them against past results and other available comparables. Our analysis also included a review of the tax adjustments taken into consideration for the estimate of tax-loss carry forwards, applicable tax legislation as well as decisions regarding the possibility of using the taxable profits obtained by the various Group companies. The analyses carried out have allowed for the verification that the calculations and estimates made by the Group, as well as the conclusions reached, with respect to the recognition and recovery of deferred tax assets are consistent with current circumstances, in light of the expectations of the Group obtaining profits in the future and the possibilities arising from tax planning available under current legislation.

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
Assessment of deferred tax liabilities	
The Group recognized €174,401 thousand in deferred tax liabilities at 31 December 2017 (Note 18.3 of the accompanying notes to the consolidated financial statements). The tax reform in the United States described in Note 18.1 has led the Group to adjust its deferred tax liabilities by €69,107 thousand to reflect the effect of the reduction in the federal tax rate from the 35% applicable up until now, to the 21% rate in force after the reform. Those deferred tax liabilities have been primarily generated due to the different tax and accounting treatment of depreciation at North American Stainless, Inc. (Note 18.3.1). At 31 December 2017 the Group recognized a deferred tax liability totalling €25,000 thousand after reaching a conclusion regarding the probability of repatriating reserves totalling €250 million from the Group company North American Stainless Inc., as is explained in Note 18.3.1 to ensure that the parent company can maintain the per-share dividend over the coming five years as dividends originating from the United States are subject to a 10% at-source withholding tax. The assessment of the amount of the reserves to be repatriated and, as a result, the recognition of the relevant deferred tax liability requires significant estimates and judgments on the part of Group management. This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.	We first gained an understanding and assessment of the accounting impacts caused by the tax reform recently approved in the United States, particularly those affecting deferred tax liabilities recorded by the Group at 31 December 2017. This analysis included an evaluation of the reasonableness of the calculations made by Group Management. We also analysed the criteria applied by Group management regarding the estimates made of the probability of repatriating the reserves held by subsidiaries and their amount including, among other things, the capacity to generate future profits included in the business plans approved by group management and, consequently, the recognition of deferred tax liabilities due to the retained earnings of subsidiaries. Our analyses allowed us to verify the consistency of the estimates and calculations made by Group management, as well as the conclusions reached with respect to the treatment of the impact of the deferred tax liabilities, and that they are adequately supported and consistent with the information that is currently available.

Other matters

The consolidated financial statements for Acerinox, S.A. and subsidiaries for the year ended 31 December 2016 were audited by another audit firm that expressed an unqualified opinion regarding those financial statements on 28 February 2017.

Other information: Consolidated directors' report

Other information includes only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent company's directors and it does not form an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated director's report. Our responsibility regarding the information set out in the consolidated directors' report is defined by audit regulations, which make a distinction between two different levels:

a) A specific level that is applicable to the consolidated non-financial information and certain information included in the Annual Corporate Governance Report, as defined by Article 35.2.b) of Law 22/2015, on Audits, which consists of only verifying that the aforementioned information has been provided in the directors' report or mention is made in that report to a separate report on the non-financial information in the manner established by regulations. If this is not the case we must report this fact.

b) A general level applicable to the rest of the information set out in the consolidated directors' report consisting of assessing and reporting on the consistency of that information compared to the consolidated financial statements based on the knowledge of the Group obtained during the audit of those financial statements, excluding any information other than that obtained as evidence during the audit, as well as assessing and reporting whether or not the content and presentation of this part of the consolidated directors' report are in line with applicable regulations. If, based on our work, we conclude that there are material misstatements, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above is included in the consolidated directors' report and that the rest of the information in the consolidated directors' report is consistent with that of the consolidated financial statements for 2017 and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit committee with respect to the consolidated financial statements

The Directors of the parent company are responsible for preparing the accompanying consolidated financial statements such that they express a true and fair view of the Group's equity, financial situation and the results obtained in accordance with the financial reporting legislation applicable to the Group in Spain and the internal control that is considered necessary to allow consolidated financial statements to be prepared free of material misstatement due to fraud or error.

When preparing consolidated financial statements, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to its status as a going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no other realistic alternative.

The parent company's Audit Committee is responsible for supervising the preparation and presentation of the consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that contains our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when one exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations, or the override of internal control.

- We obtained an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.

- We reached a conclusion as to the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to amend our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue being a going concern.

- We assessed the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and facts in a manner that expresses a true and fair view.

- We obtained sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the audit of the Group. We are solely responsible for our audit opinion.

We communicated with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided the parent company's audit committee with a statement that we have complied with applicable ethical requirements, including those involving independence, and we have communicated with the company to report any matters that reasonably may represent a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters that have been reported to the audit committee at the Parent company, we determined those matters that were most important within the context of the audit of the consolidated financial statements of the current period and they are therefore the key audit matters.

We describe these matters in our audit report unless the law or regulations precludes the public disclosure of the matter.

Report on other legal and regulatory requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the statements made in our additional report for the parent company's audit committee dated 27 February 2018

Term of contract

Shareholders at a general meeting held on 9 June 2016 appointed us auditors for a term of 3 years starting on 31 December 2017.

Services provided

The services other than audit that have been provided to the audited company are disclosed in Note 22 the notes to the accompanying consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mar Gallardo (No. ROAC 18003)

27 February 2018

ACERINOX SA\opinion 31-12-17 consol//**113946**

ACERINOX, S.A. AND SUBSIDIARIES

REPORT OF THE AUDITORS
CONSOLIDATED FINANCIAL STATEMENTS AND
CONSOLIDATED DIRECTORS' REPORT
AT 31 DECEMBER 2017

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ACERINOX, S.A. AND SUBSIDIARIES

Annual Accounts of the Consolidated Group

31 December 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEETS

(In thousands of euros at 31 December 2017 and 2016)

	Note	2017	2016
ASSETS			
Non-current assets			
Goodwill	7	69,124	69,124
Other intangible assets	7	2,510	2,769
Property, plant and equipment	8	1,868,408	2,068,167
Investment property	9	17,720	18,236
Available-for-sale financial assets	11	14,763	12,618
Deferred tax assets	18	170,602	178,774
Other non-current financial assets	11	4,491	7,846
TOTAL NON CURRENT ASSESTS		**2,147,618**	**2,357,534**
Current assets			
Inventories	10	990,484	887,421
Trade and other receivables	11	601,617	572,246
Other current financial assets	11	23,040	27,123
Current tax assets	18	20,717	12,254
Cash and cash equivalents	12	620,536	598,470
TOTAL CURRENT ASSESTS		**2,256,394**	**2,097,514**
TOTAL ASSETS		**4,404,012**	**4,455,048**

Notes 1 to 21 form an integral part of the consolidated annual accounts.

(In thousands of euros at 31 December 2017 and 2016)

	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	13	69,017	69,017
Share premium	13	81,403	81,403
Reserves	13	1,499,499	1,546,215
Profit for the year	13	234,144	80,320
Translation differences	13	13,073	301,736
Parent shares	13	-1	-1
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**1,897,135**	**2,078,690**
Non-controlling interests	13	73,161	89,989
TOTAL EQUITY		**1,970,296**	**2,168,679**
Non-current liabilities			
Deferred income	14	6,947	7,798
Issue of bonds and other marketable securities	11	74,350	124,106
Loans and borrowings	11	862,328	812,699
Non current provisions	15	28,402	15,475
Deferred tax liabilities	18	174,401	228,275
Other non current financial liabilities	11	2,949	2,820
TOTAL NON CURRENT LIABILITIES		**1,149,377**	**1,191,173**
Current liabilities			
Issue of bonds and other marketable securities	11	51,592	1,653
Loans and borrowings	11	241,488	279,961
Trade and other payables	11	941,476	803,953
Current tax liabilities	18	21,212	3,418
Other current financial liabilities	11	28,571	6,211
TOTAL CURRENT LIABILITIES		**1,284,339**	**1,095,196**
TOTAL EQUITY AND LIABILITIES		**4,404,012**	**4,455,048**

Notes 1 to 21 form an integral part of the consolidated annual accounts.

2. CONSOLIDATED INCOME STATEMENTS

(Expressed in thousands of euros)

	Note	2017	2016
Revenues	**16**	4,626,855	3,968,143
Other operating income	16	14,433	13,565
Self-constructed non-current assets	16	16,829	6,927
Changes in inventories of finished goods and work in progress		105,130	-31,975
Supplies		-3,249,188	-2,673,574
Personnel expenses	16	-391,703	-374,928
Amortisation and depreciation	7,8,9	-169,705	-169,792
Other operating expenses	16	-634,699	-580,930
RESULTS FROM OPERATING ACTIVITIES		**317,952**	**157,436**
Finance income	17	8,876	6,252
Finance costs	17	-38,415	-43,383
Exchange gains/losses	17	40,054	-22,424
Fair value measurement of financial instruments	17	-29,836	29,988
PROFIT FROM ORDINARY ACTIVITIES		**298,631**	**127,869**
Income tax	18	-72,132	-57,025
Other taxes	18	-5,180	-3,541
PROFIT FOR THE PERIOD		**221,319**	**67,303**
Attributable to:			
NON-CONTROLLING INTERESTS		**-12,825**	**-13,017**
NET PROFIT/LOSS ATTRIBUTABLE TO THE GROUP		**234,144**	**80,320**
Basic and diluted earnings per share (in Euros)	13.7	0.85	0.3

Notes 1 to 21 form an integral part of the consolidated annual accounts.

3. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of euros)

	Note	2017	2016
A) PROFIT FOR THE YEAR		**221,319**	**67,303**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
I. Measurement of financial instruments			
1. Available-for-sale financial assets	11.2.5	2,145	1,948
2. Other income/expense			
II. Cash flow hedges	11.2.6	-4,528	-7,193
III. Translation differences	13.4	-292,222	97,439
IV. Actuarial gains and losses and other adjustments	15.1	865	
V. Tax effect		355	1,299
B) TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**-293,385**	**93,493**
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT			
I. Measurement of assets and liabilities			
1. Measurement of financial instruments			
2. Other income/expense			
II. Cash flow hedges	11.2.6	5,991	12,489
III. Translation differences		-592	161
IV. Actuarial gains and losses and other adjustments			124
V. Tax effect		-1,501	-3,098
C) TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENTS		**3,898**	**9,676**
TOTAL COMPRHENSIVE INCOME		**-68,168**	**170,472**
a) Attributable to the Parent		**-51,340**	**174,756**
b) Attributable to non-controlling interests		**-16,828**	**-4,284**

Notes 1 to 21 form an integral part of the consolidated annual accounts.

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of euros)

	Notes	Equity attributable to shareholders of the Parent											
		Subscribed capital	Share premium	Retained earnings (including profit for the year)	Property, plant and equipment revaluation reserves	Cash flow hedge reserves	Available-for-sale asset fair value reserve	Actuarial valuation reserves	Translation differences	Treasury shares	TOTAL	Non-controlling interests	TOTAL EQUITY
Equity at 31/12/2015		66,677	81,403	1,574,207	5,242	-5,300	-5,656	-424	212,879	-1	1,929,027	94,277	2,023,304
Profit for 2016				80,320							80,320	-13,017	67,303
Measurement of available-for-sale assets (net of tax)	11.2.5						1,460				1,460		1,460
Cash flow hedges (net of tax)	11.2.6					3,995					3,995	-10	3,985
Actuarial valuation of commitments	15.1							124			124		124
Translation differences	13.4								88,857		88,857	8,743	97,600
Income and expense recognised in equity		0	0	0	0	3,995	1,460	124	88,857	0	94,436	8,733	103,169
Total comprehensive income		0	0	80,320	0	3,995	1,460	124	88857	0	174,756	-4,284	170,472
Capital increase (scrip dividend)	13.1	2,340		-2,435							-95		-95
Distribution of dividends	13.2		0	-26,745							-26,745		-26,745
Transactions with shareholders		2,340	0	-29,180	0	0	0		0	0	-26,840	0	-26,840
Acquisition of own shares	13.1										0		0
Acquisition of non-controlling interests				2							2	-4	-2
Other movements				1,745							1,745		1,745
Equity at 31/12/2016		69,017	81,403	1,627,094	5,242	-1,305	-4,196	-300	301,736	-1	2,078,690	89,989	2,168,679
Profit for 2017				234,144							234,144	-12,825	221,319
Measurement of available-for-sale assets (net of tax)	11.2.5						1,609				1,609		1,609
Cash flow hedges (net of tax)	11.2.6					1,097					1,097	-2	1,095
Actuarial valuation of commitments	15.1							473			473	150	623
Translation differences	13.4								-288,663		-288,663	-4,151	-292,814
Income and expense recognised in equity		0	0	0	0	1,097	1,609	473	-288,663	0	-285,484	-4,003	-289,487
Total comprehensive income		0	0	234,144	0	1,097	1,609	473	-288,663	0	-51,340	-16,828	-68,168
Capital increase (scrip dividend)	13.1										0		0
Distribution of dividends	13.2			-124,230							-124,230		-124,230
Transactions with shareholders		0	0	-124,230	0	0	0		0	0	-124,230	0	-124,230
Acquisition of non-controlling interests	5.2										0		0
Other movements	18.3.1			-5,985							-5,985		-5,985
Equity at 31/12/2017		69,017	81,403	1,731,023	5,242	-208	-2,587	173	13,073	-1	1,897,135	73,161	1,970,296

Notes 1 to 21 form an integral part of the consolidated annual accounts.

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of euros)

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2017	2016
Profit before tax		**298,631**	**127,869**
Adjustments for:			
Amortisation and depreciation	**7,8,9**	169,705	169,792
Impairment		-761	-13,459
Change in provisions		2,427	5,067
Grants recognised in the income statement	**14**	-2,620	-3,037
Gains/losses on disposal of fixed assets	**8,9**	-301	-2,723
Gains/losses on disposal of financial instruments		26,881	-17,414
Finance income	**17**	-8,283	-6,249
Finance costs	**17**	38,415	42,136
Other income and expense		-48,593	41,024
Changes in working capital:			
Increase/decrease in trade and other receivables		-59,886	-92,939
Increase/decrease in inventories		-149,141	-19,386
Increase/decrease in trade and other payables		209,629	128,584
Other cash flows from operating activities			
Interest paid		-36,746	-40,660
Interest received		8,495	6,017
Income tax paid		-81,999	-55,837
NET CASH FROM OPERATING ACTIVITIES		**365,853**	**268,785**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-184,806	-162,084
Acquisition of intangible assets		-777	-940
Acquisition of non-controlling interests	**5**		-2
Acquisition of other financial assets		-286	-267
Proceeds from sale of property, plant and equipment		1,021	5,674
Proceeds from sale of intangible assets			
Proceeds from sale of other financial assets		116	74
Dividends received		160	232
Other amounts received/paid for investments			
NET CASH USED IN INVESTING ACTIVITIES		**-184,572**	**-157,313**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of own equity instruments	**13**		-95
Acquisition of own shares	**13**		0
External financing received	**11.2.3**	695,133	775,448
Repayment of interest-bearing liabilities	**11.2.3**	-668,096	-756,179
Dividends paid	**13**	-124,230	-26,745
Distribution of share premium			
Contribution from non-controlling shareholders			
NET CASH USED IN FINANCING ACTIVITIES		**-97,193**	**-7,571**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**84,088**	**103,901**
Cash and cash equivalents at beginning of year	**12**	598,470	479,955
Effect of exchange rate fluctuations		-62,022	14,614
CASH AND CASH EQUIVALENTS AT YEAR END	**12**	**620,536**	**598,470**

Notes 1 to 21 form an integral part of the consolidated annual accounts.

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6. NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTE 1 – GENERAL INFORMATION

Name of the Parent company: Acerinox, S.A. (hereinafter the Company).

Incorporation: Acerinox, S.A. was incorporated with limited liability under Spanish law on 30 September 1970.

Registered office: Calle Santiago de Compostela, 100, Madrid, Spain.

Statutory purpose and principal activity: The Group's statutory purpose and principal activity, conducted through its subsidiaries, is the manufacture, transformation and marketing of stainless steel products. With a melt shop production capacity of 3.5 million tonnes, the Acerinox Group is one of the main stainless steel manufacturers in the world. It has six stainless steel factories: two manufacturing flat products in Spain and South Africa; one producing flat and long steel products in the United States; a further two making long steel products in Spain; and another in Malaysia that makes flat steel products and currently has cold rolling production lines. The Group also has a network of sales subsidiaries in Spain and abroad that sell all its products as their main activity. Details of all the companies included in the Acerinox consolidated Group are provided in **note 5**, as well as the activities they carry out. The Parent Company's main activity is that of a holding company, as parent company of the Acerinox Group. The Company also renders legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.

Financial year: the financial year of Acerinox, S.A. and all the Group companies is a 12-month period. It starts on 1 January and ends on 31 December.

Annual accounts: these consolidated annual accounts were prepared by the Board of Directors of Acerinox, S.A., on 27 February 2018.

NOTE 2 – ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated annual accounts of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRIC) as adopted by the European Union (hereinafter IFRS-EU) and other applicable provisions in the financial reporting framework.

The annual accounts for 2017 have been prepared using the same accounting principles (IFRS-EU) as for 2016, except for the standards and amendments adopted by the European Union which are obligatory as of 1 January 2017, and which have not had a significant impact on the Group.

The most significant standards for the Group taking effect from 1 January 2017 are as follows:

- Amendments to IAS 7: Disclosure Initiative. This amendment introduces requirements relating to the disclosure of financing activities in the statement of cash flows. The application of this standard became mandatory as of 1 January 2017. The Group has included a breakdown of transactions involving financial liabilities to credit institutions in **note 11.2.3**.
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses. These amendments explain the requirements for recognising deferred tax assets for unrealised losses, detailing the accounting treatment of deferred tax when an asset is valued at fair value and this fair value is lower than the tax base of the asset. These unrealised losses give rise to deductible temporary differences regardless of whether the holder of the debt instrument expects to recover its carrying amount through its sale or use. The Group has assets available for sale, as detailed in **note 11.2.5.** At the year end, the fair value of those assets is above their cost, although in 2013 it was necessary to recognise an impairment in profit and loss. This impairment was not tax deductible, so the Group recognised a deferred tax asset totalling 1.6 million euros. This asset was offset with a deferred tax liability derived from the fair value exceeding the equity cost.

The following are standards or interpretations already adopted or pending adoption by the European Union that will be obligatory in the coming years and may have an impact on the Group:

- IFRS 9 - Financial Instruments. This standard supersedes the current IAS 39 and is effective for annual periods beginning on or after 1 January 2018. In **note 2.2** there is a detailed analysis of the assessment made by the Group on the possible impacts of applying this standard in the coming year. The new standard will also require a reconciliation between the initial and final amount of the allowance for expected credit losses, and the assumptions and data.
- IFRS 15 - Revenue from Contracts with Customers. Effective for annual periods beginning on or after 1 January 2018. Pursuant to this standard, revenues are recognised when the customer obtains control of the good or service that has been sold, i.e. when they have the ability to direct the use of and obtain all of the benefits of the good or service. IFRS 15 requires a breakdown of recognised revenues and revenues expected to be recognised in the future relating to existing contracts. Furthermore, the IASB has established certain amendments to this standard in order to clarify the guidelines for identifying performance obligations, accounting for licences of intellectual property and including practical illustrative examples for each part of the standard. In **note 2.2** there is a detailed analysis of the assessment made by the Group on the possible impacts of applying this standard.
- IFRS 16 - Leases. This new standard supersedes the current IAS 17. Effective for annual periods beginning on or after 1 January 2019. This standard requires companies to recognise lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets). In **note 2.2** there is a detailed analysis of the assessment made by the Group on the possible impacts of applying this standard.
- Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate/joint venture: these amendments clarify the accounting treatment of sales or contributions of assets between an investor and its associate/joint venture. The Group has no significant investments in associates or joint ventures.
- Amendments to IFRS 2 - Classification and measurement of share-based payment transactions: this clarifies how to recognise certain types of share-based payment transactions. No impact on the Group as it does not carry out this type of transaction.
- Annual Improvements to IFRS for the 2014 -2016 cycle: IFRS 1, IFRS 12 and IAS 28 amended. No impact on the Group.
- Amendments to IAS 40 - Transfers of investment property: Effective for annual periods beginning on or after 1 January 2018. This amendment states that transferring a property to, or from, investment property requires a change in use of the property. Furthermore, it must be determined whether or not the property meets the definition of an investment property. The Group has classified some of its industrial premises as investment properties, but in every case the change in classification has been due to a change in use, as they have ceased to be used for the Group's production activities and are intended for lease or sale.
- IFRIC Interpretation 22 - Foreign currency transactions and advance consideration. Effective for annual periods beginning on or after 1 January 2018. The international accounting standard IAS 21 on the effects of changes in foreign exchange rates, states that the transaction date determines the exchange rate to apply for the initial recognition of the respective asset, expense or income. This interpretation establishes how to determine the transaction date when a consideration is paid or received in advance for transactions denominated in a foreign currency. The application of this standard is not expected to have an impact on the Group, due to the insignificant number of advance transactions of this kind.
- IFRIC Interpretation 23 - Uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019. It provides the requirements on how to reflect the effects of uncertainty in accounting for income tax. Not expected to have a significant impact on the Group.
- Amendment to IFRS 9 – Classification of certain pre-payable assets. Effective for annual periods beginning on or after 1 January 2019, although early application is permitted. This amendment proposes a narrow exception to IFRS 9 for particular financial assets which, despite having contractual cash flows that are solely payments of principal and interest, do not meet this condition as a result of a pre-payment feature. No impact on the Group as it does not hold this type of instrument.
- Annual Improvements to IFRS. 2015-2017 cycle: The amendments apply to IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to the annual periods beginning on or after 1 January 2019, all subject to being adopted by the EU.

The Group has not applied any of these standards in advance.

2.2 Assessment of the impact of the new IFRS 9, IFRS 15 and IFRS 16

The Group will start applying these new international financial reporting standards on the dates when their application becomes mandatory, i.e. 1 January 2018 for IFRS 9 and IFRS 15 and 1 January 2019 for IFRS 16.
The Group will apply these standards retrospectively, without restating the comparative figures. In any event, as described below, the changes are not expected to be significant:

- **IFRS 9 - Financial Instruments.**

  The Group has assessed the main changes that implementing the standard may entail for the Group. Specifically, the points that have required a more extensive analysis by the Group are detailed below:

  - Changes in the classification of financial assets: The standard maintains, but simplifies, the mixed measurement model and establishes three main measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The basis for classification depends on the entity's business model and the characteristics of the financial asset's contractual cash flows. Furthermore, investments in equity instruments are valued at fair value through profit or loss, with the irrevocable option to present the changes in reasonable value in other comprehensive income, provided that the instrument is not held for trading. In the latter case, changes in the value of these equity instruments are recorded with a change in equity, not through profit and loss, even in the event of impairment. The Group has assessed the classification and measurement of its financial assets and does not believe that the application of the standard will have a significant impact. The Group's financial assets consist of:

    - Receivables, which the Group measures at amortised cost, in accordance with the policy detailed in **note 2.11.2.b).**
    - Equity instruments, which the Group is not holding for trading and which, consequently, are currently in the available for sale category. As explained in **note 11.2.5**, the Group has classified in this category the holding of Acerinox, S.A. in the Japanese company Nisshin Steel Holding Co. Limited., which is listed in the Tokyo Stock Exchange. The Group has measured this shareholding at its listed price and recognises the gain or loss in the consolidated statement of recognised income and expense of comprehensive income, unless objective evidence exists that impairment has occurred, in which case the accumulated loss is taken from equity to the income statement. After applying the new IFRS 9, the Group is going to continue measuring these investments at fair value through other comprehensive income, with the only difference being that impairment losses will remain in equity items. The Group does not intend to dispose of these investments, but if it did so, the gains or losses on the sale would also be recognised in other comprehensive income, as stipulated in the new standard.
    - Derivative financial instruments, which the Group either measures according to hedge accounting criteria or at fair value through profit or loss, as detailed below.

  - IFRS 9 establishes that exchanges of debt instruments with substantially different terms will be recognised as an extinguishment of the original liability and the recognition of a new financial liability. The Group has assessed the debt renegotiations that it conducted in the years 2016 and 2017, to determine whether they could result in a difference in accounting treatment. However, all debt renegotiations were already recognised according to these criteria, so no adjustments are to be made as a result of applying the new IFRS.

  - New impairment loss model based on expected credit losses and replacing the incurred impairment loss model of IAS 39. It is the Group's policy to hedge its commercial and political risks of all sales made in every country in the world, with the exception of those made in the United States. It hedges its credit risks either through credit insurance companies, or through letters of credit and bank guarantees extended by banks of recognised solvency. The amount of the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated future cash flows. The Group considers risk hedging to be an integral part of the insured credit, so when

calculating expected credit losses, it will not only take into account cash flows expected from the collection of receivables, but also those from the credit insurance. Furthermore, the Group also carries out non-recourse factoring transactions through which the risks and rewards of those assets are substantially transferred, thus leading to the derecognition of the credits from the balance sheet, allowing it to reduce the insolvency risk. Additionally, in some countries the maturity dates are within 30 days, allowing deliveries to be controlled and reducing any impairment losses. For these reasons, as explained in **note 4.2**, the history of losses from bad debt is very low, so no significant impact is expected due to this change in policy. The Group has defined a new impairment loss model based on an historical analysis of the average bad debts in each of the subsidiaries and on the claims incurred in the credit insurance policies held, including any non-recoverable amount (maximum coverage of 85%-90% and excesses), and any amounts subsequently recovered after the claim, whether from the insurance company or the actual customers. The model indicates an estimated percentage of expected credit loss of 0.03% on all sales made in each year. In any event, these estimates are revised in our credit risk control system (commercial and financial risk departments, risk committee and the corporate risk management department) that continuously monitors the specific markets of each subsidiary, receives input from experts specialised in insurance companies and reviews the future estimates of renowned international bodies (IMF, OECD, etc.). When these parameters have been considered, the bad debt provision is calculated taking into account the likelihood of future loss, which is determined based on the composition of the trade receivables balance: whether it has coverage from insurance companies, letters of credit or there are duly approved guarantees, and the time delay over the established due date (a delayed debt of less than 30 days does not generate the same future default risk ratio as another with a delay of 120 days, etc.). During this year, the Group has entered a bad debt provision for the amount of 698 thousand euros, as detailed in **note 11.2.1.** The Group does not expect any significant change from applying an impairment loss model based on expected credit losses.

- Changes in the accounting of hedges: IFRS 9 relaxes the requirements for hedge effectiveness. Under the current IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 replaces this by requiring an economic relationship between the hedged item and the hedging instrument and for the hedge ratio to be the same as that used for risk management purposes. Contemporaneous documentation is still required, but is different to that which was prepared under IAS 39. The standard seeks to align hedge accounting more closely with risk management, with a target-based approach and seeking to eliminate inconsistencies and weaknesses in the current model. The Group only covers the risk of fluctuations in the exchange rate of its currency positions with exchange rate insurance, and it also covers the risk of fluctuation of interest rates with financial swap instruments. Accounting of hedges is aligned with the risk management model. Hence, no changes are expected in the accounting of hedges. The Group currently uses hedge accounting for instruments that are designated to hedge interest rate risks and does not generally use it for instruments designated to hedge changes in exchange rates.

  With regard to hedging changes in exchange rates, the Group generally recognises financial instruments at fair value through profit or loss, as some of these instruments are used to cover the Group's intercompany balances and it is difficult to distinguish between the part of the instrument used to cover transactions with third parties and that used for the Group's companies. In any event, the Group only hedges cash flow risks for transactions made in foreign currencies that are recognised in the balance sheet, so any change to the derivative is recognised in profit and loss, and is offset by any changes that occur at each reporting date in the monetary items recorded in foreign currencies, pursuant to IAS 21. Designating these instruments as hedging instruments would not lead to any accounting difference in the Group's income statement.

- IFRS 9 requires an entity to classify financial assets based on its business model for managing those assets. The aim of the Group's business model is to obtain contractual cash flows and, in some cases, the sale of financial assets. The Group derecognises sold financial assets from its statements when the risks and rewards of these assets have been substantially transferred. The Group does not expect a significant impact from application of IFRS 9.

- **IFRS 15 - Revenue from contracts with customers**.

  Applying this standard will not have a significant impact as the Group does not hold any closed contracts with customers that give rise to a right or obligation that is enforceable in advance. Furthermore, the Group is solely engaged in the manufacture and sale of stainless steel, so there are no service provision agreements.

  The stainless steel is sold through sales orders, which do not give rise to any obligation until the delivery of the goods. Depending on the commercial terms of sale, the risk of the goods may be transferred when the materials are shipped from the Group's facilities or when they are delivered to the customer. The Group takes these terms of sale into account when determining revenue recognition. Revenue from the sale of goods is recognised in the income statement when the risks and rewards of ownership have been transferred to the buyer.

  Furthermore, in some cases, the amount billed may include an additional factor, namely transport. However, this cannot be considered a separate obligation as it is linked to the delivery of the goods.

  The production process is planned on the basis of the customer backlog and, from the time of accepting the order, takes around 45 days in the case of cold-rolled products and 30 days in the case of slabs and hot-rolled products.

  Therefore, the Group expects no impact from the application of this new standard.

- **IFRS 16 - Leases.**

  The Group will start applying this standard for annual periods beginning on or after 1 January 2019.

  During this year, the Group has assessed all assets leased from third parties and concluded that the Acerinox Group owns most of its productive assets except for land that the Group company Inoxcenter, S.L.U. has leased to the consortium in the free zone of Barcelona, on which the Group has an industrial building it owns. The lease has a term of ten years that is automatically renewed, and the cost of the rent is 120 thousand euros/year. In addition, the Group only has certain lease agreements for assets of little value (cars, forklifts and computer equipment). Furthermore, in the case of commercial subsidiaries that only employee 2-5 people, there are also some lease agreements for spaces in office buildings over which the Group has no control.

  The Group is considering applying the exemption that appears in the standard, which allows short-term leases or leases with a low-value underlying asset to be recognised on a straight-line basis throughout the term of the lease.

  Therefore, the Group expects no impact from the application of this new standard.

2.3 Basis of presentation of the consolidated annual accounts

The accompanying consolidated annual accounts have been prepared by the directors of the Parent Company to give a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2017 and 2016, as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the years then ended.

For the purpose of comparison with each of the items in the financial statement, the annual accounts for 2017 also include the figures for the previous year.

These consolidated annual accounts are presented in euros, rounded off to the nearest thousand. They have been prepared on a historical cost basis, except for the following assets and liabilities, which have been measured at fair value: derivative financial instruments and available-for-sale financial assets. Inventories have been measured at the lower of cost or net realisable value.

The accompanying consolidated annual accounts have been prepared on the basis of the individual accounting records of the Company and the subsidiaries forming the Acerinox Group. The consolidated annual accounts include certain adjustments and reclassifications made to bring the accounting and presentation policies used by different Group companies into line with those of the Company.

The preparation of the consolidated annual accounts under IFRS-EU requires the Parent Company's management to make judgements, estimates and assumptions that affect the application of accounting policies and, therefore, the amounts reported in the consolidated balance sheet and the consolidated income statement. These estimates are based on past experience and other factors considered appropriate. The Group may amend these estimates in light of subsequent events or changes in circumstances. The aspects that involve a greater degree of judgement in the application of IFRS-EU, or for which the estimates made are significant for the preparation of the annual accounts, are detailed in **note 3**. Qualitative and quantitative details of the risks assumed by the Group which could have an effect on future years are provided in **note 4**.

The consolidated annual accounts for 2016 were approved by the shareholders at their Annual General Meeting held on 1 June 2017. The Group's consolidated annual accounts for 2017 are currently pending approval by the shareholders. The directors of the Company believe that these consolidated annual accounts will be approved with no changes by the shareholders at their Annual General Meeting.

2.4 Going concern assumption and accruals basis

The consolidated annual accounts have been prepared on a going concern basis. Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

2.5 Consolidation principles

a) Subsidiaries

Subsidiaries are entities over which the Company either directly or indirectly exercises control. The Company exercises control over a subsidiary when it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the subsidiary. Furthermore, the Company is understood to have power over a subsidiary when it has existing substantive voting rights that give it the ability to direct the financial and operating activities and policies of the subsidiary.

The financial statements of subsidiaries are included in the consolidated annual accounts from the date on which control commences to the date on which control ceases.

The Group has considered potential voting rights in assessing its level of control over Group companies.

The subsidiaries' accounting policies have been adapted to Group accounting policies.

The Acerinox Group's consolidated subsidiaries that are included in the consolidated group as of 31 December 2017 and 2016 are listed in **note 5**.

b) Non-controlling interests

Non-controlling interests represent the portion of the Group's profit or loss and net assets attributable to non-controlling interests. Non-controlling interests' share in the Group's net assets and consolidated comprehensive income for the year are disclosed separately in consolidated equity and in the consolidated income statement and consolidated statement of comprehensive income.

Non-controlling interests in the subsidiaries acquired are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets.

Profit and loss and each component of other comprehensive income are allocated to equity attributable to shareholders of the Parent Company and to non-controlling interests in proportion to their investment, even if this results in the non-controlling interests having a deficit balance.

c) Business combinations

The Group applies the acquisition method for business combinations.

No business combinations took place in 2017 or 2016.

d) Associates

Associates are entities over which the Group has significant influence in financial and operating decisions, but not control or joint control. The Group is generally understood to exercise significant control when it holds more than 20% of voting rights.

The financial statements of associates are included in the consolidated annual accounts using the equity method. The Group's share of the profit or loss of an associate from the date of acquisition is recognised with a credit or debit to share in profit/loss of equity-accounted investees in the consolidated income statement for the year.

Losses of an associate attributable to the Group are limited to the value of its net investment, as the Group has not acquired any legal or constructive obligations.

The Group has no significant investments in associates.

e) Balances and transactions eliminated on consolidation

Balances and transactions between Group companies and the resulting unrealised gains or losses with third parties are eliminated on preparing the consolidated annual accounts.

2.6 Translation differences

a) Functional and presentation currency

The annual accounts of each Group company are expressed in the currency of the underlying economic environment in which the entity operates (functional currency). The functional currency is the local currency for the majority of Group companies, with the exception of Bahru Stainless, NAS Canada and NAS Mexico, whose functional currency is the US dollar. The figures disclosed in the consolidated annual accounts are expressed in thousands of euros, the Parent Company's functional and presentation currency.

b) Foreign currency transactions, balances and cash flows

Transactions in foreign currencies are translated using the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date, at the closing exchange rate prevailing at that date. Any exchange differences that may arise from translation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies and recorded at historical cost are translated to the functional currency using the exchange rate prevailing at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate prevailing at the date on which fair value was determined. Exchange gains and losses on non-monetary items measured at fair value are recorded as a part of the gain or loss on the fair value of the item.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into euros at the exchange rates prevailing at the dates the cash flows occur.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into the functional currency of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

c) Translation of foreign operations

In preparing the Group's consolidated financial statements, the assets and liabilities of entities with a functional currency other than the euro have been translated to euros at the closing rate prevailing at the reporting date; income and expenses are translated at the average exchange rate for the period; and exchange differences are recognised separately in equity and in the statement of comprehensive income under translation differences. Translation differences are taken to profit and loss when the company that generates them ceases to form part of the Group.

The Group has applied the exemption permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards, relating to accumulated translation differences. Consequently, translation differences recognised in the consolidated annual accounts generated prior to 1 January 2004 are recognised in retained earnings. Furthermore, the Group did not apply IAS 21, The Effects of Changes in Foreign Exchange Rates, retrospectively to goodwill arising in business combinations that occurred before the date of transition to IFRS. Consequently, goodwill is considered as an asset of the acquirer, not the acquiree, and is therefore not subject to variations due to exchange rate fluctuations affecting the acquiree.

For presentation of the consolidated statement of cash flows, cash flows, including the comparative balances of foreign subsidiaries, are translated into euros applying the same criteria as that used to translate the financial statements.

No Group companies operate in hyperinflationary economies.

2.7 Intangible assets

a) Goodwill

Business combinations are accounted for by applying the acquisition method. Goodwill represents the positive difference between the cost of acquisition and the Group’s share of the fair value of the acquiree's identifiable net assets (assets, liabilities and contingent liabilities) at the acquisition date.

The goodwill recognised in the consolidated financial statements of the Acerinox Group mainly relates to the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment (or more frequently where there are indications of possible impairment) in accordance with IAS 36, if it has experienced impairment losses in its value. To this end, goodwill is allocated to the cash-generating units (CGUs) of the company that is expected to benefit from the synergies of the business combination. (See **note 2.10**). Impairment losses are recognised for a cash-generating unit when the recoverable amount of the unit is less than the carrying amount of goodwill. The recoverable amount of the cash-generating unit to which the Group's goodwill is allocated is determined based on its value in use. (See **note 2.10**)

Negative goodwill arising on an acquisition of a business combination is recognised directly in the consolidated income statement, after reassessing the measurement of the assets, liabilities and contingent liabilities of the acquiree, as established in the standard.

Internally generated goodwill is not recognised as an asset.

b) Internally generated intangible assets

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge is expensed in the consolidated income statement when incurred.

When research findings are applied to produce new products or to substantially improve existing products and processes, the associated development costs are capitalised if the product or process is technically and commercially feasible, the Group has sufficient resources to complete development and sufficient future cash flows are expected to be generated to recover the costs, with a credit to self-constructed non-current assets in the consolidated income statement. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets are recognised in the consolidated income statement.

Capitalised development costs are not amortised while the project is underway. Upon successful completion of the project, amortisation begins on a systematic basis over the estimated useful life. In the event of changes in the circumstances that led to the capitalisation of the project expenditure, the unamortised balance is expensed in the year the changes arise.

c) Computer software

Computer software licences are capitalised at the cost of acquiring the licence and preparing the specific program for use.

Computer software maintenance or development costs are charged as expenses when incurred. Costs that are directly associated with the production of identifiable and unique computer software packages by the Group are recognised as intangible assets provided that they are likely to generate economic benefits that exceed the associated costs for more than one year. Capitalised expenses comprise direct labour costs and directly attributable overheads.

d) Amortisation

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a systematic basis over its useful life. Intangible assets are amortised from the date they become available for use.

Estimated useful lives are as follows:

- Industrial property: 5 years
- Computer software: 2-5 years

The Group does not have any intangible assets with indefinite useful lives.

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Changes to initially established criteria are accounted for as a change in accounting estimates.

2.8 Property, plant and equipment

a) Owned assets

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses.

Items of property, plant and equipment that require a period of time in order to be ready for use are classified as under construction. An asset is understood to be ready for use when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. When in operation it is reclassified to the corresponding asset category, based on its nature.

The cost of self-constructed assets is determined using the same principles as for an acquired asset, while also considering the criteria applicable to production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to self-constructed non-current assets in the consolidated income statement.

Borrowing costs directly linked to financing the construction of property, plant and equipment are capitalised as part of the cost until the asset enters service. The Group also capitalises certain borrowing costs incurred on loans that are not directly designated to finance the investments, applying a capitalisation rate to the amounts used to finance these assets. This capitalisation rate is calculated based on the weighted average of the borrowing costs incurred on loans received by the Company other than those specifically allocated to finance the assets. The amount of borrowing costs capitalised never exceeds the amount of borrowing costs incurred during the period.

The cost of property, plant and equipment includes major repair costs, which are capitalised and depreciated over the estimated period remaining until the following major repair.

Subsequent to initial recognition of the asset and once it is ready for use, only improvement costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Costs of periodic servicing of property, plant and equipment are recognised in profit and loss as incurred.

Spare parts are carried as inventory unless the Group expects to use them over more than one period, in which case they qualify as property, plant and equipment and are depreciated over their useful life. The carrying amount of a spare part is written off when it is used to replace a damaged part. Spare parts of property, plant and equipment are classified under technical installations and machinery in the breakdown provided in **note 8.**

Gains or losses on the sale or disposal of an item of property, plant and equipment are recognised as operating income or expenses in the income statement.

b) Amortisation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a straight-line basis over its useful life. The depreciable amount is the cost or deemed cost of an asset, less its residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Changes to initially established criteria are accounted for as a change in accounting estimates.

Land is not depreciated, unless the Group has acquired the right to use the land and related property for a specific number of years, in which case it is depreciated over the period of the right of use.

Property, plant and equipment are depreciated over the following estimated useful lives:

- Buildings: 10-50
- Technical installations and machinery: 3-30
- Other property, plant and equipment: 2-10

2.9 Investment property

Investment property comprises Group-owned buildings held to earn rentals or for capital appreciation and subsequent sale but not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs. Subsequently the Group applies the same criteria as for property, plant and equipment.

Although investment property represents only a minor proportion of the Group's total assets, investment property has been included separately in the balance sheet this year. It was previously included under property, plant and equipment. Separately, the Group has also included comparative figures.

Lease income is recognised using the criteria described in **note 2.19 b**).

2.10 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset.

The recoverable amount of goodwill, which is not amortised, and of intangible assets not yet available for use is estimated at each reporting date, unless prior to this date there were indications of a possible loss in value, in which case these are tested for impairment.

Impairment losses are recognised whenever the carrying amount of the asset, or its corresponding cash-generating unit, exceeds its recoverable amount. Impairment losses are expensed in the income statement.

The recoverable amount of the assets is the higher of their fair value less costs to sell and their value in use. Value in use is the present value of estimated cash flows, applying a discount rate that reflects the current market valuation of the time value of money and the specific risks of the asset in question. For assets that do not generate cash inflows themselves, the recoverable amount is determined for the cash-generating unit to which the asset belongs, considered as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Details of the variables and assumptions used by the Group to calculate value in use and identify cash-generating units are provided in **notes 7.1** and **8.1**.

Except in the case of goodwill, impairment losses recognised in prior years are reversed through the income statement provided that there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. However, the new carrying amount cannot exceed the carrying amount (net of amortisation or depreciation) that the asset would have had if no impairment loss had been recorded.

2.11 Financial instruments

2.11.1 Classification

The Company classifies financial instruments into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

2.11.2 Financial assets

Acquisitions and disposals of investments are accounted for at the date on which the Group undertakes to purchase or sell the asset. Investments are derecognised when the contractual rights to the cash flows from the investment expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, is recognised in profit or loss.

The measurement criteria applied to the financial assets held by the Group in 2017 and 2016 are detailed below.

a) Financial assets at fair value through profit or loss

Derivative financial instruments, except those that are designated as hedges and qualify for recognition as such, are included in this category.

The derivative financial instruments included in this category are classified as current assets and measured at fair value. Transaction costs directly attributable to the acquisition are recognised as an expense in profit and loss.

Changes in fair value are recorded under revaluation of financial instruments at fair value in the income statement.

b) Loans and receivables

Loans and receivables include non-derivative financial assets with receivables are for a fixed or determinable amount and that are not traded in an active market. They are only classified as non-current when they are not due to mature within 12 months of the reporting date. These investments are initially recognised at the fair value that, in the absence of evidence to the contrary, which is the same as the transaction price plus the costs directly attributable to the purchase, and subsequently measured at amortised cost using the effective interest method.

The Group makes the necessary valuation adjustments where there is evidence that a receivable is impaired. The amount of the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate determined on initial recognition. These losses are recognised as an expense in the consolidated income statement and are reversed with the recognition of the income in profit and loss when their causes are eliminated.

Trade receivables are included in this category, recognised at their nominal value, which is the same as their fair value, as generally they do not have a contractual rate of interest, are expected to be received in the short term and the effect of not discounting future receipts is not material. In cases where the Group considers that amounts will not be collected when due, the provision for bad debts reduces the balance of trade receivables. The Group currently analyses trade receivables on an individual basis although in general all balances past due by more than 180 days or when the debtor has been declared insolvent are considered as impaired. Impairment losses are recognised as an expense in the income statement and are reversed when the factors leading to the allowance have ceased to exist. The reversal amount is credited to the income statement.

The Group has reviewed its policy on the basis of the new IFRS 9 applicable from 1 January 2018, as detailed in **note 2.2.**

Discounted notes and factored trade receivables are recognised until maturity under both trade receivables and current loans and borrowings, unless the risks and rewards associated with these assets have been substantially transferred, in which case they are derecognised.

c) Available-for-sale financial assets

This category includes the Group's investments in the capital of other companies over which the Group has no control or significant influence. They are initially recognised at fair value plus transaction costs directly attributable to the purchase. After initial recognition financial assets classified in this category are measured at fair value provided this can be measured reliably, recognising the gain or loss in the consolidated statement of comprehensive income.

The fair value of listed securities is determined by reference to the share price. The fair value of financial assets that are not quoted in official markets is calculated by reference to discounted future cash flows.

Equity investments included in this category whose market value cannot be reliably defined are measured at acquisition cost, as permitted by IFRS-EU, less any impairment losses.

When available-for-sale financial assets are sold, the cumulative gains or losses from changes in fair value recognised in the consolidated statement of comprehensive income are transferred to the consolidated income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognised in comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to the income statement. This amount is calculated as the difference between the acquisition cost and the current fair value, less any previously recognised impairment. Any impairment losses recognised in the income statement in relation to these assets are reversed against equity rather than through profit and loss. Any subsequent increase in fair value is recognised under valuation adjustments in the consolidated statement of comprehensive income.

At the end of each reporting period the Group assesses whether there is objective evidence of impairment. Objective evidence of impairment exists when there is a significant or prolonged decline in the listed price of an investment below its cost. To determine whether this is the case, the Group examines the historical listed prices of its securities and how long they have been trading below cost.

In accordance with the new IFRS 9, which the Group will apply from 1 January 2018, accounting impairment in the value of investments classified in this category will remain in equity. At the same time, income from sales will not be reclassified to the income statement, but recognised in other comprehensive income.

2.11.3 Financial liabilities

For measurement purposes, financial liabilities are classified into the following categories:

a) Debts and payables

Debts and payables include non-derivative financial liabilities with fixed or determinable payments. Debts and payables are initially recognised at cost, which is the same as their fair value, less any transaction costs incurred. These liabilities are subsequently measured at amortised cost using the effective interest method. Any difference between the amount received (net of transaction costs) and the amortised cost is recognised in profit or loss. However, trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

This category also includes the bonds issued by the Group.

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables until they are settled or repaid or have expired.

When debt is refinanced, the Group assesses whether the changes made in the new agreement are sufficiently important to recognise the effects as if it were a cancellation and, simultaneously, a new loan.

b) Financial liabilities at fair value through profit or loss

This category includes the Group's derivative financial instruments, except for financial guarantee contracts or designated hedging instruments.

These are recognised at fair value. Changes in fair value are recognised in profit or loss.

2.11.4 Hedge accounting

Derivative financial instruments are initially recognised at cost of acquisition, which coincides with their fair value. They are subsequently recognised at fair value.

Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Where derivatives qualify for recognition as cash flow hedges, they are treated as such and the recognition of any resultant unrealised gain or loss depends on the nature of the hedged item. The effective part of the realised gain or loss on the derivative financial instrument is initially recognised in the consolidated statement of comprehensive income and later transferred to the income statement in the year or years in which the hedged transaction affects profit or loss.

The Group only undertakes cash flow hedges.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and until it expires. A hedge is considered as highly effective if it offsets the changes in cash flows attributable to the hedged risk throughout the period for which it

was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80%-125% (retrospective analysis).

The Group prospectively discontinues the accounting of fair value hedges when the hedging instrument expires, is sold or the hedge no longer meets the criteria for hedge accounting. In these cases, the cumulative gain or loss on the hedging instrument that has been recognised in equity is recorded in profit or loss.

2.11.5 Measurement of fair value

Financial instruments measured at fair value are classified based on valuation inputs into the following levels:

LEVEL 1: includes financial instruments for which the fair value is determined by reference to quoted prices on active markets.
LEVEL 2: includes financial instruments for which the fair value is determined based on observable market inputs, other than quoted prices.
LEVEL 3: includes financial instruments for which the fair value is determined based on unobservable inputs.

2.12 Inventories

Inventories are initially measured at cost of acquisition or production. Valuation allowances are made and recognised as an expense in the income statement when the cost of acquisition or production of inventories exceeds the net realisable value.

The Group uses the same cost model for all inventories of the same nature and with a similar use. It uses the weighted average cost measurement method.

Finished goods and work in progress are measured at the weighted average cost of raw and other materials consumed, incorporating applicable direct and indirect labour costs and general manufacturing costs based on the higher of normal operating capacity or actual production.

Net realisable value is the expected selling price of these goods less costs to sell. In the case of work in progress the estimated costs of completion are also deducted from this price.

Raw materials are not written down below cost if the finished goods in which they will be used are expected to be sold at or above cost of production. The cost of underutilisation of operating capacity is not included in the value of finished goods and work in progress.

Any write-downs that reduce inventories to their net realisable value are reversed, up to the cost of the inventories, if the circumstances that gave rise to the write-downs cease to exist.

2.12.1 Emission allowances

Pursuant to Royal Decree 602/2016 of 2 December 2016, the Group recognises CO_2 emission allowances as inventories. As International Financial Reporting Standards do not specify how to classify emission allowances, the Group opted to harmonise the two policies by adopting similar classification criteria in both the individual and consolidated accounts.

CO_2 emission allowances are measured at cost of acquisition. Allowances acquired free of charge under the National Allocation Plan pursuant to Law 1/2007 of 9 March 2007 are initially measured at market value at the date received. At the same time, a grant is recognised for the same amount under deferred income.

Emission allowances remain classified as inventories until surrendered.

At year end, the Group assesses whether the carrying amount of the allowances exceeds their market value in order to determine whether there are indications of impairment. If there are indications, the Group determines whether these allowances will be used in the production process or earmarked for sale, in which case the

necessary impairment losses would be recognised. These provisions are released when the factors leading to the valuation adjustment have ceased to exist.

A provision for liabilities and charges is recognised for expenses related to the emission of greenhouse gases. This provision is maintained until the company is required to settle the liability by surrendering the corresponding emission allowances. These expenses are accrued as greenhouse gases are emitted.

When an expense is recognised for allowances acquired free of charge, the corresponding deferred income is taken to operating income.

In the case of swaps of emission allowances, given that all of the Group's allowances were acquired free of charge, the accounting treatment applied by the Group is that of non-commercial swaps. The Group derecognises allowances surrendered at their carrying amount and recognises those received at their fair value when received. The difference between both values is recognised as deferred income.

Detailed information on emission allowances received and consumed in 2017 and 2016 is included in **note 10**.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash balances, demand deposits with banks and other short-term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

In the consolidated statement of cash flows, the Group classifies interest paid and received as cash flows from operating activities, while dividends received are considered cash flows from investing activities and dividends paid are classified as cash flows used in financing activities.

2.14 Grants

2.14.1 Capital grants

Capital grants are those received by the Group for the acquisition of property, plant and equipment and intangible assets. They are recognised as deferred income in the balance sheet. They are initially recognised at the original amount awarded when there is reasonable assurance that this will be received and that the Group will comply with the conditions attached. Subsequently, they are taken to the income statement on a straight-line basis over the useful lives of the assets for which the grants were received.

2.14.2 Operating grants

Operating grants are those received to finance specific expenses. They are recognised as income as the expenses are incurred. Grants relating to CO_2 emission allowances that are free of charge, are taken to income in line with the recognition of the corresponding greenhouse gas emission expense.

2.15 Employee benefits

Certain Group companies have assumed the following long-term commitments with their employees:

a) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Certain Group companies pay contributions to pension and life insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once these contributions have been paid. The

contributions are recognised as an employee benefit expense when they are accrued. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Provisions are not made for defined contribution plans as they do not generate future obligations for the Group.

b) Defined benefit plans

A defined benefit plan is a commitment entered into by a company with its employees to remunerate services rendered. These benefits have been established based on local legislation in certain countries, contracts signed to that effect, or as included in collective bargaining agreements prevailing in certain Group companies. Accrued commitments are calculated as the present value of the accumulated benefits accrued by personnel until the reporting date, using actuarial assumptions. Calculations are made by independent experts. Group companies record the corresponding provisions to cover these commitments.

Existing obligations may be classified as:

- Pension plans: certain Group companies have commitments with some employees reaching retirement age.
- Early retirement benefits: certain Group companies have undertaken to pay benefits to employees who opt to take early retirement.
- Supplements: these plans are obligations agreed with certain Group employees to supplement their remuneration on retirement.
- Other post-employment commitments: certain Group companies provide healthcare benefits to their retired employees. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The Group complies with obligations regarding the externalisation of these commitments in countries where this is applicable.

Defined benefit liabilities recognised in the consolidated balance sheet reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets. The Group recognises changes in the actuarial value of obligations in other comprehensive income.

An independent expert calculates the actuarial value of commitments. The measurement is performed using the Projected Unit Credit method, taking into account mortality tables and estimated future increases in medical costs.

When plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of the insurance policies is considered equal to the present value of the related obligations.

2.16 Provisions

The Group recognises provisions when:

(i) It has a present obligation (legal or constructive) as a result of past events;
(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and
(iii) A reliable estimate can be made of the amount of the obligation.

The amount recognised in the balance sheet as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

2.17 Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Assets and liabilities are considered current when the Group expects to realise or settle them within 12 months after the reporting date or they are cash or cash equivalents.

2.18 Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax is the estimated tax payable on the consolidated taxable income or tax loss for the year using prevailing tax rates enacted at the reporting date and applicable this year. Current tax includes any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, based on temporary differences that arise between the tax base of assets and liabilities and their carrying amounts in the consolidated annual accounts. Deferred tax is measured using the tax rates (and laws) enacted or substantively enacted at the reporting date that are expected to apply to the period when the asset is realised or the liability settled.

The effect on deferred tax assets and liabilities of a change in the tax rate is recognised in the income statement, except to the extent that it relates to items previously charged or credited to the consolidated statement of comprehensive income.

Deferred tax liabilities are always recognised. Deferred tax assets in respect of temporary differences are recognised only to the extent that it is probable that future taxable income or deferred tax liabilities will be available against which the asset can be utilised.

Deferred tax assets are reduced when it is no longer considered probable that sufficient future taxable income will be generated or there are no deferred tax liabilities against which the assets can be offset. Reductions are offset if there is renewed expectation that sufficient taxable income will be available against which the derecognised balance can be utilised.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to do so, the assets and liabilities correspond to the same taxation authority and it plans to realise current tax assets or settle current tax liabilities on a net basis.

Deferred tax assets and liabilities are recognised in the consolidated balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

Certain companies in the consolidated Group have reserves that could be subject to taxation if they were distributed. The Group recognises any tax effect in this respect provided that it is not deemed likely that the reserves will have to be distributed in the foreseeable future.

The Parent Company has filed consolidated tax returns since 1998. As agreed by the shareholders at an Annual General Meeting held on 28 May 2003, Acerinox, S.A. and some of the Spanish-domiciled subsidiaries form part of a consolidated tax group on an indefinite basis, with the exception of Metalinox Bilbao, S.A.U. and Inoxidables de Euskadi, S.A.U., which file tax returns separately. At 31 December 2017 and 2016, the consolidated tax group comprised: Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U., and Inoxcenter Canarias, S.A.U.

2.19 Income

a) Sales of goods and rendering of services

Revenue from the sale of goods is recognised in the income statement when the risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, or the possible return of goods.

Revenue is recognised net of taxes, returns and discounts that the Group considers probable at the date the revenue is recognised, and after the elimination of intra-Group sales.

b) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

c) Income from dividends

Dividend income is recognised when the Group's right to receive it is established.

2.20 Environment

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as expenses in the period in which they are incurred. However, where necessary, the Group recognises environmental allowances by applying the general criteria outlined in **note 2.16.**

Property, plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of pollution, are recognised as assets, applying the measurement, presentation and disclosure criteria described in **note 2.8.**

2.21 Changes in accounting estimates and policies, and correction of errors

The Group applies IAS 8 to recognise changes in accounting estimates and accounting policies and to correct errors. The Group recognises changes in accounting estimates in the period in which they occur. Accounting errors are corrected in the year in which they occurred, restating the comparative information presented in the financial statements whenever these errors are material. Changes in accounting policies are applied retrospectively, adjusting the opening balances of the equity items affected as of the prior year for which figures are included.

NOTE 3 – ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated annual accounts under IFRS-EU requires that the Company's management make judgements, estimates and assumptions that affect the application of accounting policies and, therefore, the amounts reported in the annual accounts.

Accounting estimates and judgements are assessed constantly and based on past experience and other factors, including expectations of future events that are considered reasonable. The Company may amend these estimates in light of subsequent events or changes in circumstances.

The Group makes estimates and judgements related to future events. The resulting accounting estimates could differ from actual results. In accordance with IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors, changes in accounting estimates are recognised prospectively in the Group's financial statements.

The Group's main estimates are as follows:

a) Impairment of goodwill and other non-financial assets

The Group tests goodwill annually for impairment, in accordance with the accounting policy described in **note 2.10**.

The Group reviews property, plant and equipment at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset.

The recoverable amounts of the cash-generating units are determined based on their value in use. These calculations are made using reasonable assumptions based on past returns and future production and market development expectations. Some of these assumptions relate to sales, margins, discount rates and growth rates to perpetuity, which involve a high degree of judgement. Details of the analyses conducted by the Group in 2017 and 2016 are included in **notes 7.1 and 8.1**.

b) Useful lives of plant and equipment

Group management determines the estimated useful lives and corresponding depreciation charges for its plant and equipment based on expert valuations. These could alter significantly as a result of technical innovations, variations in plant activity levels, etc. Management regularly reviews the depreciation charge and adjusts it when estimated useful lives are different from those previously applied, fully depreciating or derecognising technically obsolete and non-strategic assets which have been abandoned or sold.

During the year there has been a recalculation of useful lives in the Group company Columbus Stainless (Pty), Ltd as explained in **note 8.**

c) Fair value of derivatives or other financial instruments

The Group acquires derivative financial instruments to hedge against changes in exchange rates and interest rates. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques mainly based on market conditions existing at each reporting date, and provided that financial information is available to carry out this valuation. In **note 11.2.4** there is additional information on financial instruments measured in accordance with these assumptions.

d) Provisions

As mentioned in **note 2.16**, the provisions recognised in the consolidated balance sheet reflect the best estimate at the reporting date of the amount expected to be required to settle a liability, provided that the materialisation of this outflow of resources is considered probable. Changes in foreseen circumstances could affect these estimates, which would be revised if necessary.

e) Net realisable value

As mentioned in **note 2.12**, the Group estimates the net realisable value of its inventories to recognise any impairment required. Expected selling prices of inventories less costs to sell are considered when calculating net realisable value.

f) Recoverability of available tax loss carryforwards and deductions

The Group regularly evaluates its available tax credits through projections of profit and loss approved by management, to conclude as to whether they will be recoverable in the future. The Group takes into account the limitations to offsetting tax loss carryforwards as stipulated in certain legislation. Details of the basis on which the Group assesses the recoverability of capitalised tax credits are provided in **note 18.3**.

Significant restrictions to the deductibility of prior years' tax losses were introduced in Spain in 2016, thereby prolonging their recovery periods (see **note 18.1**). Based on the estimates made, the Group considers that the tax credits recognised are still recoverable within a reasonable time frame.

g) Recognition of deferred tax liability for investments in subsidiaries.

As indicated in **note 2.18**, some companies in the consolidated Group have reserves that could be subject to taxation if they were distributed. The Group recognises any tax effect in this respect provided that it is not deemed likely that the reserves will be distributed in the foreseeable future. Accordingly, the Group regularly evaluates the reserve repatriation needs of its subsidiaries. Based on the analysis made this year, which explained in **note 18.3.1**, the Group considers a repatriation of reserves by its subsidiaries in the amount of Euros 250 million. Hence, it has recognised the pertinent deferred tax liability.

h) Evaluation of the impact of tax reform in the United States

On 22 December 2017, a tax reform was approved in the United States that is applicable for tax years beginning on or after 1 January 2018. The Group has evaluated the impact of the measures introduced by the reform and recognised in this year the effect the rate reduction will have on deferred tax assets and liabilities. In **note 18.1** a detailed explanation is given of the Group's analysis and of the potential impact of each of the measures introduced.

NOTE 4 – FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to various financial risks: market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group aims to minimise the potential adverse effect on its profits through the use of derivative financial instruments, where appropriate to the risks, and by taking out insurance policies. In **note 11.2.6** there is a detailed analysis of the Group's derivative financial instruments at year end.

The Group does not acquire financial instruments for speculative purposes.

4.1 Market risk

Market risk arises from variations in market prices due to exchange rate or interest rate fluctuations or changes in the price of raw and other materials, which can affect a company's results and equity as well as the values of its assets and liabilities.

4.1.1 Currency risk

The Group operates internationally and in various currencies, in particular the US dollar, and is therefore exposed to currency risk. Currency risk arises from commercial transactions, financing and investment operations, and from the translation of financial statements in functional currencies other than the Consolidated Group's presentation currency (euros).

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date, at the closing exchange rate prevailing at that date. Any exchange differences that may arise from translation are recognised in profit or loss. To avoid fluctuations in profit and loss due to changes in exchange rates, and to ensure the expected cash flows, the Group uses derivative financial instruments to hedge most of its financial and commercial transactions in currencies other than the functional currency of each country. To this end, at the beginning of each month and subject to fortnightly review, each company considers its loans in non-local currency, trade receivables and supplier balances in foreign currency, the sales and purchases in foreign currency forecast for the period and exchange rate insurance coverage. The Group may take commercial and finance transactions as a whole into account when evaluating its total exposure for the purpose of hedging transactions in foreign currency. The Group hedges balances with third parties and between Group companies.

Using these instruments ensures that any fluctuation in exchange rates that could affect assets or liabilities denominated in foreign currency would be offset by a change of the same amount in the derivative contracted. Changes in the derivative are recorded in the income statement, offsetting any changes that occur in foreign currency monetary items.

The derivative financial instruments used by the Group to hedge this risk are short-term sale or purchase contracts negotiated with the Group's Treasury Department in accordance with policies approved by management.

The Group also uses other derivatives such as cross-currency swaps to control currency risk in financing operations.

Not all of the exchange rate insurance policies taken out by the Group meet the requirements to be considered cash flow hedging instruments and, therefore, to be recognised in accordance with the policy established in **note 2.11.4**. Policies that do not comply with these criteria have been accounted for as financial instruments at fair value through profit or loss.

In general, financial instruments designated to hedge exposure to currency risk arising from commercial transactions are not recognised as hedging instruments. However, those designated as a hedge of foreign currency risk arising from financing operations arranged with credit institutions qualify for recognition as hedging instruments.

The fair value of forward exchange contracts is their market price at the reporting date, which is the present value of the difference between the insured price and the forward price of each contract.

In **note 11.2.6** there are details of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2017 and 2016.

Lastly, the Group is exposed to currency risk as a result of the translation to euros of the individual financial statements of companies whose functional currency differs from the Group's presentation currency, particularly the US dollar and the South African rand. The USD-euro exchange rate at 2016 year was 1.0541, while at 2017 year end it stood at 1.1943. The exchange rate of the South African rand to the euro at 2016 year end was 14.457, while at 2017 year end it was 14.8054.

Based on the exchange rates of these currencies against the euro at the end of 2017, sensitivity to changes in exchange rates, with other variables remaining constant, is as follows:

(Expressed in thousands of euros)

	Profit and loss		**Equity**	
	10% Appreciation	**10% Depreciation**	**10% Appreciation**	**10% Depreciation**
31st December 2017				
USD	18,456	-15,101	201,129	-164,560
ZAR	2,560	-2,095	28,770	-23,539
31st December 2016				
USD	3,761	-3,077	221,602	-181,311
ZAR	2,143	-1,753	25,882	-21,176

4.1.2 Interest rate risk

The Group's financing comes from various countries and in different currencies (mainly the euro, the US dollar and the South African rand), with a range of maturity dates and mostly variable interest rates.

The Group's financial liabilities and financial assets are exposed to fluctuations in interest rates. To manage this interest risk rate, curves are analysed regularly and on occasion derivatives may be used. These derivatives take the form of interest rate swaps and qualify for recognition as cash flow hedging instruments. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account interest and exchange rates at that date and the credit risk associated with the swap counterparties.

The Group took the opportunity, mainly in the second half of 2017, to extend the maturity of a substantial portion of its long-term loans by increasing the amounts and reducing the costs thereof This comes in addition to the refinancing of a large portion of the Group's loans that took place in the first half of 2016, thereby extending the average life of its debt.

During the last year, the Group has increased the amount of financing with a fixed interest rate, mainly as a result of signing three long-term, fixed-rate financing contracts: a loan of 50 million euros with Banca March transferred to a securitisation fund upon signing, another 50 million euros with BBVA and a final loan of 120 million euros with Banco Popular. In turn, the number of interest rate hedges has been reduced, as no interest rate hedging instrument was arranged in 2017 and some existing hedges have matured during the year. In 2016, the syndicated loan that was signed in the United States in 2012 was settled by the group, thus cancelling the associated cross-currency swap. In **note 11.2.6** there are details of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2017 and 2016.

Regarding the Group's interest rate sensitivity, had interest rates on the outstanding debt from financing at year end been 100 basis points higher, with all other variables remaining constant, the Group's consolidated profit after tax would have been 6.87 million euros lower due to a higher finance cost on variable-rate debt (6.07 million euros lower in 2016). The effect on the Group's equity of higher interest rates across the entire curve would have been a net decrease of 6.46 million euros (decrease of 4.97 million euros in 2016), as the higher borrowing costs would have been partially offset by increases in the values of its interest rate hedging derivatives held at the reporting date.

4.1.3 Price risk

The Group is exposed to three types of price risk:

1. Risk due to changes in the listed price of securities held in listed companies.

The risk of price fluctuations in listed securities relates to the shares held by the Group in Nisshin Steel Holding Co. Limited., which is listed in the Tokyo Stock Exchange. The Group has not hedged this risk with derivative financial instruments. There are details of the impact of the fluctuations in listed securities during the year in **note 11.2.5** and it has been recognised in other comprehensive income.

2. Risk of changes in prices of raw materials

Stainless steel is an iron alloy with a minimum chromium content of 10.5%, which also contains other metals such as nickel or molybdenum to give it specific properties. Given the variation in the price of the raw materials used in the production process, stainless steel prices can be highly volatile. The cost of raw materials, of which nickel accounts for approximately 40%, is approximately 70% of the total production cost. The price setting strategy is therefore one of the most critical functions and requires significant knowledge of the market. In Europe, South Africa and the United States, sale prices comprise a base price and a variable component known as the alloy surcharge. The alloy surcharge is calculated monthly by each of the market's stainless steel producers on the basis of a formula that takes into account the variation in the price of certain raw materials (particularly nickel, chromium and molybdenum) and fluctuations in the EUR-USD exchange rate. The application of this alloy surcharge means that the change in nickel prices on the London Metal Exchange during production of the order, as well as fluctuations in the price of other raw materials and the EUR-USD exchange rate, can be passed on to customers. This natural hedge is applied to 90% of the Group's sales (Europe, America and South Africa).

The productive process is planned on the basis of the existing customer backlog. The Group's manufacturing period is 15 days, allowing it to link the cost of raw materials with the selling price to the customer through the alloy surcharge. Keeping strict control over inventories and adapting production to market circumstances help to alleviate the risk of raw material price fluctuations.

The stainless steel market is characterised by healthy demand, which has grown at an annual rate of approximately 6% for over 50 years. Exceptionally, the market shrank by 11.8% in 2007-2009 because of the worldwide economic recession, but recovered with growth of 26.4% in 2010. The aforementioned annual growth rate is therefore expected to prevail in the medium term. Stainless steel is required for all industrial applications and used in all sectors, which guarantees that this growth will be sustained in the coming years. Although end consumption continues to grow steadily, the fact that this market is largely controlled by independent

wholesalers leads to volatility in apparent consumption, reflecting their expectations regarding nickel price trends in the London Metal Exchange (LME) and their ensuing strategies to stockpile or realise inventories.

Fluctuations in the price of nickel also affect consumer demand. Reductions in the price of nickel tend to go hand in hand with short-term drops in demand. Conversely, a rise in nickel prices tends to go hand in hand with higher demand. To counter the risk derived from the fact that independent wholesalers control the majority of the market, the Acerinox Group has developed a sales network that enables it to supply end customers on a continuous basis, by means of warehouses and service centres through which the Group's production is channelled. This policy has enabled the Group to achieve a significant market share among end customers and, therefore, stabilise sales and reduce this risk.

Maintaining sufficient inventory levels in warehouses entails the risk that these inventories might be recognised above their market price. The Group alleviates this risk by maintaining strict control over inventory levels.

The valuation of raw materials, work in progress and finished goods at average cost also helps to reduce the volatility of costs and, consequently, to decrease the impact of nickel price fluctuations on margins.

The aforementioned factors (an own sales network, controlled inventory levels, alloy surcharges, average cost valuations, shortening of the production cycle and a policy of acceptance of short-term orders) help to reduce exposure to the main risk, namely the cyclical nature of apparent consumption due to the volatility of raw materials. As this is a factor beyond the Group's control, effective risk management is not always sufficient to eliminate its impact.

4.2 Credit risk

Credit risk is defined as the possible loss that could be incurred through failure of a customer or debtor to meet contractual obligations.

The Group's exposure to credit risk is determined by the individual characteristics of each customer and, where applicable, by the risk corresponding to the country where the customer operates. Due to the diversity of its customers and the countries in which it operates, credit risk is not concentrated in any individual customer, sector or geographical region.

The Group hedges its commercial and political risks either through credit insurance companies, or through letters of credit and bank guarantees extended by banks of recognised solvency located in countries with low financial risk. Credit insurance covers between 85% and 90% of declared commercial risks, depending on the country in which the customer is located and the insurance company, and 90% of political risks. The Group's main credit insurer has an A3 credit rating from Moody's and an "A excellent" rating from A.M. Best.

In 2017 payouts of 462 thousand euros have been collected under the credit insurance policy (1,672 thousand euros in 2016).

A risk committee is responsible for monitoring the Group's credit risk policy. New customers are analysed with and assigned a risk cover by the insurance company, which enables the Group to offer its general payment terms to those that fulfil the necessary credit conditions. Where required, the risk committee also performs an individual analysis of customers' creditworthiness, establishing credit limits and payment terms. Payment in cash is required from those that do not.

The risk committee comprises representatives from the sales, financial and legal departments. The risks of the companies that make up the Acerinox Group are analysed and information is in turn received from the respective risk committees of Bahru Stainless, Columbus, North American Stainless or Grupinox (which represents the sales network in Spain).

Among other duties, the risk committee reviews the status of past-due debts, monitors sales with excessive exposure, and approves internal loans or, depending on the amount, requests approval from the steering committee.

The Group has long-standing commercial relationships with many of its customers. In the event of a late payment, the Group monitors future deliveries and payment terms closely, reviews credit limits and improves existing measures as appropriate.

Where permitted under local legislation in the country in which the customer operates, retention of title clauses are used to secure recovery of goods in the event of default on payment.

On occasion the Group also uses other financial instruments to reduce credit risk, such as factoring operations. The Group derecognises factored assets when the risks and rewards of these assets have been substantially transferred.

The Group makes valuation adjustments to trade receivables where necessary to mitigate the risk of bad debts, or provide for past-due balances, or when circumstances indicate that collection is doubtful. In general, the Group recognises impairment on receivables aged over 180 days or when the debtor has filed for insolvency. Details of movement in impairment of trade receivables are provided in **note 11.2.1**. The Group has reassessed the model, to see if it meets the requirements established in the new IFRS 9, as detailed in **note 2.2.**

At 31 December 2017, consolidated trade receivables amount to 552,058 thousand euros (527,788 thousand euros in 2016). Revenues for 2017 total 4,626,855 thousand euros (3,968,143 thousand euros in 2016). Credit risk insurance has been contracted for 55% of consolidated net sales (54% in 2016). Cash conditions exist for 2% (1% in 2016). Confirmed letters of credit or guarantees are used to hedge credit risk in 3% of consolidated net sales (2% in 2016). Domestic sales by North American Stainless Inc., which entail a very low risk due to the collection period of under 30 days, account for 37% of consolidated net sales (37% in 2016), allowing deliveries to be controlled and reducing any impairment losses.

The ageing analysis of receivables is as follows:

(Expressed in thousands of euros)

	2017	% of payables	2016	% of payables
Outstanding	470,805	85%	452,024	86%
Less than 30 days	68,854	12%	58,832	11%
30-60 days	6,081	1%	7,148	1%
60-90 days	1,111	0%	1,505	0%
Over 90 days	5,207	1%	8,278	2%
TOTAL	**552,058**	**100%**	**527,787**	**100%**

The Group has made provisions for 4,831 thousand euros (7,260 thousand euros in 2016). Provision was made for an amount of 698 thousand euros during the year (522 thousand euros in 2016), accounting for 0.02% of sales in 2016 and 2017.

Most of the Group’s past-due receivables are insured and generally reflect customary delays in trading activity (85% of past-due receivables are aged less than 30 days). At 17 February, over 85% of the above past-due debt has been collected (84% in 2016).

In view of the default rates in all sectors, we consider that the above figures are highly satisfactory and vindicate the Group’s credit risk policy.

Any advances to suppliers of property, plant and equipment or intangible assets are hedged through bank guarantees issued by the supplier and confirmed by banks of recognised solvency.

With regard to the credit risk of bank balance sheets, only banks and financial institutions that are rated by an independent third party and with a 'Ba1' credit rating from Moody's are accepted. The Group has no significant concentration of risks as the likelihood of a default by the banks and financial institutions that are thus authorised is remote, based on their high credit ratings.

4.3 Liquidity risk

The Group is primarily financed through the cash flows generated in its operations, in addition to loans and financing facilities.

Although access to liquidity has improved considerably over the last two years, the Group ensures its liquidity and flexibility through long-term loans and financing facilities for amounts exceeding the quantities required at any time.

The Group's cash is centrally managed to optimise resources. The Group's net debt is primarily concentrated within the Parent Company (more than 92% of total gross borrowings at year end).

Based on its cash flow estimates and considering its investment plans, the Group has sufficient funding to meet its commitments, and maintains sufficient balances available for drawdown from credit facilities to cover liquidity risk. In 2017 and 2016 no payment defaults occurred on the principal of loans or loan interest on the Group's financing.

At year end the Group has been granted current and non-current financing totalling 1,964 million euros and non-recourse factoring facilities of 420 million euros. 1,230 million euros has been drawn down from financing facilities at 31 December 2017 and 150 million euros from factoring facilities. In 2016, the Group had current and non-current financing facilities of 1,819 million euros and non-recourse factoring facilities of 420 million euros. Drawdowns from financing facilities amounted to 1,218 million euros and drawdowns from factoring facilities amounted to 135 million euros. At 31 December 2017 cash and cash equivalents amount to 621 million euros (598 million euros in 2016).

The high levels of bank borrowings to guarantee mid-term liquidity along with the ongoing effort to reduce working capital continues to lead to high levels of cash in the Group. The cash balances are available and there is no restriction on their use.

Cash deposits are always short-term – never exceeding three months – and with banks of recognised solvency.

In addition, the Group continually monitors the maturity of its financial debt, seeking to establish the longest possible maturities.

The most significant financing operations during 2017, due to their aggregate amount, were the renegotiation of much of the existing debt and the arrangement of new loans, for the purpose of debt rescheduling and to reduce costs. The total volume of these operations was 725 million euros, and they include operations relating to existing and new loans. The existing loans include those with Banco de Sabadell, Banco Santander, Bankia, Banco Popular and Bankinter. In terms of new loans, loan agreements were signed with Banca March, Banco Social de Crédito Cooperativo, Banco Bilbao Vizcaya Argentaria and the European Investment Bank. The aggregate amount of these latter four loans totals 210 million euros. Details of these financing operations are provided in **note 11.2.3**.

During 2016 there was also the debt rescheduling of the majority of the bilateral loans held by Acerinox S.A., which was undertaken to extend the repayment due dates to between four and five years and to reduce the margins.

An analysis of the Group's payment obligations at the 2017 close is as follows:

(Datos en miles de euros)

	Amount at 31/12/2017	Future cash flow maturities	Less than 6 months	6 to 12 months	1-2 years	2-5 years	More than 5 years	Undetermined maturity
Non-current payables	936,678	-1,001,539	-8,054	-7,907	-193,731	-618,262	-173,585	
Current payables	293,080	-296,153	-213,011	-83,142				
Suppliers and other payables	909,784	-909,792	-909,792					
Other non current financial liabilities	2,659							-2,659
FINANCIAL DERIVATIVES								
Hedged using interest rate swaps and cross-currency swaps	154	154	222	228	-254	-42		
Export exchange rate insurance	15,090	15,090	15,090					
Import exchange rate insurance	-26,149	-26,149	-26,149					
TOTAL	**2,131,296**	**-2,218,389**	**-1,141,694**	**-90,821**	**-193,985**	**-618,304**	**-173,585**	**-2,659**

Payables to public entities are not included in suppliers and other payables.

The item "other current financial liabilities" mainly relates to deposits and guarantees in the amount of 2,659 thousand euros, whose maturity is indeterminate.

Future cash flow maturities include the loan principal plus interest based on contractual interest rates at year end.

This item does not include approved investments not capitalised under property, plant and equipment under construction at the reporting date.

4.4 Brexit

Regarding the United Kingdom leaving the European Union, the Acerinox Group does not believe that this will have any impact on its financial statements, as the Group only has one distribution subsidiary there and it has no productive assets in that country. The subsidiary imports the material that is manufactured in any of the Group's manufacturing plants and sells it in the country. The total amount of fixed assets that the Group has in that country is 4.5 million euros (with the Group's total fixed assets being 2,148 million euros). Furthermore, the sales made in that country only represent 2.6% of the Group's total sales. Any flight of customers that may occur as a result of Brexit should not lead to a decrease in the Group's sales, as they can be offset in any other country, given that it is a global market.

4.5 Capital management

The aims of the capital management policy are:

- To safeguard the Company’s capacity for sustained growth
- To provide appropriate returns to shareholders
- To maintain an optimum capital structure

The Company manages its capital structure and makes adjustments based on changes in economic circumstances. To maintain and adjust its capital structure, it can adopt different policies relating to the payment of dividends, the reimbursement of the share premium, share buy-backs, self-financing of investments, non-current borrowings, etc.

Capital structure is controlled using different ratios, such as the net financial debt/EBITDA ratio, understood to be the period necessary for the resources generated by the Company to cover the level of debt; or the gearing ratio, i.e. the relationship between net financial debt and equity of the Company.

Net financial debt is taken to be the sum of current and non-current loans and borrowings, plus notes issued, less cash and cash equivalents. EBITDA reflects operating profit or loss before amortisation, depreciation and changes in trade provisions (which comprise a decrease of 1.203 thousand euros).

The ratio of net financial debt to EBITDA is 1.25x, lower than in 2016 (1.88x) and the best figure achieved since 2004.

The Group is well within the limits stipulated in the covenants governing Group borrowings, as detailed in **note 11.2.3**.

After taking into account investments of 184.6 million euros made in 2017 (157.3 million euros in 2016) (which are detailed in the statement of cash flows as cash flows from investing activities), the Group generated cash flows of 181.3 million euros (111.5 million euros in 2016) due to the significantly greater pre-tax profit of 298.6 million euros (127.9 million euros in 2016) and optimal management of working capital which, despite the increased activity recorded in the year, fell by 0.6 million euros (decrease of 16.3 million euros in 2016). Net financial debt, which amounts to 609.2 million euros, is down by 1.7% with respect to the prior year (619.9 million euros).

The Group’s gearing ratio is 30.9%, the second lowest achieved in the last 15 years after that obtained in 2016, which was 28.6%.

As remarked in note **11.2.3.**, the most significant financing transaction in 2017 was the restructuring and extension in June of the Borrowing Base Facility of Columbus Stainless Pty Ltd. for ZAR 3,500 million. The transaction, which was originally signed in April 2015, was extended for another two and a half years, including modifications in its structure to give Columbus greater flexibility. The lead arranger of the transaction continues to be Deutsche Bank AG, Amsterdam Branch.

In addition, in June 2017, another non-extinctive amendment was made to the syndicated factoring agreement of 370 million euros, extending the termination date of the contract to June 2019. The lead arranger of the transaction continues to be Santander Factoring y Confirming S.A. E.F.C.

The volume of investments continues to be in line with the Group's strategic plan. The Group did not base its 2008-2020 strategic plan, which has been revised for the 2016-2020 period, on opportunistic criteria, but rather on industrial rationale and long-term efficiency, meaning that, its financial position permitting, the Group can keep to this plan even when the economic climate is unfavourable.

After the 2013-2016 period when Acerinox offered its shareholders a scrip dividend option at their Annual General Meeting held on 1 June 2017, it agreed to make a single cash payment of 0.45 euros per share, which was paid to the shareholders on 5 July 2017. This remuneration is the same amount that has been paid since 2006, whether as a cash dividend or scrip dividend. The share capital of Acerinox, S.A. remains at 276,067,543 shares.

4.6 Insurance

As the Group's three integrated flat product production plants, one cold rolling plant and three long product production plants are located in different regions, an accident would not affect more than one-third of total production. This guarantees the continuity of the business, while adequate co-ordination between the remaining factories reduces the consequences of material damage to any of the facilities.

Sufficient coverage has been contracted for the Group's factories through material damage and loss-of-profit insurance policies, which account for over 56.72% of the Acerinox Group's insurance expenditure. All assets under construction are covered by both the insurance policies taken out by the respective suppliers in addition to a global building and assembly policy.

The Group also has a reinsurance company based in Luxembourg, Inox Re, which manages these risks by assuming a part as self-insurance and accessing the reinsurance market directly.

The Acerinox Group has also arranged general liability, environmental, credit, transport, and group life and accident insurance policies to reduce its exposure to these different risks.

NOTE 5 – CONSOLIDATED GROUP

5.1 Subsidiaries and associates

At 31 December 2017 and 2016, in addition to Acerinox, S.A., the Acerinox consolidated group includes 38 fully consolidated subsidiaries. The Group has decided not to consolidate the associate Betinoks Paslanmaz Çelik, A.S., as this company has been inactive since 2012. The financial statements of the associate were accounted for in the consolidated annual accounts with the equity method.

Investments in subsidiaries and associates in 2017 are as follows:

	2017			
FULLY CONSOLIDATED COMPANIES	**COUNTRY**	**% Ownership**	**COMPANY HOLDING INVESTMENT**	**AUDITORS**
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	100%	ACERINOX S.A	PWC
ACERINOX ARGENTINA S.A.	Buenos Aires - Argentina	90%	ACERINOX S.A	Chinen, Morbelli y asociados
		10%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX AUSTRALASIA PTY. LTD.	Sidney - Australia	100%	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels - Belgium	100%	ACERINOX S.A	PWC
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo - Brazil	100%	ACERINOX S.A	
		0.001%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX CHILE, S.A.	Santiago de Chile - Chile	100%	ACERINOX S.A	PWC
ACERINOX COLOMBIA S.A.S	Bogotá D.C. - Colombia	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld - Germany	100%	ACERINOX S.A	PWC
ACERINOX EUROPA, S.A.U	Algeciras - Spain	100%	ACERINOX S.A	PWC
ACERINOX FRANCE S.A.S	Paris -France	99.98%	ACERINOX S.A	PWC
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX INDIA PVT LTD	Mumbai - India	100%	ACERINOX S.A	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milan- Italy	100%	ACERINOX S.A	Collegio Sindicale - Studio Revisori
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu /Beyoglu - Turkey	99.73%	ACERINOX S.A	
		0.27%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab emirates	100%	ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai - Hong Kong	100%	ACERINOX S.A	PWC
ACERINOX POLSKA, SP Z.O.O	Warsaw - Poland	99.98%	ACERINOX S.A	PWC
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	100%	ACERINOX S.A	
ACERINOX SCANDINAVIA AB	Malmoe - Sweden	100%	ACERINOX S.A	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor -Malaysia	100%	ACERINOX S.A	PWC
ACERINOX SHANGAI CO., LTD.	Shangai - China	100%	ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore - Singapore	100%	ACERINOX S.A	PWC
ACERINOX U.K, LTD.	Birmingham - United Kingdom	100%	ACERINOX S.A	PWC
ACEROL - COMERCIO E INDUSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia - Portugal	100%	ACERINOX S.A	PWC
BAHRU STAINLESS, SDN. BHD	Johor -Malaysia	67%	ACERINOX S.A	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg - South Africa	76%	ACERINOX S.A	PWC
CORPORACIÓN ACERINOX PERU S.A.C	Lima - Perú	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	100%	ACERINOX S.A	PWC
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria) - Spain	100%	INOXCENTER	PWC
INOXCENTER, S.L.U	Barcelona - Spain	100%	ACERINOX S.A	PWC
INOXFIL S.A.	Igualada (Barcelona) - Spain	100%	ROLDAN S.A	PWC
INOXIDABLES DE EUSKADI S.A.U	Vitoria - Spain	100%	ACERINOX EUROPA, S.A.U	PWC
INOXPLATE - COMERCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia - Portugal	100%	ACEROL - COMERCIO E INDUSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	PWC
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya) - Spain	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS INC.	Kentucky - U.S.A.	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS CANADA, INC	Canada	100%	NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca - N.L.Mexico	100%	NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky - U.S.A.	100%	ACERINOX S.A	
ROLDAN S.A.	Ponferrada - Spain	99.77%	ACERINOX S.A	PWC

	2017		
ASSOCIATED COMPANIES	**COUNTRY**	**% Ownership**	**COMPANY HOLDING INVESTMENT**
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	25%	ACERINOX S.A

The activities of the Group companies are as follows:

- Acerinox, S.A.: holding company of the Acerinox Group. The Company renders legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.
- Acerinox Europa, S.A.U.: manufacture and sale of flat stainless steel products.
- North American Stainless, Inc.: manufacture and sale of flat and long stainless steel products.
- Columbus Stainless (PTY), Ltd.: manufacture and sale of flat stainless steel products.
- Bahru Stainless, Sdn, Bhd: cold rolling and sale of flat stainless steel products.
- Roldán, S.A.: manufacture and sale of long stainless steel products.
- Inoxfil, S.A.: manufacture and sale of stainless steel wire.
- Inox Re, S.A.: reinsurance company.
- North American Stainless Financial Investment, Inc.: rendering of foreign trade advisory services.
- Remaining companies: sale of stainless steel products.

Investments in subsidiaries and associates in 2016 are as follows:

	2016			
FULLY CONSOLIDATED COMPANIES	**COUNTRY**	**% Ownership**	**COMPANY HOLDING INVESTMENT**	**AUDITORS**
ACERINOX (SCHWEIZ) A.G.	Mellingen -Switzerland	100%	ACERINOX S.A	KPMG
ACERINOX ARGENTINA S.A.	Buenos Aires - Argentina	90%	ACERINOX S.A	Chinen, Morbelli y asociados
		10%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX AUSTRALASIA PTY. LTD.	Sidney - Australia	100%	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	elgium	100%	ACERINOX S.A	KPMG
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo - Brazil	100%	ACERINOX S.A	
		0.001%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX CHILE, S.A.	Santiago de Chile - Chile	100%	ACERINOX S.A	KPMG
ACERINOX COLOMBIA S.A.S	Bogotá D.C. - Colombia	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld - Germany	100%	ACERINOX S.A	KPMG
ACERINOX EUROPA, S.A.U	Algeciras - Spain	100%	ACERINOX S.A	KPMG
ACERINOX FRANCE S.A.S	Paris -France	99.98%	ACERINOX S.A	KPMG
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX INDIA PVT LTD	Mumbai - India	100%	ACERINOX S.A	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milan - Italy	100%	ACERINOX S.A	Collegio Sindicale - Studio Revisori
ACERINOX MALAYSIA SDN. BHD	Johor -Malaysia	100%	ACERINOX S.C. MALAYSIA SDN. BHD	KPMG
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu / Beyoglu - Turkey	99.73%	ACERINOX S.A	
		0.27%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai - United Arab Emirates	100%	ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai - Hong Kong	100%	ACERINOX S.A	KPMG
ACERINOX POLSKA, SP Z.O.O	Warsaw - Poland	99.98%	ACERINOX S.A	KPMG
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg - Russia	95%	ACERINOX S.A	
		5%	ACERINOX SCANDINAVIA AB	
ACERINOX SCANDINAVIA AB	Malmoe - Sweden	100%	ACERINOX S.A	KPMG
ACERINOX S.C. MALAYSIA SDN. BHD	Johor -Malaysia	100%	ACERINOX S.A	KPMG
ACERINOX SHANGAI CO., LTD.	Shangai - China	100%	ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore - Singapore	100%	ACERINOX S.A	KPMG
ACERINOX U.K, LTD.	Birmingham - United Kingdom	100%	ACERINOX S.A	KPMG
ACEROL - COMERCIO E INDUSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia - Portugal	100%	ACERINOX S.A	KPMG
BAHRU STAINLESS, SDN. BHD	Johor -Malaysia	67%	ACERINOX S.A	KPMG
COLUMBUS STAINLESS (PTY) LTD.	Middelburg - South Afrrca	76%	ACERINOX S.A	KPMG
CORPORACIÓN ACERINOX PERU S.A.C	Lima - Perú	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	100%	ACERINOX S.A	KPMG
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria) - Spain	100%	INOXCENTER	KPMG
INOXCENTER, S.L.U	Barcelona - Spain	100%	ACERINOX S.A	KPMG
INOXFIL S.A.	Igualada (Barcelona) - Spain	100%	ROLDAN S.A	KPMG
INOXIDABLES DE EUSKADI S.A.U	Vitoria - Spain	100%	ACERINOX EUROPA, S.A.U	KPMG
INOXPLATE - COMERCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia - Portugal	100%	ACEROL - COMERCIO E INDUSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	KPMG
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya) - Spain	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS INC.	Kentucky - U.S.A.	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS CANADA, INC	Canada	100%	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca - N.L.Mexico	100%	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky - U.S.A.	100%	ACERINOX S.A	
ROLDAN S.A.	Ponferrada - Spain	99.77%	ACERINOX S.A	KPMG

	2016		
ASSOCIATED COMPANIES	**COUNTRY**	**% Ownership**	**COMPANY HOLDING INVESTMENT**
BETINOKS PASLANMAZ ÇELIK A.S.	Turquía	25%	ACERINOX S.A

5.2 Changes in the consolidated group

In 2017 the only significant change to the consolidated group was the liquidation of the Group company Acerinox Malaysia, Sdn. Bhd. This company had been inactive since 2013, when the Board of Directors of Acerinox, S.A. decided to restructure the Group's sales network in Southeast Asia by merging the following trading companies in Malaysia: Acerinox S.C. Malaysia and Acerinox Malaysia Sdn. Bhd. As a result, Acerinox, S.A. sold Acerinox S.C Malaysia its interest in Acerinox Malaysia, Sdn. Bhd. and at the same time, Acerinox S.C Malaysia assumed all of the assets and liabilities of Acerinox Malaysia Sdn. Bhd. Malaysian law has required the Company to be kept inactive during this period, up until its final liquidation. The impact of this liquidation on consolidated profits has been revenue of 593 thousand euros from cumulative translation differences in this company, taken to profit and loss. The profit from the liquidation was recognised under finance income in the consolidated income statement.

Furthermore, Acerinox, S.A acquired a 5% interest in the Group company Acerinox Russia, L.L.C from the subsidiary company Acerinox Scandinavia, A.B., for 3 thousand euros. With this transaction, the Company from the Group in Russia is now wholly owned by the Parent Company Acerinox, S.A.

In 2016 the only significant change was the liquidation of the Group company Acerinox Norway AS. The company was wholly owned by Acerinox, S.A. and acted as a commission agent for the Group company Acerinox Scandinavia AB, registered in Sweden, for sales in Norway. Acerinox Scandinavia absorbed the personnel of the entity. This operation had a positive 597 thousand euros impact on the Parent Company's results, which was derived from the repatriation of share capital and accumulated reserves. Conversely, this operation had a negative impact of 290 thousand euros on consolidated profit due to cumulative exchange differences and this company's results until the liquidation date. The loss on the liquidation was recognised under finance costs in the consolidated income statement.

During 2016, a further 50 shares of the Group company Roldan, S.A. were also acquired from non-controlling shareholders, thereby raising the ownership interest held by Acerinox, S.A. to 99.77%. These shares were purchased for 1 thousand euros.

5.3 Capital increases and reductions

There have been no capital increases or reductions in any of the Group's companies during the year.

In 2016 the Group company Acerinox Shanghai reduced its capital by 46,418 thousand yuan, which is equivalent to 6.2 million euros. The company is wholly owned by Acerinox, S.A. Its share capital at year end amounts to 19,331 thousand yuan.

The Group company Inoxplate Lda, a wholly owned investee of the Group company Acerol Ltda (both of which are located in Portugal), reimbursed the supplementary contributions of 900 thousand euros received from its parent company.

5.4 Impairment of investments

At 31 December 2017 and 2016 the Parent Company has analysed the recoverability of its investments in Group companies with indications of impairment to determine whether their carrying amount exceeds their recoverable amount. Following the analyses carried out in both years, the Parent Company has only recognised impairment on its investment in Acerinox SC Malaysia Sdn. Bhd.

During the year, the Parent Company has recognised impairment of 7,288 thousand euros on its investment in the company Acerinox SC Malaysia Sdn. Bhd., because its recoverable amount, calculated on the basis of discounted expected cash flows, is less than its carrying amount (impairment of 10,792 thousand euros in 2016). At 31 December 2017, this investment has been recorded in the individual annual accounts of Acerinox, S.A. at 19,475 thousand euros, which is equal to its recoverable amount.

During 2016, the Parent Company also reversed 2,205 thousand euros of portfolio impairment recognised in prior years on the investment in Acerinox Pacific, Ltd. This company's streamlined structure, attributable to its sole role as commission agent, and the waiving of the loan in the previous year, has improved its prospects, thereby increasing its expected recoverable amount. The carrying amount of Acerinox, S.A.'s investment in this company is 7,467 thousand euros.

Details of the carrying amounts of investments in Group companies are included in **note 5.1**.

This impairment does not have an impact on consolidated results as these companies are fully consolidated. There is a detailed analysis of the analyses performed in the Parent Company's individual report.

NOTE 6 - SEGMENT REPORTING

As described below, the Group is organised internally into operating segments, which are strategic business units. The strategic business units have different products and services and are managed separately. Group management reviews internal reports for each unit at least monthly.

The operating segments presented by the Group, associated with the types of products it sells, are as follows:

- Flat stainless steel products: slabs, flats, coils, plates, sheets, circles and flat bars.
- Long stainless steel products: bars, angles, wires and wire rods.
- Other: other stainless steel products not included in the previous segments.

The "unallocated" segment reflects the activities of the holding company and activities that cannot be allocated to specific operating segments.

Segment results, assets and liabilities include all items directly or indirectly attributable to a segment. No significant assets are shared between segments and, considering the importance of flat stainless steel products, any assets that could be attributed to both segments are assigned to the flat segment.

Inter-segment sales prices are established in accordance with market commercial terms and conditions governing non-related third parties.

A segment's performance is measured by its net pre-tax profit. The Group considers this information to be the most relevant in evaluating a segment against other comparable segments in the sector.

6.1 Operating segments

Segment results for the year ended 31 December 2017 are as follows:

(Expressed in thousands of euros)

	2017					
	Flat products	**Long products**	**Other**	**Unallocated**	**Adjustments**	**Total**
Income statement						
Revenue	4,213,132	597,808	37,347	2,768	-192,938	4,658,117
Inter-segment sales	-183,255	-9,683			192,938	0
Total revenues	**4,029,877**	**588,125**	**37,347**	**2,768**		**4,658,117**
Gross operating profit/loss	433,792	69,588	2,055	-17,778		487,657
Amortisation	-153,132	-15,254	-157	-1,162		-169,705
Finance income	8,699	7	12	158		8,876
Finance costs	-13,566	-101	-224	-24,524		-38,415
Exchange gains/losses	4,969	-14	0	5,263		10,218
Profit before tax	**280,762**	**54,226**	**1,686**	**-38,043**		**298,631**
Income tax	-62,012	-1,336	-404	-13,560		-77,312
Consolidated profit/loss for the period	**218,750**	**52,890**	**1,282**	**-51,603**		**221,319**
Attributable to:						
Non-controlling interests	**-12,836**	**11**				**-12,825**
Net profit/loss attributable to the Group	**231,586**	**52,879**	**1,282**	**-51,603**		**234,144**
Balance sheet						
Segment assets	3,893,179	379,623	19,383	111,827		4,404,012
Unallocated assets						0
Total consolidated assets	**3,893,179**	**379,623**	**19,383**	**111,827**		**4,404,012**
Segment liabilities	1,196,072	35,397	14,764	1,187,483		2,433,716
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	**1,196,072**	**35,397**	**14,764**	**1,187,483**		**2,433,716**
Property, plant and equipment	**1,761,045**	**110,300**	**4,275**	**10,508**		**1,886,128**
Investments in property, plant and equipment and intangible assets	**167,851**	**4,783**	**25**	**673**		**173,332**

Unallocated liabilities essentially comprise the Parent Company's financial debt.

2016 figures are as follows:

(Expressed in thousands of euros)

	2016					
	Flat products	**Long products**	**Other**	**Unallocated**	**Adjustments**	**Total**
Income statement						
Revenue	3,576,366	521,057	33,361	2,568	-144,717	3,988,635
Inter-segment sales	-136,409	-8,308			144,717	0
Total revenues	**3,439,957**	**512,749**	**33,361**	**2,568**		**3,988,635**
Gross operating profit/loss	291,919	48,530	2,597	-15,818		327,228
Amortisation	-152,764	-15,668	-157	-1,203		-169,792
Finance income	5,879	4	13	356		6,252
Finance costs	-13,643	-348	-271	-29,121		-43,383
Exchange gains/losses	3,936	-209	0	3,837		7,564
Profit before tax	**135,327**	**32,309**	**2,185**	**-41,949**		**127,869**
Income tax	-63,890	-11,242	-539	15,105		-60,566
Consolidated profit/loss for the period	**71,437**	**21,067**	**1,646**	**-26,844**		**67,303**
Attributable to:						
Non-controlling interests	**-13,010**	**-7**				**-13,017**
Net profit/loss attributable to the Group	**84,447**	**21,074**	**1,646**	**-26,844**		**80,320**
Balance sheet						
Segment assets	3,949,834	357,108	17,495	130,611		4,455,048
Unallocated assets						0
Total consolidated assets	**3,949,834**	**357,108**	**17,495**	**130,611**		**4,455,048**
Segment liabilities	1,161,579	38,903	14,031	1,071,856		2,286,369
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	**1,161,579**	**38,903**	**14,031**	**1,071,856**		**2,286,369**
Property, plant and equipment	**1,948,448**	**122,994**	**4,399**	**10,562**		**2,086,403**
Investments in property, plant and equipment and intangible assets	**168,162**	**4,110**	**22**	**583**		**172,877**

There are no significant balances that have not been reflected in cash flows other than amortisation and depreciation.

6.2 Geographical segments

Revenue from geographical segments is presented on the basis of customer location. Segment assets are determined by geographical location.

Data relating to geographical segments in 2017 is presented below:

(Expressed in thousands of euros)

	2017						
	Spain	**Rest of Europe**	**Americas**	**Africa**	**Asia**	**Other**	**Total**
Revenue by destination of goods	476,333	1,215,312	2,125,703	221,045	568,776	19,686	**4,626,855**
Segment assets by origin	988,468	345,021	1,666,942	548,328	855,194	59	**4,404,012**
Property, plant and equipment at origin	319,073	48,870	744,697	134,258	621,510		**1,868,408**
Investment property	4,045	13,675					**17,720**
Investments in plant and equipment and intangible assets at origin	115,626	453	44,533	10,904	1,814		**173,331**

2016 figures are as follows:

(Expressed in thousands of euros)

	2016						
	Spain	**Rest of Europe**	**Americas**	**Africa**	**Asia**	**Other**	**Total**
Revenue by destination of goods	414,601	1,045,211	1,826,654	194,902	475,371	11,404	**3,968,143**
Segment assets by origin	910,266	324,722	1,767,761	517,231	934,988	80	**4,455,048**
Property, plant and equipment at origin	238,838	52,368	887,181	145,609	744,168	3	**2,068,167**
Investment property	4,177	14,059					**18,236**
Investments in plant and equipment and intangible assets at origin	43,236	465	106,767	12,046	10,363		**172,877**

The Group sells its products in over 80 countries across the five continents. The Group's sales in the following countries exceeded 5% of total consolidated sales in 2017 and 2016: United States; 37.4% (37.8% in 2016), Spain; 10.3% (10.5% in 2016) and Germany; 7.8% (6.6% in 2016).

No single transaction with an external customer exceeded 10% of the Group’s consolidated revenues for 2017 or 2016.

NOTE 7 – INTANGIBLE ASSETS

Details of the main intangible assets and movement therein are shown below:

(Expressed in thousands of euros)

COST	Emission allowances	Industrial property	Computer software and other	SUBTOTAL	Goodwill
Balance at 1 January 2016	**8,198**	**24,312**	**23,967**	**56,477**	**69,124**
Acquisitions			774	774	
Transfers	-8,198		235	-7,963	
Disposals			-114	-114	
Translation differences			333	333	
Balance at 31 December 2016	**0**	**24,312**	**25,195**	**49,507**	**69,124**
Acquisitions			654	654	
Transfers			389	389	
Disposals			-97	-97	
Translation differences			-212	-212	
Balance at 31 December 2017	**0**	**24,312**	**25,929**	**50,241**	**69,124**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	**Emission allowances**	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Balance at 1 January 2016	**0**	**24,310**	**20,986**	**45,296**	**0**
Charge			1,239	1,239	
Disposals			-114	-114	
Translation differences			317	317	
Balance at 31 December 2016	**0**	**24,310**	**22,428**	**46,738**	**0**
Charge			1,276	1,276	
Transfers		2	-2	0	
Disposals			-97	-97	
Translation differences			-186	-186	
Balance at 31 December 2017	**0**	**24,312**	**23,419**	**47,731**	**0**
CARRYING AMOUNT	**Emission allowances**	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Cost at 31 December 2015	8,198	24,312	23,967	56,477	69,124
Accumulated amortisation and impairment	0	-24,310	-20,986	-45,296	
Carrying amount at 31 December 2015	**8,198**	**2**	**2,981**	**11,181**	**69,124**
Cost at 31 December 2016	0	24,312	25,195	49,507	69,124
Accumulated amortisation and impairment	0	-24,310	-22,428	-46,738	
Carrying amount at 31 December 2016	**0**	**2**	**2,767**	**2,769**	**69,124**
Cost at 31 December 2017	0	24,312	25,929	50,241	69,124
Accumulated amortisation and impairment	0	-24,312	-23,419	-47,731	
Carrying amount at 31 December 2017	**0**	**0**	**2,510**	**2,510**	**69,124**

Amortisation for the year is shown under amortisation and depreciation in the income statement.

The transfer of emission allowances amounting to 8,198 thousand euros reflects their reclassification last year to inventories as established in the additional provision of Royal Decree 602/2016 of 2 December. Detailed information on emission allowances is provided in **note 10.1**.

The research and development expenses incurred by the Group do not meet the criteria for capitalisation and are therefore recognised as expenses, by type, when they are incurred. Research and development and innovation (R&D&I) costs directly recognised as expenses for the year and taken to the income statement amount to 13,597 thousand euros (15,642 thousand euros in 2016).

At 31 December 2017 and 2016 the Group has not entered into any contracts to acquire intangible assets.

7.1 Goodwill impairment testing

The Group estimates the recoverable amount of goodwill on an annual basis, or more frequently where there are indications of possible impairment. To this end, goodwill is allocated to the company's cash generating units that are expected to benefit from the synergies of a business combination.

At 31 December 2017, goodwill totals 69 million euros and mainly relates to the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002. This goodwill has been allocated to the Columbus cash-generating unit (CGU), which manufactures and sells flat products only.

The recoverable amount of a CGU is determined based on its value in use. These calculations are based on cash flow projections from the financial budgets approved by management over a period of five years. Cash flows beyond this five-year period are extrapolated using the estimated growth rates indicated below. The growth rate does not exceed the average long-term growth rate for the business in which the CGU operates.

Forecast volumes of sales and production are based on the current capacities of existing machinery and equipment. Management determined budgeted gross margins based on past experience and forecast market performance. The weighted average growth rates are consistent with the forecasts included in industry reports. The discount rates used are pre-tax values and reflect specific risks related to the relevant segments. Other significant assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values.

In 2017 Columbus Stainless, Ltd significantly improved its pre-tax profits, achieving ZAR 624.95 million, compared with ZAR 567.33 million in 2016. These figures represent an additional increase in its pre-tax profits (+10.2%) this year, continuing the positive trend that began in 2013. It is also continuing to beat the presented forecasts. In 2017 its figures were an 8.5% improvement on the estimates; in 2016 there was a 58.2% improvement.

The Company is confident that the flows to perpetuity will materialise, mainly in terms of its use of production capacity and margins, while still applying prudent criteria to the growth rates (g) used. The growth rates have been calculated using estimated growth rates for the country and sector, and bearing in mind historical growth in the consumption of stainless steel.

The key assumptions used to calculate value in use are as follows:

	2017	2016
Budgeted EBIT margin (*)	5.8%	5.1%
Weighted average growth rate (**)	2.5%	2.5%
Discount rate applied (***)	12.5%	12.6%

(*) EBIT margin, considered equivalent to operating profit/loss (as a percentage of net revenue). Average value of the budgeted period.
(**) Used to extrapolate cash flows beyond the budgeted period.
(***) Discount rate applied.

The discount rate applied (weighted average cost of capital or WACC) is 12.5%. It is calculated taking as reference the interest rates on South African sovereign debt (ten-year swap on the South African rand), a market risk premium of 5.4% and the capital structure of similar companies.

When calculating the terminal value, repayments are considered equal to investments and the change in working capital is calculated as the value of the last projected year, 2022, which is understood to be consistent in the long term, increased by the growth rate (g).

The growth rate (g) remains constant at 2.5%. In 2017 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2017 period.

According to our estimates, apparent consumption of flat stainless steel products in the South African market has fallen by 6.4% in 2017 compared with the figures recorded in 2016 (-8.5%), due to the problems with the national economy and political instability, although in recent months there has been an improvement in industries such as mining, which may lead to an increase in stainless steel consumption. The country's GDP has experienced a significant decline since 2011 and last year did not see a reverse in the trend of recent years. Consequently, Columbus had to increase its exports, mainly to Europe, where prices were higher throughout the year. It also increased the volume of hot-rolled coils supplied to Bahru Stainless, Sdn Bhd, the Group's factory in Malaysia.

The aforementioned decline in local sales was more than offset by the rise in exports, resulting in an overall increase in turnover of 16% (+15.3% in 2016). Melt shop production also increased, by 1.5% during this year (13.1% in 2016).

2017 was a good year for Columbus Stainless, Ltd, but not without significant challenges. In addition to the aforementioned weakness in the local economy, these included the increase in energy costs and the revaluation of the local currency, the rand, which made it less competitive in international markets. This situation was partially mitigated by the inherent advantages of the Columbus factory: its proximity to ferrochrome production facilities and the possibility of performing direct liquid loading of this mineral, leading to significant savings and reduced stocks of raw materials.

Against the above backdrop, Columbus has become established as one of the Group's profit centres, thus demonstrating the effects of the successive excellence plans and the success of the strategy followed.

In conclusion, besides adequate management of the situation in the country, the increase in sales in strategic markets, the supply of semi-products to Bahru Stainless and increased penetration in the Middle and Far East and Latin America have all contributed to this positive trend, and in the future it should increase its sales in the large emerging markets in Africa: Egypt, Nigeria and Kenya.

The Company’s budgets reflect these factors, as well as a gradual increase in sales to Bahru Stainless, Sdn Bhd as the Malaysian factory achieves higher utilisation of its present installed production capacity.

Other assumptions are the euro-rand exchange rate (14.805) and the price of raw materials (11,200 USD/MT), which are established when drawing up the budget. Both assumptions are extrapolated applying very conservative criteria and are held constant over the period analysed. The variables used in 2016 were a euro-rand exchange rate of 14.457 and a raw materials price of 10,500 USD/MT.

The impairment test performed at 31 December 2017 shows that the recoverable amount exceeds the carrying amount by 112 million euros (59 million euros in 2016). The discount rate (WACC), the growth rate (g) and the budgeted EBIT margin are considered key assumptions in the impairment test.

Following a sensitivity analysis entailing different scenarios, impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 34.5% (18% in 2016). In the case of the growth rate (g), even with a growth rate of 0%, the discount rate (WACC) would have to increase by 27% (9.6% in 2016) for the carrying amount to show impairment.

The average budgeted EBIT margin would have to fall by 30% (18.3% in 2016) to 4.0% (4.1% in 2016), with the other two assumptions remaining constant, for impairment to occur.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment and movement in 2017 and 2016 are shown in the following table. The land and buildings item differs from that presented by the Group in the same table for the 2016 annual accounts, because the Group decided to include investment property separately in the balance sheet and notes:

(Expressed in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL
Balance at 1 January 2016	**765,268**	**3,481,622**	**89,404**	**341,930**	**4,678,224**
Altas	2,700	24,273	1,866	143,264	172,103
Transfers	48,768	271,732	3,742	-336,881	-12,639
Disposals	-186	-9,863	-8,116	0	-18,165
Translation differences	14,478	114,860	1,639	10,839	141,816
Balance at 31 December 2016	**831,028**	**3,882,624**	**88,535**	**159,152**	**4,961,339**
Altas	800	37,433	2,545	131,900	172,678
Transfers	22,743	125,023	1,854	-150,009	-389
Disposals	-5,706	-44,429	-2,924	-7	-53,066
Translation differences	-58,641	-291,382	-3,723	-14,170	-367,916
Balance at 31 December 2017	**790,224**	**3,709,269**	**86,287**	**126,866**	**4,712,646**

ACCUMULATED DEPRECIATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL
Balance at 1 January 2016	**311,549**	**2,265,033**	**86,447**	**0**	**2,663,029**
Charge	16,809	146,763	4,736		168,308
Transfers	-1,064	-48	25		-1,087
Disposals	-90	-5,224	-8,125		-13,439
Translation differences	5,394	69,355	1,612		76,361
Balance at 31 December 2016	**332,598**	**2,475,879**	**84,695**	**0**	**2,893,172**
Charge	16,787	146,924	4,350		168,061
Transfers	270	149	-419		0
Disposals	-3,224	-36,441	-2,850		-42,515
Translation differences	-18,469	-152,237	-3,774		-174,480
Balance at 31 December 2017	**327,962**	**2,434,274**	**82,002**	**0**	**2,844,238**

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Property, plant and equipment under construction	TOTAL
Cost at 31 December 2014	765,268	3,481,622	89,404	341,930	4,678,224
Accumulated amortisation and impairment	-311,549	-2,265,033	-86,447		-2,663,029
Carrying amount at 31 December 2015	**453,719**	**1,216,589**	**2,957**	**341,930**	**2,015,195**
Cost at 31 December 2015	831,028	3,882,624	88,535	159,152	4,961,339
Accumulated amortisation and impairment	-332,598	-2,475,879	-84,695		-2,893,172
Carrying amount at 31 December 2016	**498,430**	**1,406,745**	**3,840**	**159,152**	**2,068,167**
Cost at 31 December 2016	790,224	3,709,269	86,287	126,866	4,712,646
Accumulated amortisation and impairment	-327,962	-2,434,274	-82,002		-2,844,238
Carrying amount at 31 December 2017	**462,262**	**1,274,995**	**4,285**	**126,866**	**1,868,408**

Depreciation for the year is shown under amortisation and depreciation in the income statement.
Investments

Investments in property, plant and equipment and intangible assets for the year amounted to 173,332 thousand euros. These include 111,109 thousand euros invested by the Spanish Group company Acerinox Europa mainly in a new cold-rolling mill and a fifth annealing and pickling line. This year, the company North American Stainless invested a total of 44,297 thousand euros to complete the cold-rolling mill and the bright annealing (BA) line. Investments in 2016 amounted to 172,877 thousand euros, including 106,738 thousand euros invested by the company North American Stainless and 39,377 thousand euros by Acerinox Europa.

Work on the new lines of North American Stainless is complete and they were commissioned at the end of the year. With regard to Acerinox Europa's investments, the Company expects them to be completed over the course of 2018.

Property, plant and equipment under construction

Details of the investments classified under this heading are as follows:

(Expressed in thousands of euros)

	2017	2016
Construcciones	34,344	35,039
Instalaciones técnicas y maquinaria	92,383	123,515
Otro inmovilizado	138	405
Anticipos	1	193
TOTAL	**126,866**	**159,152**

During the period, on completion of the start-up period, the aforementioned investments made by the company North American Stainless were reclassified from work in progress to finished goods. The amount reclassified in this company is 131 million euros. The start-up of these investments increased depreciation for the year by approximately 6 million euros per year.

Of the total amount recognised under this caption, 115 million euros correspond to the aforementioned investments made by Acerinox Europa, whose lines are expected to be commissioned during 2018. During 2016 it included 114 million euros for investments made by North American Stainless and 38 million euros corresponding to investments by Acerinox Europa.

In 2016, on completion of the start-up period, phase II investments made by the Group company Bahru Stainless, Sdn Bhd were reclassified from work in progress to finished goods. The amount reclassified in this company totalled 292 million euros. The start-up of these investments increased depreciation for the year by approximately 1 million euros per month.

Fixed assets located outside Spain

Details of fixed assets located outside Spain are as follows:

(Expressed in thousands of euros)

	2017		2016	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and buildings	554,331	-175,710	595,529	-181,956
Technical installations and machinery	2,568,612	-1,396,765	2,750,284	-1,441,893
Other fixed assets	38,294	-36,695	42,439	-39,953
Property, plant and equipment under construction	10,942	0	118,939	0

Changes in accounting estimates

As explained in **note 3**, the Group periodically reviews estimated useful lives based on the valuations made by experts. As a result of these analyses, the Group company Columbus Stainless (Pty), Ltd. changes the useful lives of

some of its assets. The technological improvements and maintenance plans implemented by the company have led us to forecast a lengthening of useful lives of between 5 and 10 years. The Group has accounted for the change in accounting estimates prospectively, from 1 January 2017, as stipulated in IAS 8. The impact of the change in accounting estimates on profit and loss at 31 December 2017 was 2,265 thousand euros, due to the reduction in provisions for this year.

Estimated useful lives remained unchanged in 2016.

Guarantees

At 31 December 2016 and 2017 none of the Group's assets has been pledged to secure loans and borrowings.

Commitments

At 31 December 2017 the Group had signed contracts to purchase new equipment and facilities amounting to 68,933 thousand euros, of which 56,054 thousand euros was for new investments made by Acerinox Europa for the completion of its investments in the new cold-rolling mill and the fifth annealing and pickling line. At 31 December 2016 the Group had entered into contracts to purchase new equipment and facilities amounting to 127,034 thousand euros, of which 26,686 thousand euros was for new investments by North American Stainless, 92,412 thousand euros for Acerinox Europa and 4,783 thousand euros for investments in the new Malaysian plant.

Capitalised borrowing costs

Borrowing costs of only 48 thousand euros have been capitalised in 2017 for the company Columbus Stainless (2,317 thousand euros in 2016, mostly corresponding to the Group company Bahru Stainless). The capitalisation rate in 2017 was 9.5% due to the high financing interest rates in rand (4.23% in 2016). This reduction in the amount of capitalisation is mostly due to the investments made in the companies North American Stainless and Acerinox Europa using cash generated in operating activities, making it unnecessary to use financing.

Disposals of fixed assets

The loss on the sale of property, plant and equipment or the removal of assets from service totals 1,917 thousand euros and is recognised under other operating expenses in the 2017 income statement (516 thousand euros in 2016). This balance primarily reflects the disposals of obsolete parts that were in the Group's warehouses.

A profit of 2,218 thousand euros on the sale of property, plant and equipment or the removal of assets from service has been recorded under other operating income in the 2017 income statement (3,239 thousand euros in 2016). These correspond to the sale of land and a warehouse of the Group in Malaysia, and an industrial bay in Spain, classified as investment property.

Spare parts used in maintenance work have been recognised as removals from property, plant and equipment in the net carrying amount of 5,660 thousand euros.

Environment

Property, plant and equipment held to minimise the environmental impact of the Group's activities and to protect and improve the environment at 31 December 2017 and 2016 are as follows:

(Expressed in thousands of euros)

Nature and use	2017 Cost	2017 Accumulated depreciation	2016 Cost	2016 Accumulated depreciation
Water treatment	86,613	-56,825	95,906	-58,705
Acid neutralisation	57475	-37,320	57,331	-36,767
Gas emission treatment	74,769	-64,937	74,619	-62,314
Automatic additions systems	8,151	-5,890	8,608	-5,878
Other items	110,994	-75,620	115,196	-75,389
Total	**338,002**	**-240,592**	**351,660**	**-239,053**

In 2017, the Group received an environmental grant of 186 thousand euros to offset the costs of indirect greenhouse gas emissions. During 2016 the Group received energy saving grants totalling 406 thousand euros.

In 2017 the Group incurred environment-related ordinary expenses of 113,442 thousand euros (105,611 thousand euros in 2016).

This year, the Company recognised a provision for environmental activities for the amount of 45 thousand euros, for the rehabilitation of land owned by the Group company Columbus Stainless (Pty) Ltd. The land is an area which is currently not used for the Group's production activities. At 31 December 2016 there were no significant contingencies relating to the protection and improvement of the environment.

Property, plant and equipment not used in ordinary activities

Group property, plant and equipment not used in ordinary activities include several industrial bays, which are classified as investment property. Details and the valuation of this property are provided in **note 9**.

Other information

At 31 December 2017 and 2016 there are no litigation cases, seizures or similar measures that may affect items of property, plant or equipment.

The Group's companies have taken out insurance policies to cover the risk of damage to their property, plant and equipment. The coverage of these policies is considered sufficient.

8.1 Impairment of assets

As established in IAS 36, and as mentioned in the accounting policies, (**note 2.10**), the Group assesses whether there are any indications of impairment of the assets at each year end. The value of an asset is impaired when its carrying amount exceeds its recoverable amount. The Group considers sources of information that are both external (technology changes ,significant fluctuations in market interest rates, assets' market value, etc.) and internal (evidence of obsolescence, continued losses in the entity, substantial deviation from estimations, etc.) in determining the existence of impairment. During the year, there were only signs of impairment in the company Bahru Stainless Sdn. Bhd. Nevertheless, the analysis also includes Acerinox S.C. Malaysia Sdn. because, although it earned profits during the year, they were due mainly to the extraordinary proceeds from the sale of a property.

As detailed below, the results of this analysis do not indicate a need to make any valuation adjustments to the assets.

Property, plant and equipment and intangible assets represent 44% of the Group’s assets. A breakdown by company shows that 94% of the Group’s property, plant and equipment and intangible assets are located in the factories, with the remaining 6% held by its 33 other subsidiaries:

Subsidiaries	% Property, plant and equipment
ACERINOX EUROPA, S.A.U.	14.06%
ROLDAN, S.A.	0.96%
INOXFIL, S.A.	0.18%
NORTH AMERICAN STAINLESS INC.	38.73%
COLUMBUS STAINLESS PTY Ltd	7.12%
BAHRU STAINLESS	32.69%
Rest of subsidiaries	6.26%
TOTAL	**100.00%**

The majority of assets do not generate cash inflows independently, as the whole production process needs to be completed. Impairment has therefore not been estimated on an individual basis, but by allocating the assets to cash-generating units. In the case of plants, the smallest cash-generating units that can be deemed to encompass each plant as a whole.

The recoverable amount of the items has been determined based on their value in use.

Value in use of the assets was determined based on the estimated future cash flows the entity expects to obtain from the asset and the discount rate, understood to be the weighted average cost of capital (WACC). The following points were taken into consideration when calculating the discount rate:

1. The financing structure or gearing is considered based on market participant assumptions.
2. The cost of debt is obtained using the applicable market risk-free rate plus a spread of 2%.
3. The risk-free rate is based on that applied to ten-year bonds.
4. The risk premium has been estimated at around 5.4%, although each calculation has been adjusted according to the markets in which each subsidiary operates.

Future cash flows were estimated considering:

a) Reasonable assumptions and management's best estimate of the economic conditions that will exist over the remaining useful life of the asset, based on information available at the analysis date.

b) Five-year projections that reflect the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each CGU analysed. The different parameters used (expected growth, use of installed production capacity, prices, working capital items, etc.) are therefore projected considering historical figures, particularly the last year closed, as well as targets set by management. Other relevant assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the study.

   The Company is confident that the flows to perpetuity will materialise, mainly in terms of its use of production capacity and margins, while still applying prudent criteria to the growth rate (g). Estimated growth rates for the country and industry in which each CGU is present have been used, in addition to those for the markets to which most of their output is exported.

c) Estimated projections for years beyond the period covered have been calculated by extrapolating the previous projections using a growth rate of 2.5%. It should be noted that in 2017 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2017 period.

No impairment has been recognised on property, plant and equipment during the year, as the enterprise value, calculated applying the discounted free cash flow method, exceeds the carrying amount of the Group's operating assets.

The results of the impairment tests performed are detailed below:

Bahru Stainless Sdn. Bhd

Bahru Stainless is the most recently created factory, located in Johor, Malaysia. In 2017, Bahru Stainless achieved positive EBITDA and increased its cold rolling production by 33.4% in a highly competitive market.

This factor operates mainly in markets of the ASEAN zone, where there is a significant price gap compared to other international markets largely due to the over-capacity in the Chinese market and the resulting pressure on international markets, especially in the Asia-Pacific region. In addition, the ASEAN countries and Asia generally reacted to Chinese over-capacity by instituting anti-dumping or protectionist measures in their local markets.

Nevertheless, according to the International Monetary Fund, the GDP of the ASEAN 5 region (Indonesia, Malaysia, Philippines, Thailand and Vietnam) grew by 5.3% in 2017.

The increase in production continued throughout the year, such that the subsidiary Bahru Stainless had set a new production record by year end, and it is expected to reach maximum production capacity in cold rolling production by 2020. This production increase has resulted and will result in larger shares in the ASEAN market, in addition to improvements in product quality.

The impairment test performed at 31 December 2017 reveals that its recoverable amount exceeds its carrying amount (410.2 million euros) by 220.5 million euros (124.2 million euros in 2016). The discount rate (WACC), 8.66% (8.75% in 2016) the growth rate (g), 2.5% (2.5% in 2016), and the average budgeted EBIT margin, 4.7% (3.0% in 2016) were considered key assumptions in the impairment test.

Following a sensitivity analysis entailing different scenarios, impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 37.5% (17.1% in 2016). In the case of the growth rate (g), there would have to be a growth rate of 0% and the WACC would have to be increased by 17.8% (reducing g by 83% in 2016) for the carrying amount to begin to show impairment.

The average budgeted EBIT margin would have to fall by 38.8% (22.9% in 2016) to 2.9% (2.3% in 2016), with the other two assumptions remaining constant, for impairment to occur.

Acerinox S.C. Malaysia Sdn. Bhd.

This subsidiary markets part of the production of Bahru Stainless in the Malaysia market, and it was affected by low prices in the local market, as mentioned above.

The impairment test performed at 31 December 2017 reveals that its recoverable amount exceeds its carrying amount, 9.2 million euros (11.2 million euros in 2016) by 27 million euros (32 million euros in 2016). The discount rate (WACC), 8.64% (8.68% in 2016) the growth rate (g), 2.5% (2% in 2016), and the average budgeted EBIT margin, 3.2% (6.0% in 2016) were considered key assumptions in the impairment test.

According to the sensitivity analysis performed, impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 2.54 times (2.50 times in 2016), while simultaneously bringing the growth rate (g) down to zero.

The average budgeted EBIT margin would have to fall by 68.3% (68.1% fall in 2016) to 1.0% (1.9% in 2016), with the other two assumptions remaining constant, for impairment to occur.

Impairment tests performed in 2016

With respect to companies presenting indications of impairment in 2016 and for those in which an analysis was not necessary in 2017 (Roldán, S.A., Inoxfil, S.A.). Both achieved profits this year, thus improving their future prospects. Even so, the analyses performed last year showed that the recoverable value of the companies' assets was higher than their carrying amount. The sensitivity analyses performed also led us to conclude that a significant change to all assumptions would be necessary for impairment to occur. Given that the earnings achieved this year were in line with budgeted earnings, the Group did not believe that it was necessary to perform the analyses.

NOTE 9 – INVESTMENT PROPERTY

Investment property includes Group-owned buildings not occupied by the Group which are held to earn a return, either through rentals or through capital appreciation and subsequent disposal of the buildings.

The Group has several industrial bays in Spain and other countries classified in this category, and as investment property in different subsidiaries. These are industrial bays which were used to carry out commercial activity but are currently idle, and the Group thus intends to rent or sell them.

Details of movements in investment property in 2017 and 2016 are as follows:

(Expressed in thousands of euros)

COST	2017	2016
Opening balance	**22,417**	**16,714**
Transfers		12,404
Disposals	-138	-5,526
Impairment		-570
Translation differences	-114	-605
Balance at 31 December	**22,165**	**22,417**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	**2017**	**2016**
Opening balance	**4,181**	**6,053**
Charge	368	245
Transfers		1,087
Disposals	-89	-3,144
Translation differences	-15	-60
Cost at 31 December	**4,445**	**4,181**
CARRYING AMOUNT	**2017**	**2016**
Cost at 31 December	22,165	22,417
Accumulated depreciation	-4,445	-4,181
Carrying amount at 31 December	**17,720**	**18,236**

During this year one of the Group companies' industrial bays were sold, generating a profit of 145 thousand euros. The net carrying amount of the disposed of property was 50 thousand euros. In 2016, the Group sold two of its industrial bays, which had been classified as investment property, generating a gain of 2.9 million euros. The net carrying amount of these bays totalled 2,382 thousand euros.

In 2016, an industrial bay belonging to the Group company Acerinox Italia, with a net carrying amount of 11.3 million euros, was transferred to this category.

Income from the lease of industrial bays amounted to 486 thousand euros in 2017 (378 thousand euros in 2016). The associated operating expenses, including maintenance and repairs, amount to Euros 196 thousand (Euros 94 thousand in 2016).

At 31 December 2017 investment property has a total market value of 22,888 thousand euros (23,329 thousand euros in 2016).

One of the Group's industrial bays showed indications of impairment in 2016, so the Group requested an independent expert appraisal. Based on this appraisal, the Group recognised an impairment of 570 thousand euros under other operating expenses in the income statement. During this year none of the industrial bays classified in this category showed indications of impairment.

NOTE 10 – INVENTORIES

Details under this heading in the balance sheet at 31 December are as follows:

(Expressed in thousands of euros)

	2017	2016
Raw materials and other supplies	322,042	298,383
Work in progress	194,718	170,323
Finished goods	433,583	385,081
By-products, waste and recoverable materials	39,952	33,444
Advances	189	190
TOTAL	**990,484**	**887,421**

Raw materials and other suppliers include 7,911 thousand euros reflecting the valuation of the emission allowances held by the Group at the end of the year (8,357 thousand euros in 2016).

The change in finished goods and works in progress in the year, according to the balance sheet at 31 December 2017 and 2016 shown above, differs from the figure in the income statement owing to translation differences.

The cost of goods sold has been calculated in accordance with the policy defined in **note 2.12** and amounts to 4,008 million euros in 2017 (3,600 million euros in 2016).

In 2017 the Group wrote inventories down to net realisable value where this was lower than cost, with a total adjustment of 2,273 thousand euros. The adjustment recognised for 2016 amounted to 1,188 thousand euros.

Commitments

At 31 December 2017 the consolidated Group has commitments to purchase raw materials for 208,756 thousand euros (243,080 thousand euros in 2016). Although no firm sales commitments exist at these reporting dates, there are formal orders for which the Group does not foresee any circumstances that could prevent delivery by the agreed deadlines.

The Group does not have any inventories with a cycle exceeding one year and therefore no borrowing costs have been capitalised.

Group companies have taken out insurance policies to cover the risk of damage to their inventories. The coverage of these policies is considered sufficient.

10.1 Emission allowances

Pursuant to the additional provision of Royal Decree 602/2016 of 2 December 2016, the Group classified emission allowances as inventories.

On 15 November 2013 the Spanish Cabinet approved Acerinox Europa, S.A.U.'s definitive allocation of free-of-charge greenhouse gas emission allowances for the 2013-2020 period, 1,867,754 allowances in total. The yearly distribution of the allowances is detailed below:

2013	2014	2015	2016	2017	2018	2019	2020
248,936	244,613	240,239	235,818	231,350	226,839	222,272	217,687

The following allowances were allocated to the Group company Roldan, S.A.:

2013	2014	2015	2016	2017	2018	2019	2020
26,857	26,391	25,919	25,442	24,960	24,473	23,980	23,486

Movement in emission allowances in 2017 and 2016 is as follows:

	Number of allowances	Value (in thousands of Euros)
Balance at 31/12/2015	**1,062,999**	**8,198**
Allocation for the year	261,260	2,101
Disposals	-254,349	-1,942
Balance at 31/12/2016	**1,069,910**	**8,357**
Allocation for the year	256,310	1,568
Disposals	-258,773	-2,014
Balance at 31/12/2017	**1,067,447**	**7,911**

In 2017, CO_2 emissions were made requiring 259,918 allowances, which will be surrendered in 2018 (258,406 in 2016, surrendered in 2017). The Group has not sold its surplus allowances.

The expense for the year in respect of CO_2 emissions totals 1,926 thousand euros in 2017 (2,010 thousand euros in 2016) and is included under other operating expenses. This is the value of the allowances surrendered in the year, equivalent to the market value of these allowances when allocated.

Disposals for the year are allowances surrendered for CO_2 emissions in the prior year. This information has been audited and approved by an independent expert.

Present conditions pose no significant risk of a shortfall in emission allowances for the 2017-2020 period. The Group does not hold any futures contracts for the acquisition of emission allowances.

No significant contingency exists in respect of fines over emissions.

NOTE 11 – FINANCIAL INSTRUMENTS

11.1 General considerations

A financial instrument is a contract that gives rise to a financial asset in one company and, simultaneously, a financial liability or an equity instrument in another company. The Group recognises a financial instrument in its balance sheet when it becomes party to the contract or legal transaction.

11.2 Categories of financial assets and liabilities

At year end the Group's financial assets are as shown below:

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Loans and receivables					4,491	5,317					606,694	572,818
Held-to-maturity investments												
Assets available for sale												
- At fair value	14,474	12,330										
- At cost	289	288										
Assets at fair value through profit or loss												
- Held for trading											17,007	21,532
- Other												
Hedging derivatives						2,529					956	5,019
TOTAL	**14,763**	**12,618**	**0**	**0**	**4,491**	**7,846**	**0**	**0**	**0**	**0**	**624,657**	**599,369**

At year end the Group's financial liabilities are as shown below:

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Derivatives and other		Loans and borrowings		Bonds and other marketable securities		Derivatives and other	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Debts and payables	862,328	812,699	74,350	124,106	2,652	2,339	241,488	279,961	51,592	1,653	941,476	803,953
Liabilities at fair value through profit or loss												
- Held for trading											28,048	4,805
- Other												
Hedging derivatives					297	481					523	1,406
TOTAL	**862,328**	**812,699**	**74,350**	**124,106**	**2,949**	**2,820**	**241,488**	**279,961**	**51,592**	**1,653**	**970,047**	**810,164**

11.2.1 Trade and other receivables

Details under this heading in the balance sheet at 31 December are as follows:

(Expressed in thousands of euros)

	2017	2016
Trade receivables	552,058	527,788
Personnel	407	394
Public entities	38,143	35,478
Other receivables	6,709	6,858
Prepayments	9,131	8,988
Impairment of bad debts	-4,831	-7,260
TOTAL	**601,617**	**572,246**

The amount that appears under receivables from public entities primarily corresponds to VAT settlements to be paid.

Impairment of bad debts corresponds entirely to trade receivables. Movements in this account are as follows:

(Expressed in thousands of euros)

	2017	2016
Initial balance	**7,260**	**9,815**
Charge	698	522
Application	-1,870	-2,869
Reversal	-1,259	-263
Translation differences	2	55
Balance at 31 December	**4,831**	**7,260**

Changes in valuation adjustments have been included under other operating expenses in the income statement.

No interest was accrued on impaired financial assets in 2017 or 2016.

No allowances have been made for bad debts with related parties in 2017 or 2016.

At 31 December 2017, certain Group companies had receivables factored without recourse totalling 149,915 thousand euros with financial institutions in exchange for cash. This amount was equal to 85%-90% of the total amount of the factored invoices, depending on the conditions of the credit insurance coverage. (134,734 thousand euros in 2016). These amounts have been derecognised as they meet the conditions specified in IAS 39 regarding the transfer of risks and rewards.

As explained in **note 11.2.3**, at 31 December 2017, the Group company Columbus Stainless has pledged receivables as collateral for the financing obtained through the Borrowing Base Facility.

11.2.2 Trade and other payables

Details under this heading in the consolidated balance sheet at 31 December 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Suppliers and trade payables	857,635	715,670
Personnel	29,961	27,912
Suppliers of fixed assets	12,938	29,137
Tax and Social Security	31,684	23,204
Other payables	2,384	937
Current provisions	6,874	7,093
TOTAL	**941,476**	**803,953**

Most of the amount that appears under tax and social security payable corresponds to amounts payable for VAT settlements. An amount of 4,385 thousand euros relates to social security payables (4,152 thousand euros in 2016).

In compliance with the disclosure requirements of the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016, the average payment period for suppliers of the Spanish companies in the Acerinox Group, having deducted the payments made to Group companies, is as follows:

	2017	2016
Average payment period to suppliers	70 days	73 days
Payments made ratio	72 days	77 days
Outstanding payments ratio	60 days	49 days
(Expressed in thousands of Euros)	**Importe**	**Importe**
Total payments made	752,101	1,227,213
Total outstanding payments	126,485	226,805

The following table includes payments made to any supplier, whether domestic or foreign, and excludes Group companies.

11.2.3 Loans and borrowings and bond issues

Details of financial debt in the consolidated balance sheet at 31 December 2017 and 2016, including loans and borrowings and bonds issued by the Group during the year, are as follows:

(Expressed in thousands of euros)

	Non-current		Current	
	2017	**2016**	**2017**	**2016**
Bonds issued	74,350	124,106	51,592	1,653
Loans and borrowings	862,328	812,699	241,488	279,961
Total financial debt	**936,678**	**936,805**	**293,080**	**281,614**

In order to diversify the sources of its financing and extend its debt maturities, in July 2014 the Group filed a base prospectus for the issuance of fixed-income securities of Acerinox S.A. for a maximum notional amount of 500 million euros at the Spanish National Securities Market Commission. Since then, Acerinox S.A. has carried out two issues through this prospectus: the first issue of 75 million euros was placed by Deutsche Bank AG, London Branch in July 2014 with a term of ten years and interest of 5%, whilst the second was placed by Banco Bilbao Vizcaya Argentaria, S.A. for a total of 50 million euros in December 2014 with a term of four years and variable interest of 3-month Euribor + 1.75%.

During this period, the bonds issued in 2014, totalling 50 million euros and with a maturity of 4 years, were transferred to current bonds.

Details of the maturity of outstanding debt at 31 December 2017 are as follows:

(Expressed in thousands of euros)

	2018	2019	2020	2021	2022 and subsequent years	TOTAL
Financial debt	293,080	179,217	229,312	264,316	263,833	**1,229,758**
Total financial debt	**293,080**	**179,217**	**229,312**	**264,316**	**263,833**	**1,229,758**

2016 figures are as follows:

(Expressed in thousands of euros)

	2017	2018	2019	2020	2021 and subsequent years	TOTAL
Financial debt	281,614	230,035	263,290	221,310	222,170	**1,218,419**
Total financial debt	**281,614**	**230,035**	**263,290**	**221,310**	**222,170**	**1,218,419**

Debt by currency is as follows:

(Expressed in thousands of euros)

	Non-current loans		Current loans	
	2017	**2016**	**2017**	**2016**
EUR	898,917	878,073	240,604	185,116
USD	37,761	58,732	51,609	54,095
ZAR			6	42,403
MYR			861	
TOTAL	**936,678**	**936,805**	**293,080**	**281,614**

Details of debt by interest rate are as follows:

(Expressed in thousands of euros)

	Non-current loans		Current loans	
	2017	**2016**	**2017**	**2016**
Fixed	350,000	230,000	115,000	
Variable	586,678	706,805	178,080	281,614
TOTAL	**936,678**	**936,805**	**293,080**	**281,614**

Borrowings at fixed interest rates only include loans originally arranged at fixed rates (with banks and private placements), and do not include borrowings for which interest rates have been fixed by contracting derivatives.

The fair value of fixed rate loans and borrowings and private placements is 483,143 thousand euros at 31 December 2017 euros (carrying amount of 465,000 euros). The fair value of these borrowings at 31 December 2016 was 240,910 thousand euros (carrying amount of 230,000 euros).

Variable interest rates on loans are reviewed at least once a year.

At 2017 year end the Group's euro-denominated financing instruments, 1.141 million euros in total, have a weighted average cost, before hedging, of 1.63%, while the average pre-hedging cost of borrowings in US dollars, amounting to 109 million US dollars, is 3.37%. In 2016, the Group's euro-denominated borrowings, 982 million euros in total, bore an average cost of 1.90%, before hedging, while the average cost of borrowings in US dollars, amounting to 94 million US dollars, was 2.43%.

The Group has arranged interest rate swaps whereby it can exchange the variable interest rates on its borrowings for fixed interest rates, as described in **note 11.2.6.**

At 31 December 2017 accrued interest payable in respect of loans and borrowings totals 1,918 thousand euros (2,415 thousand euros in 2016). In addition, accrued interest payable on bonds issued totals 1,660 thousand euros at the 2017 reporting date (1,653 thousand euros in 2016).

Total borrowing costs calculated using the effective interest rate on loans at amortised cost amount to 2,808 thousand euros (2,253 thousand euros in 2016).

At 31 December 2017, the Group has credit facilities with financial institutions with a maximum available limit of 1,964 million euros, of which 1,230 million euros was drawn down at 31 December 2017. At the 2016 year end, the

maximum available limit from credit facilities was 1,819 million euros and the amount drawn down on that date was 1,218 million euros.

Certain Group companies have contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under "trade and other payables" until they are settled or repaid or have expired.

Main financing operations undertaken in the year

- In 2017, the Borrowing Base Facility of Columbus Stainless Pty Ltd. was restructured and the contracted term extended, in the amount of ZAR 3,500 million. The transaction, which was originally signed in 2015, was extended for another two and a half years, including modifications in its structure to give Columbus greater flexibility, while a new financial institution was added to the group of lenders: Citibank N.A. South African Branch. The participating entities include Deutsche Bank AG, Johannesburg Branch, Bankinter S.A., Banco Bilbao Vizcaya Argentaria S.A., FirstRand Bank Limited, Banco Santander S.A., Banco de Sabadell S.A. London Branch, Caixabank S.A., Investec Bank Limited, Nedbank Limited, HSBC Bank Plc Johannesburg Branch and Citibank N.A. South African Branch. The lead arranger of the transaction continues to be Deutsche Bank AG, Amsterdam Branch. This facility is recognised in the balance sheet at the amount drawn down, under "loans and borrowings" of current liabilities. At 31 December 2017 no amount has been drawn down from this facility.

- In addition, in June 2017, another non-extinctive amendment was made to the syndicated factoring agreement of 370 million euros, extending the termination date of the contract to June 2019. The participants in the transaction have not changed and they include Santander Factoring y Confirming S.A. E.F.C., Banca March S.A., Caixabank S.A., Popular de Factoring S.A. E.F.C., Bankinter S.A., Banco Sabadell S.A. and Banque Marocaine du Commerce Exterieur International S.A. The lead arranger of the transaction continues to be Santander Factoring and Confirming S.A. E.F.C.

- Lastly, Acerinox S.A. capitalised on good market conditions and signed eight new loan agreements in 2017 and an annex amending an existing loan, for an aggregate amount of 725 million euros, as follows:

  - An annex to amend an existing loan was signed with Banco Santander.
  - Loans signed Banco de Sabadell, Bankia, Banco Santander, Banco Popular and Bankinter to cancel existing loans with the same entities, improving their conditions and extending their repayment due dates.
  - New loan agreements signed with Banco Social de Crédito Cooperativo, Banco Bilbao Vizcaya Argentaria, Banca March and the European Investment Bank totalled 210 million euros. The loan signed with Banca March was transferred to a securitisation fund upon signing, through which an international investor took a position in the loan, with Banca March acting as the intermediary.

Details of movements in long-term loans and borrowings this year are as follows:

(Expressed in thousands of euros)

	Short-term debt		Long-term debt	
	2017	**2016**	**2017**	**2016**
Opening balance	**812,699**	**617,230**	**279,961**	**447,887**
Additions	570,000	609,329	124,502	165,002
Debt amortisation and interests	-282,339	-248,810	-383,820	-504,603
Transfers to short-term	-228,377	-146,317	228,377	146,317
Translation differences	-9,655	-18,733	-7,532	25,358
Balance at 31 December	**862,328**	**812,699**	**241488**	**279,961**

Of the 725 million euros in financing referred to in the previous paragraph, 570 million euros was recognised as non-current loans and borrowings in the accounts. There are two reasons for this difference. On the one hand, the loan signed with the European Investment Bank for 70 million euros was not drawn down this year. Regarding the loan of 100 million euros that we have with Banco Santander, with whom we signed an annex amending that loan in 2017, during this year only 35 million euros have been drawn down (of which 20 are classified as current), and the remaining 65 million have been drawn down in 2018.

Regarding the amount that appears in the cash flow statement under external financing received (695,133 thousand euros), this includes short and long-term loans, and other non-current payables, mainly obtained through advances on grants or subsidised loans.

The most significant financing transaction during 2016 was the debt rescheduling of the majority of the bilateral loans held by Acerinox S.A. During April and May 2016, the Parent Company signed twelve bilateral loans for terms of between 4 and 5 years, thus extending the repayment due dates and reducing the margins. The twelve financial institutions with which Acerinox S.A. signed these agreements are Banco Santander, Banco de Sabadell, Banco Popular, Bankia, Kutxabank, CaixaBank, Abanca, Unicaja, Banca March, Banco Cooperativo, Liberbank and Bankinter. The total amount of these loans was 717 million euros (part of them classified as current). Given the resulting variations, for the most part the Group recognised the effects of these new agreements as if they were new loans, and therefore simultaneously recognised the cancellation and the new loans.

Furthermore, on 30 June 2016, Acerinox S.A. repaid early the syndicated loan arranged in the United States in January 2012. The outstanding balance of this loan at the date of early repayment was USD 134.96 million. This loan originally fell due on 17 February 2017.

The Acerinox Group has satisfactorily met the repayment schedules for its financial debt.

Non-current borrowings subject to covenants

a) Ratios linked to profit and loss

The loan agreement that Acerinox signed with the ICO (Spain's Official Credit Institute) in 2008 and which matures in July 2018, and is therefore classified as current, is the Group's only financing with a ratio-linked covenant relating to the Group's income. Specifically net financial debt/EBITDA, and net financial debt/equity. At year end, the outstanding amount repayable on the ICO loan was USD 16.3 million.

b) Ratios linked to equity

At the 2017 reporting date there are two new financing contracts subject to covenants, relating to the maintenance of minimum consolidated equity levels. This is the contract signed in 2017 with Banca March for the amount of 50 million euros and assigned to an asset-backed securities fund as soon as it was signed, and the loan arranged with European Investment Bank (EIB) in December 2017 for an amount of 70 million euros, an amount that is yet to be drawn down as there is an agreement with said institution to draw down the funds in June 2018. These types of ratios are common market practice for loans with these terms, since the loan arranged with the European Investment Bank has a term of 10 years and the loan brokered through Banca March is for 7 years.

Additionally, the Group company Columbus Stainless has structured financing (Borrowing Base Facility) which is also subject to covenants relating to the maintenance of minimum equity levels in that company. This facility is recognised in the balance sheet at the amount drawn down, under bank borrowings of current liabilities. At 31 December 2017 no amount has been drawn down from this facility.

At the 2017 year end (as in 2016) Acerinox, S.A. and Columbus Stainless Ltd comply with all ratios required under the contracts mentioned above.

With regard to 2016, none of the 12 loan agreements signed in the first half of that year are subject to financial covenants.

During 2016 the Acerinox Group reached an agreement with Banco Santander and OeKB (Austrian export credit agency) to amend the loan in order to eliminate compliance with the financial covenants attached. The syndicated loan signed in 2012 with a group of financial institutions in the United States was repaid early on 30 June 2016, and the covenants attached were thus eliminated.

Finally, on 30 December 2016 the loan extended by Deutsche Bank and JBIC (Japan Bank for International Cooperation) was repaid early, and compliance with the financial covenants attached was thus eliminated. This loan originally fell due in July 2017.

11.2.4 Measurement of fair value

As established in the accounting policies, the Group measures available-for-sale financial assets and derivative financial instruments at fair value.

Financial instruments measured at fair value are classified based on valuation inputs into the following levels:

LEVEL 1: quoted prices in active markets
LEVEL 2: observable market variables other than quoted prices
LEVEL 3: unobservable market variables

The Group's position at 31 December 2017 and 2016 is as follows:

(Expressed in thousands of euros)

	2.017			2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets	14,474			12,330		
Financial derivatives (assets)		17,963			29,080	
TOTAL	**14,474**	**17,963**	**0**	**12,330**	**29,080**	**0**
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial derivatives (liabilities)		28,868			6,692	
TOTAL	**0**	**28,868**	**0**	**0**	**6,692**	**0**

No financial assets or financial liabilities at fair value have been transferred between levels.

In the case of Level 2 financial instruments, the Group uses generally accepted valuation techniques that take into account spot and future exchange rates at the valuation date, forward interest rates, interest rate spreads and credit risk of both the Group and its counterparty, i.e. the financial institutions with which it operates.

11.2.5 Available-for-sale financial assets

Available-for-sale financial assets total 14,763 thousand euros at year end, of which 14,474 thousand euros reflect Acerinox's investment in the Japanese Nisshin Steel Holding Co. Limited., which is listed in the Tokyo Stock Exchange.

The quotation value was JPY 1,852 per share at 31 December 2017 (JPY 1,441 per share at 2016 year end). Acerinox, S.A. holds 1,052,600 shares in this company, representing a percentage ownership of 0.96%, both in 2017 and 2016. This is a strategic investment that Acerinox has no intention of selling. Nisshin Steel has an interest of 15.49% in Acerinox. In addition, it not only holds a significant interest in Acerinox, S.A. but is also Acerinox's partner in Bahru Stainless, Sdn. Bhd, which is the Group's fourth flat product stainless steel factory.

Acerinox S.A. has not purchased or sold any shares in Nisshin Steel Holding Co. Limited in 2017 or 2016.

In 2017 and 2016 the Group recognised the variation in the fair value of assets classified in this category in reserves. The revaluation amounted to 2,145 thousand euros in 2017 (1,948 thousand euros in 2016).

Also in 2015, the Group company Acerinox Europa acquired a non-controlling interest of 7.36% in the company Fortia Energía, S.L., whose corporate purpose is the acquisition of electricity on behalf of its shareholders, for 275 thousand euros. The Group's Spanish factories can obtain more competitive electricity prices as a result of this investment. This investment is measured at cost of acquisition, as there is insufficient data to measure it at fair value. In any event, the Group does not consider there to be indications of impairment.

11.2.6 Derivative financial instruments

As detailed in **note 4**, in relation to market risk, in its activities the Group is essentially exposed to three types of risk: currency risk, interest rate risk and risk of changes in prices of raw materials. The Group uses derivative financial instruments to hedge its exposure to certain risks.

The Group classifies derivative financial instruments that do not qualify for hedge accounting as assets and liabilities at fair value through profit or loss. Those that qualify as hedging instruments are classified as hedging derivatives and are recognised by applying the measurement criteria defined in **note 2.11.4.**

The derivative financial instruments classified by category are as follows:

(Expressed in thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives	956	820	7,548	1,887
Derivatives at fair value through profit or loss	17,007	28,048	21,532	4,805
TOTAL	**17,963**	**28,868**	**29,080**	**6,692**

The following table has a breakdown of the Group's derivative financial instruments at 31 December 2017 and 2016 by type of hedged risk:

(Expressed in thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Exchange rate insurance	17,007	28,066	23,853	4,819
Interest rate swaps		802	26	1,873
Cross-currency swaps	956		5,201	
TOTAL	**17,963**	**28,868**	**29,080**	**6,692**

The reduction in cross currency swaps is mainly due to the amortisation of part of the loan granted by the ICO in USD, the only loan hedged through this type of derivative financial instrument.

On 30 June 2016, Acerinox S.A. cancelled early the derivative arranged in January 2012 with 4 financial institutions to hedge the currency and interest rate risk of the syndicated loan signed in the United States. The cancellation cost recognised in profit and loss was 957 thousand euros. This amount appears under finance costs.

Currency risk

The Group operates in a large number of countries and bills customers in different currencies, depending on the country where it is billing. Therefore it uses certain financial instruments to hedge cash flow risks arising from the settlement of balances in foreign currencies. The contracted operations mainly comprise forward sales and purchases in foreign currencies.

Derivative instruments of this kind do not always qualify to be classified as cash flow hedging financial instruments in accordance with IAS 39. At 31 December 2017, a loss of 29,836 thousand euros was recorded in profit and loss for the measurement of these derivatives at market value and they are recognised under "Fair value measurement of financial instruments" in the income statement (gains of 29,988 thousand euros in 2016). The Group's exchange gains amounted to 40,054 thousand euros (22,424 thousand-euro loss in 2016).

At 31 December 2017 all exchange rate insurance policies basically cover both receivables (assets) and payables (liabilities) and include both trade and financing transactions between Group companies. At 31 December 2017, the fair value of the Group's exchange rate insurance totalled -11,059 thousand euros (-19,034 thousand euros in 2016), of which 17,007 thousand euros is recognised under assets and 28,066 thousand euros under liabilities. Only 18 thousand euros of this amount, classified under liabilities, qualifies for recognition as hedging instruments. In 2017 an amount of -147 thousand euros was transferred from the consolidated statement of comprehensive income to profit and loss for the year (-167 thousand euros in 2016).

All of the Group's forward currency purchase and sale contracts have a term of less than one year.

At 31 December 2017 the Group has used contracts for foreign currency transactions amounting to 328 million euros for currency sales and 527 million euros for currency purchases. At 31 December 2016, 326 thousand euros were used for sales and 426 million euros for purchases. Details of these forward exchange contracts by currency are as follows:

(In thousands of euros)

	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	212,376	582,519	185,655	460,360
EUR	87,362	9,886	56,092	5,067
GBP	16,922	10	23,884	2
SEK	23,690		27,587	1
PLZ	3,337		1,052	
AUD	11,866	13	6,779	8
NZD	48		274	
MYR	350,360		248,704	
JPY		1,080		241

The Group has contracted derivatives to hedge exposures to currency and interest rate risks affecting its loans and borrowings in currencies other than the functional currency. These instruments are described in the next note.

Interest rate risk

At 31 December 2017 the Group has arranged the following interest rate swaps and cross-currency swaps, for loans in currencies other than the functional currency of the company in question, to hedge the interest rate risk of a part of its current and non-current loans and borrowings:

	Notional value contracted	Outstanding amount	Maturity
USD variable to EUR fixed rate	USD 160 million	USD 16.33 million	2018
Variable to fixed rate	EUR 76.13 million	EUR 22.39 million	2020

In 2017 no additional interest rate hedges have been arranged.

The average interest rate applicable to USD-denominated financing for which an interest rate hedge has been arranged through a derivative financial instrument is 3.65% (3.55% in 2016), while the average rate for euro-denominated financing with an associated interest rate hedge, totalling 22.4 million euros at year end, is 4% (3.89% in 2016). The credit spread has been included in both cases.

Details at 31 December 2016 were as follows:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	EUR 400 million	EUR 32 million	2017
USD variable to USD fixed rate	USD 63 million	USD 14.82 million	2017
USD variable to EUR fixed rate	USD 160 million	USD 32.65 million	2018
Variable to fixed rate	EUR 76.13 million	EUR 35.82 million	2020

The fair value of the fixed interest rate swaps and the cross currency swaps is based on the market value of equivalent derivative financial instruments at the reporting date and amounts to 154 thousand euros (3,354 thousand euros at 31 December 2016), which is recognised as follows:

	2017		2016	
	Current	Non-current	Current	Non-current
Other financial assets	956		2,697	2,529
Other financial liabilities	505	297	1,391	481
Net amount	**451**	**-297**	**1,306**	**2,048**

At 31 December 2017 and 2016 the derivatives contracted qualify as cash flow hedging instruments and therefore the unrealised loss of 4,528 thousand euros on their measurement at fair value has been recorded in the consolidated statement of comprehensive income (loss of 7,193 thousand euros in 2016).

In 2017, an amount of 6,138 thousand euros was transferred from the consolidated statement of comprehensive income to profit and loss for the year (12,656 thousand euros in 2016). Combined with the -147 thousand euros derived from the currency hedges referred to in the previous section, these totalled 5,991 thousand euros, which appear in the consolidated statement of comprehensive income (12,489 in 2016).

The Group has documented the effectiveness of the derivatives contracted to be recognised as hedging instruments, as detailed in **note 2.11.5**. Hedging transactions have been contracted for periods and amounts equivalent to the cash flows derived from the loans associated with each instrument. The financial instruments that are considered hedges were not ineffective at any point in 2016 or 2017.

NOTE 12 – CASH AND CASH EQUIVALENTS

Details under this heading in the balance sheet at 31 December are as follows:

(Expressed in thousands of euros)

	2017	2016
Cash in hand and at banks	141,548	156,497
Current bank deposits	478,988	441,973
TOTAL	**620,536**	**598,470**

During the year the Group only made term deposits in US dollars. The effective interest rate on current bank deposits is 1.20% this year (0.94% for the US dollar and 0.80% for the euro in 2016). At year-end 2017 and 2016, 100% of all deposits had been made by the Group company North American Stainless. Deposits are placed for an average term of between one week and 90 days, deposited with banks of recognised solvency (between one week and 90 days in 2016).

All cash and cash equivalents are held in current accounts or current deposits. There are no unavailable cash balances at year end.

NOTE 13 – EQUITY

13.1 Subscribed capital, share premium and treasury shares

Movement of outstanding shares in 2017 and 2016 is as follows:

	Number of shares (thousand)	Ordinary shares (thousand)	Own shares (thousand of Euros)	Share capital (thousands of Euros)	Share premium (thousands of Euros)
Balance at 31 December 2015	**266,707**	**266,707**	**-1**	**66,677**	**81,403**
Capital increase (scrip dividend)	9,360	9,360		2,340	
Acquisition of own shares					
Disposal of own shares					
Balance at 31 December 2016	**276,067**	**276,067**	**-1**	**69,017**	**81,403**
Capital increase (scrip dividend)					
Acquisition of own shares					
Disposal of own shares					
Balance at 31 December 2017	**276,067**	**276,067**	**-1**	**69,017**	**81,403**

a) Share capital

The Parent Company's share capital solely comprises ordinary shares. All these shares have the same rights and there are no statutory restrictions on their transferability.

At 31 December 2017 and 2016, share capital is represented by 276,067,543 ordinary shares, with a par value of 0.25 euros each, subscribed and fully paid.

All the shares are listed on the Madrid and Barcelona stock exchanges.

At 31 December 2017 the only holders of 10% or more of the share capital of Acerinox, S.A. are Corporación Financiera Alba, S.A., with 18.96%, and Nisshin Steel Holding, Co. Ltd. with 15.49%. Both held the same ownership interest in 2017 and 2016.

There have been no changes in share capital during 2017.

During the 2016 financial year, at their General Meeting the shareholders agreed to increase share capital with a charge to reserves by issuing ordinary shares to be allocated to the shareholders free of charge. In addition, the Board of Directors resolved to implement the capital increase by means of a scrip dividend. The capital increase, through the issue of 9,360,150 shares derived from the scrip dividend, was filed at the Madrid Mercantile Registry on 18 July 2016. These new shares were admitted to trading on 22 July 2016.

b) Share premium

There has been no distribution of the share premium in 2017 or 2016.

The share premium is subject to the same restrictions and may be used for the same purpose as the voluntary reserves of the Parent Company, including conversion into share capital.

c) Treasury shares

On 15 June 2015 the Parent Company acquired 100 own shares to be exchanged for subscription rights, if necessary, when executing the scrip dividend. There was no movement in own shares in 2017 or 2016.

13.2 Distribution of dividends

On 1 June 2017, at their General Meeting the shareholders approved the distribution of a cash dividend of 0.45 gross euros per share, charged to unrestricted reserves. The dividend was paid on 5 July 2017 and totalled 124,230 thousand euros.

With respect to 2016, at their General Meeting on 9 June, the shareholders approved the remuneration of shareholders in the form of a flexible dividend (scrip dividend), for which it approved a capital increase charged to reserves by issuing ordinary shares free of charge to shareholders.

Shareholders could choose from the following options:

- Sell their rights to the Company for 0.44 euros per right.
- Sell the rights in the stock exchange at the price set by the market.
- Subscribe to shares in Acerinox on the basis of one (1) new share for every twenty-two (22) rights.

On 1 July 2016 the definitive amount of the dividend payable and the details of the capital increase were established, as follows:

- 60,784,070 rights were sold to Acerinox for 0.44 euros per right, with the Company therefore paying out 26,744,990.8 euros.
- 9,360,150 new shares were issued in the capital increase.

13.3 Reserves

a) Retained earnings

Retained earnings include consolidated profit or loss for the year and reserves in fully consolidated companies, as well as Parent Company reserves other than those mentioned below.

Details of reserves by company are included in **note 13.5**.

There are no restrictions on the transfer of funds by any Group company in the form of dividends, except for the non-distributable reserves required by applicable legislation. At 31 December 2017 27,037 thousand euros of the Group's reserves and retained earnings are subject to restrictions (23,569 thousand euros at 31 December 2016).

The Parent Company's legal reserve, which is included under retained earnings in the statement of changes in equity, has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires companies to transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. At 31 December 2017 the Company has appropriated 12,465 thousand euros, an amount equivalent to 18.25% of its share capital, to this reserve (18.06% in 2016), totalling 12,599 thousand euros in 2017 (12,465 in 2016).

The legal reserve is not distributable to shareholders and if it is used to offset losses, if no other reserves are available, the reserve must be replenished with future profits.

b) Property, plant and equipment revaluation reserve

As permitted by Royal Decree-Law 7/1996 of 7 June 1996, containing urgent tax measures and initiatives aimed at boosting and deregulating the economy, the Parent Company revalued its property, plant and equipment. The amount of the reserve reflects the revaluation gains, net of tax at 3%.

The deadline for tax inspection was three years from 31 December 1996. Consequently, as no inspection took place, this balance can be used to offset losses or increase the Company's share capital.

The balance of this account will only be distributable, either directly or indirectly, to the extent that gains have been realised.

c) Hedging reserve

The hedging reserve includes cumulative net changes in the fair value of cash flow hedging instruments associated with highly probable future transactions that are yet to occur.

d) Adjustment of available-for-sale assets to fair value

The Company has classified certain financial instruments as available for sale. In accordance with the applicable measurement criteria, any changes in the fair value of these instruments are recognised directly in the consolidated statement of comprehensive income until the financial asset is impaired or derecognised. There is a detailed description of instruments classified as available for sale and their measurement in **note 11.2.5**.

e) Actuarial valuation reserve

This reserve includes the changes in the actuarial value of defined benefit plan obligations.

3.4 Translation differences

Details of movement in this account are included in the consolidated statement of changes in equity.

Details of cumulative translation differences by company at the 2017 and 2016 reporting dates are as follows:

(Expressed in thousands of euros)

GROUP COMPANIES	2017	2016
ACERINOX (SCHWEIZ) A.G.	1,156	1,377
ACERINOX ARGENTINA S.A.	-5,068	-4,808
ACERINOX AUSTRALASIA PTY.LTD.	47	70
ACX DO BRASIL REPRESENTAÇOES, LTDA	-181	-149
ACERINOX CHILE S.A	205	429
ACERINOX COLOMBIA S.A.S	-81	-47
ACERINOX INDIA PVT LTD	-35	-19
ACERINOX MALAYSIA SDN. BHD		592
ACERINOX METAL SANAYII VE TICARET L.S.	-363	-210
ACERINOX MIDDLE EAST DMCC (DUBAI)	17	54
ACERINOX PACIFIC LTD.	-4,923	-4,781
ACERINOX POLSKA,SP Z.O.O	-921	-2,273
ACERINOX RUSSIA LLC.	-57	-33
ACERINOX SCANDINAVIA AB	-4,101	-3,283
ACERINOX S.C. MALAYSIA SDN. BHD	-1,811	-1,921
ACERINOX (SEA), PTE LTD.	93	107
ACERINOX SHANGAI CO., LTD.	901	1,131
ACERINOX U.K., LTD.	-6,684	-5,769
BAHRU STAINLESS, SDN. BHD	41,031	47,040
COLUMBUS STAINLESS INC.	-129,019	-125,254
CORPORACIÓN ACERINOX PERU S.A.C	-18	-28
NORTH AMERICAN STAINLESS CANADA, INC	2,393	9,535
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	3,257	6,720
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD	3	5
NORTH AMERICAN STAINLESS INC.	117,281	383,300
SUBTOTAL	**13,122**	**301,785**
ASSOCIATES	**2017**	**2016**
BETINOKS PASLANMAZ ÇELIK A.S.	-49	-49
SUBTOTAL	**-49**	**-49**
TOTAL	**13,073**	**301,736**

The origin of the fluctuations that have occurred during this year and in 2016 are detailed below.

	2017	2016
Opening balance	**301,785**	**212,928**
Translation differences equity	-275,332	98,277
Translation differences profit and loss	-8,003	3,589
Translation differences investments in Group companies	-4,782	-11,254
Translation differences transferred to profit and loss	-592	161
Other movements	46	-1,916
Balance at 31 December	**13,122**	**301,785**

The decrease in equities, as a consequence of translation differences, is primarily due to the 13.3% devaluation of the USD this year. (3.8% appreciation in 2016).

13.5 Details of reserves, profit/loss and non-controlling interests: Contribution by company

At 31 December 2017 and 2016 details of the contribution of each of the consolidated companies to reserves and consolidated profit and loss are as follows:

(Expressed in thousands of Euros)

	2017				2016			
	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests	Reserves	Gains/losses	Profit/(loss) attributable to non-controlling interests	Total non-controlling interests
ACERINOX, S.A	440,720	2,090			556,516	-7,898		
ACERINOX (SCHWEIZ) A.G.	936	97			1,193	-257		
ACERINOX ARGENTINA S.A.	5,187	-24			5,083	105		
ACERINOX AUSTRALASIA PTY. LTD.	-69	121			5	-74		
ACERINOX BENELUX S.A. - N.V.	279	-39			257	22		
ACX DO BRASIL REPRESENTAÇOES, LTDA	-9	34			65	-74		
ACERINOX CHILE, S.A.	-2,937	609			-3,447	510		
ACERINOX COLOMBIA S.A.S	232	82			186	46		
ACERINOX DEUTSCHLAND GMBH	-15,578	-4,487			-16,775	1,197		
ACERINOX EUROPA S.A.U	-53,612	55,039			-74,037	20,425		
ACERINOX FRANCE S.A.S	-9,174	578			-9,662	488		
ACERINOX ITALIA S.R.L.	-16,582	-8,530			-15,562	-1,020		
ACERINOX INDIA PVT LTD	143	-63			174	-31		
ACERINOX MALAYSIA SDN. BHN	0	0			-5,338	0		
ACERINOX METAL SANAYII VE TICARET L.S.	670	428			519	151		
ACERINOX MIDDLE EAST DMCC (DUBAI)	136	224			188	-52		
ACERINOX PACIFIC LTD.	-21,103	369			-21,501	398		
ACERINOX POLSKA, SP Z.O.O	1,148	562			392	756		
ACERINOX RUSSIA LLC.	188	112			178	8		
ACERINOX SCANDINAVIA AB	-1,583	835			-2,590	1,009		
ACERINOX S.C. MALAYSIA SDN. BHD	-40,351	1,191			-34,303	-709		
ACERINOX SHANGAI CO., LTD.	406	1,228			198	2,073		
ACERINOX (SEA), PTE LTD.	-194	343			-503	309		
ACERINOX U.K., LTD.	3,221	647			1,629	1,592		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	-3,9	627			-2,586	-1,314		
BAHRU STAINLESS, BDN. BHD	-150,222	-40,491	-20,118	10,922	-110,454	-39,763	-19,100	34,003
COLUMBUS STAINLESS (PTY) LTD.	89,838	22,770	7,277	62,142	70,949	18,416	6,090	55,906
CORPORACIÓN ACERINOX PERU S.A.C	-139	28			-89	-50		
INOX RE, S.A.	26,874	2,024			25,891	983		
INOXCENTER CANARIAS S.A.U	1,447	117			1,388	59		
INOXCENTER, S.L.U	-15,266	2,513			-21,868	6,602		
INOXFIL S.A.	-1,029	1,140	3	15	-1,067	39		12
INOXIDABLES DE EUSKADI S.A.U	3,524	544			1,708	1,816		
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	1,386	216			1,269	117		
METALINOX BILBAO S.A.U	17,730	755			15,904	1,826		
NORTH AMERICAN STAINLESS CANADA, INC	17,070	7,512			13,042	4,027		
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	2,117	1,717			2,536	-419		
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	-12,390	12,388			-9,054	9,051		
NORTH AMERICAN STAINLESS INC.	1,219,061	164,977			1,161,050	63,363		
ROLDAN S.A.	11,588	5,861	13	82	14,995	-3,407	-7	68
SUBTOTAL	**1,499,763**	**234,144**	**-12,825**	**73,161**	**1,546,479**	**80,320**	**-13,017**	**89,989**
ASSOCIATES								
BETINOKS PASLANMAZ ÇELIK A.S.	-264				-264			
SUBTOTAL	**-264**	**0**	**0**	**0**	**-264**	**0**	**0**	**0**
TOTAL	**1,499,499**	**234,144**	**-12,825**	**73,161**	**1,546,215**	**80,320**	**-13,017**	**89,989**

The two companies with non-controlling interests are Columbus Stainless, Ltd, 24% of which is held by the South African group IDC (Industrial Development Corporation) and Bahru Stainless Sdn. Bhd, whose main non-controlling shareholder is Nisshin Steel Holding. Co, Ltd. with an interest of 30%, in addition to Hanwa, Co. Ltd., which has a 3% interest. Details of the assets of these two Group companies are as follows: Columbus's total assets amount to 524 million euros (476 million euros in 2016), of which 136 million euros are non-current (147 million

euros in 2016). The total assets of Bahru Stainless, Sdn. Bhd. amount to 861 million euros (940 million euros in 2016), of which 617 million euros are non-current (736 million euros in 2016). Neither of these companies distributed dividends in 2016 or 2017.

13.6 Distribution of earnings and shareholder remuneration

The distribution of earnings of the Parent Company, Acerinox, S.A. for 2017, as proposed by the Board of Directors, to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

	2017
Basis of allocation:	
Profit for the year	7,998,570
Application:	
Legal reserves	799,857
Prior years' losses	7,198,713

As regards shareholder remuneration, at the Board of Directors' meeting of Acerinox held on 20 December resolved to propose to the next Annual General Meeting the distribution of dividends in a single payment to be made in July 2018.

At their General Meeting held on 1 June 2017, the shareholders agreed that the Parent Company's profit for 2016 should be distributed as follows:

	2016
Basis of allocation:	
Profit for the year	1,336,281
Application:	
Legal reserves	133,628
Prior years' losses	1,202,653

13.7 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year, excluding own shares purchased and held by the Group.

(Expressed in thousands of euros)

	2017	2016
Profit attributable to the Group	234,144	80,320
Weighted average number of ordinary shares outstanding	276,067,543	270,895,787
Earnings per share (in Euros)	**0.85**	**0.30**

The weighted average number of shares has been calculated considering the shares outstanding both prior and subsequent to the capital increase and the number of days for which they had been outstanding.

The Group has not issued any financial instruments that give access to capital or convertible debt and therefore diluted earnings per share are the same as basic earnings per share.

NOTE 14 – DEFERRED INCOME

Non-refundable government grants, which include emission allowances received free of charge (see **note 10.1**) and other capital grants are included under this heading. Movements in this account are as follow:

(Expressed in thousands of euros)

	2017	2016
Balance at 1 January	**7,798**	**7,513**
Grants awarded	2,482	3,815
Application to results	-3,333	-3,530
Balance at 31 December	**6,947**	**7,798**

The amount recognised in deferred income primarily reflects grants received by Acerinox Europe for its research and development activities, and the balancing entry for emission allowances allocated free of charge under the National Allocation Plan and not used during the year (**note 10.1).**

The Group considers that it has met or will meet all the conditions for receipt of these grants in the period stipulated and therefore no significant contingencies exist in connection with the grants obtained.

NOTE 15 – PROVISIONS AND CONTINGENCIES

Details of non-current provisions included in the balance sheets for 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Employee benefits	12,264	12,686
Other provisions	16,138	2,789
TOTAL	**28,402**	**15,475**

15.1 Employee benefits

15.1 Defined contribution plans

In accordance with legislation in force in their countries of operation, certain Group companies make contributions to pension plans managed by external institutions. An expense of 7,545 thousand euros has been recognised for the year under personnel expenses in the consolidated income statement in respect of such plans (8,047 thousand euros in 2016).

15.1.2 Defined benefit plans

Details of provisions for employee benefits by type of commitment appear in the following table:

(Expressed in thousands of euros)

	2017	2016
Pension plans	2,,701	2,775
Early retirement benefits	386	361
Supplements	686	654
Post-employment benefits	8,491	8,896
TOTAL	**12,264**	**12,686**

The amount recorded under pension plans comprises the contributions made by North American Stainless to pension plans for certain employees. These liabilities have been duly externalised and the Company has no additional obligations. The Company has recorded an asset for the same amount.

There are obligations under from certain contractual covenants agreed with Senior Management in the amount of 9.9 million euros (8.7 million euros in 2016). These obligations were properly insured and their estimated amount covered by cash flows arising from the insurance policies contracted. As a result, no liability in this connection is recognised.

Post-employment obligations reflect post-retirement medical care plans provided by Columbus Stainless to specified plan members. No new members have joined the plan. The Company performs actuarial valuations of the obligations every two years. The most recent valuation was performed this year. The assumptions made were as follows: discount rate of 9,5% (9% according to the previous valuation performed in 2015) and 6,75% inflation of medical services (7% in the prior valuation). The opening balance for the period reconciles with the closing balance as follows:

(Expressed in thousands of euros)

	2017	2016
Balance at 1 January	**8,896**	**7,048**
Contributions paid	-311	-298
Service cost recognised in the income statement	212	199
Interest cost	768	730
Actuarial loss recognised in comprehensive income	-865	
Translation differences	-209	1,217
Balance at 31 December	**8,491**	**8,896**

The discount rates applied are based on expected growth rates of health insurance. Any change in such fees may have an impact in the recognised obligations or in comprehensive income. An increase of one percentage point in the discount rate would increase the obligation by 1.2 million euros. In contrast, a decrease of one percentage point in the discount rate would reduce the obligation by 1.1 million euros. With respect to 2016, an increase of one percentage point in the discount rate would result in an increase in the obligations of 1.4 million euros, while such a decrease would reduce the obligations by 1.1 million euros.

15.2 Other provisions

Movement in 2017 is as follows:

(Expressed in thousands of euros)

	CO2	Litigios	Otras provisiones	Total
Balance at 31 December 2016	**2,004**	**387**	**398**	**2,789**
Charge to provision	1,926	13,664	45	15,635
Application	-2,014	-168		-2,182
Reversal		-102		-102
Translation differences			-2	-2
Balance at 31 December 2017	**1,916**	**13,781**	**441**	**16,138**

CO2

These are provisions for CO_2 emissions during the year for which the emission allowances have not yet been surrendered at the year end (see **note 10.1**).

Applications for the year are mainly due to the derecognition of emission allowances for 2017, totalling 2,014 thousand euros (1,942 thousand euros in 2016) (see **note 10.1**).

Litigation

With regard to the tax-related lawsuits that have been ongoing between the Group and the tax authorities in Germany and Italy since 2011, due to transfer pricing adjustments imposed in both countries, which are explained in detail in **note 18.5**, the Group has decided to make a provision of 6,092 thousand euros for any amounts payable

arising from the inspection in Germany and 7,195 for adjustments arising from the inspection in Italy. In November this year, the Group received notification from the Spanish and German authorities of the resolution through the Mutual Agreement Procedure. After the agreement reached between the two countries, the transfer pricing adjustments initially imposed on the Group were reduced by 40%. However, the agreement only covers transactions between Spain and Germany, so there is uncertainty about how the German inspectors will treat adjustments originating from third countries for purchases of stainless steel made by the company Acerinox Deutschland, GmbH. The Group has decided to make a provision for the potential risk of these adjustments, and the difference between the tax rates in Spain and Germany owing to the agreements finally reached between the authorities of the two countries.

With respect to Italy, although negotiations between both countries (Spain and Italy) are yet to begin, the Group has decided to treat this in the same way as Germany. Therefore, it has made a provision for the maximum amounts that it could have to pay for adjustments originating from third countries (non-members of the European Union), and the difference in tax rates between both countries.

In 2016 a balance of 168 thousand euros was recognised due to a claim received from CDTI to repay a portion of a grant given in 2009 to a consortium of eleven companies, including Acerinox. As a result of the economic crisis and regulatory changes in relation to alternative energies, certain members of this consortium filed for insolvency, and the CDTI demanded the amount of the grant that had not been justified from the other companies of the consortium. This year, the Group has been forced to pay the amount of 180 thousand euros for this claim, of which 31 thousand were for grants awarded to Acerinox Europa, which the Group has derecognised, thus cancelling the provision.

Other provisions

Other provisions mainly reflect Inoxcenter, S.L.U.'s estimate of the probable obligations totalling 386 thousand euros arising from the workforce restructuring plan implemented in 2013 pursuant to Royal Decree-Law 5/2013.

Furthermore, as referred to in **note 8**, in the section relating to the environment, this year the Company recognised a provision for environmental activities for the amount of 45 thousand euros, for the rehabilitation of land owned by the Group company Columbus Stainless.

15.3 Guarantees provided

At 31 December 2017 the Group has provided guarantees to third parties, mainly government bodies, totalling 20 million euros (18 million euros in 2016). This amount includes the guarantee provided to the Italian taxation authorities for the amount of 1.8 million euros, as a result of the assessments arising from the inspection, as explained in **note 18.5**. Group management does not expect any significant liabilities to arise from these guarantees.

15.4 Contingencies

In addition to the tax contingencies discussed in **note 18.5**, in 2016 Gas Natural Comercializadora, S.A requested that declaratory proceedings be opened against the Group companies Acerinox Europa, S.A.U., Roldan, S.A. and Inoxfil, S.A. for an alleged breach of the natural gas supply contracts and requested the payment of the compensation due to unilateral termination, as agreed in these contracts, totalling 8.2 million euros. Gas Natural Comercializadora S.A. submitted a bid in the supply service tender held by Acerinox during 2016 and 2017, but a different company was selected. The Group considers that it is unlikely that any amount payable will arise following the related legal proceedings that are underway. The judicial proceeding is continuing, and the trial is expected for the first quarter of 2019.

NOTE 16 – INCOME AND EXPENSES

16.1 Revenue

Details of revenue in 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Sale of goods	4,622,304	3,962,292
Services rendered	4,551	5,851
Self-constructed assets	16,829	6,927
Operating lease income	585	439
Gains on disposal of fixed assets	2,218	3,239
Income from grants and subsidies	1,407	504
Income from emission allowances	1,926	3,026
Other income	8,297	6,357
TOTAL	**4,658,117**	**3,988,635**

The increase in self-constructed assets is mainly due to the capitalisation of expenses for the new investments made in Acerinox Europa, S.A.U., and the capitalisation of the major repairs carried out in that company's melt shop and hot rolling plant, totalling 13.8 million euros.

16.2 Personnel expenses

Details of personnel expenses in 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Salaries and wages	299,719	284,892
Social Security	70,891	69,148
Contributions to employee benefit plans	7,545	8,047
Termination benefits	686	431
Change in the provision for employee benefits	1,065	909
Other personnel expenses	11,797	11,501
TOTAL	**391,703**	**374,928**

The average headcount in 2017 and 2016, distributed by category, is as follows:

	2017	2016
University graduates	851	801
Administrative staff	900	901
Manual workers	5,180	5,082
TOTAL	**6,931**	**6,784**

At 31 December a breakdown of personnel by gender and category, including directors, is as follows:

		2017	2016
Board members	Male	11	11
	Female	4	2
Senior management personnel	Male	4	4
	Female	0	0
University graduates	Male	620	575
	Female	242	221
Administrative staff	Male	496	499
	Female	410	404
Manual workers	Male	4,985	4,932
	Female	180	161
TOTAL		**6,952**	**6,809**

This figure includes 196 employees that have taken partial retirement (224 in 2016).

At 31 December 2017 the number of employees in Spain with a disability of at least 33% is 58 (54 male and 4 female) (57 in 2016; 53 male and 4 female).

As a general rule, all of the Spanish companies comply with the provisions of the General Law on the Rights and Social Integration of Disabled Persons.

16.3 Other operating expenses

Details are as follows:

(Expressed in thousands of euros)

	2017	2016
Rentals	9,816	8,388
Trading costs	185,935	172,831
Utilities	220,873	202,416
Maintenance	68,730	56,956
External services	84,269	75,352
Insurance	14,176	14,109
Bank charges	4,178	3,833
Other operating expenses	23,433	25,460
Taxes other than income tax	17,704	17,935
Changes in trade provisions	1,203	1,840
Losses on disposal of fixed assets	1,917	516
Impairment of fixed assets		570
Other extraordinary expenses	2,465	724
TOTAL	**634,699**	**580,930**

NOTE 17 – NET FINANCE COST

Details of the net finance costs are as follows:

(Expressed in thousands of euros)

	2017	2016
Interest and other finance income	8,,123	6,017
Income from dividends	160	232
Reversal of impairment of investments		3
Gains on disposal of investments in consolidated companies	593	
TOTAL FINANCE INCOME	**8,876**	**6,252**
Interest expense and other finance costs	-38,415	-42,136
Loss on hedging instruments		-957
Loss on liquidation of investments in consolidated companies		-290
TOTAL FINANCE COSTS	**-38,415**	**-43,383**
Exchange losses	40,054	-22,424
Result on remeasurement of financial instruments to fair value	-29,836	29,988
FINAL RESULT OF EXCHANGE LOSSES	**10,218**	**7,564**
NET FINANCE COST	**-19,321**	**-29,567**

Interest income mainly derives from term deposits by the Group (**note 12**).

Finance costs mainly reflect interest accrued on loans and borrowings and bonds issued, which are explained in **note 11.2.3**.

Lastly, income from translation differences arise in the Group's trade, financial operations and investments. The Group hedges with derivative financial instruments a majority of the transactions carried out in a currency other than the functional currency of a country. Using these instruments ensures that any fluctuation in exchange rates would be offset by a contrary change of the same amount in the derivative contracted. The amount recorded in exchange gains in the year is due mainly to the 13.3% devaluation of the USD.

NOTE 18 – TAXATION

18.1 Legislative amendments

Tax reform in the United States

On 22 December 2017, the biggest tax reform in the United States in the last 30 years was approved, and it applies to tax years beginning on or after 1 January 2018. The main measure is the reduction of the federal tax rate from the 35% that has been applicable to date, to 21%. This tax reduction is very positive for the Group, not just for the future because of the reduced tax burden on revenue generated by the Group subsidiary North American Stainless, but also because of the impact that this tax cut has on the deferred tax liabilities recognised by the Company.

The impact of this reduction in the tax rate on deferred tax liabilities has been recognised this year and is detailed below:

	Balances prior to the reform (amounts in thousands of USD)	Tax rate adjustments	Balances at 31/12/17 (amounts in thousands of USD)
Deferred tax assets (temporary differences)	5,695	-1,888	3,807
Deferred tax liabilities (temporary differences)	-225,242	78,098	-147,144
Reserve repatriation tax		-1,916	
Total impact on earnings in USD		**74,294**	
Total impact on earnings in Euros		**65,741**	

The positive impact of the tax reform amounts to 65,741 thousand euros (74,294 thousand USD), broken down as follows:

- 69,107 thousand euros (78,098 USD) correspond to the reduction in deferred tax liabilities arising mainly from the different tax and accounting treatment of amortisation and depreciation of assets.
- A negative amount of 1,671 thousand euros (-1,888 USD) corresponds to the reduction in deferred tax assets arising from temporary differences for provisions that are not tax-deductible.
- The company made a provision of 1,695 thousand euros (-1,916 thousand USD) for the tax on undistributed accumulated income of investees.

At the same time, the reform includes a series of other measures, with the following having a possible impact on the Group:

- "Bonus depreciation": allows 100% of the asset value to be tax deductible in the year in which it is put into service. This measure applies to all assets put into service between 27/09/17 and 01/01/23. From that date onwards, the deduction is reduced to 20% per year. In the final quarter of 2017, the Group company North American Stainless put into service a cold-rolling mill and a bright annealing (BA) line, thus qualifying for this deduction. Making this deduction leads to a temporary difference liability and reduces the tax payable in the United States, but does not affect the Company's earnings.
- The deduction established for American manufacturing companies ("section 199 - domestic manufacturing deduction"), which NAS has thus far been applying, has been eliminated. Despite the negative effect that this could have, it is clearly offset by the effect of the reduction in the tax rate.
- "Deemed repatriation toll charge": 100% exemption has been introduced for the investee companies of American companies, in exchange for an additional, mandatory toll charge. This charge is calculated according to the cumulative earnings in the American company's investee companies since 1986. The tax rate applicable ranges from 8% to 15.5%, payable in 8 years. The applicable rate depends on whether or not the reserves are in the form of liquid assets. The company North American Stainless has made a provision of 1,695 thousand euros for an amount payable in 8 years, for its accumulated reserves in the investee company in Canada.

Other measures introduced by the tax reform, which have also been assessed by the Group, but which are not expected to have any significant impact, are as follows:

- Offsetting of tax loss carryforwards: it will be possible to offset these with 80% of the income generated in future years. This eliminates the time limit and the possibility of offsetting with profits from previous years. This measure has no impact on the Group as it does not have any tax loss carryforwards yet to be offset.
- "Global intangible low-taxed income" (GILTI): This is an expansion of the international tax transparency regime and makes earnings obtained by subsidiaries from the exploitation of intangible assets taxable in the United States. This measure does not affect the Group has it has no earnings from the exploitation of intangible assets.
- "Foreign derived intangible income" (FDII): this introduces a new preferential regime (foreign-derived intangible income) for low taxation (13.125%; 16.406% from 2025) on earnings from the explotation of American intangible assets abroad. The Group does not expect any adjustments to be required due to this measure.
- Limitation of interest expense deductibility: all interest may be deducted up to a limit of 30% of EBITDA+financial income. Any interest not deducted in a year may be used in future years, without any

time limit. This limit will be 30% of EBIT from 2022. This measure has no impact on the Group as the American company has no external financing.

- "Base erosion anti-abuse tax" (BEAT): this is a minimum tax of 5% on payments made to foreign affiliates (excluding payments for purchases), provided that they exceed 3% of total operating expenses. In the case of the Group, the payments currently being made by the American company to the rest of the Group's companies do not exceed the set limits.

Spain

There have been no significant tax changes this year that alter the Group's tax burden.

On 2 December 2016 a new suite of tax measures aimed at shoring up public finances was approved in Spain. Among the tax measures approved, the measures that have an impact on the Group are as follows:

- Effective for periods beginning on or after 1 January 2016, the limit on the deduction of prior years' losses is reduced, for those companies with revenues of over 60 million euros, to 25% of the taxable income earned in the year. Since the Group has capitalised tax credits in Spain, this measure increased the periods in which they can be recovered. The recoverability of the Group's tax credits is analysed in **note 18.3**.
- Also, from 1 January 2016, the impairment of investments in Group companies recognised for tax purposes prior to 2013 and not yet offset at that date are offset within a maximum of five years. The amount to be offset is the greater of the following two: the profit earned by these companies in the tax period or one fifth of the amount not yet offset. Impairment on investments pending reversal by the Group at 1 January 2016 amounted to 64,675 thousand euros. For 2016, the Company offset tax amounting to 15,032 thousand euros, and this year estimates a tax offset of 13,037 thousand euros, so the balance yet to be offset at 31 December 2017 is 36,606 thousand euros, to be offset in the next 4 years.
- A limit was set on the application of double taxation relief at 50% of the gross tax payable.
- As of 1 January 2017 onwards, the exemption of gains arising from the transfer of investments is also applicable to losses, which therefore will not be deductible, unless the company is extinguished.

As regards instalment payments, Royal Decree 2/2016 also introduced substantial changes aimed at increasing proceeds in this respect. In addition to increasing the percentage for the calculation of the interim payment, a minimum amount of 23% of the profit reflected in the income statement is thus established for the first three, nine or eleven months of each calendar year. This amount is to be decreased only by the amount of the instalment payments made previously for the same tax period.

Legislative amendments in other countries

In 2017 and 2016, the following tax rates applicable to certain Group companies were amended pursuant to local legislation:

- The tax rate in Luxembourg was reduced from 29.22% to 26.01%. This rate reduction has led to revenues of 1.2 million euros for the Group, as the entity owned by the Group in this country has liabilities of 10 million euros from temporary differences.
- In Malaysia, the tax rate was reduced from 25% (applicable since 2015) to 24%, applicable for years beginning on or after 1 January 2016. This rate reduction has had no impact on the financial statements of the Group's companies in these countries, as they have no recognised deferred tax assets.
- The tax rate in Italy was reduced from 27.5% to 24%. The Group reduced the tax credits recognised in this country as a result of the rate reduction, leading to a higher tax expense of 2.2 million euros.
- U.K.: a progressive modification has been made to the income tax rate. The rate applicable from 1 April 2016 was 20%, 19% from 2017 and 17% from 2021. The Group has deferred tax assets and liabilities in this country, which it recognised at 17%.
- Chile: a progressive increase in tax rates has been applied, from 17% in 2013 to 27% from 2018 onwards. The applicable rate in 2016 was 24%, increasing to 25% in 2017.

18.2 Income tax expense

Details of the income tax expense are as follows:

(Expressed in thousands of euros)

	2017	2016
Current tax	103,846	57,212
Deferred tax	-31,714	-187
Total income tax	**72,132**	**57,025**

In 2017 the Parent Company received dividends from some of its foreign subsidiaries amounting to 13.5 million euros (15.3 million euros in 2016). Under the corresponding double taxation conventions, some of these dividends were subject to withholdings at source amounting to 1,351 thousand euros (1,177 thousand euros in 2016), which have been recognised under other taxes in the income statement. This account also reflects other withholdings, mainly on interest paid to Group companies.

A reconciliation of the income tax expense recognised in the income statement and accounting profit is presented below:

(Expressed in thousands of euros)

	2017		2016	
Net profit for the year		**234,144**		**80,320**
Non-controlling interests		-12,825		-13,017
Income tax		72,132		57,025
Other taxes		5,180		3,541
Profit before tax		**298,631**		**127,869**
Income tax at the local tax rate	25%	74,658	25%	31,967
Effects on tax payable:				
Effect of tax rates of foreign operations		23,672		9,592
Non-deductible expenses		4,189		7,548
Tax incentives not recognised in the income statement		-11,763		-10,046
Non-taxable income		-539		-627
Prior year adjustments		-378		1,056
Adjustment of tax rates, deferred taxes		-66,445		2,505
Provisions for tax litigation		13,287		
Unrecognised tax credits and impairment		9,889		14,723
Recognition of deferred tax liability for investments in subsidiaries		26,695		
Other		-1,133		307
Total income tax		**72,132**		**57,025**

Tax incentives not recognised in the income statement relate to deductions for R&D, deductions for the elimination of double taxation and the deduction for American producers (the "Section 199 deduction")

The Group's tax expense has been affected by several extraordinary factors this year. On the one hand, there has been a positive impact from the tax adjustment for its deferred tax assets and liabilities in the United States as a result of the tax reform in that country, totalling 67.4 million euros. At the same time, the Group has recognised provisions of 13.3 million euros as a result of tax assessments, as detailed in **note 15.2**. Finally, as explained in the section on deferred tax liabilities (**note 18.3.1**), the Group has recognised a liability for the repatriation of reserves from its subsidiaries, totalling 26.7 million euros (1.7 million euros for the charge imposed in the United States for the non-distributed reserves of the American company's subsidiaries. (See **note 18.1)** and 25 million are explained in **note 18.3.1)**. Without these effects, the tax rate for this year would have been 35%, compared with 47% last year.

18.3 Deferred tax

Movement in deferred tax assets and liabilities is as follows:

(Expressed in thousands of euros)

	2017		2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Balance at 1 January	**178,774**	**228,275**	**188,891**	**227,167**
Expense/income for the period	-19,757	-51,471	-8,575	-8,762
Taxes recognised directly in equity	-5,822	564	-1,312	487
Exchange rate fluctuations	71	-20,131	-228	8,952
Transfers	17,338	17,338	543	543
Other changes	-2	-174	-545	-112
Balance at 31 December	**170,602**	**174,401**	**178,774**	**228,275**

The origin of deferred tax assets and liabilities is as follows:

(Expressed in thousands of euros)

	2017	2016	2017	2016	2017	2016
Goodwill			-9,379	-8,344	-9,379	-8,344
Property, plant and equipment	4,710	5,225	-150,320	-245,904	-145,610	-240,679
Financial assets	1,778	1,574	-10,987	-13,886	-9,209	-12,312
Inversiones en subsidiarias			-26,470		-26,470	
Inventories	4,735	3,251	-1,062	-536	3,673	2,715
Other assets	5	14	-549	-291	-544	-277
Provisions	7,084	8,039	-208	-12,213	6,876	-4,174
Employee benefit plans	4,844	4,123	4	1,051	4,848	5,174
Financial liabilities	184	328	-308	-2	-124	326
Other liabilities			-10,369	-35	-10,369	-35
Non-deductible finance costs	21,139	29,300			21,139	29,300
Other tax deductions	24,877	29,280			24,877	29,280
Unused tax losses	136,493	149,525			136,493	149,525
Deferred tax assets/liabilities	**205,849**	**230,659**	**-209,648**	**-280,160**	**-3,799**	**-49,501**
Offsetting of deferred tax assets and liabilities	-35,247	-51,885	35,247	51,885		
Deferred tax assets/liabilities	**170,602**	**178,774**	**-174,401**	**-228,275**	**-3,799**	**-49,501**

Most of the deferred taxes have a reversal period of more than one year.

As laid down in the income tax measurement criteria (**note 2.18**), the Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to do so, the assets and liabilities correspond to the same taxation authority and it plans to realise current tax assets or settle current tax liabilities on a net basis. The offset of 35 million euros shown in the table above mainly relates to the offsetting of deferred tax assets of the Spanish consolidated tax group in the amount of 24 million euros, and to temporary asset differences of the companies North American Stainless (5.7 million euros) and Colombus Stainless (4.4 million euros).

18.3.1 Deferred tax liabilities

Deferred tax liabilities recognised in property, plant and equipment are mainly due to the different tax and accounting depreciation criteria permitted by legislation in force in certain countries. These liabilities essentially relate to North American Stainless, Inc. and Columbus Stainless, Ltd.

Certain companies in the consolidated Group have reserves that could be subject to taxation if they were distributed.

The Group has a shareholder dividend policy whereby the dividends are approved every year at the shareholders' General Meeting, not subject to any criteria whereby a percentage of net benefit is distributed ("pay out"). The criteria adopted by Acerinox has always been to set remuneration levels in euros per share. This criterion has always been followed, even in years when losses were made. In the last twelve years, shareholder remuneration has remained at 0.45 euros per share, although during the 2013-2016 period, those shareholders who so requested were able to avail themselves of a "scrip dividend", receiving shares with an equivalent value from Acerinox.

An analysis of the holding company's financial position shows that, having distributed dividends over the last six years and charged them to reserves, it would be able to cover a repatriation of reserves from its subsidiaries for an amount of 250 million euros. This repatriation of reserves, combined with the holding's existing reserves, ensures that it can continue to cover share dividends for the next five years. Having analysed the financial position of each of the subsidiaries, their working capital needs and future strategic plans, the Group believes that such a distribution will come from the Group company in the United States, North American Stainless. Dividends from the United States are subject to a 10% withholding at source, so the Group has made a deferred tax provision of 25 million euros.

The Group believes that any future need beyond the analysed five-year period can be covered by the future earnings generated by the subsidiaries. It does not seem likely that, beyond the current five-year period, it will be necessary to repatriate additional reserves from North American Stainless, so preferably, for the purpose of financial and tax optimisation, the Group will also try to cover its needs through dividends from subsidiaries that do not entail any additional tax burden.

18.3.2 Deferred tax assets

At 31 December 2017 and 2016, the Group has unused tax credits from tax losses available as follows:

(Expressed in thousands of euros)

	2017	2016
1 to 5 years	387	446
6 to 10 years		
11 to 15 years	3,688	4,226
16 to 20 years		
No prescription date	132,418	144,853
TOTAL	**136,493**	**149,525**

The Group also has uncapitalised tax credits totalling 66,429 thousand euros in respect of certain Group companies' tax losses of euros 284 million (uncapitalised tax credits of 64,021 thousand euros in 2016), which have not been recognised as they did not meet the necessary criteria. The period for recovery of these credits is open ended, in accordance with prevailing tax legislation.

The Group has unrecognised assets of 9.4 million euros arising from temporary differences relating to accounting impairment which is not tax-deductible.

On 22 June 2015, the Group company Bahru Stainless received confirmation from the Malaysian Ministry of Economy of approval of fiscal aid in respect of investments made in the country from 2009 to 2014. This aid consists of income tax deductions for an amount equal to the investments made in certain items of property, plant and equipment, which amount to 1,806 million Malaysian ringgits (371 million euros). The company submitted the rectifying tax returns accrediting the amount of aid receivable. As with tax credits relating to tax loss carryforwards, the Group has not recorded a deferred tax asset as it cannot yet estimate their recoverability.

The Group company North American Stainless also has tax credits for investments in assets that contribute to recycling. These credits are deducted from the calculation of the Kentucky state tax and amounted to 526 million euros at the year end. During this year, the Group obtained further tax credits of 50.8 million as a result of the new investments made in 2017, many of which qualify for tax relief. Of all the tax credits, 13.5 million euros expire in 2020, 20.8 million euros expire in 2028 and the rest are unlimited. Application of these credits is limited to 50% of the tax

payable in the state of Kentucky, or an amount of USD 2.5 million/year. With the ten-year estimates made, the Group expects to be able to use an amount of 15.8 million euros, which the Group recognises as a deferred tax asset.

The Group only recognises a deferred tax asset for investment tax credits that expire and relate to a specific credit programme approved in 2005 by the state of Kentucky (Major Credits Program). Given the limits established for their application, a portion of the deferred tax assets from investments which the Group had capitalised at 31 December 2016 (which expire in 2020) were not recoverable on that date, so the Group recognised an amount of 5.2 million euros in reserves.

18.3.3 Analysis of the recoverability of deferred tax assets

The Group prepares projections of profit and loss on an individual basis for all companies with available tax credits to determine whether the credits will be recoverable within a reasonable timeframe and within the periods stipulated by respective legislation. To this end, the Group requests a budget covering five to ten years from each company with capitalised tax credits, for calculation of taxable bases in order to determine the recoverability of the tax credits. Furthermore, the Group takes into account the limitations regarding offsetting tax loss carryforwards stipulated in certain jurisdictions. The Group also assesses the existence of deferred tax liabilities against which tax losses may be offset in the future.

During this year, the Group has used tax credits totalling 13 million euros. All of the Group's subsidiaries that have capitalised tax credits have achieved profits, in line with budgeted profits, so the situation is more favourable than in past years. When preparing the budgets, the Group has taken into account the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each entity. Parameters such as expected growth, use of installed production capacity, prices, etc. are therefore projected considering historical figures, particularly the last year closed, as well as targets set by management. Key assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the analysis. The estimates made for future years have operating margins that are similar to those budgeted in the 2016 estimations.

Based on all of the above aspects, the directors believe that, in spite of the new limits introduced in some jurisdictions, particularly in Spain, all capitalised tax credits are still likely to be recovered through future taxable income for all companies within a reasonable period of less than 10 years, and within the periods permitted by the corresponding local legislation in each country. The tax credits capitalised were the result of the crisis years and the Group has been reducing these credits since 2013.

A sensitivity analysis has been made of these estimations, especially for the credits of the Spanish consolidated tax group, as it accounts for 75% of the Group's capitalised tax credits. The Spanish consolidated tax group comprises Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U. and Inoxcenter Canarias, S.A.U. As a result of the analyses, it is estimated that projected income would have to decrease by 7% for the recovery period to increase to 11 years. In addition, the estimation would have to be reduced by 16% for the recovery period to increase to 12 years. In addition, the Group has also taken account of the potential impact in Spain of the increase in unused tax loss carryforwards as a result of amicable settlements reached in inspection proceedings undertaken in Germany and Italy (both explained in **note 18.5**). Because the recovery periods are ample for other companies with capitalised tax credits at year end, no sensitivity analysis was necessary.

18.4 Current tax

At 31 December 2017 the Group has a current tax asset of 20,717 thousand euros (12,254 thousand euros in 2016) and a current tax liability of 21,212 thousand euros (3,418 thousand euros in 2016).

In addition to increasing the percentage for the calculation of the interim payment, the approval of Royal Decree 2/2016 in Spain established a minimum amount of 23% of the profit reflected in the income statement for the first three, nine or eleven months of each calendar year. This amount is to be decreased only by the amount of the instalment payments made previously for the same tax period.

18.5 Tax inspections and years open to inspection

18.5.1 Tax inspection

Developments in 2017

All decisions received in 2017 relating to inspections have been favourable.

- In the case of Spain, the tax procedures relating to VAT import duties for imports commenced this year have concluded with no adjustments.

- With respect to Portugal, this year part of the amounts arising from the amicable settlement procedure between the Spanish and Portuguese authorities at the end of 2016 has been received. The amount recovered in Spain is 1.3 million euros (plus 254 million in interest), in addition to the increase in tax credits of 179 thousand euros. Furthermore, at the reporting date we had been informed of the repayment of 0.6 million euros in Portugal.

- In South Africa, the tax authorities have agreed to eliminate all proposed adjustments in the assessments corresponding to 2010, 2011 and 2012.

- In Germany we have been informed of the finalisation of the Mutual Agreement Procedure between Spain and Germany for the years 2007-2010. These agreements entail a 40% reduction in adjustments relating to transactions between Spain and the German subsidiary. Meanwhile, the Group has presented a bilateral Advance Pricing Agreement (APA) to cover the transfer prices applied to sale and purchase transactions between Spanish manufacturers and the distributor. The negotiations between both companies have now concluded and the Group is going to sign the agreement at the end of February 2018.

- The tax inspections under way in France ended this year with no adjustments.

- During the period, inspections carried out in the Switzerland subsidiary of the years 2012 to 2015 also ended with no adjustments.

The situation with regard to each of the tax inspections that are underway or which have concluded but are being disputed and appealed against at the end of 2017 is detailed below:

Spain

On 26 July of this year, notification was received of the start of customs-related inspection proceedings (VAT import duties) in relation to 2015. On 3 November the assessment was approved and signed without any adjustments, bringing the procedure to an end.

On 7 January 2016, the Economic-Administrative Tribunal issued a ruling upholding in full the submissions filed by Acerinox, S.A. against the assessment decisions arising from the inspection of rights, anti-dumping and VAT for 2009, 2010 and 2011. On 27 April of the same year, agreements to enforce the rulings were received for the amounts of 925 thousand euros in respect of anti-dumping, which had previously been guaranteed, 649 thousand euros for VAT on imports (which had been deducted by Acerinox at the time) and 41 thousand euros in respect of payable external tariffs. The Company filed an appeal against the assessment decisions, contesting the interest calculation. 61 thousand euros relating to guarantee expenses were also recovered.

Portugal

In the year 2011, tax inspections were conducted in the Group company Acerol Ltda., in Portugal, on taxes for the years 2007 and 2008. They resulted in a transfer pricing adjustment for sale and purchase transactions between the company Acerol, Ltda and Group companies, primarily Acerinox, S.A. and Roldán, S.A in Spain. The adjustment to taxable income amounted to 10 million euros. However, as the subsidiary had tax losses of 6.7 million euros pending offset, the amount paid totalled 708 thousand euros. These assessments considered that no offence had been committed and, accordingly, no tax penalties were imposed. On 31 July 2012 an application was submitted to the Directorate-General for Taxation through the European Arbitration Convention based on Convention

90/436/EEC of 23 July 1990. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union. Following negotiations between the Spanish and German tax authorities, or an arbitrator's ruling if necessary, this initial adjustment, or whichever adjustment is agreed, will therefore be offset by a counter-adjustment in the other member state.

On 28 December 2016, the affected Spanish companies received the notifications relating to the agreement reached between the Spanish and Portuguese authorities that finalised the Mutual Agreement Procedure. On 17 January 2017 the same agreement was received by the Portuguese company. Under this agreement, the Spanish and Portuguese authorities accepted the complete elimination of the double taxation.

Under these agreements, pursuant to the assessments, the adjustment made in relation to Acerol by the competent Portuguese authority was reduced from a total of 10 million euros to 4 million euros for 2007 and 720 thousand euros for 2008. At the same time, the competent Spanish authorities made a correlative adjustment of the same amount in relation to the various Spanish Group companies affected. In 2016, the Group recognised the refundable amounts in Spain, which amounted to 1.3 million euros, in addition to an increase in tax credits amounting to 179 thousand euros. At the same time, the Portuguese entity recognised a refundable amount of 0.6 million euros.

In June 2017, the Spanish tax agency implemented a Mutual Agreement Procedure (MAP) and an agreement was reached whereby the Group recovered 1.3 million euros for 2007 income tax, plus 254 thousand euros in interest in Spain. In addition, tax loss carryforwards increased by 719 thousand euros.

Execution of the agreement in Portugal, in addition to the return of previously paid sums amounting to 633 thousand euros, is pending. At the reporting date, the Group had been informed of the repayment of the above amounts.

South Africa

On 24 June 2014, notice was received of the initiation of a tax inspection on transfer prices for 2010 to 2012 at the Group company Columbus Stainless (Pty) Ltd. In 2015 the assessments were received, finalising the inspections. The assessments stipulated adjustments to taxable income in relation to transfer prices, amounting to 32 million euros. These adjustments did not result in any payable amounts in South Africa, as the company had carried forward tax losses which exceeded the amount of the assessment. The assessments did not impose any penalties.

Subsequent to the filing of the related submissions within the periods established, in 2016 the Company was notified of the possibility of engaging in alternative proceedings to resolve the dispute related to 2010 by appointing an independent arbitrator ("Alternative Dispute Resolution"). The company considered it appropriate to exhaust all options prior to resorting to the courts. The outcome of the procedure was highly satisfactory for the Company, as it received notification from the South African tax authorities on 7 February 2017 agreeing to eliminate all proposed adjustments relating to 2010. The notification also validated the transfer price policy put in place by the Group. In October 2017 we also received notification that the SARS had agreed to withdraw all proposed adjustments for the years 2011 and 2012.

Germany

As regards the tax inspections for 2007, 2008, 2009 and 2010 that were initiated in 2011 at the Group subsidiary Acerinox Deutschland, GmbH, the assessments of the income tax, solidarity surcharge and VAT were received on 8 July 2014. The assessments primarily indicate transfer pricing adjustments to the tax base totalling 58.8 million euros for sale and purchase transactions between the subsidiary and the Group's manufacturing companies. No penalties were imposed. The company filed the pertinent submissions on 8 August 2014.

The amounts payable in Germany as a result of these assessments were 384 thousand euros for the VAT assessments, 2,804 thousand euros for income tax plus the solidarity surcharge and 489 thousand euros in interest. All tax loss carryforwards yet to be offset were also eliminated. These amounts were paid in 2014.

In November 2015 requests were submitted for the elimination of double taxation in both Spain and Germany. Any adjustment relating to transfer prices for transactions completed with companies resident in Spain is protected by Convention 90/436/EEC on the elimination of double taxation.

On 5 October 2017, we were informed of the finalisation of the Mutual Agreement Procedure and the agreements reached for the years 2007-2010. These agreements entail a 40% reduction in adjustments relating to transactions between Spain and the German subsidiary. In November written acceptance of the agreements was submitted and they are currently pending execution. In Spain, the Group estimates that it will recover 3.8 million euros of interest

and obtain an increase in tax credits of 3.7 million euros, which will be recognised in the affected companies as soon as the tax agency sends the settlements arising from the agreements. In turn, in Germany, the Company estimates a repayment of 5.6 million euros and a reduction in tax credits totalling 10 million euros. As mentioned in **note 15.2.** the Group has recognised a provision for 6 million euros, for the differences between the amounts received in Spain and the amounts payable in Germany, mainly resulting from tax rate differences between both countries and the transfer price adjustments originating from transactions made in other countries.

The Group is currently in negotiations with the German authorities to also make the agreements applicable to adjustments relating to third countries.

On 29 November 2016, notification was given of the commencement of tax inspections for the years 2011-2014. The authorities decided to postpone their proceedings on transfer prices until the proposed Mutual Agreement has been settled. It is currently suspended and, in view of the finalisation of the agreements, no further adjustments are expected.

Furthermore, this year the Group companies Acerinox Europa, S.A.U, Roldan, S.A., Inoxfil, S.A., and Acerinox Deutschland, GmbH submitted to the tax authorities of their respective countries a request for a bilateral advance pricing agreement to cover the transfer prices applied to sale and purchase transactions between Spanish manufacturers and the distributor. The negotiations between both companies have now concluded and the Group is expecting notification of the agreements reached in the first quarter of 2018.

Italy

In 2011 the subsidiary Acerinox Italia S.r.l. underwent an inspection of taxes for 2007, 2008 and 2009.

Between 2012 and 2014 the assessment notices for the three years were received, primarily indicating transfer pricing adjustments in relation to sale and purchase transactions between the Company and the Group's factories. The resulting payable tax amounted to 16 million euros, plus 3.5 million euros in interest. No penalties were imposed. There have been the following developments in relation to the assessments: The company challenged these assessments in appeals filed by the respective deadlines before the provincial tax commission of Milan, in which it was also requested that stays be placed on the tax debt until completion of the proceedings. These stays were accepted by the Italian authorities, subject to the pledging of bank guarantees for an initial amount of 7.9 million euros. Furthermore, on 9 December 2013 an application was submitted to the Spanish authorities requesting the elimination of double taxation based on Convention 90/436/EEC of 23 July 1990. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union. Following negotiations between the Spanish and Italian taxation authorities, or an arbitrator's ruling if necessary, this initial adjustment, or whichever adjustment is agreed, will therefore be offset by a counter-adjustment in the other member state. The Spanish Directorate-General for Taxation and the Italian authorities have confirmed their acceptance of the initiation of the procedure. The initiation of the Mutual Agreement Procedure allows the taxpayer to reduce the bank guarantees provided. The Group has reduced the guaranteed amounts to 1.3 million euros.

Italian legislation requires that internal appeals be withdrawn to accept the international arbitration proceedings to eliminate double taxation. Therefore, after it was announced that the proceedings had been accepted, the Group withdrew the internal claims relating to transactions with countries in the European Union.

In addition to the transfer pricing adjustments for 2007, 2008 and 2009, the assessment contained less significant adjustments for 2006 to 2009. The maximum risk of these adjustments amounted to 1.6 million euros (including interest). The company eventually decided to settle with the Italian authorities for 336 thousand euros, which were included as a tax expense in the income statement for the year.

On 28 December 2016, and with no prior notification of the initiation of inspection procedures, the Company received an assessment relating to transfer prices for the year 2011, automatically applying similar criteria to previous inspections. This led to adjustments in the tax base of 4.3 million euros, yielding a payable amount of 1.5 million euros plus interest. No penalties were imposed. On 26 May, the relevant arguments were submitted to the Italian tax authorities. In July 2017 we were informed of the temporary suspension of debt repayment without submitting any bank guarantee. In November requests were submitted for the elimination of double taxation in both Spain and Italy.

In November 2011, with no prior notification of the commencement of tax inspections, the company Acerinox Italia received a further assessment of transfer prices relating to 2012, giving rise to adjustments to the tax base of 4.9 million euros and an amount payable of 1.6 million euros, plus interest. The company expects to follow the same steps as with previous procedures, within the established periods.

In view of the agreements reached for Germany, the Group believes that it is likely to be required by the Italian taxation authorities to adjust certain amounts, mainly resulting from tax rate differences between both countries and the transfer pricing adjustments originating from transactions made in third countries. Therefore, the Group has decided to make a provision of 7 million euros, to cover the maximum risk arising from the adjustments currently being proposed, for the years 2007-2012.

Malaysia

On 24 and 28 December 2014, notice was received of the start of a tax inspection of the Group company Bahru Stainless Sdn. Bhd. for the years 2010 and 2011. Subsequently, on 4 March 2015, notification was received that the inspection was to be extended to 2012 and 2013. All requested information has been submitted to date. On 25 November 2015 a notification was received that the inspection had been postponed until further notice. On 23 February 2017, notification was received of the resumption of the tax inspections, but for the years 2010-2014. They are currently underway, with all requested information having been submitted.

In addition, on 20 January 2015 notification was received of the commencement of an inspection of the company Acerinox SC Malaysia, Sdn. Bhd. in relation to transfer prices in the period from 2010 to 2013. All the information requested has been submitted and, to date, no report on the findings has been received which would allow conclusions to be reached with regard to any adjustments.

France

On 29 November 2016 the Group company Acerinox France, S.A.S was notified of the commencement of a verification of the tax returns for 2014 and 2015. The procedures were completed this year without significant adjustments.

Poland

On 2 December 2016 notification was received of the commencement of tax inspections at the Acerinox Group company Polska Sp. Zoo for income tax for 2015. The inspection relating to income tax ended with no adjustments, and the procedure relating to transfer prices is pending review. The Company has submitted all information requested to date. The authorities have extended the inspection period to April 2018.

Switzerland

During this period, inspections were carried out in the Switzerland subsidiary for the years 2012-2015. The inspection was concluded without any adjustments.

18.5.2. Years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until the submitted tax returns have been inspected by the tax authorities or until the inspection period has elapsed.

Spain

Pursuant to the Corporate Income Tax Law, tax loss carryforwards declared in the tax returns for years open to inspection become statute-barred ten years from the day following the deadline for filing the tax return or self-assessment for the tax period in which the right to offset arises. Once this period has elapsed, taxpayers must submit the assessment or self-assessment and the accounting records, as well as evidence that they have been filed at the Mercantile Registry during the aforementioned period, in order to demonstrate that these tax loss carryforwards and the amount thereof are appropriate.

At 31 December 2017 and 2016, Acerinox, S.A. and the companies in the consolidated tax group have all the main applicable taxes open to inspection by the tax authorities for the following years:

Tax

	2017	2016
Income tax	2008 to 2016	2008 to 2015
Value added tax	2014 to 2017	2013 to 2016
Customs duties	2016 and 2017	2013 and 2016
Personal income tax	2014 to 2017	2013 to 2016

Other countries

The other Group companies have the taxes for the years stipulated by their respective local legislation open to inspection. The directors of the Company and subsidiaries do not expect that any significant additional liabilities would arise in the event of an inspection.

NOTE 19 – RELATED PARTY BALANCES AND TRANSACTIONS

19.1 Identity of related parties

The consolidated financial statements include transactions with the following related parties:

- Equity-accounted associates;
- Key management personnel of the Group and members of the Board of Directors of Group companies;
- Significant shareholders of the Parent.

Transactions between the Company and its subsidiaries, which are related parties, are carried out in the ordinary course of the Company's business and have been eliminated on consolidation. Therefore, they are not disclosed in this note.

19.2 Related party balances and transactions

All transactions between related parties are carried out at arm's length, and are listed below. It has not been necessary to make value judgements or estimates in relation to related party transactions.

a) Associates

No transactions were carried out with associates in 2017 or 2016.

b) Directors and key management personnel

Remuneration received by the four members of senior management who do not hold positions on the Board of Directors of Acerinox, S.A. amounts to 1,677 thousand euros. 991 thousand euros of this amount correspond to salaries, 90 thousand euros are for allowances and 596 thousand euros correspond to variable remuneration relating to profit for the previous year. In 2016, the four senior management personnel received 1,531 thousand euros, of which 977 thousand euros were for salaries, 84 thousand euros were for allowances and 470 thousand euros were for variable remuneration relating to profit for the previous year.

In 2017, members of the Board of Directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, received 2,221 thousand euros in fixed remuneration for attending board meetings and fixed and variable salaries (the latter based on the results from the prior year), of which 1,314 thousand euros were for salaries and fixed board member remuneration, 398 thousand euros were for allowances

and 509 thousand euros were for variable remuneration relating to results from the prior year. In 2016, the remuneration received totalled 2,080 thousand euros, of which 1,309 thousand euros were for salaries and fixed remuneration, 383 thousand euros were for allowances and 388 thousand euros were for variable remuneration relating to results from the prior year.

Commitments with all senior management, totalling 1,133 thousand euros in 2017, have been accounted for correctly and are adequately covered through insurance policies (1,040 thousand euros in 2016). No commitments have been contracted with directors representing shareholders or independent directors of Acerinox, S.A. At 31 December 2017 no advances or loans have been granted to the members of the Board of Directors or senior management and the Company has no balances receivable from or payable to these executives.

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

The Group has a civil liability insurance policy that covers the Group's Directors and members of senior management and also employees. The premium paid during the year amounted to 155 thousand euros (147 thousand euros in 2016).

c) Significant shareholders

The Group has entered into the following financing transactions with Banca March, part of the March Group (shareholder of Corporación Financiera Alba), all under fair market conditions:

- Guarantees up to a limit of 0.06 million euros, of which 0.06 million euros had been drawn down.
- Reverse factoring facilities for 3 million euros, which had not been drawn down at the end of the half year.
- Non-current loan of 30 million euros, which had been drawn down in full.
- Factoring facilities for 70 million euros, of which 29.15 million euros has been drawn down.

In 2016 the Group arranged the following financing transactions with Banca March, all of which were under fair market conditions:

- Guarantees up to a limit of 0.06 million euros, of which 0.06 million euros had been drawn down.
- Reverse factoring facilities for 3 million euros, of which euros 0.2 million has been drawn down.
- Non-current loan of 30 million euros, which had been drawn down in full.
- Factoring facilities for 70 million euros, of which 26.90 million euros has been drawn down.

Details of the Group's transactions with Banca March in 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Interest	1,206	420
Commissions	750	91
TOTAL	**1,956**	**511**

The terms and conditions of the loans and financial transactions listed in the preceding paragraph are in accordance with fair market conditions.

Furthermore, insurance premiums and other transactions totalling 11,846 thousand euros (11,564 thousand euros in 2016) have been brokered for the Group through March J.L.T. Correduría de Seguros (a March Group company).

The Acerinox Group has also carried out the following commercial transactions with its shareholder Nisshin Steel or other companies belonging to the Nippon Steel Group, to which Nisshin belongs:

(Expressed in thousands of euros)

	2017	2016
Dividends	158	228
Finance costs		20
Sales of goods	12,373	1,264
Trade and other receivables	1,061	440
Services rendered	639	1,244

NOTE 20 – AUDIT FEES

The appointment of PricewaterhouseCoopers Auditores, S.L. as auditors for the years 2017-2019 was approved by the shareholders at their Annual General Meeting held on 9 June of this year.

Details of fees and expenses accrued for services rendered by the auditing firms that audited the Acerinox Group's accounts in the years 2017 and 2016, and their associate firms, are as follows:

(Expressed in thousands of euros)

2017	PWC Auditores, S.L.	PWC International	TOTAL
Audit services	303	528	**831**
Tax advisory services		2	**2**
Other services	29	6	**35**
TOTAL	**332**	**536**	**868**

Other services includes the review of indicators of the annual corporate social responsibility report, the report of agreed procedures of the system of Internal Control over Financial Reporting (ICFR) and the report of agreed procedures on compliance of the financial ratios required by the "Borrowing Base Facility" of Columbus Stainless, where the last two are audit-related services. In addition, audit services performed by PWC Auditores, S.L. include other audit-related services for the limited review of the condensed consolidated interim financial statements at 30 June 2017 in the amount of 50 thousand euros.

Fees for the services of the prior auditor KPMG are detailed below:

2016	KPMG Auditores, S.L.	KPMG Internacional	TOTAL
Por servicios de auditoria	344	465	**809**
Por servicios de asesoramiento fiscal		636	**636**
Por otros servicios	67	45	**112**
TOTAL	**411**	**1.146**	**1.557**

Audit services performed by KPMG Auditores, S.L. include other audit-related services for the limited review of the condensed consolidated interim financial statements at 30 June 2016 in the amount of 50 thousand euros.

The amounts detailed in the above charts include the total fees for services rendered in 2017 and 2016, irrespective of the date of invoice.

Other audit firms invoiced the Group fees and expenses for audit services amounting to 76 thousand euros in 2017 (72 thousand euros for audit services in 2016 by companies other than KPMG, which was the Group's auditor that year).

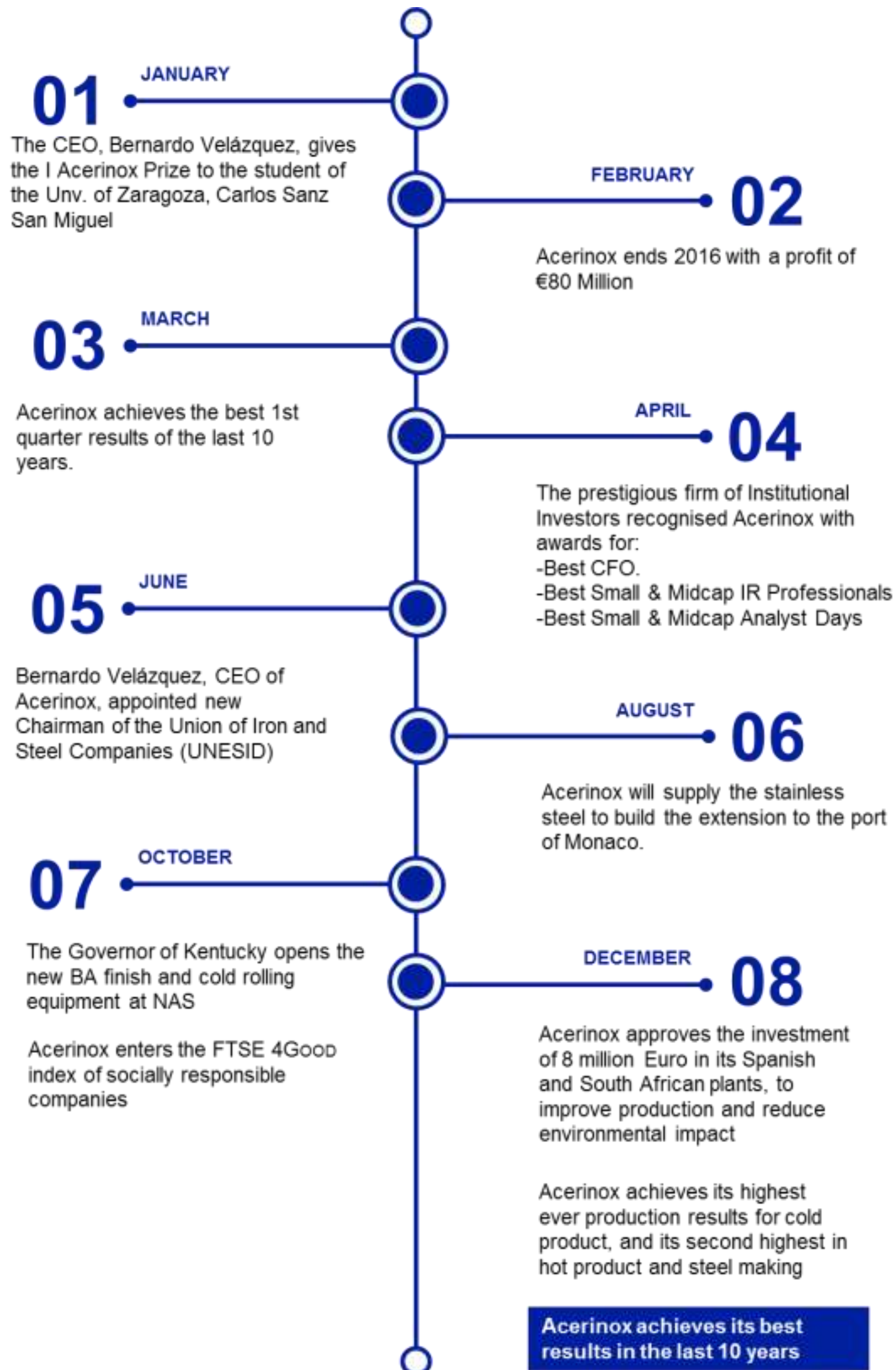
NOTE 21 – EVENTS AFTER THE REPORTING PERIOD

Between 31 December 2017 and the date of authorisation for issue of these accounts, no significant events occurred that might affect the financial statements presented herein.

MANAGEMENT REPORT 2017

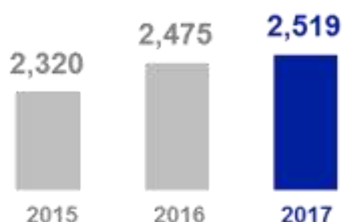
OUR NUMBERS

MILESTONES 2017

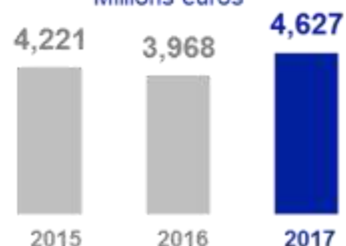


THE YEAR IN NUMBERS

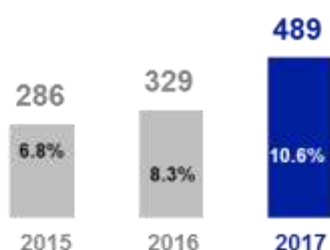
MELTSHOP PRODUCTION
Thousand mt



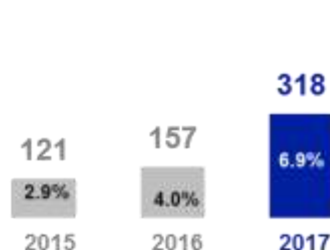
NET SALES
Millions euros



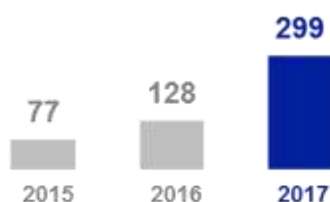
GROSS OPERATING RESULT EBITDA
Million euros
% of sales



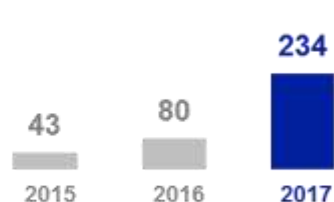
NET OPERATING RESULT EBIT
Million euros
% of sales



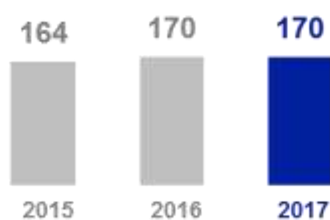
RESULTS BEFORE TAXES
Million euros



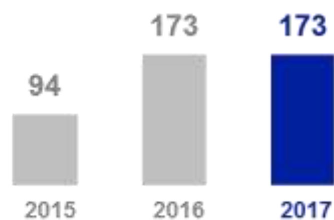
NET RESULT
Million euros

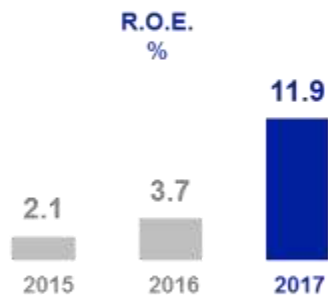


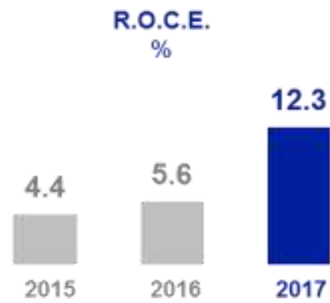
DEPRECIATION AND AMORTIZATION
Million euros



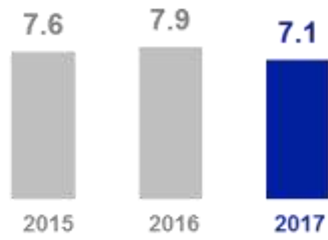
INVESTMENTS
Million euros



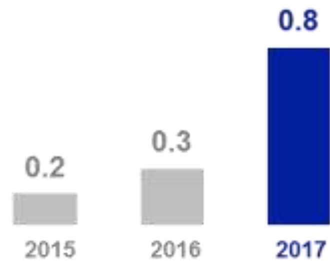




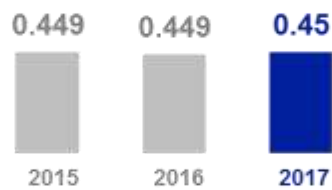
BOOK VALUE PER SHARE IN EURO
December, 31



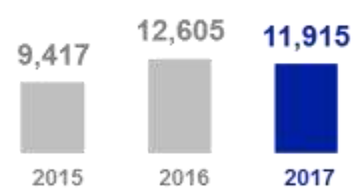
EARNINGS PER SHARE IN EUROS



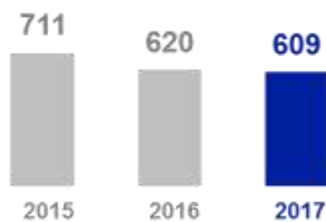
RETURN TO SHAREHOLDERS
Dividend + Share premium



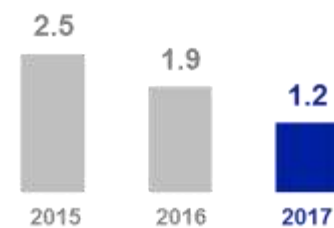
SHARE VALUE OFFICIAL CLOSE OF BUSINESS YEAR
Euros



NET FINANCIAL DEBT
Million euros



NET FINANCIAL DEBT / EBITDA
No. of times



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1. ABOUT US

Acerinox is the most global stainless steel manufacturer and seller. It is leader on two continents, present in all five and has factories in four of them, with sales in 85 and presences in 56 countries including sales delegations in 37 of them.

The Group has a production network serving the entire industrialized world.

It has three major integrated factories on other continents: Campo de Gibraltar (Spain), which was the first to produce over a million tonnes in 2001; North American Stainless, NAS (Ghent, USA), integrated since February 2002, and one of the most competitive factories in the world, and Columbus Stainless (Middleburg, South Africa), which joined the Acerinox Group in 2002. There is also the Bahru Stainless factory (Malaysia, Johor Bahru), which has the most advanced cold rolling lines.

Within this production network there are also the plants at Roldán (Ponferrada, Spain) and Inoxfil (Igualada, Spain) which supply the European market with long products.

Acerinox sells its products on the five continents thanks to a global sales network consisting of offices and service centres. It is the most advanced and sustainable stainless steel on the market, thanks to the use of the most advanced technological processes and use of the best techniques available.

The Group has distinguished itself in its 47 years of existence through a stability based on a solid financial strategy, control of risks and debt and the constant implementation of investments with quick returns that have enabled the factories and sales networks to expand repeatedly and make use of the latest technologies available.

The reinforcement of in-house talent, treatment of know-how as a major asset, development of new ideas and constant investment have made it a leader in the sector.

The main shareholders are also noted for their commitment and continuity, with holdings that date to 1970, when the company was founded, in the case of Nisshin Steel Co. Ltd., 1998 in the case of Omega Capital, from 2001 in the case of Corporación Financiera Alba and 2002 for IDC (Industrial Development Corporation).

Where our net sales comes from (%)

1.1 Acerinox S.A and the production companies

Acerinox, S.A.

Acerinox S.A is the parent company of the Group and the main share holding company of the different subsidiary companies. All of the shares are listed on the Madrid and Barcelona Stock Exchanges. As of 31 December 2017, share capital is made up of 276,067,543 ordinary shares each with a nominal value of 0.25 euros, which are subscribed and fully paid.

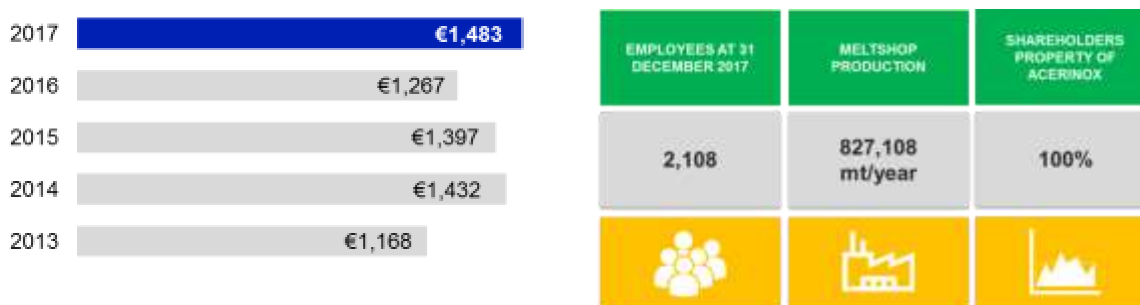
The main activity is that of a holding company, parent company of the Acerinox Group. Also, the Company provides legal, accounting and assessment services to all of the companies of the Group and carries out financing activities within the Group.

The Group's treasury is centrally managed in order to obtain maximum resource optimisation. The Group's net debt is mainly concentrated in Acerinox, S.A. (over 92% of total gross debt at financial year-end). At financial year-end it has both long-term and short-term financing lines in force for the amount of 1,629 million euros. The amount drawn from the financing lines as of 31 December 2017 amounts to 1,149 million euros.

In 2017, Acerinox, S.A. has received dividends for the amount of 13.5 million euros from the subsidiaries of the Group. On 1 June 2017, the General Shareholders' Meeting approved the distribution of a cash dividend, charged to unrestricted reserves for the amount of 0.45 euros per share. The dividend payment became effective on 5 July 2017 and amounted to 124.2 million euros.

Acerinox Europa

Turnover in millions of euros



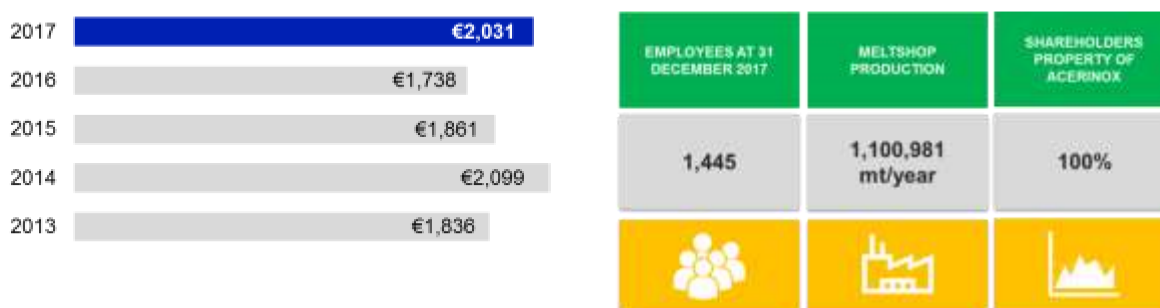
The Acerinox Europa factory is one of the most modern and efficient stainless steel plants on the continent. It was the first integrated plant in the Group and the first in the world to produce stainless steel. The experience acquired here was vital in the development of the ones that followed.

The constant investment and expansion of the factory and its equipment will continue in 2018 with the opening of an annealing and pickling (AP) line and a cold rolling mill, as well as all the auxiliary installations, which represent an investment of 140 million euros.

In terms of the environment, the Board of Directors recently approved an investment of 6.6 million euros to reduce the environmental impact of the plant, with measures such as closing the scrap warehouses and furnaces, improvements in AOD and lighting rigs, and the installation of wind panels, among other things.

North American Stainless

Turnover in millions of euros



North American Stainless, the plant with the highest production and profitability of the Group, where Acerinox has invested 2,300 million euros since it started there in 1990, is the leader in the United States, becoming a global reference for competitiveness and technological progress.

NAS is the clear leader in the American market, it casts nearly half of all the stainless steel in the United States, and is one of the few integrated plants on the continent.

This consolidated leadership of the internal market has been joined since 2017 by its status as the only bright finish stainless steel manufacturer in the country. This new expansion of the factory was possible because of the start of the BA bright annealing line, as well as a cold rolling mill, which was the result of an investment by the Group of more than 120 million euros.

Columbus Stainless

Turnover in millions of euros

Columbus Stainless, in which Acerinox S.A holds 76% of the shares and the Government of South Africa the other 24% through IDC (*Industrial Development Corporation*), is the clear leader in the whole African continent and especially in its main market, South Africa. Besides being the main supplier of stainless steel for the domestic market, Columbus exports material to the five continents. Few industrial groups can boast of a market share of nearly 50% across a whole continent, Africa.

The plant ended 2017 positively, with increased production in the steelworks and hot rolled steel, along with the new approval by the Board of Directors for the installation of a new slitter cutting line, requiring an investment by the Group of five million euros and, apart from supplying to the local market, will enable it to increase exports with product cut to the client's measures.

The geographical location of Columbus gives it a considerable commercial advantage, because it is close to areas where chrome is mined and transformed, considerably reducing its production costs.

Bahru Stainless

Turnover in millions of euros

Bahru Stainless is located on the world's principal commercial route, the Straits of Malacca, the most important maritime channel between the Indian Ocean and the Pacific.

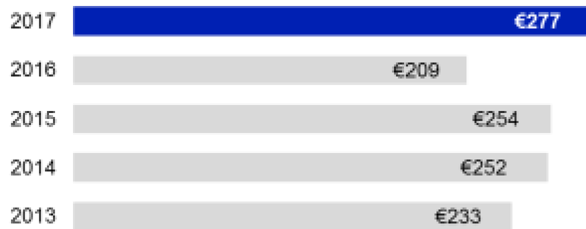
Bahru Stainless produces cold rolled stainless steel that is sold mainly in Malaysia and the other countries of the ASEAN region: Mainly Vietnam, Thailand, Korea, the Philippines, Taiwan and Indonesia.

This is the most recently founded plant, being built in Johor, Malaysia. In 2017, in a fiercely competitive market, Bahru Stainless achieved a positive EBITDA and increased its production of cold rolled steel by 33.4%.

The acquisition of hot rolled coil in other factories of the Group helps Bahru Stainless increase its production and improve the costs of the whole Group.

Roldán and Inoxfil

Turnover in millions of euros



The plants of Roldán and Inoxfil, in the Spanish towns of Ponferrada (León) and Igualada (Barcelona) respectively, are part of the Group's manufacturing network for long product.

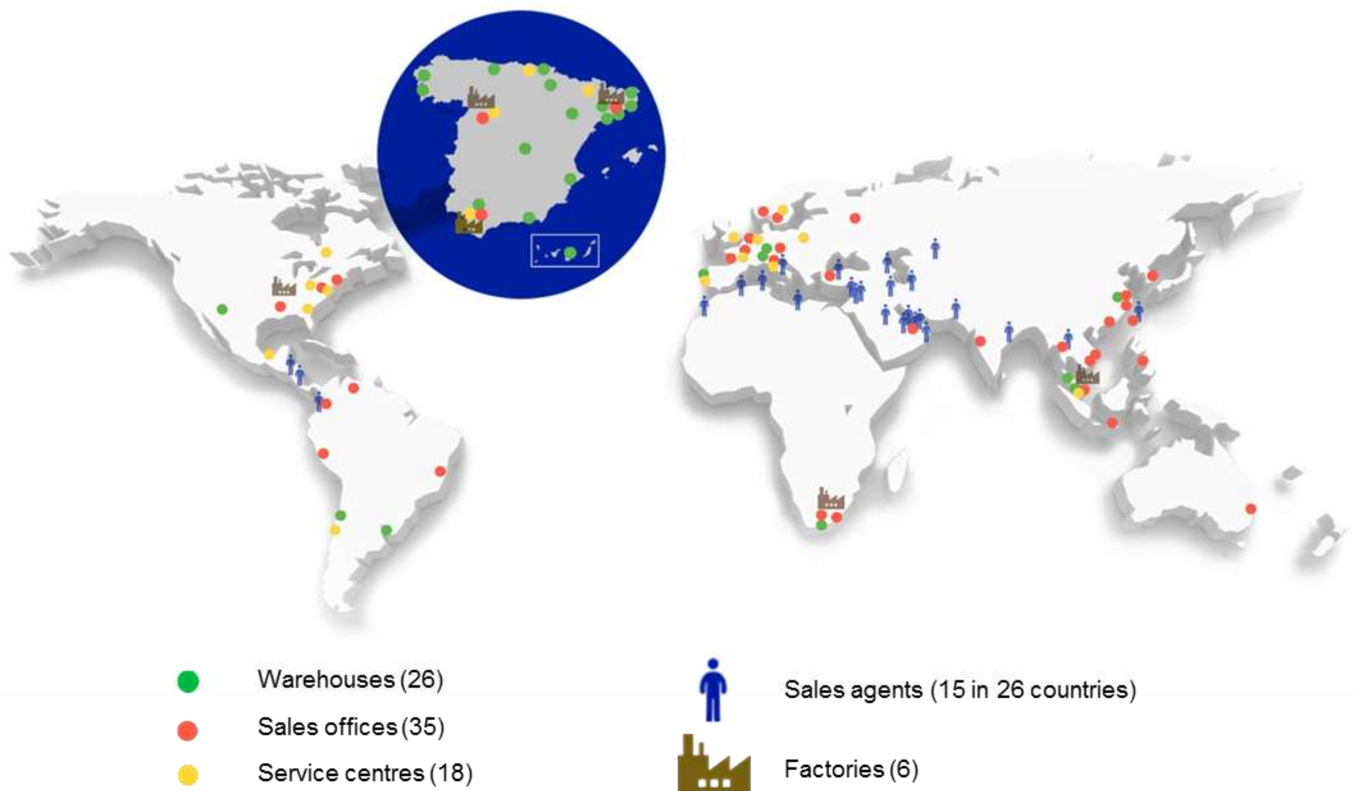
Both are key links in a chain of production that starts in Acerinox Europa (the only Spanish plant with a steelworks) which produces billet that is sent to Roldán where it is made into angles and bars. Ponferrada also produces wire rod which is supplied to Inoxfil for the production of wire.

Roldán is the oldest factory of the Group and owned by Acerinox. It benefited from an investment of 3.7 million euros in 2017 for the acquisition of new equipment and to improve those already there, increasing production by more than 8%.

1.2 Marketing Companies

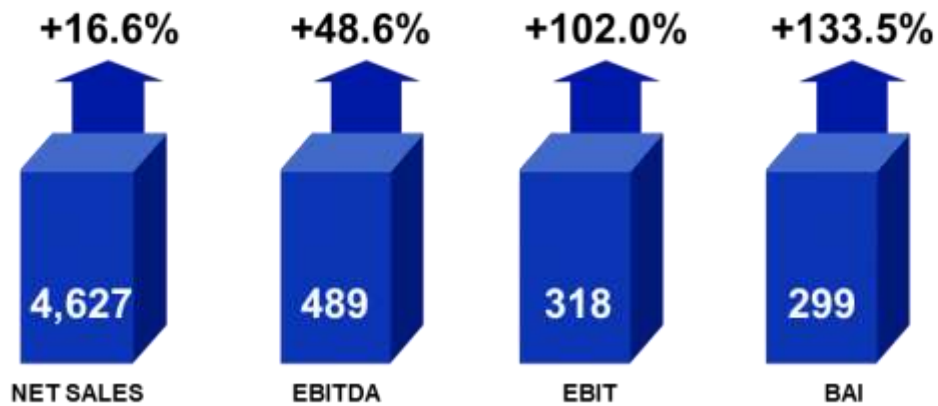
The Acerinox group's sales network was made up of 18 service centres, 26 warehouses and 35 sales offices, not to mention the countless sales agents in various countries which do not have a permanent office.

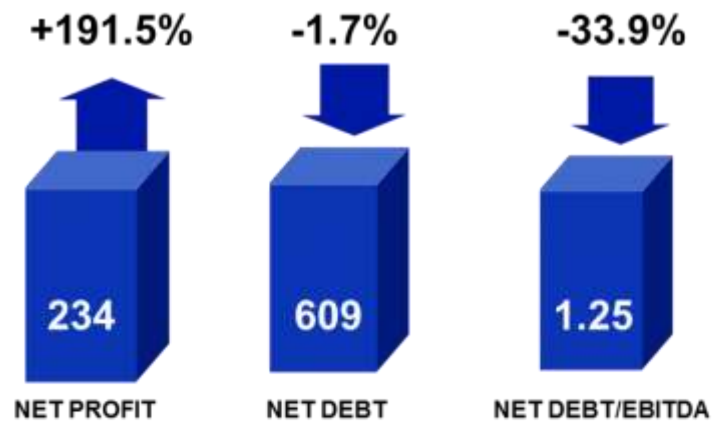
This sales structure, on 31 December 2017 meant that the Group was present in 56 countries, from where it distributes stainless steel to a total of 85 countries in 5 continents.



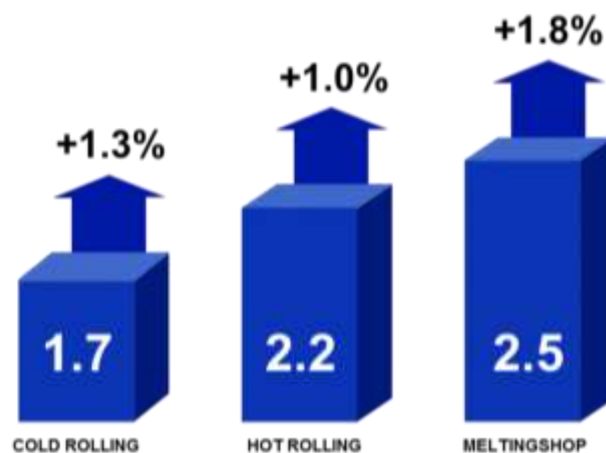
2. FISCAL YEAR RESULTS

Million euros





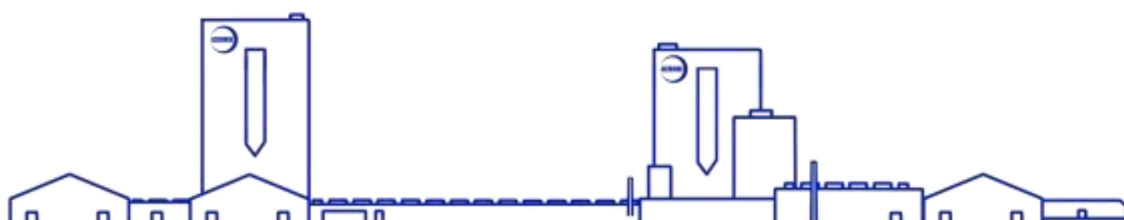
Productions (Million tons)



ACERINOX ACHIEVED ITS BEST RESULTS OF THE LAST TEN YEARS, WITH PROFITS OF 234 MILLION EUROS, AND A 16.6% INCREASE IN NET SALES, UP TO 4,627 MILLION EUROS.

2017 ENDED WITH IMPROVED MARGINS AND RECORD PRODUCTION FIGURES THANKS TO EXCELLENT OPERATIONS AND THE OPTIMISATION OF CAPACITY.

HEALTHY DEMAND IN THE MAIN GLOBAL ECONOMIES HAS ALLOWED THE STAINLESS STEEL SECTOR TO GROW.



In 2017, Acerinox obtained its highest profits of the last decade. The company ended the financial year with a result, after tax and minority interests, of 234 million euros, 191.5% more than the previous year.

Net sales for the year rose to 4,627 million euros, 16.6% more than the previous year. The growth of this revenue was due especially to an astute price management policy in all markets, with the transfer of increased costs of raw materials into the price of finished products.

These results underline the special significance of the operating strategy of the company and its optimisation of its production capacity, but another important factor was the savings achieved by the Excellence Plans.

The good performance of the markets, the positive impact of the tax reforms passed in the United States and the changes in the price of raw materials were other factors that contributed to these profits.

An EBITDA totalling 489 million euros was generated, 48.6% higher than in the same period last year, with a sales margin of 10.6%.

In 2017, Acerinox achieved its historical record for the production of cold rolled steel since it started production in 1970. It was also its second best year for steel production and hot rolling. The volume of stainless steel produced increased compared to the previous year in all workshops, and one figure worth noting among all the others was the 33% increase in production at Bahru Stainless.

The price of nickel, which has a strong impact on the stainless steel market, was volatile during 2017, reaching the lowest levels of 2016 (when it reached the region of 8,700 euros per ton) in the month of June, and the highest level of recent years (12,300 euros per ton) in the month of December.

3. ACERINOX IN 2017

Despite the uncertainties, the global economy grew by 3.7%, according to the International Monetary Fund with main countries also registering significant growth rates. The GDP of the USA rose by 2.3%, China by 6.8%, the Eurozone by 2.4% and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) by 5.3%, just to mention some of the most important economies. According to the same source, Spain grew by 3.1%.

It was a year in which the strength of the global economy showed itself. Shall the fundamentals of sustainable growth remain, it will encourage trade and production, generating employment and wealth around the world in the coming years.

GDP Growth by regions (IMF WEO January 2018)

	2016	2017	2018
China	6.7	6.8	6.6
Germany	1.9	2.5	2.3
India	7.1	6.7	7.4
ASEAN-5	4.2	5.3	5.3
South Africa	0.3	0.9	0.9
Spain	3.2	3.1	2.4
U.S.A	1.5	2.3	2.5
Eurozone	1.8	2.4	2.2

3.1 The Stainless Steel Market

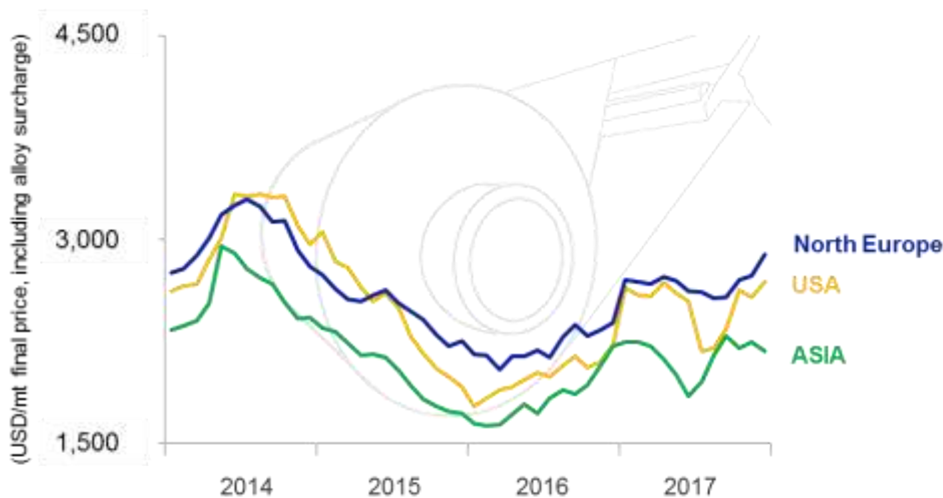
According to the data available, the market for stainless steel exceeded the initial growth forecasts that were set at around 4%. Based on the data from the International Stainless Steel Forum (ISSF) the growth up to September was at 7.4%, whilst our own estimates put growth for the whole year at around 5.7%, with the Annual Compound Growth Rate since 1950 unaltered at 5.9%.

Stainless steel remains a product with one of the highest growth rates and continues to break into new applications that take advantage of its remarkable qualities.

Prices started the year with rises driven by increases in the cost of raw materials, reaching their peak between the end of the first and start of the second quarters before falling back in the second and third quarters, only to recover again at the end of the year.

The reason for the decline in raw material prices seems to be connected once again with the uncertainty about the growth of the Chinese economy and the reduction in activity that the Communist Party Congress in November was expected to cause. This did not occur, and the result was the recovery at the end of the year.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304



3.1.1 Europe

Following the sharp increase in apparent consumption of flat product in Europe in 2016, (8.7%), in 2017, the trend was confirmed and apparent consumption rose again by 0.7% to 5.37 million tons, close to the historic record of 2006, indicating that the crisis in Europe is finally over.

According to our estimates, the European country with the highest increase in consumption was Poland, with an increase of 5.9%, followed closely by Spain with 4.6%, where apparent consumption is still 15% below the highest levels of 2006. Among the other countries, the situation of the UK is worth noting. After the steep fall last year caused by Brexit, its levels remained stable in 2017, ending with a slight decline of 0.5%. In the other

major EU countries, Germany rose by 0.4% while Italy and France fell by 1.9% and 1.7% respectivily.

Imports of flat product continued to rise by 17.9%, with the imports share rising from 23% in 2016 to 27% in 2017. Imports of cold rolled products rose by 15.7%, whilst hot rolled products rose by 24.4%, driven by the imports of hot rolled coil from China for the large steel transformers in the Italian market.

The strong demand noted in the first quarter of the year led to an increase in inventory, which would only return to the average levels of previous years in September, ending the year with adequate levels.

The Acerinox Group consolidated its position in important markets such as Turkey and Russia, which continued to grow at a high pace.

Base prices were stable in the first four months, but later deteriorated towards the end of the third quarter. They gradually recovered during the fourth quarter, which triggered optimism towards the start of 2018.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304
2014- 2017

Source: PLATTS

Real consumption remained strong, and key sectors for stainless steel such as construction confirmed the trend of 2016. According to estimates from Eurofer (February 2018), the construction sector grew by 4.3%, automotive continued as strongly as in recent years and grew by 3.7%, in line with the home appliances industry, which also grew by 3.7%.

3.1.2 Americas

Real consumption of the American market maintained sustained growth, the construction industry grew by more than 4% once again, for the third year running according to the Census Bureau. The domestic appliance sector also grew by 5.8%, according to AHAM, while production and sales in the automotive sector suffered corrections of -2.5% and -1.7% (both figures from Light Vehicles Wards), although this means that levels actually remained high, considering that 2016 had been a record year.

According to the latest available data, the flat product market grew by 3% in 2017. Meanwhile, the reactivation of the Oil & Gas industry revived the market for long product, which grew by more than 20% to compensate for the fall of -13.6% in 2016.

Inventories were constant throughout 2017, but below the average of recent years. The base prices of the American market were fairly stable throughout the year, while variations in raw materials affected the alloy surcharge.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304
2014-2017

Source: PLATTS

Both Canada and Mexico registered increases of apparent consumption of flat products, with consumption in the latter country continuing to grow strongly thanks to sectors such as automotive.

In South America, the recovery of Brazil was the highlight, with a growth of 15%, and accounting for nearly 70% of total consumption of flats products in the region.

3.1.3 Africa and Middle East

The apparent consumption of flat products in South Africa fell by 6.9% in 2017 according to our estimates, reflecting problems in the economy and political instability, although there was a recovery in the last months of the year in sectors such as mining, which could lead to further rises in consumption of stainless steel.

As part of its business strategy, and to compensate the weakness of the local market, Columbus continued to increase the number of countries to which it exports to reach a total of 67 countries.

In the Middle East, the United Arab Emirates stands out as the largest market and the best performing country in the region (where the Group has an office in Dubai).

It is also worth mentioning the growth of African markets of Morocco and Algeria, where Acerinox is the market leader.

3.1.4 Asia

The largest stainless steel market, China, increased its apparent consumption again, by 7.2%, according to data from the China Stainless Steel Council. The increase in production was caused by growth of internal consumption, as exports stabilized. This growing balance between internal demand and capacity in China makes us optimistic about its reduction of excess capacity.

Evolution of prices in the Chinese market was similar to other markets throughout the year, although always lower, putting pressure on the international market, especially in the ASEAN region.

The year ended with low inventories in Wuxi and Foshan, in levels below average in recent years. This may contribute to an improvement in prices at the start of 2018.

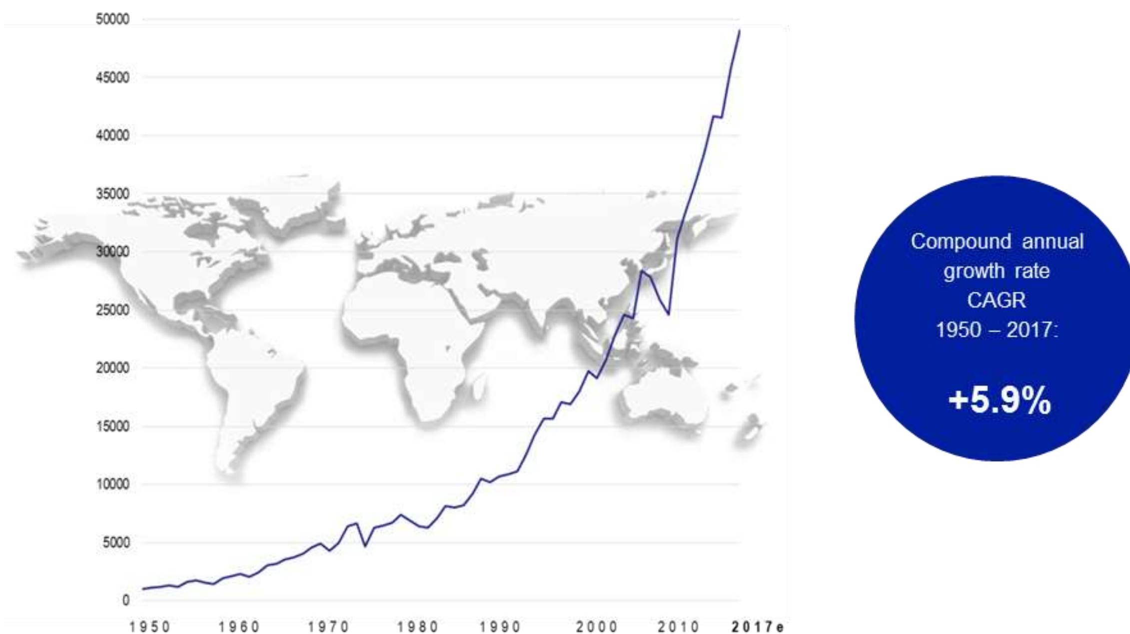
3.2 Global Production of Stainless Steel

According to the available data from ISSF (International Stainless Steel Forum) to September, production in these nine months rose by 7.4% in comparison with the same period of 2016.

While waiting for definitive figures for the fourth quarter, we estimate a yearly total growth of around 5.7% in 2017.

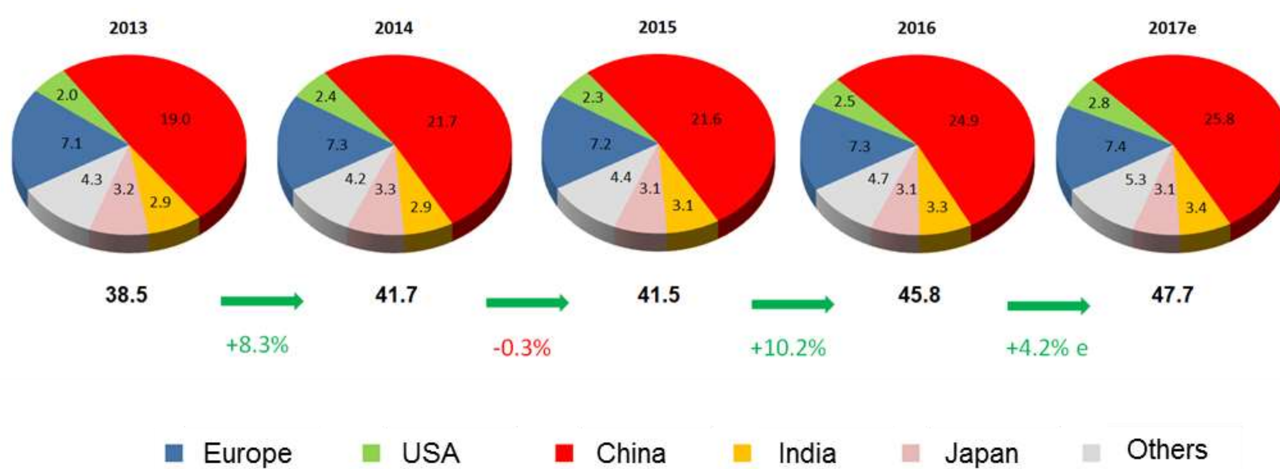
According to these estimates, world steel production in 2017 was 48.1 million tons.

Worldwide production of stainless steel 1950 - 2017 (e)



China remains the main producer, with over half of all world production

Evolution of world meltshop production
Thousand mt



Evolution of world meltshop production
Thousand mt

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2016	10,192	11,745	11,401	12,110	**45,448**
2017	11,664	11,335	12,537	12,519e	**48,054**

Stainless steel meltshop production by region / country
Thousand mt

	2016	2017	Variation
Europe	7,280	7,377	1.3%
USA	2,481	2,754	11.0%
China	24,608	25,774	4.7%
India	3,324	3,502	5.4%
Japan	3,093	3,122	0.9%
Others	4,661	5,526	18.5%
Total	45,448	48,054	5.7%

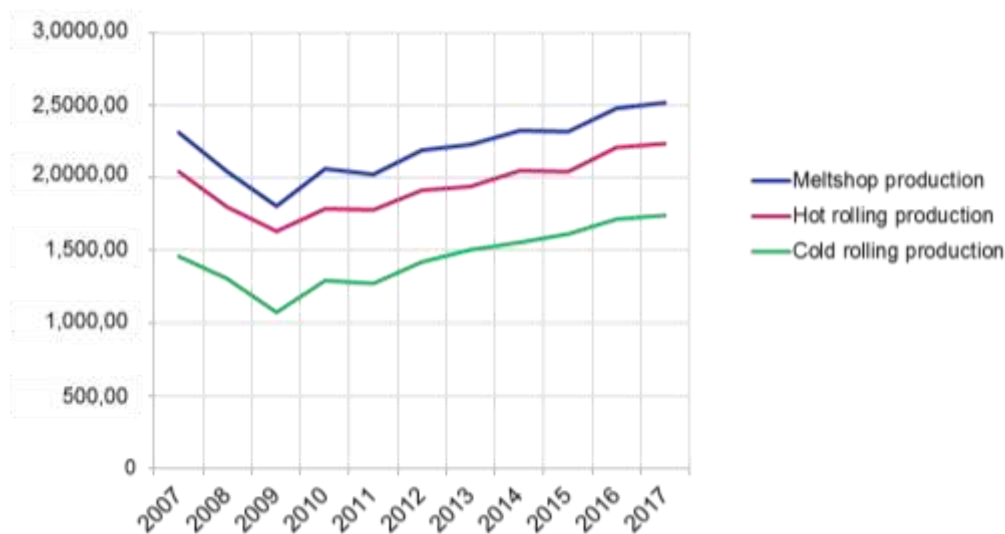
Source: ISSF, Acerinox

3.3 Acerinox Group Production

Acerinox production in 2017 registered its highest figures ever for cold rolling, with 1,738,240 tons, and the second highest figures for hot rolling, with 2,230,678 tons, as well as for melting, with 2,518,919.

Changes in the total official production of Acerinox factories

Mt



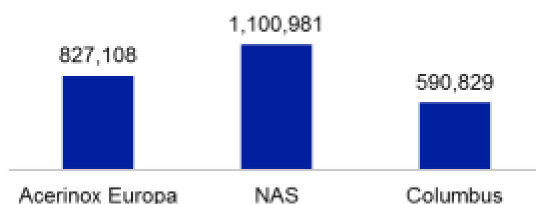
These volumes represent an increase over the previous year of 1.3% in the case of cold rolling and 1.0% and 1.8% in the case of hot rolling and melting, respectively.

Quarterly production figures for the Group

Thousand mt		2017					2016	Variation 2017 / 2016
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated		
Meltshop	Thousands of tonnes	667,523	605,382	614,593	631,420	2,518,919	2,475,374	1.8%
Hot rolling		592,503	535,384	542,443	560,349	2,230,678	2,208,904	1.0%
Cold rolling		438,289	436,223	426,817	436,912	1,738,240	1,715,864	1.3%
Long product (Hot rolling)		58.5	59.3	54.3	61.8	233,900	224,272	4.3%

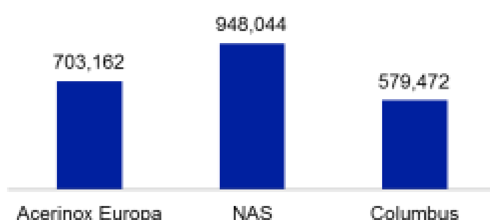
Melting shop production

Mt



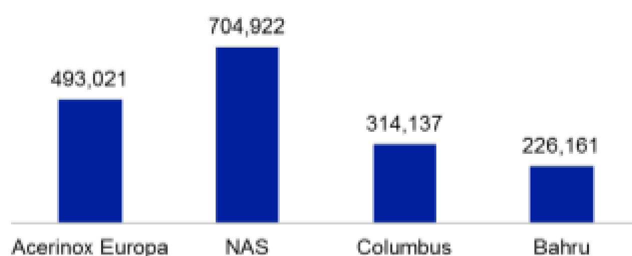
Hot rolling production

Mt

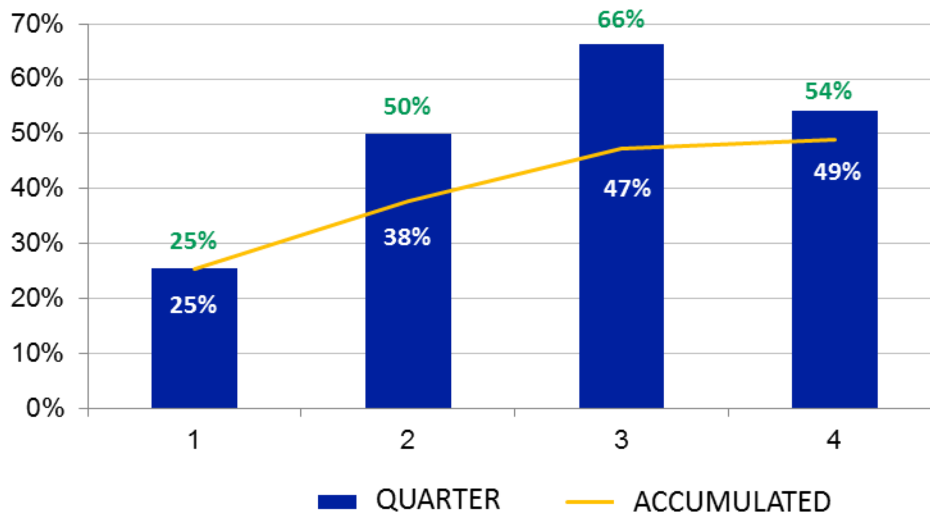


Cold rolling production in the main factories

Mt



3.4 Excellence Plans



Excellence Plan V (2017-2018) is currently under way in the Acerinox Group. The first year of application ended with 49% completion of the total recurring savings target forecast of 50 million euros. Therefore, in the same conditions, the same characteristics and circumstances as the 2016 financial year, this would imply a saving of 24.6 million euros.

The current Plan, approved by the Board of Directors in December 2016, has 20 chapters which look for improvements in areas such as manufacturing, efficiency, flexibility and customer service.

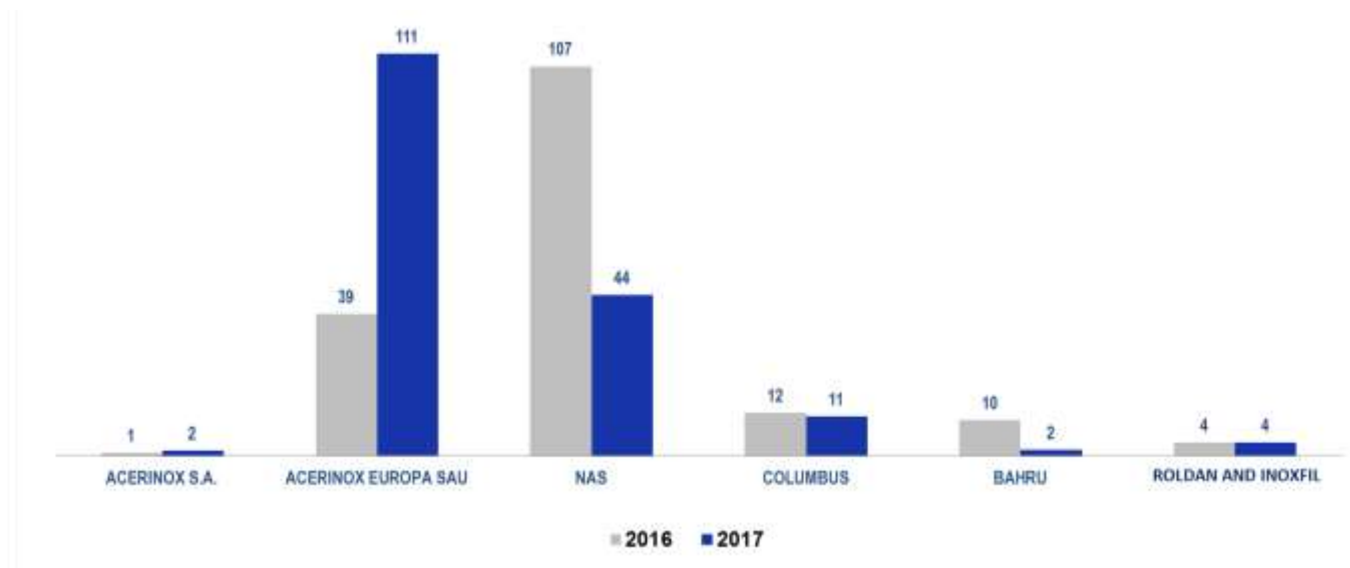
Excellence Plans are a tool for improving production costs along the whole supply chain, resulting from a benchmarking exercise of the best practices in each of the processes and units in the Group. These plans are an essential management tool both for the different companies as well the management of the Group. They have achieved important successes since 2009, when they were first implemented.

Each plan is put forward with the aim and criteria of optimizing and making improvements on the previous ones, so that the accumulated savings to date are consolidated and form the basis of the next plan.

The different plans applied have registered recurring savings of 97 million euros in Plan I (2009-2010), 53 million in Plan II (2011-2012), 53 million euros in Plan III (2013-2014) and 50 million euros in Plan IV (2015-2016).

3.5 Investments in Fixed Assets

Investments in Fixed Assets: 173 million euros



North American Stainless, Acerinox's production company in the United States, started new production lines in 2017 after an investment of nearly 120 million euros. This expansion added a bright annealing BA line and cold rolling mill to the productive capacity of the plant, enabling it to produce bright finish stainless steel (a product with growing demand in this market).

Acerinox Europa will also open new lines in the first months of 2018. After a total investment of 140 million euros, of which 111 were invested last year, the plant will start up a new annealing and pickling (AP) line and a cold rolling mill. A new slitting line, which is already working, completes these investments. This will improve the quality of its products, reduce costs and the environmental impact.

In both cases, these are strategic investments approved by the Board of Directors in 2015 in order to boost and reinforce the leadership of Acerinox in North America and to improve its position in the European Market.

For the South African plant, Columbus Stainless, the Board of Directors of Acerinox approved an investment of 5 million euros in December 2017 for the installation of a new slitter line that will improve the service it offers its customers and reduce delivery times. The Group invested 11 million euros in this plant last year.

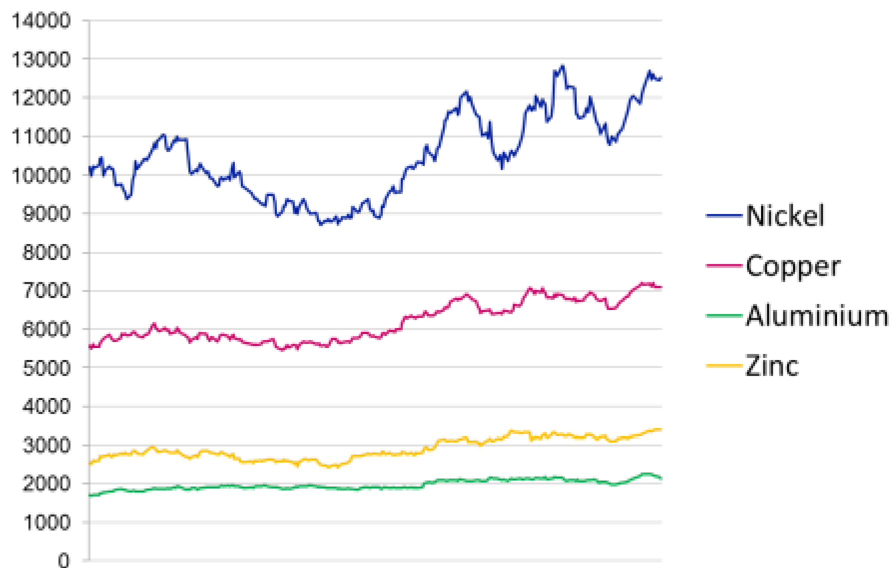
The global amount of investments, as shown in the graph accompanying the text, rose to 173 million euros in 2017, a similar sum to the previous

year, in which maintenance investments are included to equip the installations with the most advanced technology and equipment.

3.6 Raw Materials

The recovery of industrial production entailed an increase in consumption that pushed the prices of raw materials upwards in 2017. As usual, demand in China was an important factor in the movement of some raw materials during the year.

Official raw material prices in the LME (2017)
USD / mt



Nickel

The price of nickel followed a downward trend in the first half of the year. The announcement of the partial lifting of the veto on nickel ore exports from Indonesia, with the consequent potential rise in pig nickel production in China, together with the uncertainty about the resilience of Chinese economic growth led to a drop in prices to the minimum annual price of 8,700 USD/mt in June.

This was a turning point, and prices rose in the second half of the year. The announcement of nickel production caps combined with healthy demand, especially in China, were the basis of the recovery of the prices, which rose over 12,000 USD/mt, levels not seen since July 2015. Besides these factors, the positions taken by financial investors in the metals exchange, due to the interest in nickel as a component in batteries for electric cars, caused the price to rise to higher levels in the last months of the year,

although with greater volatility. Nickel prices reached their highest point in November, at 12,800 USD/mt, before ending the year at 12,200 USD/mt.

Official price of nickel on the LME (2016 - 2017)
Average spot price / three months in USD/mt)

Despite the increase in the production of pig nickel in China and Indonesia in 2017, consumption was stronger than production of this metal for the second year running, leading to an estimated deficit of 128,000 mt at the end of the year, reducing the stocks available on the market.

Stock on the LME fell by 5,454 mt, ending the year at 366,612 mt. The reduction on the Shanghai Exchange was even more pronounced, 49,096 mt to 44,216 mt, at the end of the year.

Despite the recovery of the prices in the second half of the year, nickel was the metal which saw the least movement, with an increase of 20.1% during 2017. The highest increase was for aluminium with 31.7%, followed by zinc with 29.6% and copper with 28.4%.

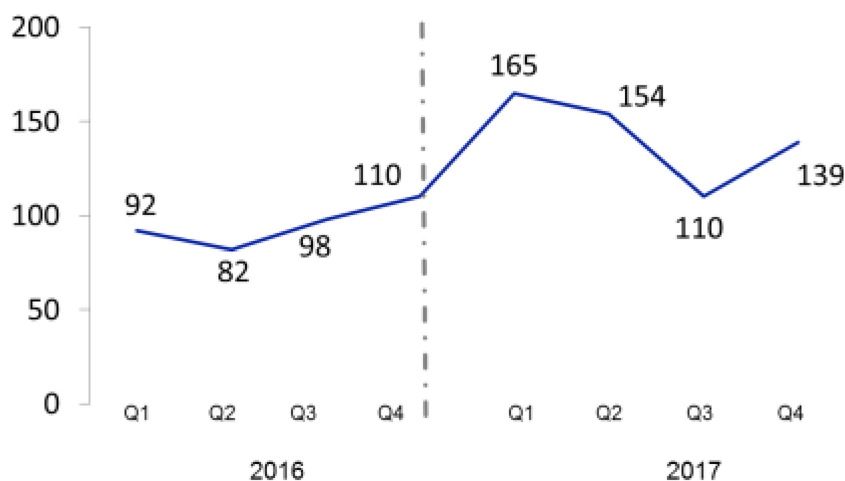
Ferrochrome

The price of ferrochrome has been one of the most volatile in recent years. It started the year with an annual high in the first quarter, when it reached 165 US¢/Lb, which it had not reached since the second quarter of 2008. This steep rise was driven by the changes in the Chinese market. Low stocks of both chrome ore for local production and ferrochrome at the end of 2016 in China caused prices to rise steadily and affected global prices in all markets.

Prices started to fall back as the process of restocking wound down, reaching 154 US¢/Lb in the second quarter.

It was in the third quarter, when stocks had been fully replenished, that the low global demand sent the prices strongly downward, ending up at 110 US¢/Lb. The recovery of demand after the summer saw prices improve reaching 139 US¢/Lb for the fourth quarter. Obviously, this volatility makes managing our stocks difficult and increases uncertainty.

Average quarterly price of ferrochrome
US¢/Lb. Cr



Molybdenum

The sharp cuts in production during 2015 and 2016 meant that demand improved and created a mild deficit that enabled prices to rise in the first months of the year, reaching 9 USD/Lb at the start of April.

This recovery of the prices stimulated an increase in production, especially in China, but the fall in demand in the second quarter forced prices down to their annual minimum of 6.85 US¢/Lb in June.

The improvement anticipated in the second half of the year led distributors to start a process of replenishing their stocks. Prices did recover at the end of July and remained stable at around 8.5 US¢/Lb. The continued rise in demand, especially in China, made it possible for prices to rise strongly at the end of the year, reaching over 10 US¢/Lb at the end of December, its highest level in the last three years.

Price of molybdenum

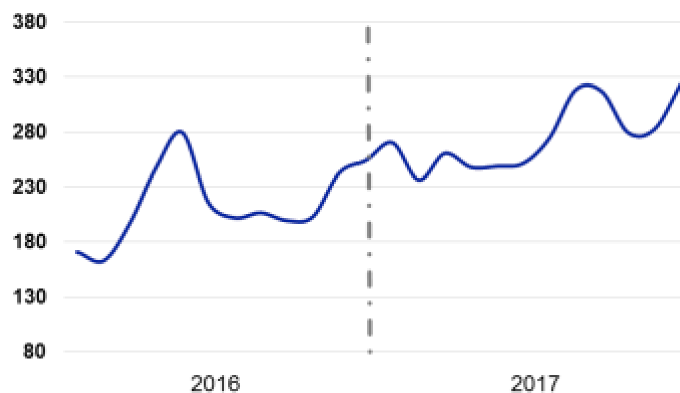
US¢/Lb. Mo.

Ferric Scrap

The price of scrap was stable in the first half of the year, at around 250 USD/mt. It started to rise steadily at the end of June as a result of the strong activity of the main importers like Turkey, which even imported scrap from Oceania for the first time. Prices reached average levels of 320 USD/mt in August. We have to go back as far as 2014 to find similar prices.

The uncertainty generated in the market by the shortage of electrodes, and doubts about whether production could be sustained led to a sharp correction as prices tumbled to 280 USD/mt. Despite this, the improved demand and replenishment of stocks prior to the winter period have enabled prices to recover, so that they reached their annual high in December.

Prices of scrap iron, HMS 1&2 FOB Rotterdam
USD / mt



3.7 Human Capital

The geographical distribution of the 6,742 people who formed part of the Acerinox Group at 31 December 2017 is a clear indication of the international vocation of the company since its foundation.

Total Group Employees		
2015	2016	2017
6,506	6,573	6,742

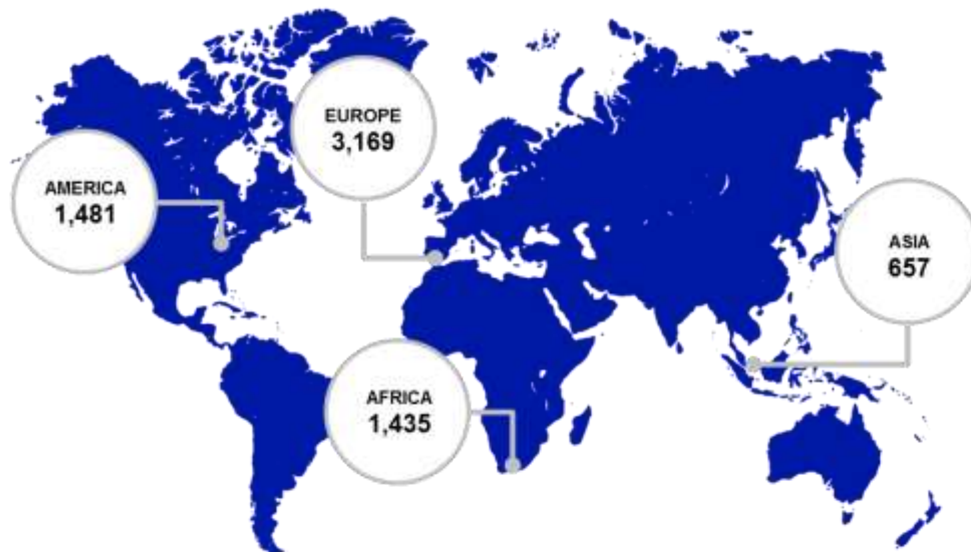
More than half of the employees of the Acerinox Group work outside Europe. There are 3,169 people (46%) working in the Old Continent, while the other 3,573 workers are employed on the other four continents. Specifically, Acerinox has 1,481 employees in America (22%), 1,435 in Africa (21%) and 657 in Asia (9%).

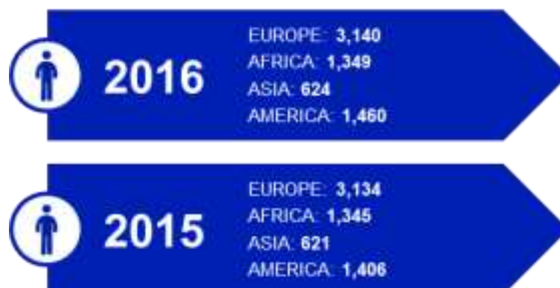
The workforce increased by 2.6% since the implementation of new lines which has increased production.

Acerinox considers its reliance on internal promotion a strategic issue, leading to low turnover in the workforce and rewards for hard work and dedication, principles reinforced and emphasised by the Management. This approach to Human Resources has created a strong feeling of loyalty and pride at forming part of the company.

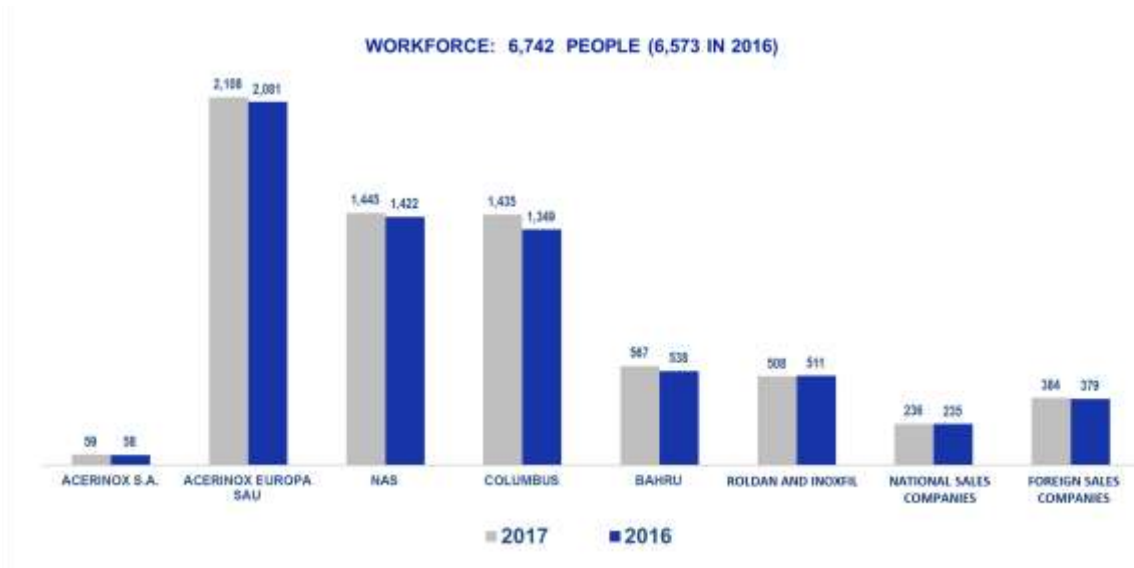
The foundation of this relation is the fact that the contracts of Acerinox employees are indefinite, in 90% of cases, and always of high quality, with professional development, opportunities for promotion and are well-paid.

Number of employees as of 31 December 2017 by geographical locations:





Acerinox offers opportunities to learn and overcome professional challenges. The company places special emphasis on aptitudes for teamwork and learning for worker development, acknowledging proposals and initiatives and a proactive attitude among the workforce. All these characteristics and values can explain the low turnover of personnel among the Group's companies, even in countries where the culture of job mobility is deeply ingrained.



In order to find and retain talent, the companies of the Group have agreements with over 30 universities in Spain, the USA, Malaysia and South Africa.

The Group values gender diversity for the creation of value and promotes exchanges between technicians from all its factories and sales offices located in different countries, with the aim of achieving the best practices by means of benchmarking and cultural exchange.

3.8 R+D+i

Each of the processes of production, distribution and sale of stainless steel, as well as management, require constant effort in research, development and innovation.

From the purchase of raw materials to the final delivery to the client, with all the equipment needed to manufacture the finished product, the transport and optimal routes for moving it, the most appropriate places for storing it and the delivery models are all tasks in which the use of technology and analysis of data and programmes is of vital importance.

Steel making requires constant investment in new equipment, in the use of the latest technology and the monitoring of production processes.

For this reason, the amounts dedicated to investment in the factories in the last decade add up to more than 160 million euros on average each year. It is a significant financial and human effort which is also intrinsically linked to the values of the company and those who form part of it, dedicated to finding new answers that enable us to face new challenges and discover opportunities for business and improvement.

The 13.59 million euros that were invested directly in R+D+i include the 6.9 million euros that Acerinox Europa invested in the acquisition of new technological equipment to enhance the output of the new production lines. North American Stainless invested another 5.4 million in R+D for the same purpose as the Spanish plant. Columbus Stainless invested 343,304 euros.

The different research laboratories that the company has are dedicated to finding better and more profitable alloys and research into new applications for the products, continuously developing innovations to obtain different product finishes and certifications of the physical properties and composition of steel.

Besides improving the different production workshops in the plants and the tools used in the company, most of their work is aimed at enhancing the qualities of stainless steel and looking for new applications and markets where it can be used, as well as increasing production capacity, optimising each of the phases and expanding the range of products made by the company, reducing where possible consumption and costs generated by the activity, and its environmental impact.

The R+D+i within the company is not limited to just one department but is in each production phase so that the majority of the staff participates in it. Therefore, the company awards each year, through the Rafael Naranjo Awards, which have a total economic endowment for all categories of 45,000 euros, the best ideas to improve the quality of the product and the process.

In the 2017 edition, the first prize of "Quality in Progress", endowed with 15,000 euros, fell to the TLC Mechanical Maintenance Group, for its project *Elimination of Apron Mobile accidents in the hot rolling mill finisher.*

The second prize in this category was awarded to work *'Modification of gasifiers in the pools of the steel mill'*, prepared by Francisco García Olivares, who has been rewarded with 10,000 euros. For third place, the jury awarded 5,000 euros to Juan Carlos Enríquez Baladez and Cristóbal Aguera Fernández for their project *'Improvements to diversion bucket. Improvements in spouts and arms '.*

In the category of Safety awards, the project was the winner *'Buzas',* prepared by Matías Sánchez Valentín, who will therefore receive 10,000 euros.

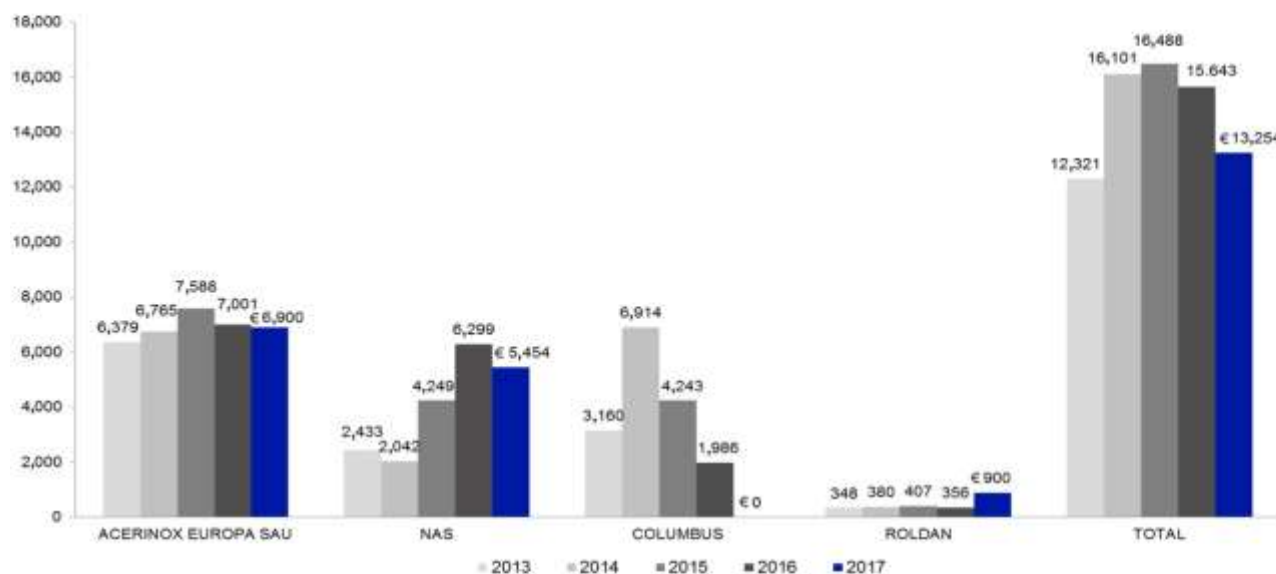
In the Environment section, the award was for *the 'Geolocated and monitored online PH meter for environmental emergencies',* signed by Sergio Pelayo Jimeno and awarded 5,000 euros. In this section, the members of the Committee have also wanted to make a special mention to the finalist project *'Reduction of particulate and fume emissions in the steelworks by exploiting the oxyfuel extractor'* developed by Jonathan Domínguez Vélez, and given the success of this program it has been decided to extend it to all the factories.

The Group also convened the second edition of the Acerinox Prize in 2017, organized by the Association for the Development of Stainless Steel (Cedinox). The student of Industrial Engineering at the Polytechnic University of Madrid, Almudena Menéndez González, was awarded the Acerinox Prize for her work, *'Functionalization of surfaces using LIPSS with femtosecond laser'*.

The jury awarded this study about an application in development for surface treatment using stainless steel (among other metals) laser, with promising possibilities for future use in surface staining and its properties hydrophobic, which can contribute to increase the advantages of the stainless steel in various applications. The award is accompanied by a cash prize of 3,000 euros and is delivered in the presence of all the members of the jury and the Acerinox management in a public ceremony.

In addition, Cedinox, supervised in its entirety by Acerinox, taught courses in the 2016-2017 academic year to 1,415 students from 19 engineering and architecture schools.

Investments of the Group in R + D + i 2013-2017
Thousand euros



3.9 Digital Transformation

Digitalization is not only changing the way people interact within society, but it also poses a challenge for companies in how they adapt their business models to be more competitive.

In November 2017, the Acerinox management presented the Digital Transformation strategy to the Board of Directors. The objective is to give value to the information and knowledge that exists in the Group in order to improve the operational excellence of the entire value chain, enhance the brand image and create a new way of working in which professionals have of tools that allow them to be more effective and make better decisions.

The Group's strategy has drawn a roadmap for the next few years in which the following projects are identified:

1). Optimization in transportation contracting through data analytics

2). Improvement of energy efficiency through the identification of opportunities in the production process with Big Data tools

3). Pilot projects in the new production lines to add sensors to critical parts with the objective of capturing signals that allow their subsequent study

4). Platforms that will allow cross integrate data of operation in order to achieve more predictive management models in the areas of maintenance and quality

5). Integrated planning from the purchase of raw materials to the sale of final product thus increasing customer service

In order to prepare the organization to face this transformation, collaborations with universities and technology centres have been strengthened in order to incorporate profiles with the necessary capabilities.

In 2017, the first year of life of the Chair of Connected Industry was completed, of which Acerinox is a sponsor, along with other relevant industrial and technological companies. During this period, we have shared how to approach data analytics projects, what professional profiles are going to be demanded in the future by companies and how it affects security in a hyperconnected environment.

3.10 Risk Management

All business activity involves internal and external risks which must be adequately managed.

Acerinox, S.A. has implemented a risk management model, designed to identify, classify, and assess the potential risks that can affect all units and relevant functions of the Organization, with the ultimate aim of managing them and providing a reasonable assurance on the achievement of the objectives, be they strategic, operational, compliance or information.

The Group's governing bodies have implemented a risk management process throughout the organization, as part of the usual management activities, based on the principles of efficiency, commitment, leadership, compliance, transparency and supervision.

The heads of all the units carry out an analysis of the potential events that involve risks, thus creating an inventory of risks and carrying out their preliminary taxonomy. To measure its probability and impact, qualitative and quantitative techniques are used based on the knowledge, judgement and experience of the people involved, sometimes complemented with the corresponding actuarial technique. The Management Committee of Acerinox, SA supervises the evaluations and the conclusions reached.

For the graphic representation, a heat map is used that allows great visibility and comparability, allowing the identification of the relevant units of the Group and their impact, probability and risk assessments, as well as

serving as a basis for the determination of appetite rules and thresholds of controlled admissibility of those.

The Director of Corporate Risk Management, under the direct supervision of the Chief Executive Officer, analyses, evaluates and, where appropriate, proposes to the latter the update of the risk map and the response of the mitigation measures.

The company has grouped the relevant risks into seven essential categories, which have minor sections. The total number of covered sections is 60, as of 31 December 2017, and each of them has mitigation or neutralization measures.

Like other companies in the sector, which make their list of most relevant risks public, the Acerinox Group sees the volatility of raw materials at the present time, the impact that the economic crisis has had on the industrial sector, the existence of overcapacity worldwide (especially in the factories of the People's Republic of China), the abnormally high competition in the sector (consequence of the previous risk). To all of them, the Group's management committee and the Director of Corporate Risk Management devote all their attention.

4. FINANCIAL REPORT

4.1 Results

The results obtained were the best of the last ten years.

EBITDA
Million euros and % of sales

The EBITDA reached, both in absolute terms, 489 million euros, and in margin over sales, 10.6%, exceeding that obtained in satisfactory years such as 2010 and 2014, even though prices in the main markets were well below those of those years. All this proves the high levels of efficiency achieved in this period, which was particularly complicated for the sector.

With respect to the previous period, with a growth in turnover of 16.6%, it improved the EBITDA by 48.6%. The result after tax, 234 million euros, almost triples that of 2016.

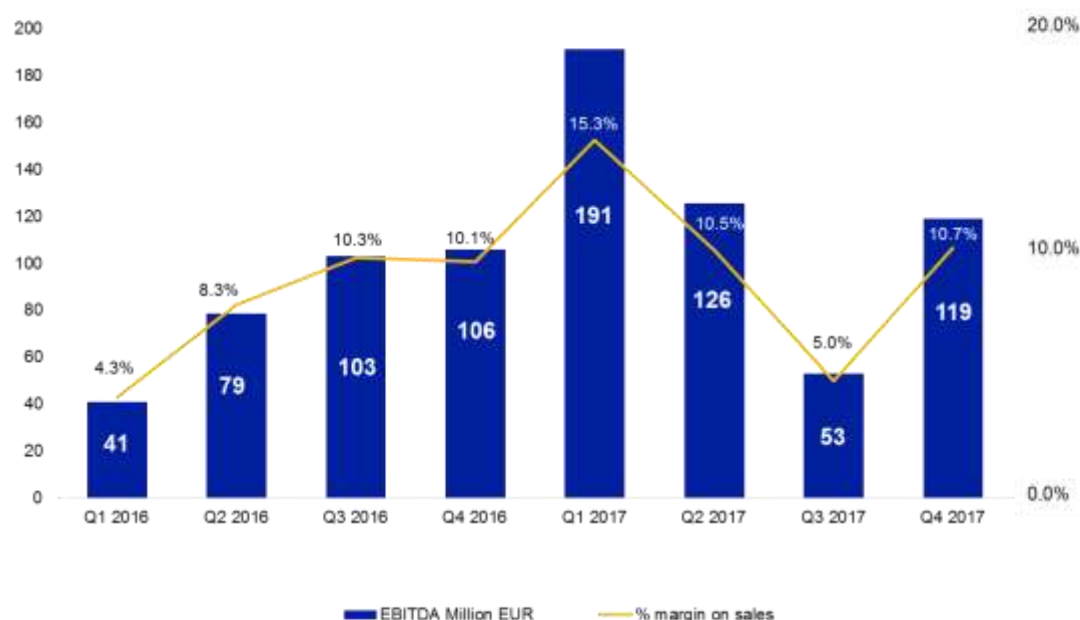
The Most significant Acerinox figures
Million euros

	2016	2017	Variation
Net sales	3,968	4,627	16.6%
EBITDA	**329**	**489**	**48.6%**
EBIT	157	318	102.0%
Gross result (before taxes and minority interests)	128	299	133.5%
Net results (attributable)	80	234	191.5%

This result is particularly commendable in a year marked by high volatility in raw materials, which had highly significant consequences within the market and on prices.

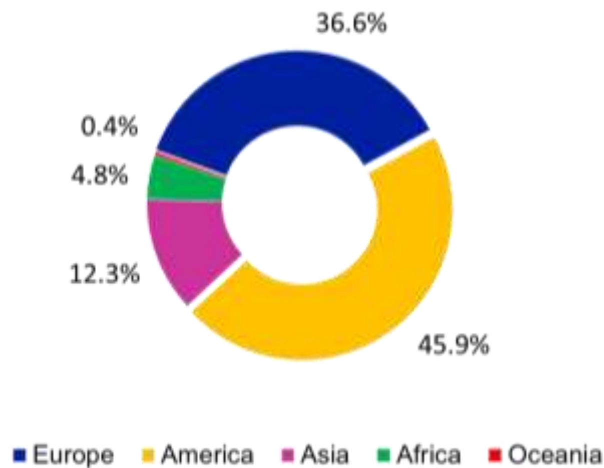
The exceptional first quarter was compensated for by an equally abnormal third quarter, this time due to its weakness. This volatility, which is so harmful for the sector, not only affects results, but also has consequences for the receipt of orders, for apparent consumption, and for the consolidation of improvements in prices attained.

Quarterly EBITDA
Million euros (% of sales)



The net turnover, 4,627 million euros, was 16.6% higher than in the previous year, thanks to an upturn in prices. The average price of the AISI 304 coil (according to Platts) increased by 18% in Europe, 26% in the USA and by 17% in Asia, compared to 2016.

Geographical Distribution of Acerinox Revenue in 2017

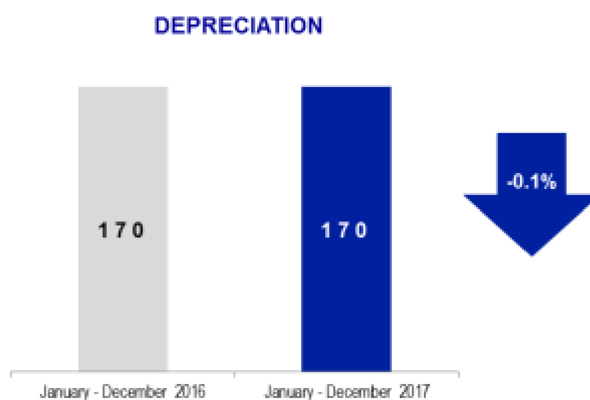


The total operating costs, 994 million euros, increased by 6.5%, in a year in which melting production increased by 1.8%.

- Personnel costs rose by 4.5%. This increase not only corresponds to the increase in staff by 2.6%, but also an increase in remuneration due to the effect of improvements in productivity and results.

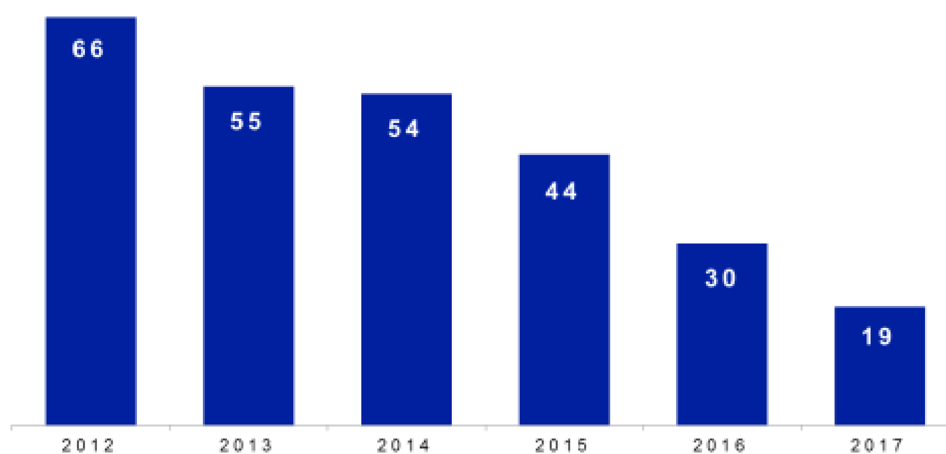
- Operating costs, 629 million euros, increased by 9.0%. Among these costs the increases of 9.1% for supplies and 7.5% for freight stand out.

Depreciation and amortization, 170 million euros, remained stable with respect to the previous year.



The net financial costs, 19 million euros, were 34.7% lower than the previous year. It is the fifth consecutive year that the financial costs have been cut, having been reduced during this period (2012-2017) by 70.9%.

Net financial expenses
Million euros



Results before taxes, 299 million euros, were 133.5% higher than in the previous year.

At the end of December, the American tax reform was passed, which will have a very beneficial effect on North American Stainless and the Consolidated Group. Although it will come into force and its effects will be seen in 2018, the net result for 2017 benefited from the adjustment of deferred tax liabilities to the new tax rate.

4.2 Cash generation

The generation of cash continues to be a priority for the Group.

The unwavering control of working capital within the scope of a favourable cycle allowed the Group to obtain an operational *cash flow* of 366 million euros.

Cash Flow
Million euros

	Jan - Dec 2017	Jan - Dec 2016
EBITDA	**489**	**329**
Changes in working capital	1	16
Tax on profits	-82	-56
Financial charges	-28	-35
Others	-13	14
OPERATING CASH FLOW	**366**	**269**
Payments for investments	-185	-157
FREE CASH FLOW	**181**	**111**
Dividends	-124	-27
CASH FLOW AFTER DIVIDENDS	**57**	**85**

The satisfactory surge in investment in the USA and the advances state of those of Campo de Gibraltar, together with the rest of the plants, resulted in a payment of 185 million euros for the period. As a result, the free cash flow generated in the period was 181 million, which allowed the payment of a cash-only dividend of 124 million euros.

Analysing a longer period, the Acerinox Group, in the most complicated period for the industry, was capable of generating 3,081 million euros, which allowed it to undertake investments for 1,771 million euros, pay the shareholders 996 million euros, and reduce the net financial debt by 314 million euros. There was not another manufacturer in the industry in this period which was capable of maintaining its strategic investment plan and its policy of shareholder remuneration, while at the same time reducing its debt.

4.3 Balance sheet

The income statement for the period was not significantly affected by the variation in exchange rates, but the main entries on the balance sheet, with regards to the exchange rate at period end, reflect these variations, with the main effect being caused by the depreciation of the dollar by 13.8%.

Balance sheet
Million euros

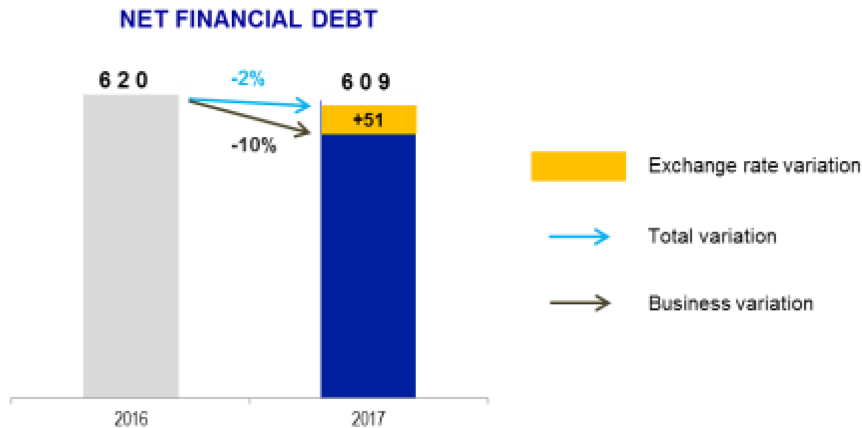
ASSETS			
Millions euros	2017	2016	Variation
Non-current assets	**2,147.6**	**2,357.5**	**-8.9%**
Current assets	**2,256.4**	**2,097.5**	**7.6%**
- Inventories	990.5	887.4	11.6%
- Trades	613.2	575.5	6.5%
Debtors	*552.1*	*527.8*	*4.6%*
Other debtors	*61.1*	*47.7*	*28.1%*
- Cash and others	652.7	634.6	2.9%
Total Assets	**4,404.0**	**4,455.0**	**-1.1%**

LIABILITIES			
Millions euros	2017	2016	Variation
Equity	**1,970.3**	**2,168.7**	**-9.1%**
Non-current liabilities	**1,149.4**	**1,191.2**	**-3.5%**
- Interest-bearing loans and borrowings	936.7	936.8	0.0%
- Other non-current liabilities	212.7	254.4	-16.4%
Current liabilities	**1,284.3**	**1,095.2**	**17.3%**
- Interest-bearing loans and borrowings	293.1	281.6	4.1%
- Trade creditors	856.7	713.0	20.2%
- Other current liabilities	134.5	100.6	33.7%
Total Equity and Liabilities	**4,404.0**	**4,455.0**	**-1.1%**

The Group is exposed to fluctuations within the dollar due to the significance of its investments in North American Stainless and Bahru Stainless. For that reason, despite the good results from the period, equity was reduced by 9.1%, and non-current assets by 8.9%.

The net financial debt, which fell by 11 million euros, would have seen a significantly greater fall were it not for a depreciation in cash positions held in dollar, which had a 62 million euros effect. Net Financial Debt / EBITDA ratio is 1.2 times.

Net financial debt sensitivity to the exchange rate
Million euros



4.4 Financing

During the 2017 period, the Group proceeded with the refinancing of its debt, with the aim of extending due dates, reducing costs and improving the quality of the debt.

Overall operations were closed for a total of 725 million euros, of which 430 were aimed at reducing the cost of existing finance, and 295 million euros were new operations at a very competitive cost. Of these, 160 million euros has a maturity period equal to or greater than 7 years.

The bulk of the debt is covered by a fixed rate, and practically all of it is free of covenants.

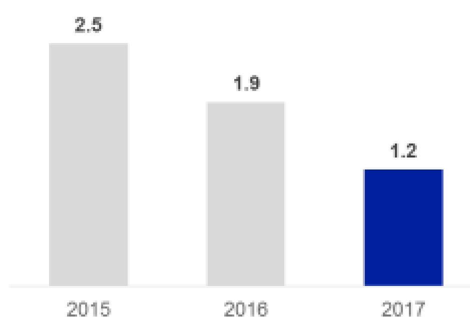
In addition, Columbus Stainless renegotiated and restructured the borrowing base facility of 3,500 million South African rand, in an operation that not only extended the maturity period, but also modified specific conditions in the structure in order to provide Columbus with greater financial flexibility, while reducing the cost, and increasing the number of intervening banks to 11. The final maturity date for the operation is June 2020.

4.5 Financing Ratios

The main ratios benefit from both the improved results and the continuous strengthening of our balance.

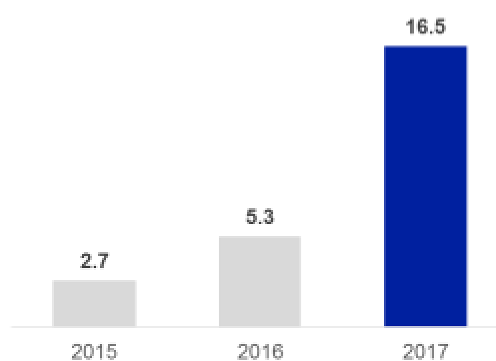
The net financial debt / EBITDA ratio stood at 1.2 times and has fallen by 50% since 2015.

Net Financial Debt / EBITDA
No. of times

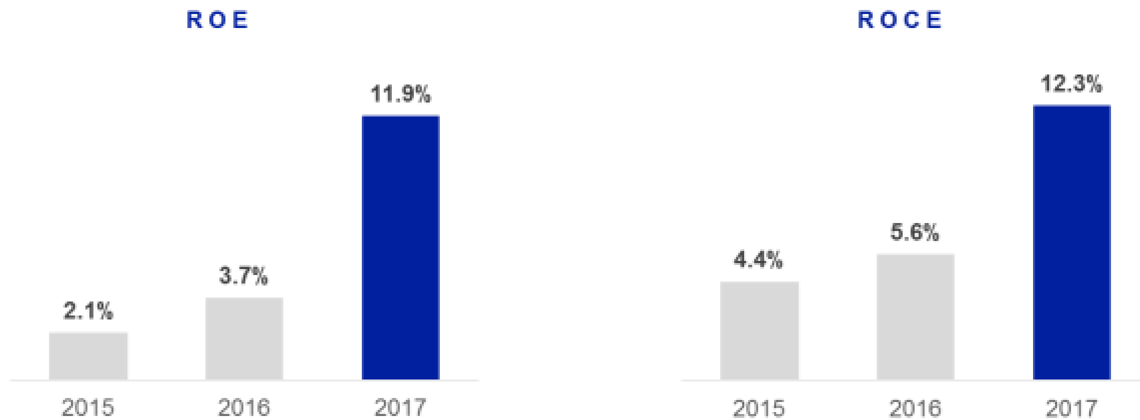


The ICR (interest coverage ratio) reflects the continuous improvement of the Group's financing, which stands at 16.5 times, compared with 2.7 in 2015.

Interest coverage (EBIT / Net financial costs)
No. of times



The ROE has increased from 2.1% in 2015 to 11.9% in 2017. The ROCE has developed along similar lines, improving by 179%.



The average period for payment

The average period for payment to suppliers of the Spanish companies of the Acerinox Group, and once payments made to companies of the Group are discounted, is 70 days (73 days in 2016). This figure includes payments made to any supplier, whether national or foreign and excludes companies of the Group.

Alternative Performance Measures (definitions):

- Saving relating to the Excellence Plan: estimated saving on efficiency on the basis of this study defined in each Plan
- Operating Working Capital: Inventories + Trade receivables – Trade payables
- Net Cash Flow: Results after taxes and minority interest + Depreciation and amortization
- Net Financial Debt: Debt with banks + bond issuance - cash
- EBIT: Operating income
- EBITDA: Operating income + depreciation and amortization + variation of current provisions
- Net financial expenses: Financial income – financial expenses ± exchange rate variations
- ROCE: Operating income / (Equity + Net Financial Debt)
- ROE: Results after taxes and minority interest / Equity
- Debt Ratio: Net Financial Debt / Equity
- ICR (interest coverage ratio): EBIT/Net financial expenses

Significant events subsequent to year end

The Group has not registered significant events following the 2017 year end.

4.6 Evolution of shares

The Ibex35 index closed 2017 positively, with profits of 7.4%, and put an end to two consecutive years of falls. It is its best result since 2013.

Percentage Market Evolution IBEX-35
Daily percentage data, 2017 to 29th December

The index began the year at 9,418.70, reached a minimum on 23 January (9,304.80), then produced positive results for the rest of the year. On 10 March it closed above 10,000 points for the first time since 2015. It reached a peak on 5 may, when it reached 11,135.40 points.

IBEX35 daily data from IBEX 2016 and 2017, in points
Daily quoted price 2016-2017

The good macroeconomic and business data encouraged investors to opt for the stock market. Geopolitical tensions, such as the tension between the USA and North Korea, had a one-off effect. The role of the central banks was also decisive, as they began a new more restrictive phase. While the Federal Reserve began to raise interest rates, the Central European Bank (CEB) prepared the market for a reduction in the volume of debt purchase from 2018.

In relation to European stock markets, the Italian FTSE Mib stood out among the main European markets, with a growth of 13.6%, thanks to the pull of financial securities, followed by the German Dax, with a 12.5% rise closing at a record high thanks to the healthy state of exporters. The French Cac also grew 9.2%, in a year in which President Macron put aside the fear of populism. The rise of 7.4% in the Ibex positioned it behind the 7.6% of the British FTSE 100.

In the United States the escalation was even greater. Markets closed in the region of historic highs. The Nasdaq closed the year with a growth of 28.2%, followed by 25.0% from the *Dow Jones* and 19.4% from S&P 500. The S&P 500 closed every month of the year positively for the first time since 1988, with volatility below 10% during more than 200 sessions, in what is a 50 year record. It is now expected to continue on an upward trend with the fiscal reforms of Donald Trump.

Market evolution of Acerinox and the Ibex 35
Daily percentages, 2017

With respect to Acerinox shares, following a 2016 in which value rose by 33.8%, there was a good start to the year (up to +11.0% on 3 March). Following the publication of the good results from the first quarter, investors

reaped profits due to the good performance of the shares to that point, and moved on to other sectors.

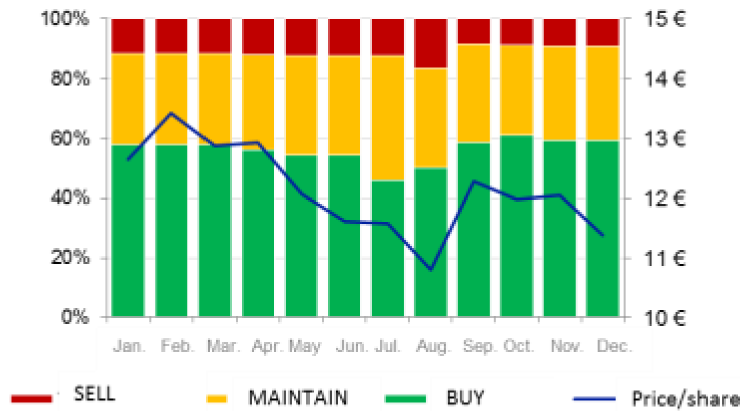
From August, and coinciding with a rise in the price of raw materials, the interest from the investment community grew, returning the share price to levels above 12 euros (12.6 euros on 1 November).

The announcement of the *joint venture* by Allegheny and Tsingshan (on 2 November) and uncertainty in China, once again put pressure on the share price to fall, and it closed the year at 11.9 euros, signifying a fall of 5% with respect to the previous year.

This downward trend was not exclusively for Acerinox, but the entire stainless steel sector was affected, as can be seen in the following graph which shows the evolution of the Acerinox share price, the Ibex35, and European competitors:

European producer market evolution
Daily percentage data, 2017 to 29 December

At the end of the year, 59% of analysts recommended “buying” set against 9% who recommended “selling”. On the following graph the evolution of recommendations can be seen throughout the year:

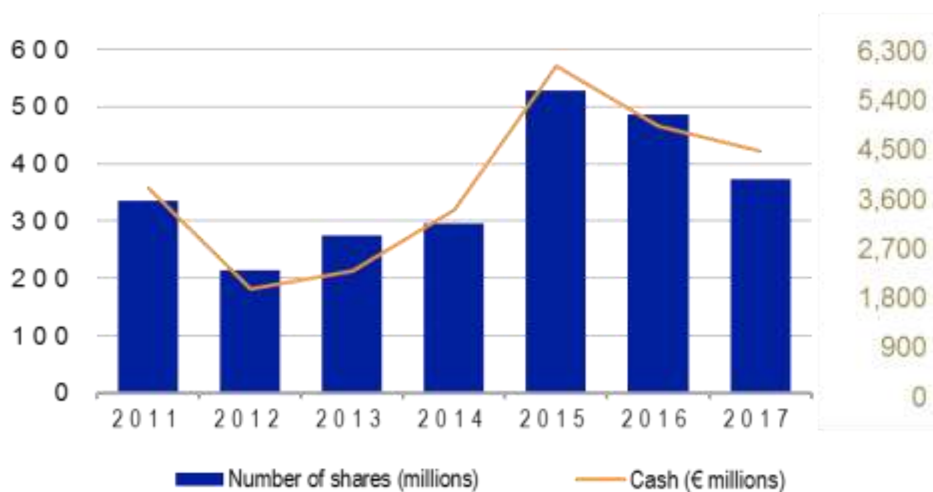


Source: Bloomberg

In 2017, Acerinox shares were traded for the 255 days the Continuous Market was open for business. The total number of shares traded totalled 372,133,861, equivalent to 1.35 times the number of shares which make up the share capital, with average daily trading of 1,459,348 shares.

The volume traded in 2017 totalled 4,572,882,235.7 euros, a figure which represents a daily average of 17,932,871.5 euros.

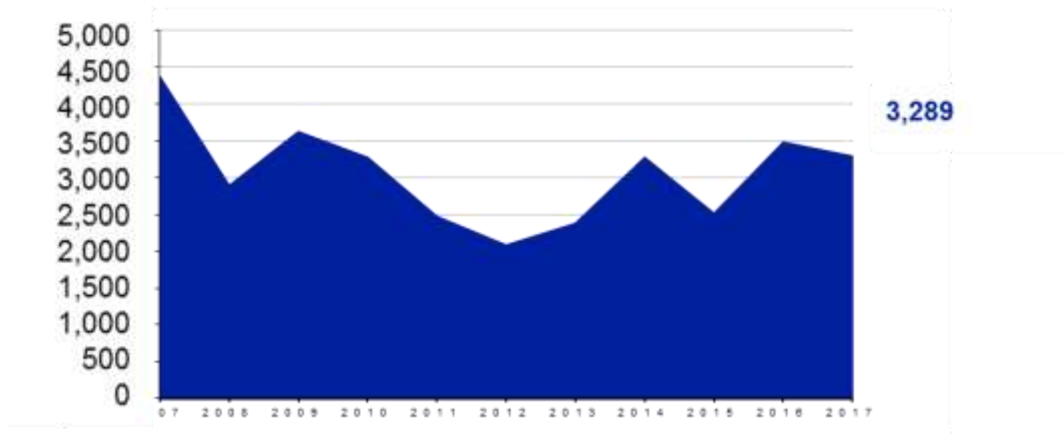
Shares and volume traded



4.7 Capitalisation

At the close of 2017, the market capitalisation of Acerinox reached 3,289 million euros, some 5% lower than 2016.

Market capitalisation of Acerinox, S.A. 2007 - 2017
Million euros

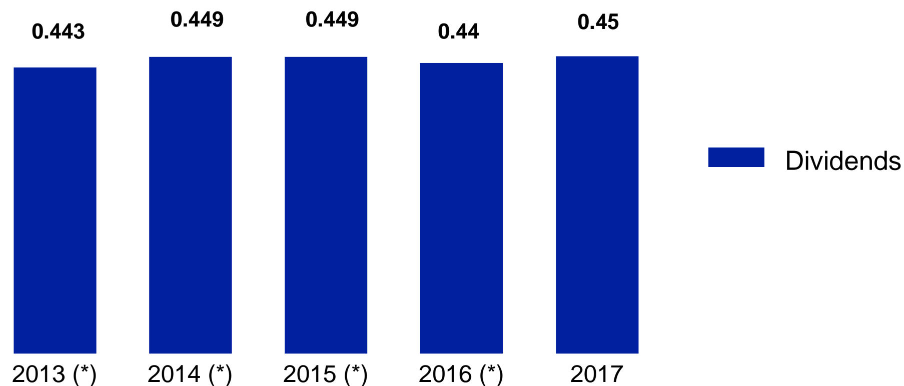


4.8 Shareholder Remuneration

Following the years 2013 to 2016, in which Acerinox offered its shareholders the option of a flexible dividend, the General Shareholders' Meeting held on 1 June 2017 agreed to make a single payment of 0.45 euros per share in cash, which was paid to shareholders on 5 July 2017.

Since 2006, Acerinox has remunerated its shareholders without interruption with an annual sum of 0.45 euros per share, whether through a cash dividend or flexible dividend.

Annual shareholder remuneration
Euros / share



4.9 Outlook

The recent tax reform in the United States will have a clearly positive effect on the results of Acerinox. To anticipate the behaviour of the Group in 2018, it will be necessary to be very aware of the possible protective measures in that country, of the reaction of Europe and other countries if these measures were adopted and of the management of the excess installed production capacity, especially in Asia. Regarding this issue, growth in production in Indonesia is particularly important, but also the closing of mills in China or their change of activity towards the manufacture of carbon steel.

Once again flexibility, efficiency and cost control will be key factors that will determine the results of Acerinox, for which we trust in the increase of competitiveness achieved in the last few years and in the current improvement plans.

The good situation of the economy in practically all countries should boost the consumption of stainless steel, especially if investments in infrastructure are reactivated and a phase of expansion of public spending is entered, as private consumption and production of capital goods are showing positive performances.

Although the comparison with the year 2017 will start being negative due to the exceptional results obtained in the first quarter of the previous year, favoured by the sharp increases in prices of raw materials, the current situation, together with the control of stocks in the main consumer markets and the recovery of prices in the fourth quarter, allows us to be optimistic for the year 2018. The alloy surcharges are rising and the base prices have already improved in the United States.

5. CORPORATE GOVERNANCE AND COMPLIANCE

The Acerinox Annual Corporate Governance Report for the 2017 period forms part of the Management Report which includes a section on non-financial information, in accordance with provisions of Royal Decree-Law 18/2017 on non-financial information. The Management Report is available on the web page of the National Stock Market Commission ("Comisión Nacional de Mercado de Valores" in Spanish) and on the Acerinox web page since the date of publication of the annual accounts.

In 2015, the Acerinox Group, through its listed company Acerinox, S.A., began a major process of adapting its corporate governance to the provisions of the recent Spanish Capital Companies Law, as well as to the recommendations made in the new Corporate Governance Report for Spanish Listed Companies.

These modifications have in essence meant an improvement in corporate governance, through the strengthening of the role of the Board's committees, with more clearly defined competences, and obtaining a greater number of independent board members and a greater presence of women on the Board of Directors.

The Board of Directors also decided to continue with all the procedures designed to meet within the shortest time possible the highest number of the Recommendations detailed in the Corporate Governance Report, some of which were only being partially met. Details of said levels of compliance can be found in the Annual Corporate Governance Report hosted on our website at www.acerinox.com.

Moreover, during 2017, all the Company's general policies were modified, and can now be found on our website.

The most relevant actions taken in 2017 are listed below:

1. Compliance with the Good Governance Code and Capital Companies Law

From the outset, the Company made a great effort to comply with the greatest possible number of recommendations, following the entry into force of the new Unified Code of Good Governance, and for that reason it adopted a series of highly significant decisions. The first one was to make a commitment to ensure that, by 2020, at least 30% of the members of the board would belong to the less represented gender. The company has proceeded as a consequence with the appointment this year of two new board members, thus achieving 4 independent board members, despite the resignation of a previous member.

Furthermore, in compliance with the Code of Good Governance and Capital Companies Law the Board appointed on 19 December 2017 the company

KPMG to carry out for the first time an evaluation of the Board of Directors by an external independent expert.

2. Appointments of Chief Compliance Officer (CCO) and Chief Risks Officer (CRO)

At the last session held in 2017 the Board of Directors appointed a new Chief Prevention and Compliance Officer. Furthermore, this year the Chief Executive Officer appointed a new Chief Risks Officer. The Chief Executive Officer also appointed a Director of Strategy and a Director of the Digital Transformation Project.

3. Extension of the Code of Good Tax Practices

In 2011 the Group joined the Code of Good Tax Practices approved by the Forum of Large Companies, which promoted a reciprocally cooperative relationship with the Tax Office. This year the Board of Directors agreed to adhere to the new Annex to the Code of Good Tax Practices. This implies the voluntary assumption of specific commitments by the Group in order to improve the application of postulates and recommendations established within the Code, thus strengthening the good practice of business tax transparency. Acerinox is part of a Corporate Relations working group, and has had a significant role in drawing up the Annex.

4. New auditors

The 2016 General Shareholders' Meeting, at the proposal of the Board of Directors, approved the appointment of PricewaterhouseCoopers Auditores, S.L. as the auditor for 2017, 2018 and 2019, for the purpose of the review and legal audit of the financial statements of Acerinox S.A. and its Consolidated Group.

In the Audit Committee meeting held on 19 December 2017, the firm KPMG was appointed as auditor of the Acerinox Group Sustainability Report. This will be the first year that a full audit is going to be made on the Sustainability Report, as last year there was a partial audit with a total of 16 indicators.

5. Changes in the Board of Directors

The 2017 General Shareholders' Meeting ratified and adopted the following agreements with reference to Board members:

- "To ratify the appointment through co-option of Mr. Tomás Hevia Armengol as Director of Acerinox, S.A. carried out by the Acerinox, S.A. Board of Directors on 21 December 2016 and appoint Mr. Tomás Hevia Armengol as Director of Acerinox, S.A. for a period of

four years, as set out in the Articles of Association. Mr. Hevia Armengol is appointed as External Proprietary Director on behalf of Corporación Financiera Alba, S.A."

- “To ratify the appointment through co-option of Ms. Rosa María García Piñeiro as Director of Acerinox, S.A. carried out by the Acerinox, S.A. Board of Directors on 26 April 2017 and appoint Ms. Rosa María García Piñeiro as Director of Acerinox, S.A. for a period of four years, as set out in the Articles of Association. Ms. García Piñeiro is appointed as External Independent Director.”

- "To ratify the appointment through co-option of Ms. Laura González Molero as Director of Acerinox, S.A. carried out by the Acerinox, S.A. Board of Directors on 26 April 2017 and appoint Ms. Laura González Molero as Director of Acerinox, S.A. for a period of four years, as set out in the Articles of Association. Ms. González Molero is appointed as External Independent Director.”

- As a replacement for Ms. Rosa María García who left her position as Independent External Director of Acerinox, S.A. due to a supervening incapacity to assume positions of responsibility in other companies, Ms. Marta Martínez Alonso was appointed as Director of Acerinox, S.A. for a period of four years, as set out in the Articles of Association. Ms. Martínez Alonso is appointed as External Independent Director.”

5.1 Share Capital

At year-end 2017, Acerinox’s capital stock totalled 69,016,885.75 euros, divided into 276,067,543 shares, each with a nominal value of 0.25 euros.

The Acerinox S.A. Board of Directors met on 20 December 2017, and agreed to propose to the next Annual General Shareholders’ Meeting a dividend with a single payment, which will be distributed in the month of July 2018.

All the shares are listed on the official Stock markets in Madrid and Barcelona and are traded on the Continuous Market.

As of 31 December 2017, Acerinox had a total of 36,450 shareholders.

5.2 The Board of Directors and its Committees

Main governing bodies: the Board of Directors and other executive bodies

The Board of Directors

The Board of Directors is the body responsible for directing, administering and representing the Company, without prejudice to the powers conferred on the General Shareholders' Meeting. The Board has three committees: the Executive Committee, the Appointments, Remuneration and Corporate Governance Committee and the Audit Committee.

The Board of Directors, on 31 December 2017, has 15 members, which is the maximum allowed by the Articles of Association. The Secretary does not qualify as a Member of the Board.

Its composition meets the traditional principles of diversity and balance. The company only has one Executive Officer - specifically the Chief Executive Officer - and has six proprietary directors and eight independent directors.

All Board members have extensive professional experience in the business and academic worlds, and public administration. The Board reflects the diversity existing in the Group: four of its members are of foreign nationality and the members come from four different continents.

In 2010, the company, in keeping with the best practices of Good Governance, decided to separate the positions of Chairman of the Board and of the General Meeting from the responsibilities of the Chief Executive Officer, the organisation's top executive.

Pursuant to the Capital Companies Law, the General Shareholders' Meeting held on 01 June 2017 approved the Remuneration Policy for Acerinox Directors for 2017, 2018 and 2019, with the favourable vote of 87.59% of the shareholders who attended the Meeting.

In line with this transparency policy, the Group made public that, in 2017, all the remunerations arising from the Board Members belonging to and attending the Board of Directors and its committees totalled 1,272,819.12 euros (excluding the amounts paid to the CEO as a salary for his managerial position). For more information on this subject, you may review the Annual Corporate Governance Report and the Report on the Remunerations received by Board Members (www.acerinox.com)

In total, the Board of Directors held nine meetings in 2017.

The Executive Committee

The Board of Directors appointed an Executive Committee in 2008 to attend to the normal course of business and facilitate its regular monitoring. This body is presided over by the Chairman of the Board. The Chief Executive Officer is a necessary member of the Executive Committee.

In order to facilitate transparency and communication among the governing bodies, the Company's rules empower the Chairman to propose to the full Board the ratification or further deliberation of any matter discussed or decided on by the Executive Committee.

The increase to nine in the number of sessions of the Board of Directors, following the recommendations of good governance, meant a corresponding reduction in the number of meetings of the Executive Committee, which met four times in 2017.

For further information regarding its activities you can find on the web page www.acerinox.com the section on the General Shareholders' Meeting 2018.

The Audit Committee

As was the case in previous years, the Audit Committee was the most active body in 2017 in terms of the number of meetings held, a total of eight, which enabled it to develop its envisaged work plan by devoting itself to its core responsibilities, which are:

- Reporting on the annual, biannual and quarterly accounts.
- Supervising internal audit services and the effectiveness of the company's internal monitoring and risk management systems.
- Supervising the process of preparing and presenting the regulated financial information.
- Proposing to the Board of Directors the appointment of the accounts auditors, to be approved by the General Shareholders' Meeting.
- Preparation of the Report covering activities carried out during the period, which will be published alongside the call to the General Shareholders' Meeting.

The Audit Committee will apply the principles, recommendations and criteria for good operations outlined in the new 3/2017 Technical Guide on audit committees in companies of public interest, which was approved by the CNMV on 27 June 2017.

The Audit Committee is chaired by an Independent Director, while the Secretary of the Board of Directors acts as its secretary.

For further information regarding its activities you can find on the web page www.acerinox.com the section on the General Shareholders' Meeting 2018.

Appointments, Remuneration and Corporate Governance Committee

It held three meetings in 2017. It continued with its initiative of previous years of proposing the maintenance of the remunerations of the Board Members, without any changes, to the Board of Directors, by means of the Board Member Remuneration Policy. It was also involved in setting the remunerations of the senior management. Furthermore, it reported to the Board of Directors on the re-election of the proprietary director Mr. Ryo Hattori, the ratification of Mr. Tomás Hevia, Ms. Rosa María García and Ms. Laura González, and proposed the appointment as independent director of Ms. Marta Martínez.

This Committee coordinates, at the request of the Chairman of the Board, the assessment of the Board's performance. The Appointments, Remunerations and Corporate Governance Committee is chaired by an Independent Director, and the Secretary of the Board of Directors acts as its secretary.

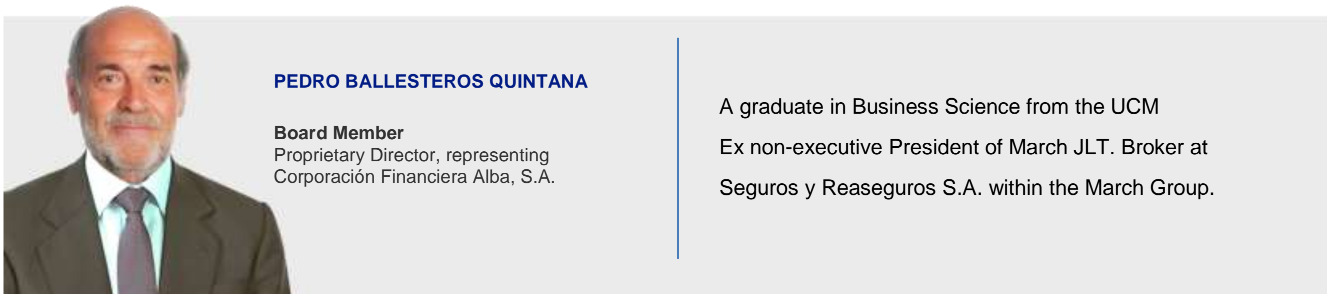
Composition of the Board of Directors of Acerinox, S.A.

LAURA ABASOLO GARCÍA DE BAQUEDANO

Board Member
Independent External Director

A Graduate in Economic and Business Sciences from the Universidad Comercial de Deusto and MBA from Norwegian School of Business Administration

Director of Finance and Control at Telefónica S.A.



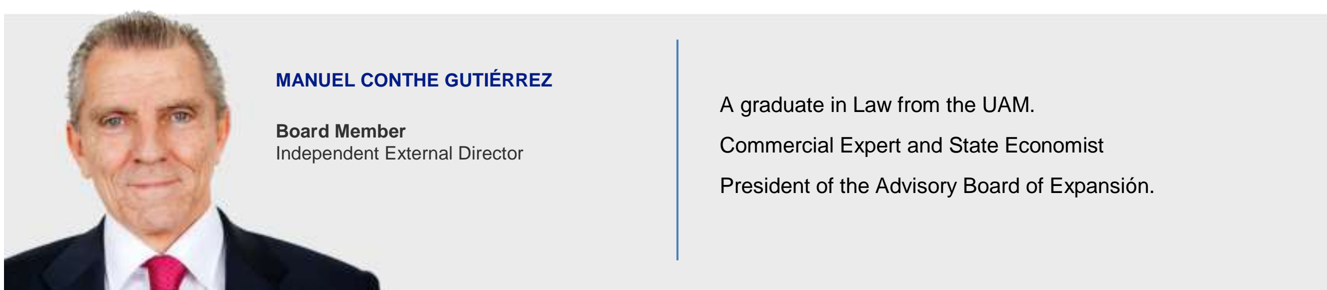
PEDRO BALLESTEROS QUINTANA

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

A graduate in Business Science from the UCM

Ex non-executive President of March JLT. Broker at

Seguros y Reaseguros S.A. within the March Group.



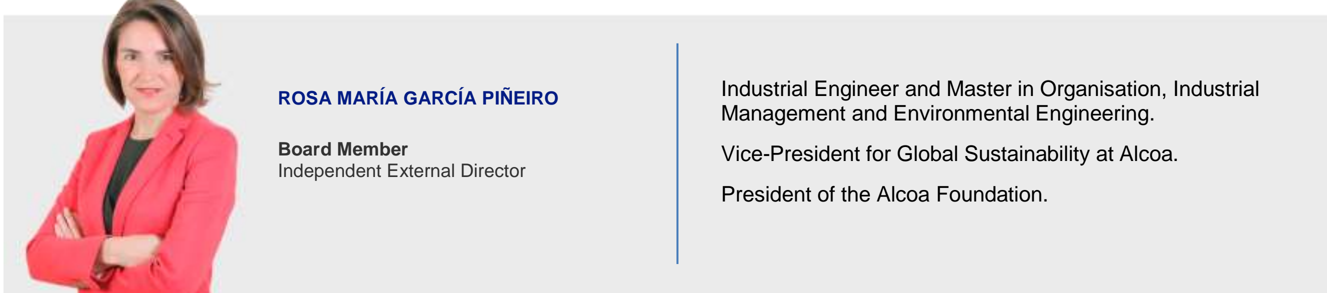
MANUEL CONTHE GUTIÉRREZ

Board Member
Independent External Director

A graduate in Law from the UAM.

Commercial Expert and State Economist

President of the Advisory Board of Expansión.



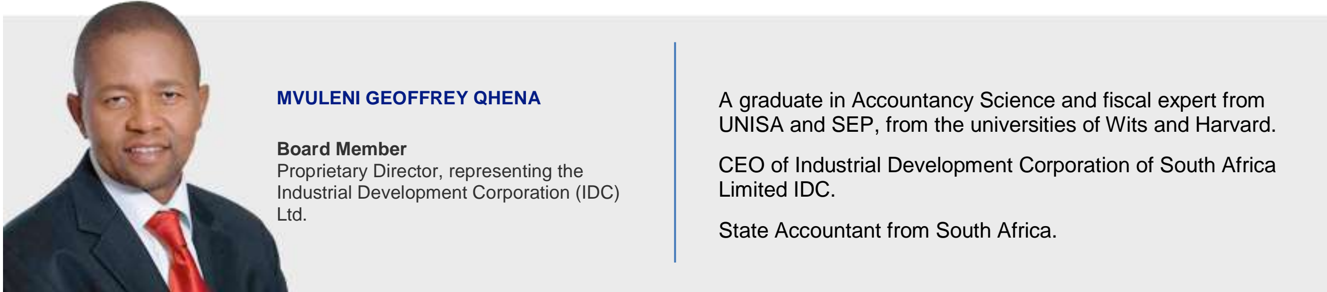
ROSA MARÍA GARCÍA PIÑEIRO

Board Member
Independent External Director

Industrial Engineer and Master in Organisation, Industrial Management and Environmental Engineering.

Vice-President for Global Sustainability at Alcoa.

President of the Alcoa Foundation.



MVULENI GEOFFREY QHENA

Board Member
Proprietary Director, representing the Industrial Development Corporation (IDC) Ltd.

A graduate in Accountancy Science and fiscal expert from UNISA and SEP, from the universities of Wits and Harvard.

CEO of Industrial Development Corporation of South Africa Limited IDC.

State Accountant from South Africa.

LAURA G. MOLERO

Board Member
Independent External Director

A graduate in Pharmacy from the UCM and Executive.

MBA from IE Business School.

Currently an Independent Director of the Ezentis, S.A. Group and the Adecco Foundation (NGO).

RYO HATTORI

Board Member
Proprietary Director, representing NISSHIN STEEL CO. Ltd.

A graduate in Law from the University of Sophia, Tokyo.

Special Assignments Director-General of the Stainless Steel Sales Department and the Overseas Projects Department of Nisshin Steel Co. Ltd.

TOMÁS HEVIA ARMENGOL

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

A graduate in Business Administration and Management and Law from the ICADE and MBA from IESE Business School .

Previously a member of the Investment Department at Corporación Financiera Alba S.A.

DONALD JOHNSTON

Board Member
Independent External Director

Bachelor of Arts in Political Science from Middlebury College and Master of Arts in International Economics and Latin-American Studies, from Johns Hopkins University.

Independent director of Merlin Properties Socimi S.A. and Banco Sabadell.

YUKIO NARIYOSHI

Board Member
Proprietary Director, representing Nisshin Steel Co Ltd.

A graduate in Management from the University of Tokyo.

Board member and Executive Vice-President of Nisshin Steel Co Ltd.

MARTA MARTÍNEZ ALONSO

Board Member
Independent External Director

A graduate in Mathematical Sciences from the UCM.

Senior Management Programme for companies at IESE.

President of IBM Spain, Portugal, Greece and Israel.

SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

Roads, Canals and Ports Engineer, Master in Business Management from ICADE, and Diploma in Nuclear Technology from ICAI.

Chief Executive Officer at Corporación Financiera Alba, S.A., and Board member of Banca March S.A., Indra Systems, S.A., Bolsas y Mercados Españoles, S.A., Artá Capital SGECR, S.A., Deyá Capital SCR, S.A. and Artá Partners, S.A.

RAFAEL MIRANDA ROBREDO

Chairman
Independent External Director

Industrial Engineer from ICAI.

Management Science from EOI.

President of the Management Progress Association.

President of Hispania Activos Inmobiliarios S.A.

Honorary President of Eurelectric.

Board member of Brookfield Asset Management Inc. and Board member of Nicolás Correa S.A., among others.

BRAULIO MEDEL CÁMARA

Board Member
Independent External Director

A graduate and Doctor in Economic and Business Sciences from the Universidad Complutense de Madrid, and Professor in Public Finance from the University of Malaga.

President of the Unicaja Banking Foundation and the Andalusian Federation of Building Societies.

BERNARDO VELÁZQUEZ HERREROS

Chief Executive Officer
Executive

Industrial Engineer from ICAI.

Chairman of Acerinox Europa and North American

Stainless.

Chairman of UNESID.

Vice-Chairman of ISSF.

Board member of World Steel.

LUIS GIMENO VALLEDOR

Secretary to the Board

A graduate in Law from the UAM.

State Lawyer.

EXECUTIVE COMMITTEE

- RAFAEL MIRANDA ROBREDO (Chairman)
- BERNARDO VELÁZQUEZ HERREROS
- RYO HATTORI
- GEORGE DONALD JOHNSTON
- SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
- TOMÁS HEVIA ARMENGOL
- LUIS GIMENO VALLEDOR

APPOINTMENTS, REMUNERATIONS AND CORPORATE GOVERNANCE COMMITTEE

- MANUEL CONTHE GUTIÉRREZ (Chairman)
- RAFAEL MIRANDA ROBREDO
- SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
- BRAULIO MEDEL CÁMARA
- LUIS GIMENO VALLEDOR

AUDIT COMMITTEE

- LAURA ABASOLO GARCÍA DE BAQUEDANO (Chairwoman)
- PEDRO BALLESTEROS QUINTANA
- GEORGE DONALD JOHNSTON
- LAURA GONZÁLEZ MOLERO
- LUIS GIMENO VALLEDOR

MANAGEMENT COMMITTEE

The Management Committee of Acerinox is made up of five people: the Chief Executive Officer, the Chief Financial Director, the Commercial Director, the Production Director and the General Secretary.

The remunerations associated with these posts are proposed to the Board of Directors by the Appointments, Remuneration and Corporate Governance Committee. The amounts received during 2017 by this collective, not including that of the Chief Executive Officer, totalled 1,676,801.74 euros.

- BERNARDO VELÁZQUEZ HERREROS (Chief Executive Officer)
- DANIEL AZPITARTE ZEMP (Commercial Director)
- MIGUEL FERRANDIS TORRES (Financial Director)
- ANTONIO MORENO ZORRILLA (Production Director)
- LUIS GIMENO VALLEDOR (General Secretary)

5.3. General Shareholders' Meeting

The General Shareholders’ Meeting was held in Madrid on 1 June 2017 and was presided over by Mr. Rafael Miranda Robredo. As was the case the previous year, the meeting took place in the Mutua Madrileña Automovilística building, on Paseo de la Castellana, No. 33.

Attendance at the General Meeting, including shareholders present and represented, amounted to the equivalent of 179,009,551 shares, or 64.84% of the company's share capital.

No shareholders made use of the on-line discussion forum, but the increase in on-line voting is worthy of being mentioned.

The resolutions on the Agenda were approved in their entirety, by the following margins:

	Votes in favour %	Votes against %
1. Approval of annual accounts	99.97	0.00
2. Application of the results	99.92	0.05
3. Approval of the Board of Directors' management	99.74	0.02
4. Approval of the dividend distribution	99.19	0.62
5. Approval of the Board Member Remuneration Policy for 2017, 2018 and 2019	87.59	12.35
6.1. Re-election of Mr. Ryo Hattori as Proprietary Director	99.82	0.08
6.2. Ratification of the appointment of Mr. Tomás Hevia Armengol as Proprietary Director	99.84	0.06
6.3. Ratification of the appointment of Ms. Rosa María García Piñeiro as Independent Director.	99.90	0.00
6.4. Ratification of the appointment of Ms. Laura González Molero as Independent Director.	99.90	0.00
6.5. Ratification of the appointment of Ms. Marta Martínez Alonso as Independent Director.	99.90	0.00
7. Delegation of powers to the members of the Board of Directors and the Secretary of the Board	99.95	0.02
8. Approval of Board Members' Annual Remuneration Report.	87.46	12.48
9. President's report on the most relevant aspects of the Company's Corporate Governance (not put to the vote).	--	--
10. Appointment of administrators to approve the Minutes of the General Shareholders' Meeting	99.97	0.00

5.4 Main Executives of the Group's companies

Top Executives in our Industrial Companies

- Acerinox Europa: ANTONIO MORENO ZORRILLA
- North American Stainless: CRISTÓBAL FUENTES TOVAR
- Columbus Stainless: LUCIEN MATTHEWS
- Bahru Stainless: OSWALD WOLFE GOMEZ
- Roldán: JORGE RODRÍGUEZ ROVIRA
- Inoxfil: ÁNGEL BRUÑÉN CEA

Top Executives in our Commercial Companies

SPAIN

- Inoxcenter: LUIS GUTIERREZ MÁS
- Inoxidables de Euskadi: JOSÉ CRUZ DE VICIOLA GARCÍA
- Service Centre in Pinto FLORENCIO ZURDO GÓMEZ
- Service Centre in Gavá JUAN ESTEVE VESTIT
- Service Centre in Betanzos ÁLVARO SUÁREZ LLANOS

EUROPE

- Acerinox Deutschland (Germany): JOACHIM MAAS
- Acerinox Benelux (Belgium): ANEL VILJOEN
- Acerinox France (France): JAAN ROXAN
- Acerinox Italia (Italy): GIOVANNI DE CARLI
- Acerinox Polska (Poland): PILAR SENISE GARCIA
- Acerinox Scandinavia (Sweden): JAN GJERLAUG
- Acerinox Schweiz (Switzerland): IVANA HORAKOVA
- Acerinox UK (United Kingdom): PABLO CANTLE CORNEJO
- Acerinox Russia (Russia): ROMAN BUTYRIN
- Acerinox Metal Sanayi (Turkey): SANTIAGO MUÑOZ MARTI

AMERICA

- Acerinox Argentina (Argentina): JOSE CARLOS RODRÍGUEZ ARANDA
- Acerinox Brasil (Brazil): JUAN ANTONIO RODRIGUEZ ARROYO
- Acerinox Chile (Chile): JAIME DEL DIEGO SANZ
- Acerinox Colombia (Colombia): GONZALO DEL CAMPO BARCÓN
- Acerinox, S.A. Venezuela (Venezuela): GONZALO DEL CAMPO BARCÓN

ASIA

- Acerinox South East Asia (Singapore): IRENE TEO LIN LING
- Acerinox India (India): PRATIK KACHCHHI
- Acerinox SC. Malaysia (Malaysia): BARRY FOO
- Acerinox, S.A. Shanghai (China): MARY XU
- Acerinox Indonesia S.A. (Indonesia): EFRAT AGUNG
- Acerinox SEA (Vietnam): TRAN THI THANH HANG
- Acerinox SEA (Thailand): PRAWIT LERTWIMONRAT
- Acerinox SEA (Philippines): ENRIQUE DAVID B. SANTIAGO
- Acerinox Pacific (Korea): JUNGHO CHOI
- Acerinox Pacific (Hong Kong): MARY XU
- Acerinox Pacific (Taiwan): SAMUEL TAM
- Acerinox Middle East (United Arab Emirates): FERNANDO GÓMEZ AIELLO

OCEANIA

- Acerinox Australasia (Australia): CLAUDIO LEÓN DE LA BARRA

NON-FINANCIAL INFORMATION RECORD 2017

Madrid, 28 February 2018

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1. BUSINESS MODEL

Acerinox is one of the world's top companies in stainless steel manufacturing. It operates on an international level with factories on four continents and a strong commercial presence with sales in 85 countries.

Since it was founded in 1970 with chiefly Spanish capital and a minority of foreign capital from the Japanese industrial group Nisshin Steel and the Nissho Iwai Corporation, it has had a single business objective; the manufacture and sale of stainless steel, both directly and through subsidiary companies.

Acerinox has three factories featuring integrated production processes for flat products; the Factory at Campo de Gibraltar (Spain), North American Stainless, N.A.S. (USA) and Columbus Stainless (South Africa). The Bahru Stainless plant (Malaysia) is a cold rolling plant.

With reference to long products, the Group also has the Spanish plants of Roldán and Inoxfil and NAS long product plant.

Acerinox has an extensive commercial network, made up of 35 sales offices, 18 service centres, and 26 warehouses and 15 sales agents, which form a logistics network covering 56 countries on the five continents.

The Acerinox workforce is one of the most diverse among all the companies listed on the Spanish stock market, not only in matters of gender, but also in race, culture, religion and language, due to the international character of the Group.

Acerinox has always preferred indefinite working contracts for its employees; quality, well-paid contracts. It also promotes career plans for full professional development, through internal promotion.

The group structures are light, its factories have the best ratios of productivity worldwide, and its central services are the most reduced of the sector.

Acerinox aspires to continue as international leader in the manufacture of stainless steels in order to satisfy the needs of its customers.

Respect for the natural environment is one of the building blocks of the model, and it forces the various public powers to recall that they should not compromise with those who find a contempt for environmental regulations or a violation of the rights of workers provides them with a competitive advantage over companies from more socially advanced countries.

Furthermore, it aspires to remunerate its shareholders annually, even during a period of crisis, and maintain investments in order to achieve

productive excellence and have the best and most efficient facilities in the entire sector.

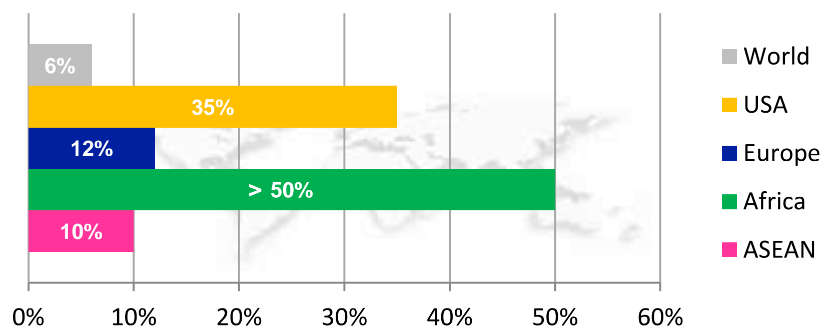
Having broken down completely 100% of Manufacturing and Sales into subsidiaries, the Parent Company has become an administrative and coordinating holding company, and as a consequence, its corporate purpose is performed exclusively through its subsidiaries.

These subsidiaries are of two types: manufacturers and traders, and even if, every time there is a tendency for efficiency reasons to increase the tons that are served and invoiced directly from the plants, the presence on a very decentralized network will continue to be necessary to be able to attract and attend clients from the 5 continents.

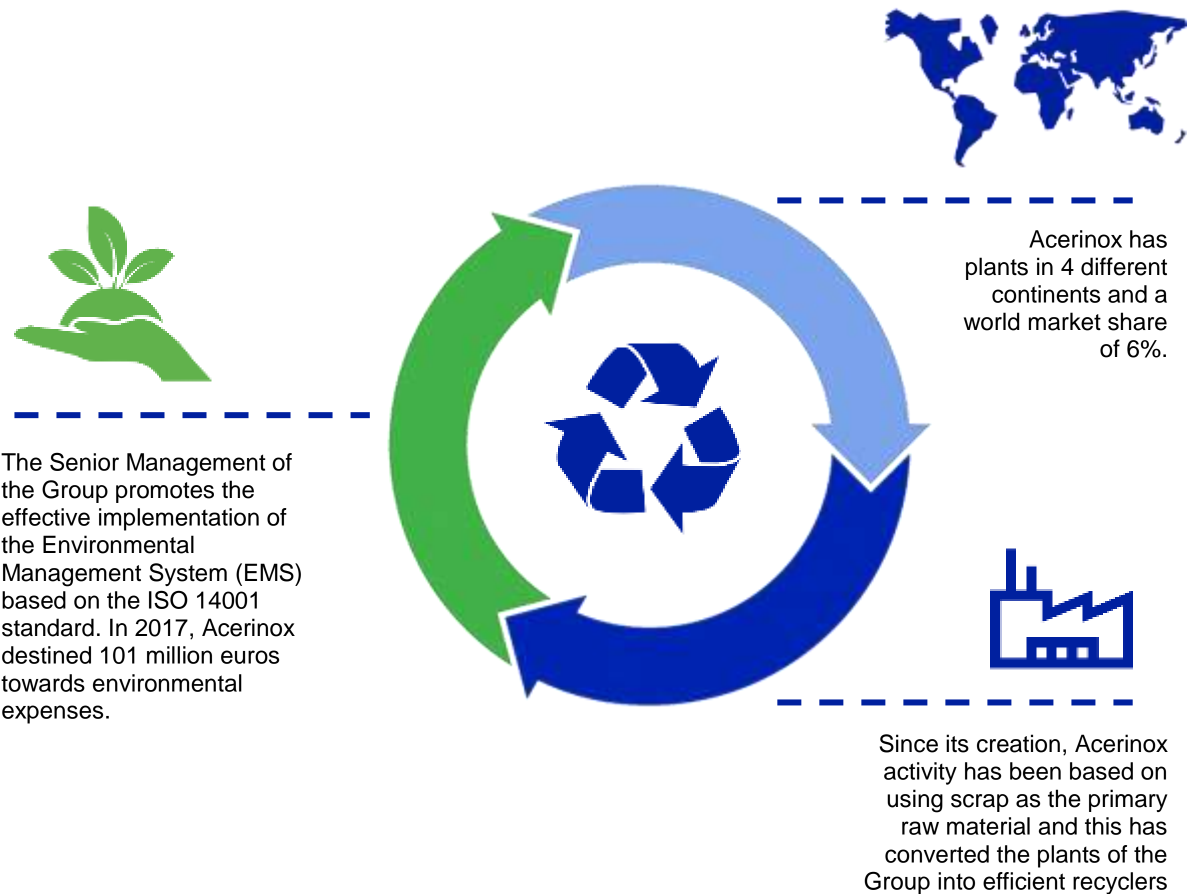
Stainless steel is the only product directly related to the activity of the Group, since to date no attempt has been made to participate in upstream activities, such as mining or the extraction of raw materials, nor has any attempt been made to intervene in the distribution and storage activities, nor in those involved in transportation. The idea that, in an increasingly-competitive activity with large supply surpluses, only the hyper-specialization and search for savings, efficiencies, and synergies across the entire production and distribution chain allows them to maintain the desired margins was the real influencer in this decision.

Acerinox is the only truly global company in the sector, with plants on four different continents and Number 1 in at least two of them. This geographic diversification facilitates the optimization of the role that the Group plays in each market and for shifting sales towards the best margins. Acerinox is a global company that thinks and acts locally on many different sites. This omnipresence equips them with a high-response capacity and overall resilience when the market gets into difficulties. Currently Acerinox enjoys a world market share of around 6%, 12% in Europe, 35% in the USA being the leading company in their sector in the country, 80% in South Africa, and 10% in the ASEAN market.

Market share of Acerinox by Region



Today, leading-edge technology facilitates high-level production with minimal environmental impact. Since its creation, Acerinox's activity has been based on using scrap as their primary raw material and has converted the plants of the Group into efficient recyclers. Since its creation in 1970, tens of millions of tons of scrap have been recycled converting Acerinox into a pioneer in Circular Economy, forty years before this concept was invented.



2. RISKS AND THEIR MANAGEMENT

Acerinox has a Risk Management Model for identifying, classifying, and evaluating any possible event that could affect all the units and significant functions of the organization as well as establishing the control and responsibility mechanisms derived from each one of them. The Model has as the ultimate objective of providing reasonable security for attaining objectives, whether strategic, operational, compliance, or reporting.

For the correct implementation of the measures and the strict monitoring of its fulfilment in each one of the possible risks, the Group approved in 2010 the Risk Management Control Policy of Acerinox, S.A. and their Group of Companies.

Through the Policy, the mechanisms and basic principles are established for the management of opportunities and risks that allow them to:

- Achieve the strategic objectives determined by the Group.
- Provide full guarantees for the shareholders.
- Protect the Group's results and reputation.
- Defend the interests of the key Interest Groups of the Company.
- Ensure business stability and financial solidity in a sustained manner over time.

Any business activity has associated to it a series of risks in general and, in the case of steel making, Acerinox recognizes and classifies the uncertainties characteristic of the sector in which it operates.

Moreover, the substantial risks facing the Company on a daily basis requiring full-time management and special surveillance are inter-related and can be summarized in the following diagram:

a. **Overcapacity** Surplus on a global scale, which would result in lower prices.

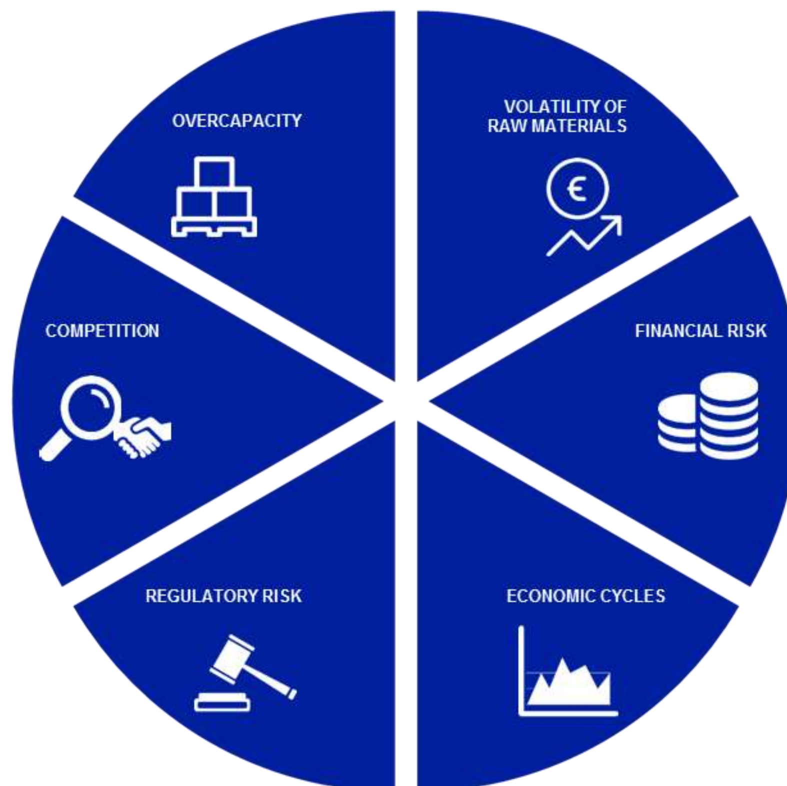
b. **Raw Material Price Volatility** Big variations, especially in short periods of time.

c. **Economic Cycles** Demand in products in light of developments in the markets.

d. **Competition** Commercial policy of the other market players.

e. **Financial risk** Lack of liquidity, restricted access to funding sources, increasing funding costs, the volatility of exchange rates, the volatility of interest rates and credit risks.

f. **Regulatory risks** Presence in the international arena with activities in numerous countries, regulatory frameworks, and business environments.



3. ACERINOX GROUP GENERAL POLICIES

In 2016, the Board of Directors, following a report by the Appointments, Remuneration and Corporate Governance Committee, approved eight general policies which, in the future, will define the direction, approach and general guidelines of the Company and its Group of companies in the following matters, corresponding to their heading and content:

- General Policy for Selection of Directors
- General Policy of Corporate Social Responsibility
- General Policy for the Remuneration of Directors
- General Policy for Risk Management and Control
- General Policy for Communication and Contact with Shareholders and Investors
- Tax Policy
- General Corporate Governance Policy
- General Treasury Stock Policy

On 1 June 2017, the General Shareholders' Meeting endorsed the General Policy for the Remuneration of Directors.

All these policies are available on the Company's website so that they can viewed and compared by any interested party.

Above all, we have tried to embody the principles of integrity and the culture of hard work which has formed part of Acerinox's character since its creation.

4. SUSTAINABILITY INDICATORS

4.1 Environmental Matters

Improving the different environmental indicators with programmes aimed at reducing the impact on the environment and the efficient use of resources is the main strategy of the Acerinox Group. In order to attain a degree of excellence in environmental performance, the Company continually evaluates the environmental impact of its activity, striking a balance between efficient production and the least variation possible in the environment. The Group participates on a worldwide level in climatic change prevention projects and collaborates at sectoral and European level in product environmental studies.

The Company analyses the different environment impacts, developing tools for their assessment, and makes decisions related to climatic change and the life cycle of stainless steel with the attainment, as a result, of constant improvements in the protection of the environment in which the Group operates. The result of this analysis and assessment not only improves the environment but also the Company. Senior Management promotes the effective implementation of the Environmental Management System (EMS) based on the ISO 14001 standard or the Environmental Management Plan (EMP) at NAS. In view of the activity that Acerinox carries out, one of the most important factors of the EMS is the efficient use of materials and all other resources.

1). Materials

In the Annex information of this document (Table 1) the total consumption of materials used in production in 2017 enabling the attainment of the different monitoring indicators is detailed.

During 2017, the percentage of the materials recycled that are used in the manufacturer of stainless steel amounts increased to more than 65% which is considerably higher than the previous year.

It is quite evident that Acerinox made the correct decision to base their activity on electric-arc furnaces smelters of scrap, not only for being a decision more environmentally advanced but also for its economic effectiveness: the scrap is raw material with an important discount on the aggregate value of the metals that it incorporates. If there is an example on how being environmentally responsible is more economically beneficial to your Company, this is it. Since the creation of the Group, tens of millions of tons of scrap have been recycled in the steelworks of Acerinox Group, who

in 1970 had already created a Circular Economy with its associated benefits.

2). Water

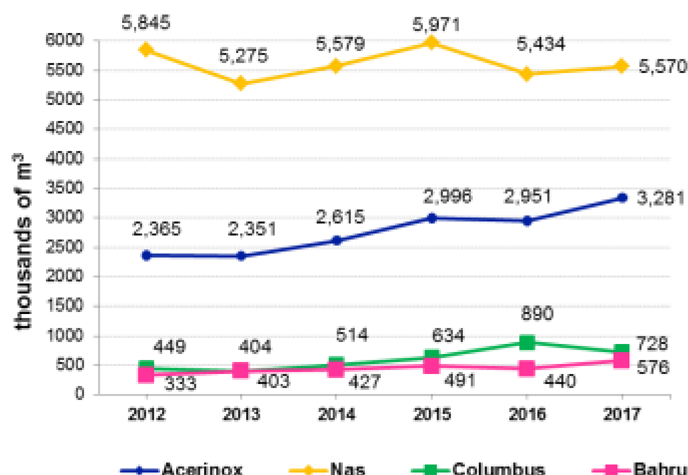
The activities developed by the Acerinox Group require a considerable amount of water. Thus, the struggle takes place on two fronts: reducing water consumption and therefore the costs and returning the water that is borrowed in the same conditions as its natural state.

Saving water saves money. The Group plants recycle all the water it uses that, in turn, is used many times before being purified and returned to the environment.

The Company uses the most advanced methods and treatments during the process. These practices also restore it to its former quality after the filtering process and extracts the substances added during the production processes.

Consumption varies substantially between plants due to the differences in air temperature and, in turn, evaporation temperature, and the different refrigeration requirements of the equipment and products which are manufactured. In the case of Columbus, due to the use of rainwater of which its measurement is not recorded.

Acerinox Group Water Consumption

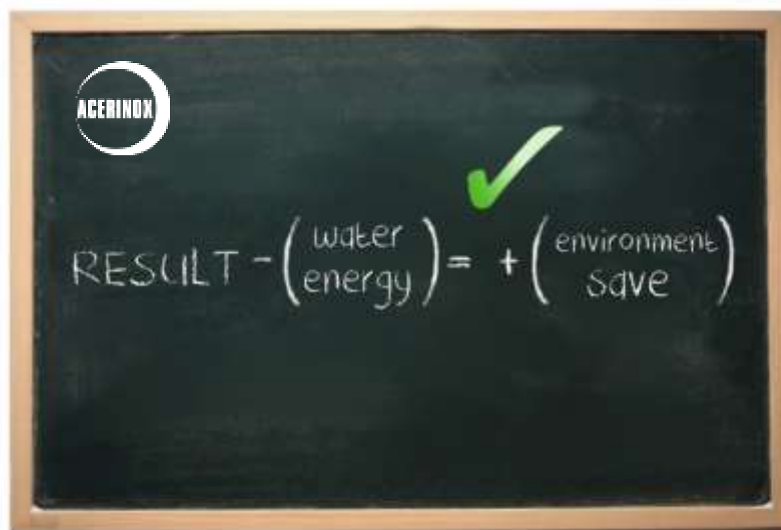


Note: The water consumption of Acerinox is related to the factory in Palmones (Algeciras).
At Columbus the collected and stored rainwater is not measured.

In all cases, the quality of the water returned into the environment is monitored by the Company itself as well as the Authorities.

At NAS, the water is returned to the Ohio river, from where it is taken, through a diffuser to reduce its impact, in Campo de Gibraltar this is done through an underwater pipeline several kilometres long that returns water to the Mediterranean.

At Columbus the greater part of the water used comes from rainfall. Various reservoirs collect it during the rainy season and store it for the rest of the year.



3). Energy

The manufacture of steel is electro intensive and anything aimed at reducing energy consumption, as well as reducing indirect emissions, makes substantial savings.

With exception of NAS, energetic policies in countries where the plants of the Group are found suffer from a lack of forecasting making the cost of energy high. Hence, once again, appropriate environmental management is also the most efficient for the business. Table 2 of the annex shows the energy consumption of Acerinox Group.

4). Emissions

The Group's production activities are subject to strict emission controls, as well as the fulfilment of yearly objectives. In 2020, the period for recording the Greenhouse-Gas Emissions (GHG) comes to an end in Europe and

over the next few years the rights to free emissions are going to be reduced.

Appropriate environmental management has enabled the plant at Campo de Gibraltar to optimize the use of free emission rights and operate with 231,350 free CO_2 emission allowances. The next emission period shall begin with the possibility of being able to apply the surplus allowance rights from the period (2012-2020) in the years to come, avoiding the need to resort to the rights market. Plants of the Group outside Europe are not subject to this market, even though their CO_2 emissions are similar to those of the plant in Spain.

Unfortunately, in Spain, there is no system that compensates for the indirect costs of CO_2 emitted by power generators, and the same is transferred to the price of electricity making it extremely expensive. This is an issue that the Government want to take advantage of and that the Industry needs to resolve.

Once again, the Group holds the position as being one of the most efficient companies in reducing emissions, according to the International Stainless Steel Forum (ISSF), with a direct emission intensity 35% lower than the average of the rest of the stainless steel manufacturers in the world.

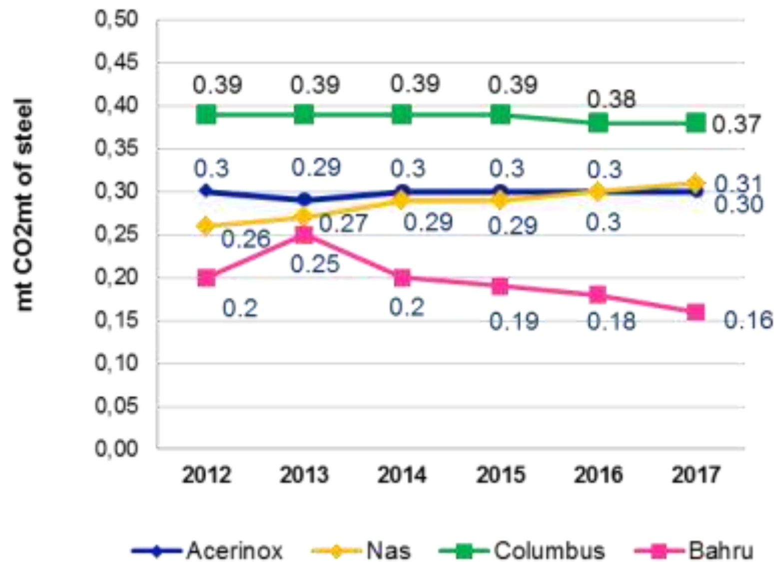
In order to reduce NO_X emissions, the plants have catalytic towers, where NOx vapours are converted into molecular nitrogen, so that the NOx emissions are well below the strict legal limits.

Since 2012, Acerinox has participated in the Carbon Disclosure Project (CDP), whose reports are considered to be the most reliable and accurate by experts, analysts and the international community at large. This year, once again, it has awarded Acerinox a high score thanks to its significant CO_2 emission control.

Following the recommendations of the diverse international standards, the Acerinox Group calculates the direct emissions GHG (Scope 1) coming from consuming fuel, the indirect emissions GHG (Scope 2) coming from consuming electricity and finally other indirect emissions GHG (Scope 3) coming from the travel of employees and professional trips. The data for each emission calculation can be found in Table 3 in the Annex Information.

The verification of these emissions is performed by a body authorised for this activity in compliance with ISO standard 14064-1:2006; the foregoing being an important transparency exercise. Total emissions in 2017 were up over last year due to higher production, even though the efforts made have maintained or reduced emissions per ton of steel produced in the majority of the plants.

Emissions GHG (Scope 1) of Acerinox Group



Note: The emissions calculated by Acerinox are related to the factory in Palmones (Algeciras).

The Company collaborates with the Union of Steel Companies (UNESID), preparing the inventory of CO2 emissions for the Ministry for the Environment and developing the MIRAT project as part of the Law of Environmental Responsibility.

Columbus employs the ISSF methodology to calculate its CO2 emissions, which are always well below the limits required by local legislation. Their emissions are higher than in the rest of the plants due to the lower availability of scrap in its market.

Although the USA is not a signatory of the world agreements on the reduction of emissions, the Group has applied to NAS the same good practices as in Europe and achieved equivalent results, with specific emissions whose levels are very similar to those in our European plants.

The source of the relatively high specific emissions generated by Bahru is clear: the start-up of its equipment and the learning phase, as is seen in the fact that the higher the production the lower the specific emissions.

5). Effluent and waste

Waste generated

Waste types generated by each plant are not 100% the same and have been reduced to a normalized group for comparative purposes (please refer to Table 5). The plant in Bahru is the exception once again, as it still lacks its own steel mill and, therefore, cannot be compared with the others, but publishes its figures as part of an informative exercise aimed at increasing awareness of the matter.

In the slag-processing plant, the metallic content from the waste is extracted, recovering metal with a degree of alloying elements, that are then sent to be smelted again (except in the case of Bahru as explained in the previous paragraph). The resulting slag is regarded as non-hazardous, with the corresponding benefit for its subsequent use. Smoke powder is a dangerous by-product that is sent, together with other residues (mill scale and PRA powder) to a metal extraction plant. When smoke powder has gone through this process it is no longer a dangerous by-product. The extracted metal is reused as raw material in the steel-blast furnaces.

Across the different plants, wax paper, mill scale, pallet, discarded pieces, halogen bulbs, printer toners, oils and used acids, office paper, plastic, cardboard, shoot blasting, electric and electronic goods are recycled, amongst others.

Lastly, this year only 4% of the hazardous waste managed by the plant of Palmones (Algeciras) has required international transportation. Part of the the smoke powder and mill scale generated in the process is sent to France for metal recovery. For plant-by-plant information, please refer to Table 4 in the Annex Information.

Use of waste products

Stainless steel is a product which is highly sustainable and can be recycled as many times as required without its characteristics diminishing or deteriorating after each cycle, thus promoting a decrease in the exploitation of natural resources and a reduction in the amount of waste. With the aim of achieving greater efficiency, the Company has developed its smelting technology by using an extremely high percentage of recycled material, exceeding the global average for steel manufacturers, according to the International Stainless Steel Forum (ISSF).

It is essential to assess the environmental implication of the entire product life cycle, from the manufacturing process to the end of its service life. To do this, the Company participates in the Life Cycle Inventory (LCI) promoted by the European Steel Association. This is an internationally recognized, structured method to quantify the emissions, resources consumed as well as the impact on the environment and health related to the products placed

on the market thereof. The scope of the method encompasses the extraction of the raw materials right through to the useful life of the product.

Steel can be found in countless applications across industry. It is interesting to note how other sectors are also committed to the environment, especially by means of the equipment used for renewable energies such as solar power, the construction of energy-efficient buildings, water treatment plants, etc.

Discharge of waste water

At the Acerinox Europa plant the recirculation of water is implemented by treatments throughout the industry. The treated water that is not recirculated and released fulfils the tipping standards set by the Integrated Environmental Authorisation (Autorización Ambiental Integrada - AAI). In 2017 the adaptation of the AAI was granted to the Best Possible Techniques.

At Columbus the water is treated in reservoir dams whilst in Bahru it is cleaned in the treatment plant. At NAS it is released into the Ohio river, treated and monitored, in strict compliance with environmental regulations.

Spill prevention

Acerinox Group plants have strict measures to prevent, avoid, and resolve spillages from tipping or storing substances. In 2017 there were no spillages recorded in the Group's plants because of these preventative measures. All the plants have neutralization plants for treating acid and basic waste water as well as emergency dams and other security mechanisms for containing any possible spillage.

The tanks are also equipped with a rigid inner tank for non-visual leaks, with an emergency stop function systems, and emergency cleaning service.

There are internal procedures of the EMS according to ISO 14001 standard for avoiding and resolving any incident. NSM-9019 is an internal standard to tackle and manage these types of situations and serves as a practical guide for staff at the plant.

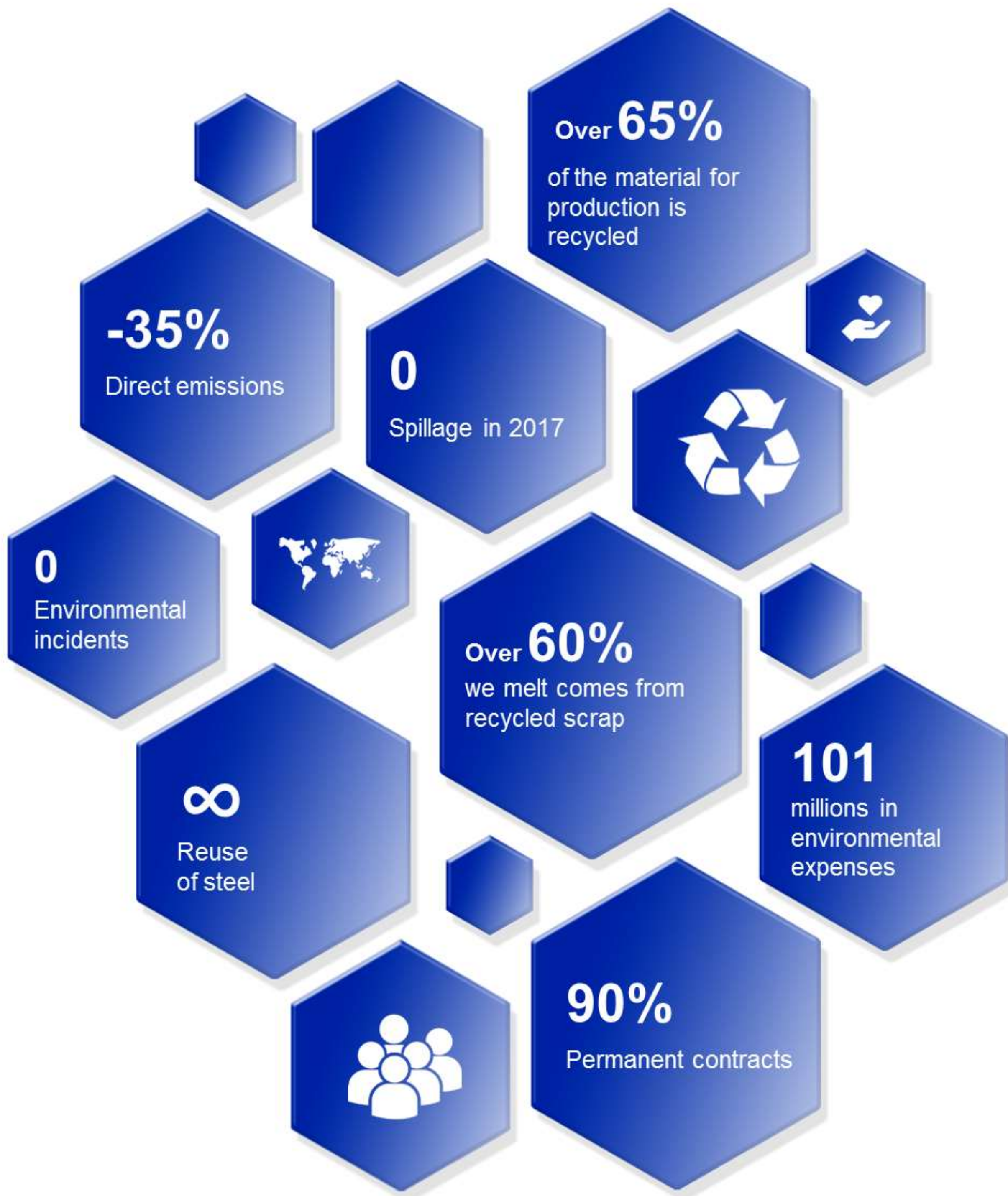
The Environmental Policy of the Company has prevented any environmental incident and has made staff aware of the importance of these good practices.

6). Environmental expenditure and investment

This year the upgrade process of the Integrated Environmental Authorisation (Autorización Ambiental Integrada - AAI) of the plant in Campo de Gibraltar was completed. The Authorisation recognizes that the facilities at this plant have been adapted to the Best Techniques Available. To comply with the foregoing, the Company invested in: installing an enclosure system between the scrap and furnace warehouses, as well as between the furnace and the AOD, a skylight closing system, and improving the efficiency of the electric furnaces, AOD, and wind breaks in the slag area. It is expected that this investments are operational this year.

Last year, the Acerinox Group spent 101,047,847 euros on environmental items. To this figure, an investment amounting to 6,360,538 euros, mainly to reduce the diffuse emissions of the melting shop, needs to be added which results in an increase of more than 600 thousand euros over the last financial year.

Note: The environmental expenditures and investments are at the date of preparation of this report..


Over 65%
of the material for production is recycled
-35%
Direct emissions
0
Spillage in 2017
0
Environmental incidents
Over 60%
we melt comes from recycled scrap
101
millions in environmental expenses
Reuse of steel
90%
Permanent contracts

4.2 Social and Labour Matters

a. Health and Safety in our products

The Acerinox Group is particularly strict and demanding when it comes to adopting the measures necessary for guaranteeing the safety of their employees. The metal industry is not without its risks, which means extra efforts should be made to reduce them as much as possible. For this purpose, the Group has a rigorous Health and Safety Policy, self-inflicting more than that provided for in the Law in force.

Acerinox adds what they believe to be an essential and inevitable item on the Agenda of its Governing Bodies, that of monitoring accident rates and the loss of work hours due to illness. As a result of this rigorous risk monitoring, the number of accidents occurring at all of the Group's factories is steadily decreasing.

This exhaustive monitoring also reaches the safety measures in place in subcontractors who use workers, either permanently or occasionally, at our workplaces. Our terms and conditions establish as a breach of contract for subcontractors any serious non-compliance with safety measures applicable to subcontracted personnel, measures for which the standard is set by Acerinox, and not by the subcontractor.

During 2017, there were a total of 109 accidents that caused the employees in question to take leave with another 58 not having to take leave. The number of work days lost for these absences increased to 3,976. At the Columbus Stainless plant someone died at work, which affected an employee of a sub-contracted company.

In addition, through its OHSAS 18001:2007 Management System, Acerinox has established a procedure based on its internal process for the identification of hazards, risk assessment, and planning and control of these risks in accordance with PSS-431-1.Rev.2, as well as a Health and Safety procedure for investigation into accidents and incidents (PSS-452-3).

The good practices programmes implemented during the financial year at the request of the Safety and Environment Department of Campo de Gibraltar plant makes for a safer and healthier work environment. For this purpose, the process lines, operability of the safety elements checks, and the service companies have been audited.

Again this year Columbus's Health and Safety Programme is based on OHSAS 18001 standards and on its own Health Management System and the regulations of the Occupational Health and Safety Act. In addition, since 1998, the renovation of the certificate for complying with the ISO 14001 standards has been granted.

NAS also has good practice programmes, achieving very high efficiency levels, continuing with its policy of Zero Accidents, in accordance with the OSHA Form 300 regulations.

During the financial year, Bahru took additional measures above the standard set by its own country by implementing the European safety standards right from the beginning. These additional measures contributed to their being able to carry out the entire building work and installation thereof without any serious accidents and is now an example to follow in the area for demanding the same measures from their sub-contractors.

Every single one of the employees of the Group are represented by Safety and Health Committees who hold meetings with Supervisors and Managers from the different areas in order to update any policies as deemed necessary.

b. Employment

The Group offers stable, well-paid work. In the plants and the parent company, 90% of the contracts are indefinite-term contracts and those that are not are temporary or work experience agreements.

The work conditions attract talent and create a loyal workforce, this rotation indices can be seen in Table 7.

The Group provides all employees with the medical cover necessary in the case of accident, and complies with the Law so that the same have full access to the services on offer by the different social security programmes in each respective country. Each company of the Group offers an extensive and different range of social benefits. The Group makes no distinction between the benefits offered to full-time and part-time staff and the notice periods are always in compliance with the law in force in each country. Likewise, there are no activities in the Acerinox Group in which the right to freedom of association and the right to benefit from collective agreements are at significant risk, also Acerinox subscribes to the principles of the Global Compact.

Regarding maternity and paternity leave, 187 people exercised their right to take leave this year, returning to work at the end once this ended.

Finally, both the Acerinox Group and the different Works Council inform the workers about any change or update of the collective labour relations. The Group ensures the correct distribution of the information related to salary updates, paid leaves, appointments or relevant changes in the organization chart, vacations, scholarships, schedules and calendars. Also, both the Groups Direction and the Works Council receive, through the procedures enabled for this, suggestions and queries from the company's employees.

c. Training workers

Acerinox Group considers that professional development is a basic right for the individual and a need for the company. The training of a first-class steelworker requires time, investment, and dedication and to achieve this, the Group is continually making substantial investment in training.

In 2017, according to the hours of training received from Acerinox Group, a total of 1,139 qualified workers received 28,402 hours, 746 administrative workers 10,985 hours and 5,552 labourers 222,200 hours.

Some of the training courses were mandatory, required, and periodic, such as those on Safety and Prevention of Risks and others were strongly recommended by the Company, as well as through systems based on collective negotiation.

There is no one more experienced for giving these training sessions than those who have spent the best part of their professional life carrying out the corresponding tasks. This is why, the majority of the courses are run by active staff or retired employees in the pertinent areas.

In any event, without appropriate training, there is no quality or innovation. During 2017, the Group's companies awarded a total of 53 grants to employees so that they can work and study subjects related to the plant’s activities at the same time.

In 2017, the Group assessed a total of 3,706 workers. A breakdown of the results and assessment percentages can be found in Table 8.

With a view to involving all its employees in this challenge, Acerinox conducts important internal training programmes and each year organizes the Rafael Naranjo Awards, worth 45,000 euros, to reward the best ideas in this field.

d. Diversity and equal opportunities

Since its creation, Acerinox has shareholders and a Board of Directors who are multinational and, by default, multilingual. Diversity is an integral part of the Company.

You can find in the current Board of Directors four different continents, four out of the same with nationalities different to Spanish. The Board, following the Recommendations of the Good Governance Code for Listed Companies, commits to procure that by 2020 at least 30% of their Board Members belong to the minority represented gender and with this objective in mind has appointed three new Independent female Directors to increase the number of female members of the board to 4.

It is the Group's wish, whose advancement it actively encourages, for its companies to be managed mostly by local personnel rather than by expats, as it considers that one of the keys to success is understanding the local culture in order to act and think in a global manner.

In some countries the companies reinforce this diversity and equality of opportunity through the adhesion to and promotion of policies of positive discrimination towards less-favoured races and the economic re-balancing of special groups. Equality between men and women is a reality among the companies within the Group, where there is identical treatment and a salary policy that makes no distinction between the sexes, race, or belief and that is based on performance and professional experience, in accordance with the principles of merit and competence.

The number of professionals in Acerinox Group (including the subsidiaries of the Group) amounts to 6,742 out of which 832 are women.

Furthermore, Columbus has once again collaborated with the Broad-Based Black Economic Empowerment (BBBEE) programme, reaching a high compliance level. The BBBEE seeks to encourage South African black community access to positions of responsibility and to promote their social advancement. Acerinox has improved the classification of this concept year-on-year after creating a Transformation Committee that reports to the Management Committee. Columbus Stainless improved its rating in the main criteria evaluated by the report, such as management positions, skills development or social-economic development.

e. Local Communities

The Group collaborates socially in the geographical areas where its production plants are located and helps in the execution and maintenance of health, cultural, sports and environmental projects.

At Acerinox Europa, the Donations Committee of the plant (financed by both the Group and the workers) allocates financial aid to NGOs, associations to fight against diseases and the most disadvantaged in the area. NAS finances sports, student and cultural projects of very diverse nature. Columbus maintains a campaign to fight against AIDS, whose virus is very present in the country, with a wide range of measures for the containment and prevention of infections. Bahru carries out charitable initiatives as well as promotion of equality through activities, especially during Ramadan.

At Acerinox, we firmly believe that the greatest benefit that a company can provide to society is through the responsible performance of its operations, which results in the creation of value and payment to suppliers, shareholders and employees. Likewise the Company contributes to public expenditure through the current fiscal system and to the Social Security systems in the countries where it operates. Thus it is worth pointing out the

following contributions towards the development of society, apart from the charity work that the Group has carried out.

Shareholder remuneration

- € 124,230,394.35

Social Security

- € 70,890,778

Salaries

- € 299,718,718

Tax paid

- € 171,318,164

In essence, these obligations constitute the greatest and most committed demonstration of a corporation's social responsibility.

Trading companies, as well as individuals, must collaborate in a responsible fashion in order to uphold the level of well-being and the social protection systems of the societies where they are based.

The Acerinox Group strives each year to make effective use of their human, technical or financial resources to help disadvantaged groups and contribute to the development of society.

Indeed, their collaboration goes beyond the thousands of employees and payrolls directly or indirectly generated in the course of their business making every effort to form part of the local community in which the companies of the group operate.

Acerinox participates academically or collaborates directly with more than 30 universities spread out over four continents. It is present in courses, cathedra's, trainings and master's degrees related to engineering, steelmaking, business management and other fields of strategic interest and, through them, promotes the value of its activity and its sector by attracting talent. Cedinox (Association for the Development and Promotion of Stainless Steel) offered last year 22 presentations in 19 technical universities. They were attended by 1,415 students and had 33 teachers.

f. Alliances and external initiatives

Acerinox is actively involved with associations and civil society through collaborating with different social, cultural, and sports organisations.

An example of this very active collaboration is when Bernardo Velázquez, Chief Executive Officer of Acerinox, S.A. was appointed Chairman of the Steelworks Companies' Union (Unión de Empresas Siderúgicas - UNESID).

The following details the entities and associations to which the companies of the Group belong:

Acerinox S.A. and Acerinox Europa
International Stainless Steel Forum (ISSF)
European Steel Association (EUROFER)
The Spain-US Advisory Foundation
National Union of Iron and Steel Companies (UNESID)
The Association of Large Industries of Campo de Gibraltar
The Association for Research and Development in Stainless Steel (CEDINOX)
The Elcano Royal Institute
Association of Large Energy Consumption Companies (AEGE)
Institute of Internal Auditors Association
Spanish Institute of Engineering
Spanish Network of the United Nations Global Compact
CDP Worldwide (Europe) Gmbh
Risk Management Initiatives (IGREA)
Management Progress Association (APD)
Fundación UNESID
Circulo de Empresarios
Spanish Emissions Association
Hispanic-South African Association for Businesses and Culture
Hispanic-Malaysian Business Association

NAS
American Iron and Steel Institute
Employers Resource Association
Concrete Reinforcing Steel Institute
Kentucky Chamber of Commerce
Carroll County Chamber of Commerce
Northern Kentucky Chamber of Commerce
Kentucky Association of Manufacturing
National Association of Manufacturers
Metal Service Institute
Specialty Steel Industries of North America
Central Ohio River Business Association
Kentucky Utility Customers
Kentucky Excellence in Environmental Leadership
International Stainless Steel Forum
US Chamber of Commerce
Kentucky Automotive Industry Association
World Steel Association
American Iron and Steel Institute
Employers Resource Association
Concrete Reinforcing Steel Institute
Kentucky Chamber of Commerce
Kentucky Automotive Industry Association
World Steel Association

COLUMBUS
South African Stainless Steel Development Association (SASSDA)
Manufacturing Circle
South African Iron and Steel Institute (SAISI)
National Association of Automotive Component and Allied Manufacturers (NAACAM)
Steel and Engineering Industrial Federation of South Africa (SEIFSA)
Middelburg Chamber of Commerce (MCCI)
International Stainless Steel Forum (ISSF)

BAHRU
Malaysian Iron & Steel Industry Federation (MISIF)
Federation of Malaysian Manufacturers (FMM)
Malaysian Employers Federation (MEF)
Malaysian International Chamber of Commerce & Industry (MICCI)

4.3 Compliance

Ethical behaviour is one of the cornerstones of the Group and is regulated by the Conduct Code and Good Practice applicable to all professionals in the Company, including all those professionals who work for them, or on their behalf, in any country. This Code is a source of inspiration for standards of honesty, rectitude, integrity, and transparency always present in our business.

Today, not only does a company have to comply with that required by Law in the countries in which they operate but also has to consider the ethical side of all their decisions. In this context, Acerinox has implemented internal policies and standards that must be complied with in order to become more transparent, trustworthy, and ethically better every day.

The Company has adopted procedures to ensure that its actions adapt to the different legal systems and to the highest possible internal operational standards.

The Group has the necessary mechanisms in place so that any incidents of discrimination that may occur are dealt with through the Whistle-Blowing Complaints Committee supervised by the Audit Committee. The solutions that this Committee develops aim to defend workers' rights and are committed to compliance with the Code of Conduct and Good Practices. During 2017, there were no cases of discrimination in the Group reported.

The Company is committed to the principles of the United Nations Global Compact. Taking into account the activity of the Group, the controls established and its geographic environment, it is not considered that the Company is exposed to non-compliance of Human Rights risks. Moreover, the hiring standards comply with the criteria of the global organization, which are more rigorous than the current legislation in force in each country.

4.4. Fighting against corruption

The Conduct Code and Good Practices of the companies of the Group forms the basis of the regulatory compliance and prevention of illegal acts system, according to the directives set forth in the Prevention Plan. The Code makes a clear distinction between the axiomatic principles of the system, the basic standards whose non-compliance thereof could be subject to reproach by the jurisdiction and the procedural and adjective provisions that above all should be monitored and enforced.

The way in which the Code is implemented is through training and awareness sessions so that the Company is certain that it is understood and, in the case of non-compliance thereof, be is enforced through disciplinary actions. However, should an irregularity occur despite the controls and measures in place, there is an institutionalised complaints

channel known as “whistle blowing” that enables the Governing Bodies of the Group know the illicit act so that they can adopt the appropriate measures while keeping the identity of the Whistle Blower confidential.

At the same time, Acerinox Group strictly complies with internal procedures and policies, and prevents corruption through:

- Internal procedures that prevent any unusual or unexplained decisions.
- Instructions about receivables and payments are performed through prestigious credit-worthy entities in countries not classified as tax havens, being absolutely forbidden cash payments or the use of payment methods different to those authorised.
- The Code of Good Tax Practices to which Acerinox is affiliated and the Tax Policy of the Group determine that all the Group companies located in territories with the consideration of tax havens are dedicated exclusively to the commercialization of stainless steel and there will be no undue flow of rents to these companies.
- Acerinox does not finance any political party, nor any association or foundation that is sponsored, recommended or used by political parties.
- Favours, perks, gifts, or handouts by individuals or entities that hold or have held a business relationship with Acerinox Group are strictly prohibited as well as exercising any secondary activity without authorisation or prior permission.

5. ANNEX INFORMATION

Table 1:

Acerinox Group Total Consumption of Materials Used in Production (Acerinox, Nas, Columbus and Bahru)

Materials	Acerinox Group Results
Ferroalloys	725,224 mt
Gases	341,801 mt
Acids	65,477 mt
Recycled material	2,192,273 mt
Recycled Acid	30,695 mt

Note: The data reported by Acerinox is related to the factory in Palmones (Algeciras).

Table 2:

Acerinox Group Energy Consumption (Acerinox, Nas, Columbus and Bahru)

ACERINOX GROUP	
Internal energy consumption	
Natural Gas	11,903,538 GJ
Electricity	10,389,680 GJ

Note: The data reported by Acerinox is related to the factory in Palmones (Algeciras).

Table 3:

CO2 Emissions by Plant

Factories	EMISSIONS		
	Direct emissions (Scope 1)	Indirect emissions (Scope 2)	Indirect emissions (Scope 3)
Acerinox Europa	246,010 mt of CO_2	259,434 mt of CO_2	118,510 mt of CO_2
NAS	337,364 mt of CO_2	649,404 mt of CO_2	1,516,068 mt of CO_2
Columbus	215,812 mt of CO_2	636,535 mt of CO_2	Not calculated
Bahru	46,314 mt of CO_2	83,308 mt of CO_2	Not calculated

Note: The data reported by Acerinox is related to the factory in Palmones (Algeciras).
The indirect emissions (Scope 3) of Acerinox are at the date of preparation of this report..

Table 4:

By-products requiring International Transportation by Plant

Factories	mt of hazardous waste handled	% that required international transport
Acerinox Europa	31,764 mt	3.98%
NAS	31,110 mt	0%
Columbus	44,194 mt	2.22%
Bahru	11,868 mt	0%

Note: The data reported by Acerinox is related to the factory in Palmones (Algeciras).

Table 5:

Acerinox Group Waste generated (Acerinox, Nas, Columbus and Bahru)

	Tons
Smoke dust (hazardous waste)	71,237
Slag (non-hazardous waste)	812,614
Scale (non-hazardous waste)	19,766
Neutralization sludge (non-hazardous waste)	96,432

Note: The data reported by Acerinox is related to the factory in Palmones (Algeciras).

Table 6:

Number of employees by Plant (Acerinox, Nas, Columbus and Bahru)

	ACERINOX GROUP NUMBER OF EMPLOYEES			
	ACERINOX	BAHRU	NAS	COLUMBUS
By gender				
Female	160	89	149	242
Male	2,200	468	1,292	1,320
Total	**2,360**	**557**	**1,441**	**1,562**

Table 7:

Percentage of Rotation by Plant (Acerinox, Nas, Columbus and Bahru)

	PERCENTAGE OF TURNOVER BY REGION			
	BAHRU	COLUMBUS	ACERINOX	NAS
By gender				
Female	22%	7%	1%	5%
Male	22%	5%	5%	7%
Total	**22%**	**6%**	**5%**	**7%**

Table 8:

Performance evaluation by Plant (Acerinox, Nas, Columbus and Bahru)

	EVALUATED EMPLOYEES
ACERINOX	204
NAS	1.413
BAHRU	521
COLUMBUS	1.562
% GROUP	**63%**

Acerinox, S.A.

Audit Report,
Financial Statements and Directors' Report
at 31 December 2017

Report of the Independent Auditors on the Financial Statements

To the shareholders of Acerinox, S.A.

Report on the financial statements

Opinion

We have audited the financial statements of Acerinox, S.A. (the Company), which consist of the balance sheet at 31 December 2017, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements express, in all material respects, a true and fair view of the Company's equity and financial situation at 31 December 2014, as well as the results and cash flows for the year then ended, in accordance with the framework of applicable financial reporting legislation (identified in Note 2 of the Notes to the Annual Accounts) and, in particular, the accounting principles and policies established therein.

Basis of the opinion

We have performed our audit in accordance with legislation governing audits in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with ethical requirements, including those of independence that are relevant to our audit of the financial statements in Spain in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than audit and no situations or circumstances have arisen that compromised our independence in accordance with that legislation.
We believe that the audit evidence we have obtained is sufficient and adequate to provide a basis for our opinion.

Key Audit Matters (KAM)

The key audit matters are those which, in our professional opinion, have been considered to be the most significant risks during our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion of these matters.

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Key Audit Matters (KAM)	How the matters were handled during the course of the audit
Recovery of investments in group companies	
Non-current investments in group companies make up a significant part of the Company's assets and represent 62% of total assets at 31 December 2017 (Note 9 to the accompanying financial statements). The Company makes an annual assessment of any indications of impairment and calculates the recoverable value of the investments recognized in its balance sheet, as is described in Note 9.2.7 to the accompanying financial statements. The Company uses cash flow projections based on financial budgets approved by management to calculate the recoverable value, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Company are summarized in Note 9.2.7 to the accompanying notes to the financial statements. Changes in these variables and estimates made by management may give rise to significant variations in the conclusions reached and, therefore, in the analysis of the recovery of the investments in Group companies. This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.	We first gained an understanding of the relevant processes and controls associated with the evaluation of the measurement of the investments in Group companies, as well as the analyses of their recovery and impairment tests carried out by management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by management. We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by management, against those actually attained in 2017. We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rates for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group, in those cases we deemed it necessary. As a result of our tests and analyses, we consider that management's conclusions regarding the impairment of the investments in Group companies and the disclosures in the accompanying financial statements are adequately supported and consistent with the information currently available.
Recovery of deferred tax assets	
The Company recorded €83,641 thousand in deferred tax assets at 31 December 2017 whose recovery depends on the generation of taxable income in future years (Note 12 to the accompanying notes to the financial statements). The recovery of these deferred tax assets is analysed by the Company through an estimation of taxable income over 10 years (Note 12.3 to the accompanying financial statements). The estimation of future tax-loss carry forwards is based on the business plans prepared by the various companies pertaining to the tax group and on the planning possibilities permitted by applicable tax legislation taking into account the tax consolidation group (Note 2.3.c to the accompanying financial statements).	We first gained an understanding and assessed the criteria used by the Group to estimate the possibility that the deferred tax assets may be applied and recovered in subsequent years, in accordance with the business plans. Based on the business plans prepared by management, we have analysed the key assumptions, estimates and calculations used, comparing them against past results and other available industry information. With the support of our tax specialists, the analysis also included a review of the tax adjustments taken into consideration for the estimate of tax-loss carry forwards, applicable tax legislation as well as decisions regarding the possibility of using the taxable profits obtained by the tax consolidation group.

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
As a result, the conclusion regarding the recovery of the deferred tax assets that is presented in the accompanying financial statements is subject to significant judgment and estimations by Company management with respect to both future taxable income and the tax legislation currently in force. This, together with the materiality of this heading, means that this matter was one of significant attention during our audit.	The analyses carried out have allowed for the verification that the calculations and estimates made by the Company, as well as the conclusions reached, with respect to the recognition and recovery of deferred tax assets are consistent with current circumstances, in light of the expectations of the tax group obtaining profits in the future and the possibilities arising from tax planning available under current legislation.

Other matters

The financial statements for Acerinox, S.A. for the year ended 31 December 2016 were audited by another audit firm that expressed an unqualified opinion regarding those financial statements on 28 February 2017.

Other information: Directors' report

Other information includes only the directors' report 2017, the preparation of which is the responsibility of the company's directors and does not form an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the director's report. Our responsibility regarding the information set out in the directors' report is defined by audit regulations, which make a distinction between two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report, as defined by Article 35.2.b) of Law 22/2015, on Audits, which consists of only verifying that the aforementioned information has been provided in the directors' report. If this is not the case we must report this fact.

b) A general level applicable to the rest of the information set out in the directors' report consisting of assessing and reporting on the consistency of that information compared to the financial statements based on the knowledge of the Company obtained during the audit of those financial statements, excluding any information other than that obtained as evidence during the audit, as well as assessing and reporting whether or not the content and presentation of this part of the directors' report are in line with applicable regulations. If, based on our work, we conclude that there are material misstatements, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above is included in the directors' report and that the rest of the information in the directors' report is consistent with that of the financial statements for 2017 and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit committee with respect to the financial statements

The Directors are responsible for preparing the accompanying financial statements such that they express a true and fair view of the equity, financial situation and the results obtained by the Company in accordance with the financial reporting legislation applicable to the Company in Spain and the internal control that is considered necessary to allow financial statements to be prepared free of material misstatement due to fraud or error.

When preparing financial statements, the Company's directors are responsible for assessing its ability to continue as a going concern, disclosing, as applicable, matters related to its status as a going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no other realistic alternative.

The audit committee is responsible for supervising the preparation and presentation of the financial statements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an Audit Report that contains our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when one exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations, or the override of internal control.

- We obtained relevant knowledge of the internal control system for the audit to design the audit procedures that are adequate in accordance with the circumstances, and not for the purpose of expressing an opinion regarding the effectiveness of the Company's internal control.

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- We reached a conclusion as to the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to amend our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue being a going concern.

- We assessed the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and facts in a manner that expresses a true and fair view.

We communicated with the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided the Company's audit committee with a statement that we have complied with applicable ethical requirements, including those involving independence, and we have communicated with the company to report any matters that reasonably may represent a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters that have been reported to the audit committee at the Company, we determined those matters that were most important within the context of the audit of the financial statements for the current period and they are therefore the key audit matters.

We describe these matters in our audit report unless the law or regulations precludes the public disclosure of the matter.

Report on other legal and regulatory requirements

Additional report to the Audit Committee.

The opinion expressed in this report is consistent with the statements made in our additional report for the Company's audit committee dated 27 February 2018

Term of contract

Shareholders at a general meeting held on 9 June 2016 appointed us auditors for a term of 3 years starting on 31 December 2017.

Services provided

The services other than audit that have been provided to the audited company are disclosed in Note 22 the notes to the accompanying financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mar Gallardo (No. ROAC 18003)

27 February 2018

ACERINOX, S.A.

Annual Accounts

at 31 December 2017

(Free translation from the original in Spanish. In the event of

discrepancy,

the Spanish-language version prevails.)

ANNUAL ACCOUNTS ACERINOX, S.A.

1. BALANCE SHEET OF ACERINOX, S.A

(In thousands of euros at 31 December 2017 and 2016)

ASSETS	Note	2017	2016
A) NON-CURRENT ASSETS		**2,360,887**	**2,392,459**
I. Intangible assets	**5**	**1,438**	**1,892**
1. Computer software		957	1,555
2. Advance on fixed assets		481	337
II. Property, plant and equipment	**6**	**5,431**	**5,378**
1. Land and buildings		4,947	5,024
2. Technical installations and other PP&E		484	354
III. Investment property	**7**	**5,078**	**5,184**
1. Land		2,853	2,853
2. Buildings		2,225	2,331
IV. Non-current investments in Group companies and associates	**9**	**2,250,770**	**2,271,402**
1. Equity instruments	**9.2.7**	1,660,446	1,668,044
2. Loans to companies	**16.2**	590,324	603,358
V. Non-current financial investments	**9**	**14,529**	**14,927**
1. Equity instruments	**9.2.4**	14,474	12,330
2. Loans to third parties			13
3. Derivatives	**9.2.2**		2,529
4. Other financial assets		55	55
VI. Deferred tax assets	**12**	**83,641**	**93,676**
B) NON-CURRENT ASSETS		**307,245**	**305,215**
I. Trade and other receivables	**9**	**17,469**	**13,054**
1. Trade receivables, group companies and associates	**16.2**	9,418	9,305
2. Other receivables		39	80
3. Personnel		8	6
4. Current tax assets	**12.4**	7,602	3,392
5. Other receivables with public entities		402	271
II. Current investments in Group companies and associates	**9**	**284,120**	**273,070**
1. Loans to companies	**16.2**	273,614	264,513
2. Dividend receivable		10,506	8,557
III. Current financial investments	**9**	**1,086**	**15,492**
1. Derivatives	**9.2.2**	1,086	15,492
IV. Current prepayments		**661**	**706**
V. Cash and cash equivalents		**3,909**	**2,893**
1. Cash		3,909	2,893
2. Other cash equivalents			
TOTAL ASSETS		**2,668,132**	**2,697,674**

Notes 1 to 17 form an integral part of the annual accounts.

(In thousands of euros at 31 December 2017 and 2016)

EQUITY AND LIABILITIES	Note	2017	2016
A) EQUITY		**548,056**	**661,464**
A-1) Equity	**10**	**543,343**	**659,574**
I. Capital		**69,017**	**69,017**
1. Registered capital		69,017	69,017
II. Share premium		**81,403**	**81,403**
III. Reserves		**452,892**	**576,988**
1. Legal		12,599	12,465
2. Other reserves		440,293	564,523
IV. Own shares and equity instruments		**-1**	**-1**
V. Retained earnings		**-67,967**	**-69,169**
1. Prior years' losses		-67,967	-69,169
VI. Profit for the year		**7,999**	**1,336**
A-2) Valuation adjustments		**4,713**	**1,890**
I. Available-for-sale financial assets		5,275	3,666
II. Hedging transactions		-562	-1,776
B) NON-CURRENT LIABILITIES		**1,803,218**	**1,674,702**
I. Non-current payables	**9**	**897,490**	**891,877**
1. Bonds and other marketable securities		74,350	124,106
2. Loans and borrowings		822,800	767,247
3. Derivatives	**9.2.2**	297	481
4. Other financial liabilities		43	43
II. Non-current payables to Group companies and associates	**16**	**883,847**	**758,941**
III. Deferred tax liabilities	**12**	**21,881**	**23,884**
C) CURRENT LIABILITIES		**316,858**	**361,508**
I. Current payables	**9**	**274,281**	**162,053**
1. Bonds and other marketable securities		51,592	1,653
2. Loans and borrowings		200,658	158,762
3. Derivatives	**9.2.2**	22,016	1,561
4. Other financial liabilities		15	77
II. Current payables to Group companies and associates	**16**	**37,599**	**195,930**
III. Trade and other payables	**9.2.5**	**4,978**	**3,525**
1. Suppliers and trade payables		728	464
2. Payables to suppliers, group companies and associates			
3. Other payables		1,126	533
4. Personnel (outstanding remuneration)		2,694	2,031
5. Other payables with public entities		430	497
TOTAL EQUITY AND LIABILITIES		**2,668,132**	**2,697,674**

Notes 1 to 17 form an integral part of the annual accounts.

2. INCOME STATEMENT OF ACERINOX S.A.

(In thousands of euros at 31 December 2017 and 2016)

A.1) CONTINUING OPERATIONS	Note	2017	2016
1. Revenues	**13.2**	**69,965**	**66,593**
a) Services rendered		20,045	18,258
b) Dividends received, group companies	**9.2.7**	13,510	15,339
c) Finance income of group companies	**16.2**	36,410	32,996
2. Other operating income	**13.2**	**1,250**	**610**
a) Other operating income and other current overhead		1,250	610
b) Operating grants taken to profit and loss			
3. Personnel expenses	**13.1**	**-11,332**	**-10,622**
a) Salaries, wages and similar		-10,194	-9,554
b) Social charges		-1,138	-1,068
4. Other operating expenses		**-7,629**	**-6,310**
a) External services	**13.3**	-7,478	-6,071
b) Taxes		-151	-151
c) Other operating expenses		0	-88
5. Amortisation and depreciation	**5,6 and 7**	**-1,162**	**-1,203**
6. Impairment and gains/losses on disposal of fixed assets		**-7,305**	**-6,394**
a) Gains/losses on disposals and other	**6 and 9.2.7**	-17	2,193
b) Impairment of equity instruments	**9.2.7**	-7,288	-8,587
A-2) RESULTS FROM OPERATING ACTIVITIES		**43,787**	**42,674**
1. Finance income		**158**	**356**
a) Equity instruments	**16.5**	158	228
a1) In third parties		158	228
b) Marketable securities and other financial instruments		0	128
b1) In third parties		0	128
2. Finance costs		**-36,030**	**-45,488**
a) Current payables to Group companies and associates	**16.2**	-11,506	-17,614
b) Payables to third parties	**9.2.6**	-24,524	-27,874
3. Change in fair value of financial instruments	**9.2.2**	**-34,033**	**16,763**
a) Trading portfolio and other		-34,033	16,763
4. Exchange gains/losses	**11**	**39,250**	**-13,884**
5. Impairment and gains/losses on disposal of financial instruments		**-313**	**0**
A.3) FINANCIAL RESULT		**-30,968**	**-42,253**
A.4) PROFIT BEFORE TAX		**12,819**	**421**
1. Income tax.	**12**	-749	4,432
2. Other taxes	**12**	-4,071	-3,517
A.5) PROFIT FROM PREVIOUS YEAR FROM CONTINUING OPERATIONS		**7,999**	**1,336**

Notes 1 to 17 form an integral part of the annual accounts.

3. STATEMENT OF CHANGES IN EQUITY

3.1 STATEMENT OF RECOGNISED INCOME AND EXPENSE

(In thousands of euros at 31 December 2017 and 2016)

	Note	2017	2016
A) PROFIT FOR THE YEAR		**7,999**	**1,336**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
I. Measurement of financial instruments		2,145	1,948
1. Available-for-sale financial assets	**9.2.5**	2,145	1,948
II. Cash flow hedges	**9.2.3**	-4,528	-7,145
III. Actuarial gains and losses and other adjustments			
IV. Tax effect	**12**	596	1,299
B) TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**-1,787**	**-3,898**
AMOUNTS TRANSFERRED TO THE INCOME STATEMENT			
VI. Measurement of financial instruments			
1. Available-for-sale financial assets			
VII. Cash flow hedges	**9.2.3**	6,146	12,639
IX. Tax effect	**12**	-1,536	-3,160
C) TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		**4,610**	**9,479**
TOTAL RECOGNISED INCOME AND EXPENSE (A+B+C)		**10,822**	**6,917**

Notes 1 to 17 form an integral part of the annual accounts.

3.2. TOTAL STATEMENT OF CHANGES IN EQUITY

(In thousands of euros at 31 December 2017 and 2016)

	Registered capital	Share premium	Reserves	Profit for the year	Interim dividend	Valuation adjustments	Treasury shares	TOTAL
Balance at 31 December 2015	**66,677**	**81,403**	**557,530**	**-20,531**	**0**	**-3,691**	**-1**	**681,387**
I. Total recognised income and expense	**0**	**0**	**0**	**1,336**	**0**	**5,581**		**6,917**
1. Profit for the year				1,336				**1,336**
2. Measurement of financial instruments						7,442		**7,442**
3. Tax effect						-1,861		**-1,861**
II. Transactions with partners or owners.	**2,340**	**0**	**-49,711**	**20,531**	**0**	**0**	**0**	**-26,840**
4. Capital increase (scrip dividend)	2,340		-2,435					**-95**
5. Distribution of dividends			-26,745					**-26,745**
6. Prior year results distribution			-20,531	20,531				**0**
7. Acquisition of own shares								**0**
8. Disposal of own shares								**0**
III. Other changes in equity								**0**
Balance at 31 December 2016	**69,017**	**81,403**	**507,819**	**1,336**	**0**	**1,890**	**-1**	**661,464**
I. Total recognised income and expense	**0**	**0**	**0**	**7,999**	**0**	**2,823**		**10,822**
1. Profit for the year				7,999				**7,999**
2. Measurement of financial instruments						3,763		**3,763**
3. Tax effect						-940		**-940**
II. Transactions with partners or owners.	**0**	**0**	**-122,894**	**-1,336**	**0**	**0**	**0**	**-124,230**
4. Capital increase (scrip dividend)								**0**
5. Distribution of dividends			-124,230					**-124,230**
6. Prior year results distribution			1,336	-1,336				**0**
7. Acquisition of own shares								**0**
8. Disposal of own shares								**0**
III. Other changes in equity								**0**
Balance at 31 December 2017	**69,017**	**81,403**	**384,925**	**7,999**	**0**	**4,713**	**-1**	**548,056**

Notes 1 to 17 form an integral part of the annual accounts.

3.3. STATEMENT OF CASH FLOWS OF ACERINOX, S.A.

(Thousands of euros at 31 December 2017 and 2016).

	2017	2016
A) CASH FLOWS FROM OPERATING ACTIVITIES	**-12,195**	**-5,855**
1. Profit before tax	**12,819**	**421**
2. Adjustments for:	**24,317**	**36,852**
a) Amortisation and depreciation (+)	1,162	1,203
b) Impairment of assets (+/-)	7,601	8,587
c) Change in provisions (+/-)		
d) Gains/losses on derecognition and disposal of fixed assets (+/-)	17	-2,193
e) Finance income (-)	-158	-356
f) Finance costs (+)	36,030	45,488
h) Exchange gains/losses (+/-)	-41,123	4,173
i) Change in fair value of financial instruments (+/-)	34,298	-4,711
j) Other income and expense	-13,510	-15,339
3. Changes in working capital	**1,238**	**-3,058**
a) Trade and other receivables (+/-)	-205	-3,297
b) Other current financial assets (+/-)	407	3,048
c) Trade and other payables (+/-)	278	-1,034
d) Other current financial liabilities (+/-)	758	-1,775
e) Other non-current financial assets and liabilities (+/-)		
4. Other cash flows from operating activities	**-50,569**	**-40,070**
a) Interest paid (-)	-34,311	-43,840
b) Dividends received (+)		
c) Interest received (+)		129
d) Income tax paid (received) (+/-)	-16,258	3,641
B) CASH FLOWS FROM INVESTING ACTIVITIES	**-53,416**	**28,712**
5. Amounts paid on investments (-)	**-95,506**	**-106,756**
a) Group companies and associates		-510
b) Intangible assets	-487	-462
c) Property, plant and equipment	-237	-136
d) Other financial assets		-18
e) Other assets (Group loans)	-94,782	-105,630
6. Amounts received on disinvestments (+)	**30,890**	**122,026**
a) Group companies and associates		6,931
b) Property, plant and equipment	1	2
c) Other financial assets	13	27
d) Other assets (Group loans)	30,876	115,066
7. Dividends received (+)	**11,200**	**13,442**
a) Payments/receipts on investing activities	11,200	13,442
C) CASH FLOWS FROM FINANCING ACTIVITIES	**66,627**	**-107,811**
8. Amounts paid on investments (-)		**-95**
A) Issue of own equity instruments (-)		-95
b) Acquisition of own equity instruments (-)		
9. Payments/receipts on financial liabilities	**190,857**	**-80,971**
A) Issue	**680,160**	**746,088**
1. Bonds and other marketable securities (+)		
2. Loans and borrowings (+)	590,000	690,378
3. Payables to Group companies and associates (+)	90,160	55,710
B) Return and redemption of:	**-489,303**	**-827,059**
1. Bonds and other marketable securities (+)		
2. Loans and borrowings (-)	-487,834	-603,292
3. Payables to Group companies and associates -)	-1,469	-223,746
4. Other payables		-21
9. Payments for dividends and remuneration of other equity instruments	**-124,230**	**-26,745**
A) Dividends (-)	-124,230	-26,745
B) Remuneration on other equity instruments (-)		
D) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**1,016**	**-84,954**
Cash and cash equivalents at beginning of year	**2,893**	**87,847**
Cash and cash equivalents end of year	**3,909**	**2,893**

Notes 1 to 17 form an integral part of the annual accounts.

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5. REPORT OF ACERINOX, S.A.

NOTE 1 – ACTIVITY OF THE COMPANY

Name of Company: Acerinox, S.A. (hereinafter the Company).

Incorporation: Acerinox, S.A. was incorporated with limited liability for an indefinite period under Spanish law on 30 September 1970.

Registered office and place of business: Calle Santiago de Compostela, 100, Madrid, Spain.

As described in **note 9.2.7**, the Company holds interests in subsidiaries and associates. Therefore, the Company is the parent of a company Group. It has six stainless steel factories: two manufacturing flat products in Spain and South Africa; one producing flat and long steel in the United States; a further two making long steel products in Spain; and another in Malaysia that makes flat steel and currently has cold rolling production lines. The Group also has a network of sales subsidiaries in Spain and abroad that sell stainless steel products worldwide as their main activity.

Presentation of consolidated annual accounts is mandatory under generally accepted accounting principles and rules, in order to fairly present the Group's financial position and results of its operations, changes in equity and cash flows.

At 31 December 2017, Acerinox. S.A. does not constitute a decision-making unit as defined in Rule 13 of the Rules for Preparation of Annual Accounts with other companies resident in Spain other than those included in **Note 9.2.7**.

Corporate purpose and main activity: the corporate purpose, as described in the Company's Articles of Association, is the manufacture and sale of stainless steel products and other derived or similar products, either by the company or indirectly through the ownership of shares or interests in companies that have the same or similar Company objective. The Company's main activity is that of a holding company, as parent company of the Acerinox Group. The Company also renders legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.

The Group's main activity, conducted through its subsidiaries, is the manufacture, transformation and marketing of stainless steel products. With a melt shop production capacity of 3.5 million tonnes, the Acerinox Group is one of the main stainless steel manufacturers in the world.

Financial year: the financial year of Acerinox, S.A. is a 12-month period. It starts on 1 January and ends on 31 December.

Annual accounts: these annual accounts were authorised for issue by the Board of Directors of Acerinox, S.A. on 27 February 2018.

The Directors authorised for issue the 2017 consolidated annual accounts of Acerinox, S.A. and subsidiaries on 27 February 2018. The accounts show a consolidated profit attributable to the parent Company of 234,144 thousand euros (80,320 thousand euros in 2016) and consolidated equity of 1,970,296 thousand euros (2,168,679 thousand euros in 2016).

NOTE 2 – BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

2.1 True and fair view

In accordance with current legislation, the Directors of the Company have prepared the accompanying annual accounts on the basis of the Company's accounting records and pursuant to the standards set out in Spain's National Chart of Accounts to give a true and fair view of the Company's equity and financial position at 31 December 2017, as well as the results of its operations and cash flows for the year then ended.

The Directors of the Company consider that the 2017 annual accounts will be approved with no changes by the shareholders at their Annual General Meeting.

2.2 Comparison of information

For comparative purposes, the annual accounts present figures from the 2016 annual accounts approved by the Annual General Meeting of 9 June 2017, in addition to the 2017 figures, in each item of the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows and the notes to the annual accounts.

These annual accounts are stated in euros, which is the Company's functional and presentation currency, and rounded off to the nearest thousand.

2.3 Critical aspects of the measurement and estimation of uncertainty

The preparation of the annual accounts under the National Chart of Accounts approved by Royal Decree 1514/2007 requires that the Company's management make judgements, estimates and assumptions that affect the application of accounting policies and, therefore, the amounts reported in the annual accounts. Accounting estimates and judgements are assessed constantly and based on past experience and other factors, including expectations of future events that are considered reasonable. The Company may amend these estimates in light of subsequent events or changes in circumstances. In accordance with measurement standard 22 of the National Chart of Accounts, changes in estimates are recognised prospectively in the Group's financial statements. Accounting estimations and judgements are regularly reassessed. The most significant of these are as follows:

a. Fair value of derivatives or other financial instruments

The Company acquires derivative financial instruments to hedge against the risk of fluctuations in exchange rates and interest rates. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques mainly based on market conditions existing at each reporting date, and provided that financial information is available to carry out this valuation. **Note 9.2** contains information on all the Company's financial instruments.

b. Impairment losses on investments in Group companies and associates

If indications exist of impairment in investments in Group companies and associates, the Company tests to determine if their cost exceeds their recoverable amount, which is usually determined on the basis of the value in use (current value of cash flows expected to be generated by the investee). These calculations require the use of assumptions relating to sales, margins, discount rates and growth rates to perpetuity, which involve a high degree of judgement. Details of the analyses conducted by the Company in 2017 and 2016 are included in **note 9.2.8**.

c. Recoverability of available tax loss carryforwards and deductions

The Company regularly evaluates its available tax credits through projections of profit and loss approved by management, to conclude as to whether they will be recoverable in the future. The Group takes into account the limitations to offsetting tax loss carryforwards as stipulated in legislation. Details of the basis on which the Company assesses the recoverability of capitalised tax credits in the year are provided in **note 12.3**.

Significant restrictions to the deductibility of prior years' tax losses were introduced in Spain in 2016, thereby prolonging their recovery periods (see **note 12.3**). Based on the estimates made, the Group considers that the tax credits recognised are still recoverable within a reasonable time frame.

NOTE 3 – APPLICATION OF PROFIT AND SHAREHOLDER REMUNERATION

The distribution of earnings of the Parent Company, Acerinox, S.A. for 2017, as proposed by the Board of Directors, to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

(Expressed in thousands of Euros)

	2017
Basis of allocation:	
Profit for the year	7,998,570.07
Application:	
Legal reserves	799,857.01
Prior years' losses	7,198,713.06

As regards shareholder remuneration, at the Board of Directors' meeting of Acerinox held on 20 December resolved to propose to the next Annual General Meeting the distribution of dividends in a single payment to be made in July 2018.

At their General Meeting held on 1 June 2017, the shareholders agreed that the Parent's profit for 2016 should be distributed as follows:

(Expressed in thousands of Euros)

	2016
Basis of allocation:	
Profit for the year	1,336,281.27
Application:	
Legal reserves	133,628.13
Prior years' losses	1,202,653.14

NOTE 4 – MEASUREMENT AND RECOGNITION CRITERIA

4.1 Intangible assets

a) Computer software

Computer software licences are capitalised at the cost of acquiring the licence and preparing the specific program for use.

Computer software maintenance or development costs are charged as expenses when incurred. Costs that are directly associated with the production of identifiable and unique computer software packages by the Company are recognised as intangible assets provided that they are likely to generate economic benefits that exceed the associated costs for more than one year. Capitalised expenses comprise direct labour costs and directly attributable overheads.

Software applications are amortised on a straight-line basis over the three-year period they are expected to be used.

Detailed information on intangible assets is provided in **note 5**.

4.2 Property, plant and equipment

a) Owned assets

Assets belonging to property, plant and equipment acquired prior to 31 December 1996 are recognised at acquisition price, discounted in accordance with the provisions of the law, with deduction of accumulated depreciation and impairment losses.

Subsequent additions are recognised at acquisition price, less accumulated depreciation and impairment losses.

Subsequent to initial recognition of the asset and once it is ready for use, only improvement costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Costs of periodic servicing of property, plant and equipment are recognised in profit and loss as incurred.

b) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a straight-line basis over its useful life. The depreciable amount is an asset's acquisition cost or production cost, less its residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Land is not depreciated.

Property, plant and equipment are depreciated over the following estimated useful lives:

- Buildings: 50 years
- Other property, plant and equipment: 5-10 years

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Any changes to initial estimates are accounted for as a change in accounting estimates (see **note 2.3**).

Detailed information on property, plant and equipment is provided in **note 6**.

4.3 Investment property

Investment property comprises Company-owned buildings held to earn rentals or for capital appreciation and subsequent sale but not occupied by the Company.

Investment property is initially recognised at cost, including transaction costs. Subsequently the Group applies the same criteria as for property, plant and equipment, including the period over which they depreciate.

Lease income is recognised using the criteria described in **note 4.8.**

4.4 Impairment of non-financial assets

The carrying amount of these assets is reviewed to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

Impairment losses are recognised whenever the carrying amount of the asset, or its corresponding cash-generating unit, exceeds its recoverable amount. Impairment losses are expensed in the income statement.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use is the present value of estimated cash flows, applying a discount rate that reflects the current market valuation of

the time value of money and the specific risks of the asset in question (for example: current effective interest rate of the market).

Impairment losses recognised in prior years are reversed provided that there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. However, the new carrying amount cannot exceed the carrying amount (net of amortisation or depreciation) that the asset would have had if no impairment loss had been recorded.

4.5 Financial instruments

4.5.1 Classification

The Company classifies financial instruments into different categories based on the nature of the instruments and the Company's intentions on initial recognition.

4.5.2 Financial assets

Acquisitions and disposals of financial assets are accounted for at the date on which the Company undertakes to purchase or sell the asset. Investments are derecognised when the contractual rights to the cash flows from the investment expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, is recognised in profit or loss.

The measurement criteria applied to the financial assets held by the Company are detailed below.

a) Loans and receivables

Loans and receivables that are not equity instruments or derivatives are for a fixed or determinable amount and are not traded in an active market. They are only classified as non-current when they are not due to mature within 12 months of the reporting date. They are initially recognised at fair value, which is the same as the transaction price plus any transaction costs incurred, in the absence of evidence to the contrary. They are subsequently measured at amortised cost using the effective interest method. However, trade receivables maturing in less than a year and that do not have a contractual rate of interest, and personnel advances and loans and dividends receivable that are expected to be received in the short term are measured at nominal amount, as allowed by the standard, provided the effect of not discounting future receipts is not material.

The Company makes the necessary valuation adjustments where there is evidence that a receivable is impaired. The amount of the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate determined on initial recognition. These losses are recognised as an expense in the income statement and are reversed when the factors leading to the allowance have ceased to exist. The reversal amount is credited to the income statement.

b) Financial assets held for trading

This category includes the Company's derivative financial instruments, except for those designated as hedging instruments.

The derivative financial instruments included in this category are classified as current assets and measured at fair value. Transaction costs directly attributable to the acquisition are recognised as an expense in profit and loss. Changes in fair value are recognised through profit or loss.

c) Investments in Group companies and associates

They are initially recognised at cost, which is the same as the fair value of the consideration delivered plus any transaction costs incurred. Thereafter, they are measured at cost less any accumulated impairment losses.

The Company makes the necessary valuation adjustments where there is evidence that an investment's carrying amount exceeds its recoverable value. The amount of the value adjustment is calculated as the difference between the carrying amount and the recoverable amount. The latter is the higher of its fair value less costs to sell and the current value of calculated future cash flows from the investment, which consists of either those received as dividends and the disposal or derecognition of the investment, or an estimation of the share of the expected cash flows to be generated by the investee in ordinary activities. Impairment losses are recognised as an operating expense in the income statement or as operating income when reversed.

d) Available-for-sale financial assets

This category includes the Company's investments in the capital of other companies over which the Group has no control or significant influence.

They are initially recognised at fair value plus transaction costs directly attributable to the purchase. After initial recognition financial assets classified in this category are measured at fair value provided this can be measured reliably, recognising the gain or loss in the statement of recognised income and expense in equity. The fair value of listed securities is determined by reference to the share price. The fair value of financial assets that are not quoted in an organised market is calculated by reference to discounted future cash flows.

When available-for-sale financial assets are sold, the cumulative gains or losses from changes in fair value recognised in the consolidated statement of comprehensive income are transferred to the consolidated income statement.

When a decrease in the fair value of an available-for-sale financial asset has been recognised in comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to the income statement. This amount is calculated as the difference between the acquisition cost and the current fair value, less any previously recognised impairment. Any impairment losses recognised in the income statement in relation to these assets are reversed against equity rather than through profit and loss. Any subsequent increase in fair value is recognised under valuation adjustments in the consolidated statement of comprehensive income.

At the end of each reporting period the Company assesses whether there is objective evidence of impairment. Objective evidence of impairment exists when there is a significant or prolonged decline in the listed price of an investment below its cost. To determine whether this is the case, the Company examines the historical listed prices of its securities and how long they have been trading below cost.

4.5.3 Financial liabilities

For measurement purposes, financial liabilities are classified into the following categories:

a) Debts and payables

Debts and payables include non-derivative financial liabilities with fixed or determinable payments. Financial liabilities classified in this category are initially recognised at cost, which coincides with their fair value, less any transaction costs incurred. These liabilities are subsequently measured at amortised cost using the effective interest method. Accrued interest is recognised in the income statement. However, trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

The Company has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables until they are settled or repaid or have expired.

This category also includes the bonds issued by the Company in the year.

When debt is refinanced, the Company assesses whether the changes made in the new agreement are sufficiently important to recognise the effects as if it were a cancellation and, simultaneously, a new loan.

b) Financial liabilities held for trading

This category includes the Company's derivative financial instruments, except for financial guarantee contracts or designated hedging instruments.

These are recognised at fair value. Changes in fair value are recognised in profit or loss.

4.5.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand deposits in credit institutions. This item also includes other short-term, highly-liquid investments, provided they are readily convertible to cash and are subject to an insignificant risk of changes in value. For these purposes, investments maturing in less than three months following acquisition are included.

In the consolidated statement of cash flows, the Company classifies interest paid and received as cash flows from operating activities, while dividends received are considered cash flows from investing activities and dividends paid are classified as cash flows used in financing activities.

4.5.5 Guarantees provided and received

In guarantees provided or received on operating leases or services rendered, the difference between their fair value and the amount paid out is considered an early receipt or payment on the lease or service. The fair value of guarantees is estimated by using the remaining committed contractual period during with the amount cannot be returned.

Short-term guarantees are recognised at their nominal value.

4.5.6 Hedge accounting

Derivative financial instruments are initially recognised at cost of acquisition, which coincides with their fair value. They are subsequently recognised at fair value.

Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities held for trading. Where derivatives qualify for recognition as cash flow hedges, they are treated as such and the recognition of any resultant unrealised gain or loss depends on the nature of the hedged item. The effective part of the realised gain or loss on the derivative financial instrument is initially recognised in the consolidated statement of recognised income and expense and later transferred to the income statement in the year or years in which the hedged transaction affects profit or loss.

The Company only undertakes cash flow hedges.

At the inception of the hedge, the Company formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and until it expires. A hedge is considered as highly effective if it offsets the changes in cash flows attributable to the hedged risk throughout the period for which it was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80%-125% (retrospective analysis).

The Company prospectively discontinues the accounting of fair value hedges when the hedging instrument expires, is sold or the hedge no longer meets the criteria for hedge accounting. In these cases, the cumulative gain or loss on the hedging instrument that has been recognised in equity is recorded in profit or loss.

4.6 Foreign currency transactions

Transactions in foreign currencies are translated using the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the closing exchange rate prevailing at that date. Any exchange differences that may arise from translation are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies and recorded at historical cost are translated to the functional currency using the exchange rate prevailing at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate prevailing at the date on which fair value was determined. Exchange gains and losses on non-monetary items measured at fair value are recorded as a part of the gain or loss on the fair value of the item.

In the statement of cash flows, cash flows from foreign currency transactions have been translated into euros at the exchange rates prevailing at the dates the cash flows occur.

The differences arising in the settlement of foreign currency transactions are recognised in the income statement.

4.7 Income tax

The Company has taken account of the Resolution of 9 February 2017 of the Spanish Accounting and Auditing Institute implementing criteria of recognition, valuation and preparation of annual accounts for accounting of income tax.

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax is the estimated tax payable on the taxable income or tax loss for the year using prevailing tax rates enacted at the reporting date and applicable this year. Current tax includes any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, based on temporary differences that arise between the tax base of assets and liabilities and their carrying amounts in the annual accounts. Deferred tax is measured using the tax rates (and laws) enacted or substantively enacted at the reporting date that are expected to apply to the period when the asset is realised or the liability settled.

The effect on deferred taxes of a change in the tax rate is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax liabilities are always recognised. Deferred tax assets in respect of temporary differences are recognised only to the extent that it is probable that future taxable income or deferred tax liabilities will be available against which the asset can be utilised.

Deferred tax assets are reduced when it is no longer considered probable that sufficient future taxable income will be generated or there are no deferred tax liabilities against which the assets can be offset. Reductions are offset if there is renewed expectation that sufficient taxable income will be available against which the derecognised balance can be utilised.

Pursuant to the option set out in the National Chart of Accounts, the Company could offset current or deferred tax assets and liabilities if it has a legally enforceable right to do so and it plans to settle resulting debts for their net amount, or realise current tax assets and settle the debts simultaneously. However, the Company has not availed itself of this option.

Deferred tax assets and liabilities are recognised in the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

The Company filed consolidated tax returns. The Group's scope of consolidation comprises: Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U., and Inoxcenter Canarias, S.A.U. Under this regime, reciprocal credits and debits may arise between companies within the scope of consolidation. If a group company has a negative tax result arising from a negative tax base, and the totality of group companies offset all or part of the same in the consolidated income tax return, a reciprocal credit and debit arises between Group companies from the offset negative tax result. Income tax deductions and credits will affect the calculation

of tax accrued in each company for the effective amount of such deductions and credits as applicable under the company group regime and not for the higher or lower amount owed by each company under individual taxation.

Accordingly, companies in the consolidated tax group recognised tax credits from prior years that were attributable to them on the basis of the consolidated return, with a reciprocal credit or debit recognised against the parent. The amount of debits or credits in this item is recognised as debt with Group companies of the balance sheet.

4.8 Income and expense

Income and expense are recognised according to the accrual criteria, that is, according to the actual flow of goods and services they represent, and irrespective of the timing of the related monetary or financial flow.

a) Revenue

The income of Acinerox, S.A. proceeds mainly from its interests in Group companies, and from the rendering of services to its subsidiaries and the performance of financing activities within the group, which are its ordinary activities. Consequently, and in accordance with the ICAC query 2 published in BOICAC 79, income from these activities are recognised under revenue in the income statement.

Dividend income is recognised when the Group's right to receive payment is established.

b) Leases

Income and expense from leases is recognised in the income statement on a straight-line basis over the term of the lease.

4.9 Provisions and contingencies

The Company recognises provisions when:

(i) It has a present obligation (legal or constructive) as a result of past events;
(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and
(iii) A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

4.10 Employee benefits

The Company has no share-based remuneration plan.

The Company has commitments with some employees reaching retirement age. Defined benefit liabilities are recognised at the present value of obligations at the reporting date, minus the fair value at that date of plan assets. When plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of the insurance policies is considered equal to the present value of the related obligations.

Obligations under certain covenants agreed with senior management, which amount to 9.9 million euros (8.7 million euros in 2016) are properly insured, with their estimated amount covered by flows from the policies arranged. As a result, no liability is recognised for this item.

4.11 Related party transactions

The Company's financial statements include transactions with the following related parties:

- Group companies,
- Key management personnel of the Group and members of the Board of Directors of Group companies, and persons related thereto.
- Significant shareholders of the Company.

All transactions between related parties are carried out on an arm's length basis. It has not been necessary to make value judgements or estimates in relation to related party transactions.

Note 16 discloses all the Company's transactions with related parties.

4.12 Classification of assets and liabilities as current and non-current

The Company classifies assets and liabilities in the balance sheet as current and non-current. For these purposes, assets and liabilities are current when they are to be settled, realised, disposed of or consumed in the course of the normal operating cycle, are held mainly for trading purposes, they are to be realised or settled during the twelve months following the reporting date, or they consist of cash or cash equivalents.

NOTE 5 – INTANGIBLE ASSETS

Details of the main intangible assets and movement therein in 2017 and 2016 are shown below:

(Expressed in thousands of euros)

COST	Computer software	Advances on computer software	TOTAL
Balance at 31 December 2015	**12,841**	**131**	**12,972**
Acquisitions	99	323	422
Transfers	117	-117	
Balance at 31 December 2016	**13,057**	**337**	**13,394**
Acquisitions	213	151	364
Transfers	7	-7	
Balance at 31 December 2017	**13,277**	**481**	**13,758**

ACCUMULATED DEPRECIATION AND IMPAIRMENT	Computer software	Advances on computer software	TOTAL
Balance at 31 December 2015	**10,651**		**10,651**
Charge	851		851
Balance at 31 December 2016	**11,502**		**11,502**
Charge	818		818
Balance at 31 December 2017	**12,320**		**12,320**

CARRYING AMOUNT	Computer software	Advances on computer software	TOTAL
Carrying amount at 31 December 2015	**2,190**	**131**	**2,321**
Cost at 31 December 2016	13,057	337	13,394
Accumulated amortisation and impairment	-11,502		-11,502
Carrying amount at 31 December 2016	**1,555**	**337**	**1,892**
Cost at 31 December 2017	13,277	481	13,758
Accumulated amortisation and impairment	-12,320		-12,320
Carrying amount at 31 December 2017	**957**	**481**	**1,438**

Amortisation for the year is shown under amortisation and depreciation in the income statement.

Fully depreciated assets

Fully depreciated assets in use belonging to the Company's property, plant and equipment amounted to 10,772 thousand euros in 2017 and 10,518 thousand euros in 2016.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment and movement in 2017 and 2016 are shown in the following table.

(Expressed in thousands of euros)

COST	Land	Buildings	Other property, plant and equipment	TOTAL
Balance at 31 December 2015	**2,718**	**5,063**	**7,426**	**15,207**
Additions		16	145	161
Disposals		-43	-1	-44
Balance at 31 December 2016	**2,718**	**5,036**	**7,570**	**15,324**
Additions		0	310	310
Disposals		0	-211	-211
Balance at 31 December 2017	**2,718**	**5,036**	**7,669**	**15,423**

ACCUMULATED DEPRECIATION AND IMPAIRMENT	Land	Buildings	Other property, plant and equipment	TOTAL
Balance at 31 December 2015		**2,696**	**7,048**	**9,744**
Charge		77	168	245
Disposals		-43	0	-43
Balance at 31 December 2016		**2,730**	**7,216**	**9,946**
Charge		76	162	238
Disposals			-192	-192
Balance at 31 December 20176		**2,806**	**7,186**	**9,992**

CARRYING AMOUNT	Land	Buildings	Other property, plant and equipment	TOTAL
Carrying amount at 31 December 2015	**2,718**	**2,367**	**378**	**5,463**
Cost at 31 December 2016	2,718	5,036	7,570	15,324
Accumulated depreciation	0	-2,730	-7,216	-9,946
Carrying amount at 31 December 2016	**2,718**	**2,306**	**354**	**5,378**
Cost at 31 December 2017	2,718	5,036	7,669	15,423
Accumulated depreciation	0	-2,807	-7,185	-9,992
Carrying amount at 31 December 2017	**2,718**	**2,229**	**484**	**5,431**

Disposals of fixed assets

A loss of 17 thousand euros on the sale of property, plant and equipment or removal of assets from service has been recorded under other "gains/(losses) on disposals and other" in the 2017 income statement (1 thousand euros in 2016).

There were no removals from service of fully depreciated items of property, plant and equipment in 2017 (43 thousand euros in 2016).

Fully depreciated assets

Fully depreciated items of the Company's property, plant and equipment amounted to 6,947 thousand euros at 31 December 2017 (6,820 thousand euros in 2016).

Other information

At 31 December 2017 and 2016 there are no litigation cases, seizures or similar measures that may affect items of property, plant or equipment.

Insurance

The Company has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

Environment

The Company possesses no assets whose purpose is the minimisation of environmental impact.

The Company incurred no environmental expenses in 2017 or in 2016.

NOTE 7 – INVESTMENT PROPERTY

Details under this heading in 2017 and 2016 are shown in the following table:

(Expressed in thousands of euros)

COST	Land	Buildings	TOTAL
Balance at 31 December 2015	**2,853**	**5,318**	**8,171**
Balance at 31 December 2016	**2,853**	**5,318**	**8,171**
Balance at 31 December 2017	**2,853**	**5,318**	**8,171**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	**Land**	**Buildings**	**TOTAL**
Balance at 31 December 2015	**0**	**2,880**	**2,880**
Charge		107	**107**
Balance at 31 December 2016	**0**	**2,987**	**2,987**
Charge		106	106
Balance at 31 December 2017	**0**	**3,093**	**3,093**
CARRYING AMOUNT	**Land**	**Buildings**	**TOTAL**
Carrying amount at 31 December 2015	**2,853**	**2,545**	**5,291**
Cost at 31 December 2016	2,853	5,318	8,171
Accumulated depreciation	0	-2,987	-2,987
Carrying amount at 31 December 2016	**2,853**	**2,331**	**5,184**
Cost at 31 December 2017	2,853	5,318	8,171
Accumulated depreciation	0	-3,093	-3,093
Carrying amount at 31 December 2017	**2,853**	**2,225**	**5,078**

The Company's income from the leases amounted to 328 thousand euros in 2017 (455 thousand euros in 2016). The associated operating expenses, including maintenance and repairs, amount to 263 thousand euros (148 thousand euros in 2016).

The Company has no contractual obligations for the purchase, construction or development of investment

property, or for repairs, maintenance or improvements.

Insurance

The Company has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

NOTE 8 – LEASES AND SIMILAR TRANSACTIONS

The Company only has operating leases.

8.1 Operating lease expenses (lessee)

The Company's operating lease expenses amounted to 48 thousand euros in 2017 (47 thousand euros in 2016).

NOTE 9 – FINANCIAL INSTRUMENTS

9.1 General considerations

For measurement purposes, the Company classifies financial instruments into the following categories, as detailed in **note 4.5**.

9.2 Information on the importance of financial instruments in the Company's financial position and results

9.2.1 Categories of financial assets and liabilities

Details of the Company's financial assets, except equity investments in Group companies and associates, at 2017 and 2016 year end are as follows:

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments				Instrumentos financieros a corto plazo	
	Equity instruments		Loans, derivatives and other		Loans, derivatives and other	
	2017	2016	2017	2016	2017	2016
Assets at fair value through profit or loss						
- Held for trading					130	12,820
Loans and receivables			590,379	603,426	294,246	283,167
Assets available for sale						
- At fair value	14,474	12,330				
Hedging derivatives				2,529	956	2,672
TOTAL	**14,474**	**12,330**	**590,379**	**605,955**	**295,332**	**298,659**

At 2017 and 2016 year end, the Company's financial liabilities are as shown below:

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Derivatives and other		Loans and borrowings		Bonds and other marketable securities		Derivatives and other	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Debts and payables	822,800	767,247	74,350	124,106	883,890	758,984	200,658	158,762	51,592	1,653	42,163	199,035
Liabilities at fair value through profit or loss												
- Held for trading											21,511	169
Hedging derivatives					297	481					505	1,392
TOTAL	**822,800**	**767,247**	**74,350**	**124,106**	**884,187**	**759,465**	**200,658**	**158,762**	**51,592**	**1,653**	**64,179**	**200,596**

Payables with public entities at 31 December 2017 and 2016 are not included

9.2.2 Derivative financial instruments

The derivative financial instruments classified by category are as follows:

(Expressed in thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	130	21,511	12,820	169
Hedging derivatives	956	802	5,201	1,873
TOTAL	**1,086**	**22,313**	**18,021**	**2,042**

9.2.2.1 Financial instruments at fair value through profit or loss

The Company classifies derivative financial instruments that do not qualify for hedge accounting. The Group classifies exchange rate insurance contracted to hedge flows from financing transactions with Group companies in foreign currency as financial instruments at fair value through profit or loss.

All of the Company's forward currency purchase and sale contracts have a term of less than one year.

At 31 December 2017 the Company has used contracts for foreign currency transactions amounting to 17 million euros for currency sales (15 million euros in 2016) and 349 million euros for currency purchases (294 million euros in 2016). These currency transactions enable it to hedge its currency payment and receipt obligations in foreign currency and close net payable positions with Group companies in US dollars.

Details of these contracts by currency and amounts used are as follows:

(In thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
USD	20,277	393,730	15,435	323,645

The Group has contracted derivatives to hedge exposures to currency and interest rate risks affecting its loan and borrowings in currencies with financial institutions. These instruments meet the requirements to be included in hedging accounting. Accordingly, they are included in the following note.

9.2.2.2 Hedging derivatives

The following table has a breakdown of the Company's hedging derivatives at 31 December 2017 and 2016 by type of hedged risk:

(Expressed in thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps		802		1,873
Cross-currency swaps	956		5,201	
TOTAL	**956**	**802**	**5,201**	**1,873**

The reduction in cross currency swaps is mainly due to the amortisation of part of the loan granted by the ICO in USD, the only loan hedged through this type of derivative financial instrument.

At 31 December 2017, the Company has arranged the following interest rate swaps and cross-currency swaps, for loans in currencies other than the euro, to hedge the interest rate risk of a part of its current and non-current loans and borrowings:

	Notional value contracted	Outstanding amount	Maturity
USD variable to EUR fixed rate	USD 160 million	USD 16,33 million	2018
Variable to fixed rate	EUR 76,13 million	EUR 22,39 million	2020

The Company had contracted at 31 December 2016 the following interest rate swaps to hedge a part of its financial liabilities:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	EUR 400 million	EUR 32 million	2017
USD variable to EUR fixed rate	USD 160 million	USD 32,65 million	2018
Variable to fixed rate	EUR 76,13 million	EUR 31,35 million	2020

The average interest rate applicable to USD-denominated financing for which an interest rate hedge has been arranged through a derivative financial instrument is 3.65% (3.55% in 2016), while the average rate for euro-denominated financing with an associated interest rate hedge, totalling 22.4 million euros at year end, is 4% (3.89% in 2016). The credit spread has been included in both cases.

The fair value of the fixed interest rate swaps and the cross currency swaps is based on the market value of equivalent derivative financial instruments at the reporting date and amounts to 154 thousand euros (3,328 thousand euros at 31 December 2016), which is recognised in the following balance sheet headings:

(Expressed in thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Non-current assets (derivatives)			2,529	
Current assets (derivatives)	956		2,672	
Non-current liabilities (derivatives)		297		481
Current liabilities (derivatives)		505		1,392

At 31 December 2017 and 2016 the derivatives contracted to hedge interest rate risk qualify as cash flow hedging instruments and therefore the unrealised after-tax loss of 3,396 thousand euros on their measurement at fair value has been recorded in the statement of recognised income and expense (loss of 5,359 thousand euros in 2016).

In 2017, the after-tax amount of 4,610 thousand euros was transferred from the statement of recognised income and expense to the income statement for the year (9,479 thousand euros in 2016).

The Company documented the effectiveness of the derivatives contracted to qualify as hedging instruments, as detailed in **note 4.5.6**. Hedging transactions were undertaken for periods and amounts equal to the flows derived from the loans associated to each instrument. The financial instruments that are considered hedges were not ineffective at any point in 2016 or 2017.

On 30 June 2016, Acerinox S.A. cancelled early the derivative arranged in January 2012 with 4 financial institutions to hedge the currency and interest rate risk of the syndicated loan signed in the United States. The cancellation cost recognised in profit and loss was 957 thousand euros. This amount is recognised under "Change in fair value of financial instruments".

9.2.3 Loans and receivables

This heading includes trade and other receivables and loans granted to Group companies that are shown in the balance sheet under current and non-current investments in Group companies, not including equity instruments,

in the amount of 590,324 thousand euros in the long term (603,358 thousand euros in 2016) and 273,614 thousand euros in the short term (264,513 thousand euros in 2016).

Note 16.2 contains a breakdown of balances with Group companies.

Finance income in 2017 amounted to 36,410 thousand euros (39,996 thousand euros in 2016).

No interest was accrued on impaired financial assets in 2017 or 2016.

No allowances have been made for bad debts with related parties.

9.2.4 Available-for-sale financial assets

Available-for-sale financial assets total 14,763 thousand euros at year end, and reflects Acerinox's investment in the Japanese Nisshin Steel Holding Co. Limited., which is listed in the Tokyo Stock Exchange.

The quotation value was JPY 1,852 per share at 31 December 2017 (JPY 1,441 per share at 2016 year end). Acerinox, S.A. holds 1,052,600 shares in this company, representing a percentage ownership of 0.96%, both in 2017 and 2016. This is a strategic investment that Acerinox has no intention of selling. Nisshin Steel has, in turn, a 15.49% interest in Acerinox. In addition, it not only holds a significant interest in Acerinox, S.A. but is also Acerinox's partner in the company incorporated by the Group in Malaysia, Bahru Stainless, Sdn. Bhd and which is the Group's fourth flat product stainless steel factory.

Acerinox S.A. did not purchase or sell any shares in Nisshin Steel Holding Co. Limited in 2017 or 2016.

In 2017 and 2016 the Group recognised the variation in the fair value of assets classified in this category in reserves. The revaluation amounted to 2,145 thousand euros in 2017 (1,948 thousand euros in 2016). The accumulated change in value on cost is an excess of 7,033 thousand euros, before the tax effect (4,888 thousand euros in 2016).

9.2.5 Debts and payables

The liabilities classified by the Company in this category (not including loans and borrowings and debentures issued, which are detailed in **note 9.2.7**) include both current and non-current payables with Group companies detailed in **note 16.2** and trade and other payables recorded in the balance sheet.

The following is the breakdown of trade payables at 31 December 2017 and 2016:

(Expressed in thousands of euros)

	2017	2016
Payables on goods purchased or services rendered	1,855	997
Outstanding remuneration	2,694	2,031
Other payables with public entities	430	497
TOTAL	**4,979**	**3,525**

In compliance with the disclosure requirements of the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2017, the average payment period for suppliers and additional information required, is as follows:

	2017	2016
Average payment period to suppliers	35 days	45 days
Payments made ratio	37 days	35 days
Outstanding payments ratio	20 days	57 days
(Expressed in thousands of Euros)	**Amount**	**Amount**
Total payments made	19,079	21,802
Total outstanding payments	1,870	870

The following table includes payments made to any supplier, whether domestic or foreign.

9.2.6 Loans and borrowings and bond issues

The changes in non-current payables relating to loans and borrowings and bonds issued are as follows:

(Expressed in thousands of euros)

	Loans and borrowings		Bonds	
	2017	2016	2017	2016
Initial balance	**767,247**	**598,242**	**124,106**	**123,931**
Additions	570,000	608,967		
Amortised interest cost	1,996	2,129	175	175
Debt repayment	-284,133	-237,000		
Transfer to current	-227,903	-185,911	-49,931	
Unrealised exchange gain/loss	-4,407	-19,180		
Balance at 31 December	**822,800**	**767,247**	**74,350**	**124,106**

Details of the maturity of outstanding long-term debt at 31 December 2017 are as follows:

(Expressed in thousands of euros)

	2019	2020	2021	2022 and subsequent years	TOTAL
Loans and borrowings	141,398	228,603	265,396	187,403	**822,800**
Bonds issued				74,350	**74,350**
Total non-current payables	**141,398**	**228,603**	**265,396**	**261,753**	**897,150**

Details of the maturity of outstanding long-term loans and bonds at 31 December 2016 were as follows:

(Expressed in thousands of euros)

	2018	2019	2020	2021 and subsequent years	TOTAL
Loans and borrowings	214,471	223,076	184,908	144,792	**767,247**
Bonds issued	49,956			74,150	**124,106**
Total non-current payables	**264,427**	**223,076**	**184,908**	**218,942**	**891,353**

Details of loans and borrowings and bonds by currency are as follows:

(Expressed in thousands of euros)

	Non-current loans		Current loans	
	2017	2016	2017	2016
EUR	897,150	875,722	238,394	144,920
USD		15,631	13,856	15,495
TOTAL	**897,150**	**891,353**	**252,250**	**160,415**

Details of debt by interest rate are as follows:

	Non-current loans		Current loans	
	2017	2016	2017	2016
Fixed	350,000	230,000	115,000	
Variable	547,150	661,353	137,250	160,415
TOTAL	**897,150**	**891,353**	**252,250**	**160,415**

Borrowings at fixed interest rates only include loans originally arranged at fixed rates (with banks and private placements), and do not include borrowings for which interest rates have been fixed by contracting derivatives.

The average effective interest rate on non-current loans and borrowings is 2.55% this year for the US dollar (2.16% in 2016) and 1.60% for the euro (1.99% in 2016).

The average interest rate of current loans and borrowings is 2.55% (2.16% in 2016) for the US dollar and 1.10% (1.48% in 2016) for the euro.

Variable interest rates on loans are reviewed at least once a year.

The fair value of fixed rate loans and borrowings and private placements is 483,143 thousand euros (carrying amount of 465,000 thousand euros) at 31 December 2017. The fair value of these borrowings at 31 December 2016 was 240,910 thousand euros (carrying amount of 230,000 euros).

At 31 December accrued interest payable in respect of loans and borrowings totals 1,582 thousand euros (2,042 thousand euros in 2016). In addition, accrued interest payable on bonds issued totals 1,660 thousand euros (1,653 thousand euros in 2016).

Total borrowing costs calculated using the effective interest rate on loans at amortised cost amount to 2,667 thousand euros (2,407 thousand euros in 2016).

Accrued interest in the year according to the effective interest method amounted to 24,524 thousand euros (27,874 thousand euros in 2016).

At 31 December 2017 the Company has credit facilities with financial institutions with a maximum available limit of 1,629 million euros (1,494 million euros in 2016), of which 1,149 million euros was drawn down (1,052 thousand euros in 2016). The fair value of current debt is equal to its carrying amount.

Acerinox S.A. capitalised on good market conditions and signed eight new loan agreements in 2017 and an annex amending an existing loan, for an aggregate amount of 725 million euros, as follows:

- An annex to amend an existing loan was signed with Banco Santander.
- Loans signed Banco de Sabadell, Bankia, Banco Santander, Banco Popular and Bankinter to cancel existing loans with the same entities, improving their conditions and extending their repayment due dates.
- New loan agreements signed with Banco Social de Crédito Cooperativo, Banco Bilbao Vizcaya Argentaria, Banca March and the European Investment Bank totalled 210 million euros. The loan signed with Banca March was transferred to a securitisation fund upon signing, through which an international investor took a position in the loan, with Banca March acting as the intermediary.

The most significant financing transaction during 2016 was the debt rescheduling of the majority of the bilateral loans held by Acerinox S.A. During April and May 2016, the Parent Company signed twelve bilateral loans for terms of between 4 and 5 years, thus extending the repayment due dates and reducing the margins. The following are the two banks with which Acerinox, S.A. reached these agreements: Banco Santander, Banco de Sabadell, Banco Popular, Bankia, Kutxabank, Caixabank, Abanca, Unicaja, Banca March, Banco Cooperativo, Liberbank and Bankinter. The loans arranged totalled 717 million euros. Given the resulting variations, for the most part the Company recognised the effects of these new agreements as if they were new loans, and therefore simultaneously recognised the cancellation and the new loans.

Furthermore, on 30 June, Acerinox S.A. repaid early the syndicated loan arranged in the United States in January 2012. The outstanding balance of this loan at the date of early repayment was USD 134.96 million. This loan originally fell due on 17 February 2017.

Non-current borrowings subject to covenants

a) Ratios linked to earnings

The loan agreement that Acerinox signed with the ICO (Spain's Official Credit Institute) in 2008 and which matures in July 2018, and is therefore classified as current, is the Group's only financing with a ratio-linked

covenant relating to the Group's income statement. Specifically net financial debt/EBITDA, and net financial debt/equity. At year end, the outstanding amount payable on the ICO loan was USD 16.3 million.

b) Ratios linked to equity

At the 2017 reporting date there are two new financing contracts subject to covenants, relating to the maintenance of minimum consolidated equity levels. This is the contract signed in 2017 with Banca March for the amount of 50 million euros and assigned to a securitisation fund as soon as it was signed, and the loan arranged with European Investment Bank (EIB) in December 2017 for an amount of 70 million euros, an amount that is yet to be drawn down as there is an agreement with said institution to draw down the funds in June 2018. These types of ratios are common market practice for loans with these terms, since the loan arranged with the European Investment Bank has a term of 10 years and the loan brokered through Banca March is for 7 years.

At the reporting date, the Company was in compliance with the ratios required by these agreements.

9.2.7 Investments in Group companies and associates

At 31 December 2017, investments in Group companies and associates are as follows:

	2017						
FULLY CONSOLIDATED COMPANIES	**COUNTRY**	**COST (in thousands of Euros)**	**% direct interest**	**% indirect interest**	**Book value of direct interest**	**COMPANY HOLDING INVESTMENT**	**AUDITORS**
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	327	100%			ACERINOX S.A	PWC
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	598	90%	10%		ACERINOX S.A	Chinen, Morbelli and associates
ACERINOX AUSTRALASIA PTY. LTD.	Sydney, Australia	385	100%			ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels, Belgium	209	100%			ACERINOX S.A	PWC
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo, Brazil	373	100%	0,001%		ACERINOX S.A	
ACERINOX CHILE, S.A.	Santiago de Chile, Chile	7.545	100%			ACERINOX S.A	PWC
ACERINOX COLOMBIA S.A.S	Bogota , Colombia	68	100%			ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	45.496	100%			ACERINOX S.A	PWC
ACERINOX EUROPA, S.A.U	Algeciras, Spain	341.381	100%			ACERINOX S.A	PWC
ACERINOX FRANCE S.A.S	Paris, France	18.060	100%	0%		ACERINOX S.A	PWC
ACERINOX INDIA PVT LTD	Mumbai, India	155	100%			ACERINOX S.A	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milan, Italy	78.844	100%			ACERINOX S.A	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu/Beyoglu, Turkey	150	99,73%	0,27%		ACERINOX S.A	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai, United Arab Emirates	10	100%			ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai, Hong Kong	7.467	100%			ACERINOX S.A	PWC
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	25.174	100%	0%		ACERINOX S.A	PWC
ACERINOX RUSSIA LLC	Saint Petersburg, Russia	100	100,00%			ACERINOX S.A	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	31.909	100%			ACERINOX S.A	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor, Malaysia	19.476	100%			ACERINOX S.A	PWC
ACERINOX SHANGAI CO., LTD.	Shanghai, China	1.620	100%			ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore, Singapore	193	100%			ACERINOX S.A	PWC
ACERINOX U.K, LTD.	Birmingham, United Kingdom	28.444	100%			ACERINOX S.A	PWC
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia, Portugal	15.828	100%			ACERINOX S.A	PWC
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	171.769	67%			ACERINOX S.A	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	279.614	76%			ACERINOX S.A	PWC
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	58	100%			ACERINOX S.A	
INOX RE, S.A.	Luxembourg	1.225	100%			ACERINOX S.A	PWC
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain			100%		INOXCENTER	PWC
INOXCENTER, S.L.U	Barcelona, Spain	17.758	100%			ACERINOX S.A	PWC
INOXFIL S.A.	Igualada (Barcelona), Spain			99,77%		ROLDAN S.A	PWC
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain			100%		ACERINOX EUROPA, S.A.U	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia, Portugal			100%		ACEROL - COMERCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	PWC
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	3.718	100%			ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	545.072	100%			ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS CANADA, INC	Canada			100%		NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico			100%		NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky, U.S.A.	15	100%			ACERINOX S.A	
ROLDAN S.A.	Ponferrada, Spain	17.405	99,77%			ACERINOX S.A	PWC
TOTAL		**1.660.446**					
ASSOCIATES	**COUNTRY**	**Value of investment**	**% direct interest**	**% indirect interest**	**Book value of direct interest**		
BETINOKS PALANMAZ ÇELIK A.S.	Turkey	0	25,00%		0		

At 31 December 2016, investments in Group companies and associates are as follows:

	2016						
FULLY CONSOLIDATED COMPANIES	COUNTRY	Value of investment	%direct interest	%indirect interest	Book value of direct interest	Company holding investment	Auditors
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	327	100%		2,189	ACERINOX S.A	KPMG
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	598	90%	10%	807	ACERINOX S.A	Chinen, Morbelli and associates
ACERINOX AUSTRALASIA PTY. LTD.	Sydney, Australia	385	100%		387	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels, Belgium	209	100%		488	ACERINOX S.A	KPMG
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo, Brazil	373	100%	0.001%	215	ACERINOX S.A	
ACERINOX CHILE, S.A.	Santiago de Chile, Chile	7,545	100%		5,666	ACERINOX S.A	KPMG
ACERINOX COLOMBIA S.A.S	Bogota, Colombia	68	100%		253	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	45,496	100%		19,720	ACERINOX S.A	KPMG
ACERINOX EUROPA S.A.U	Algeciras, Spain	341,381	100%		298,711	ACERINOX S.A	KPMG
ACERINOX FRANCE S.A.S	Paris, France	18,060	99.98%	0.02%	3,722	ACERINOX S.A	KPMG
ACERINOX INDIA PVT LTD	Mumbai, India	155	100%		279	ACERINOX S.A	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milan, Italy	78,844	100%		51,129	ACERINOX S.A	Collegio Sindicale - Studio Revisori Associatti
ACERINOX MALAYSIA SDN. BHD	Johor, Malaysia			100%	0	ACERINOX SC MALAYSIA SDN. BHD	KPMG
ACERINOX METAL SANAYII VE TICARET LIMITED SIRKETI	Gumussuyu/Beyoglu, Turkey	150	99.73%	0.27%	608	ACERINOX S.A	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai, United Arab Emirates	10	100%		200	ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai, Hong Kong	7,467	100%		941	ACERINOX S.A	KPMG
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	25,174	99.98%	0.02%	24,047	ACERINOX S.A	KPMG
ACERINOX RUSSIA LLC.	Saint Petersburg, Russia	97	95.00%	5.00%	243	ACERINOX S.A	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	31,909	100%		24,305	ACERINOX S.A	KPMG
ACERINOX SC MALAYSIA SDN. BHD	Johor, Malaysia	26,764	100%		-4,770	ACERINOX S.A	KPMG
ACERINOX SHANGAI CO., LTD.	Shanghai, China	1,620	100%		5,024	ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore, Singapore	193	100%		105	ACERINOX S.A	KPMG
ACERINOX U.K, LTD.	Birmingham, United Kingdom	28,444	100%		25,889	ACERINOX S.A	KPMG
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia, Portugal	15,828	100%		13,314	ACERINOX S.A	KPMG
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	171,769	67%		69,037	ACERINOX S.A	KPMG
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	279,614	76%		177,035	ACERINOX S.A	KPMG
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	58	100%		-109	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	1,225	100%		1,225	ACERINOX S.A	KPMG
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain			100.00%	0	INOXCENTER	KPMG
INOXCENTER, S.L.U	Barcelona, Spain	17,758	100%		2,517	ACERINOX S.A	KPMG
INOXFIL S.A.	Igualada (Barcelona), Spain			99.77%	0	ROLDAN S.A	KPMG
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain			100%	0	ACERINOX EUROPA S.A.U	KPMG
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia, Portugal			100%	0	ACEROL PORTUGAL	KPMG
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	3,718	100%		21,615	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	545,072	100%		2,153,488	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS CANADA, INC	Canada			100%	0	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky, U.S.A.	15	100%		18	ACERINOX S.A	
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico			100%	0	NORTH AMERICAN STAINLESS INC.	KPMG
ROLDAN S.A.	Ponferrada, Spain	17,405	99.77%		30,325	ACERINOX S.A	KPMG
TOTAL		**1,667,731**					
ASSOCIATES	COUNTRY	Value of investment	%direct interest	%indirect interest	Book value of direct interest		
BETINOKS PALANMAZ ÇELIK A.S.	Turkey	313	25.00%		-1		

The activities of the Group companies are as follows:

- Acerinox Europa, S.A.U.: manufacture and sale of flat stainless steel products.
- North American Stainless, Inc.: manufacture and sale of flat and long stainless steel products.
- Columbus Stainless (PTY), Ltd.: manufacture and sale of flat stainless steel products.
- Bahru Stainless, Sdn, Bhd: cold rolling and sale of flat stainless steel products.
- Roldán, S.A.: manufacture and sale of long stainless steel products.
- Inoxfil, S.A.: manufacture and sale of stainless steel wire.
- Inox Re, S.A.: reinsurance company.
- North American Stainless Financial Investment, Inc.: rendering of foreign trade advisory services.
- Remaining companies: sale of stainless steel products.

No Group company or associate is listed in the stock exchange.

Changes in investments in Group companies and associates

Changes in investments in Group companies in 2017 and 2016 were as follows:

(Expressed in thousands of euros)

Company	2017	2016
Capital increases and reductions		
Acerinox Norway A/S		-13
Acerinox Shangai Co.Ltld.		-4,726
Acquisitions		
Inoxcenter,S.L.U.		365
Metalinox Bilbao, S.A.U.		143
Roldan, S.A.		1
Acerinox (Schweiz) A.G.		1
Acerinox Russia LLC	3	
Other contributions		
Acerinox Pacific, Ltda.		
Total	3	-4,229

Changes in 2017:

Acerinox, S.A acquired a 5% interest in the Group company Acerinox Russia, L.L.C from the subsidiary company Acerinox Scandinavia, A.B., for 3 thousand euros. With this transaction, the Company from the Group in Russia is now wholly owned by the Parent Company Acerinox, S.A.

Changes in 2016:

In 2016, the only significant change was the liquidation of the Group company Acerinox Norway AS. The company was wholly owned by Acerinox, S.A. and acted as a commission agent for the Group company Acerinox Scandinavia AB, registered in Sweden, for sales in Norway. Acerinox Scandinavia absorbed the personnel of the entity. This operation had a positive 597 thousand euros impact on the Parent Company's results, which was derived from the repatriation of share capital and accumulated reserves. Conversely, this operation had a negative impact of 290 thousand euros on consolidated profit due to cumulative exchange differences and this company's results until the liquidation date. The loss on the liquidation was recognised under finance costs in the consolidated income statement.

During 2016, a further 50 shares of the Group company Roldan, S.A. were also acquired from non-controlling shareholders, thereby raising the ownership interest held by Acerinox, S.A. to 99.77%. These shares were purchased for 1 thousand euros.

Financial position

Group companies have the following financial position at 31 December 2017, based on the individual annual accounts provided by the respective companies:

(Expressed in thousands of euros)

GROUP COMPANIES	Capital	Reserves	Results from operating activities	Profit from continuing activities	Total Equity
ACERINOX (SCHWEIZ) A.G.	598	1,410	72	102	2,110
ACERINOX ARGENTINA S.A.	31	916	151	-7	940
ACERINOX AUSTRALASIA PTY. LTD.	391	-23	116	116	484
ACERINOX BENELUX S.A. - N.V.	211	277	-39	-39	449
ACX DO BRASIL REPRESENTAÇOES, LTDA	172	14	42	31	217
ACERINOX CHILE, S.A.	5,748	-330	774	556	5,974
ACERINOX COLOMBIA S.A.S	50	175	135	76	301
ACERINOX DEUTSCHLAND GMBH	45,000	-25,280	2,002	1,480	21,200
ACERINOX EUROPA S.A.U	62,000	236,712	86,004	58,908	357,620
ACERINOX FRANCE S.A.S	265	3,458	727	670	4,393
ACERINOX INDIA PVT LTD	134	127	-54	-61	200
ACERINOX ITALIA S.R.L.	40,000	11,129	1,437	1,084	52,213
ACERINOX METAL SANAYII VE TICARET LIMITED SIRKETI	88	410	425	387	885
ACERINOX MIDDLE EAST DMCC (DUBAI)	11	164	221	211	386
ACERINOX PACIFIC LTD.	10,237	-9,416	394	347	1,168
ACERINOX POLSKA, SP Z.O.O	23,941	1,455	702	484	25,880
ACERINOX RUSSIA LLC.	60	177	117	107	344
ACERINOX SCANDINAVIA AB	28,952	-5,366	1,178	914	24,500
ACERINOX SC MALAYSIA SDN. BHD	32,141	-36,789	2,314	1,216	-3,432
ACERINOX SHANGAI CO., LTD.	2,477	479	1,676	1,199	4,155
ACERINOX (SEA), PTE LTD.	235	-134	443	333	434
ACERINOX U.K, LTD.	22,543	2,442	1,095	637	25,622
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	15,000	-1,686	826	763	14,077
BAHRU STAINLESS, SDN. BHD	316,301	-225,756	-30,881	-57,446	33,099
COLUMBUS STAINLESS (PTY) LTD.	168,857	59,224	44,528	30,846	258,927
CORPORACIÓN ACERINOX PERU S.A.C	31	-131	33	27	-73
INOX RE, S.A.	1,225	0	-445	0	1,225
INOXCENTER CANARIAS, S.A.U	270	1,447	149	117	1,834
INOXCENTER, S.L.U	492	2,025	4,607	2,517	5,034
INOXFIL S.A.	4,812	467	1,695	1,182	6,461
INOXIDABLES DE EUSKADI S.A.U	2,705	3,525	825	544	6,774
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	12,843	1,386	279	216	14,445
METALINOX BILBAO, S.A.U	72	21,543	1,037	755	22,370
NORTH AMERICAN STAINLESS INC.	484,628	1,408,023	156,995	186,294	2,078,945
NORTH AMERICAN STAINLESS CANADA, INC	30,851	17,720	9,162	7,079	55,650
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	17	-11,675	11,673	11,673	15
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	20,845	3,359	1,606	1,543	25,747
ROLDAN S.A.	11,936	18,459	7,543	5,624	36,019
ASSOCIATES	**Capital**	**Reserves**	**Results from operating activities**	**Profit from continuing activities**	**Total Equity**
BETINOKS PALANMAZ ÇELIK A.S.	297	-299	0	0	-2

Group companies had the following financial position at 31 December 2016, based on the individual annual accounts provided by the respective companies:

GROUP COMPANIES	Capital	Reserves	Results from operating activities	Profit from continuing activities	Total Equity
ACERINOX (SCHWEIZ) A.G.	652	1,430	136	107	2,189
ACERINOX ARGENTINA S.A.	42	538	518	223	803
ACERINOX AUSTRALASIA PTY. LTD.	411	51	-74	-75	387
ACERINOX BENELUX S.A. - N.V.	211	255	38	22	488
ACERINOX DO BRASIL REPRESENTAÇOES, LTDA	199	99	-57	-83	215
ACERINOX CHILE S.A.	6,010	-842	755	523	5,691
ACERINOX COLOMBIA S.A.S	56	148	79	49	253
ACERINOX DEUTSCHLAND GMBH	45,000	-27,598	2,687	2,544	19,946
ACERINOX EUROPA S.A.U	62,000	212,123	39,889	23,685	297,808
ACERINOX FRANCE S.A.S	265	2,629	958	883	3,777
ACERINOX INDIA PTE LTD	143	166	-31	-30	279
ACERINOX ITALIA S.R.L.	40,000	9,854	1,844	1,144	50,998
ACERINOX MALAYSIA SDN. BHD	5,075	-5,069	0	0	6
ACERINOX METAL SANAYII VE TICARET LIMITED SIRKETI	107	367	53	136	610
ACERINOX MIDDLE EAST DMCC (DUBAI)	13	241	-54	-54	200
ACERINOX PACIFIC LTD.	11,736	-11,213	468	418	941
ACERINOX POLSKA, SP Z.O.O	22,674	512	1,229	935	24,121
ACERINOX RUSSIA LLC	65	182	63	9	256
ACERINOX SCANDINAVIA AB	29,835	-7,733	1,752	1,493	23,595
ACERINOX SC MALAYSIA SDN. BHD	32,990	-37,239	614	-520	-4,769
ACERINOX SHANGAI CO., LTD.	2,641	303	2,598	2,080	5,024
ACERINOX (S.E.A.) PTE.LTD.	247	-452	328	309	104
ACERINOX U.K. LTD.	23,359	999	2,496	2,504	26,862
ACEROL,COMERCIO E INDUSTRIA DE AÇOS INOXIDAVEIS UNIPERSOAL, LTDA.	15,000	-3,285	1,222	966	12,681
BAHRU STAINLESS, SDN. BHD	359,871	-196,166	-34,816	-60,665	103,040
COLUMBUS STAINLESS (PTY) LTD.	172,927	31,655	40,261	28,359	232,941
CORPORACIÓN ACERINOX PERU S.A.C	33	-93	-41	-41	-101
INOX RE S.A.	1,225	0	-429	0	1,225
INOXCENTER CANARIAS, S.A.U	270	1,388	75	58	1,716
INOXCENTER, S.L.U.	492	-4,591	10,395	6,578	2,479
INOXFIL S.A.	4,812	392	342	59	5,263
INOXIDABLES DE EUSKADI, S.A.U.	2,705	1,578	2,682	1,946	6,229
INOXPLATE-COMERCIO DE PRODUSCTOS DE AÇO INOXIDAVEL,UNIPERSOAL, LTDA.	12,843	1,269	151	117	14,229
METALINOX BILBAO S.A.U	72	19,717	2,521	1,826	21,615
NORTH AMERICAN STAINLESS INC.	551,384	1,535,348	81,510	66,756	2,153,488
NORTH AMERICAN STAINLESS CANADA, INC	35,101	15,940	5,613	4,221	55,262
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	19	-9,488	9,487	9,487	18
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	23,717	4,310	1,516	-488	27,539
ROLDAN S.A.	11,936	21,303	-3,633	-3,042	30,197
ASSOCIATES	**Capital**	**Reserves**	**Results from operating activities**	**Profit from continuing activities**	**Total Equity**
BETINOKS PALANMAZ ÇELIK A.S.	297	-299	0	0	-2

Impairment

At the reporting date at least, any necessary valuation adjustments are made where there is objective evidence that an investment's carrying amount will not be recoverable.

As a holding company, a majority of the assets of Acerinox, S.A. consist of investments and balances with Group companies. The Company tests for objective evidence of impairment every year. Such evidence is deemed to exist when the carrying amount of the investee is lower than the investment in the accounts of Acerinox, S.A., or when

the investee presents repeated losses for several years. In such cases, the Company calculates the recoverable value of the investment, which is the higher of the fair value less costs to sell and the current value of future cash flows from the investment. During the year, there were indications of impairment in several Group companies, as their equity was lower than the value of the investment due to accumulated losses arising during the years of crisis. The following table shows the list of entities analysed:

The current value of the cash flows was determined based on the estimated future cash flows the entity expects to obtain from the investment, using the discount rate, which is understood to be the weighted average cost of capital (WACC).

Future cash flows were estimated on the basis of reasonable and well-founded assumptions. These assumptions were mainly the following:

a) Five-year cash flow forecasts approved by management. These five-year projections reflect the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each entity analysed. The different parameters used (expected growth, use of installed production capacity, prices, working capital items, etc.) are therefore projected considering historical figures, particularly the last year closed, as well as targets set by management.

The projections reflect these circumstances in each year, in addition to the best estimates made by management: Other relevant assumptions such as exchange rates and raw material prices are, therefore, extrapolated using highly conservative criteria, referring at all times to the most recent market values.

Factories make a five-year budget based on the 2018 budget, and maintaining the calculation basis set in this budget. Each factory estimates its local and export production and sales performance, product margins and prices based on the cost structure benchmark set in the 2018 budget and on the guidelines set in the approved Strategic Plan.

Five-year budgets for other commercial subsidiaries are also based on the 2018 budget. The projection for the remaining years maintains the estimated margins, variable expenses by tonne and fixed expenses, and increased by the tonnes sold according to each supplier's (factories) budget. Subsidiaries' estimates are reviewed against the commercial targets expected by management for each market.

b) Cash flow forecasts are extrapolated to the future using the stable growth rate that is consistent with the country and main markets in which the entity predominantly operates. This growth rate is set at 2.5%. It should be noted that in 2017 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2017 period.

The Company is confident that the flows to perpetuity will materialise, mainly in terms of its use of production capacity and margins, while still applying prudent criteria to the growth rate (g).

c) Cash flows are discounted at a rate that represents a risk-free market interest rate, adjusted for the asset's specific risks that would be applied by any market participant when investing in an asset with a similar cash flow, term and risk profile. The discount rate has been estimated as the weighted average cost of capital (WACC) for each investment.

The following points were taken into consideration when calculating the discount rate:

- The financing structure or gearing is not entity-specific, but ratherbased on market participant assumptions.
- The cost of debt is obtained using the benchmark market risk-free rate plus a spread of 2%.
- risk-free rate: 10Y bond benchmark.
- The risk premium has been estimated at around 5.4%, although each calculation has been adjusted according to the markets in which each subsidiary operates.

Summary of impairment tests performed and variables used:

Million euros	WACC	EBIT(*)	g
Columbus Stainless	12.5%	5.8%	2.5%
Bahru Stainless	8.7%	4.7%	2.5%
Acerinox Italia	6.7%	2.0%	2.5%
Acerinox Deutshland	6.1%	1.8%	2.5%
Acerinox Scandinavia	5.8%	2.4%	2.5%
Acerinox UK	7.2%	1.8%	2.5%
Acerinox SC malasia	8.6%	3.2%	2.5%
Acerinox France	6.6%	1.8%	2.5%
Inoxcenter	7.1%	4.0%	2.5%
Acerol Portugal	8.0%	1.9%	2.5%
Acerinox Chile	8.9%	4.9%	2.5%
Acerinox Pacific	7.5%	_	2.5%

(*) Average operating result in budgeted period

Because Acerinox Pacific is a commissions agent, its EBIT/Sales ratio is not an appropriate performance measure.

The analysis showed that the recoverable amount of investments in all companies is higher than their carrying amount, except in the case of Acerinox SC Malasia Sdn. Bhd., where impairment was recognised in the amount of 7,288 thousand euros of the investment. The fair value of the investment, which is equal to its recoverable amount at 31 December 2017, was 19,475 thousand euros. This subsidiary markets part of the production of Bahru Stainless in the Malaysia market, and it was affected by low prices in the local market.

Sensitivity analyses have been performed in the impairment tests of all reviewed companies, with the conclusion that they comfortably exceed the stress situations of the principal variables used, except in Acerinox SC Malasia Sdn. Bhd., where the aforementioned impairment was recognised. The sensitivity analysis of the two most significant companies, the Columbus Stainless and Bahru Stainless factories, are as follows:

Columbus Stainless Ltd.

In 2017, the South African factory Columbus Stainless, Ltd significantly improved its pre-tax profits, achieving ZAR 624.95 million, compared with ZAR 567.33 million in 2016. These figures represent an additional increase in its pre-tax profits (+10.2%) this year, continuing the positive trend that began in 2013. It is also continuing to beat the presented forecasts. In 2017 its figures were an 8.5% improvement on the estimates; in 2016 there was a 58.2% improvement.

2017 was a good year for Columbus Stainless, Ltd, but not without significant challenges. In addition to the weakness in the local economy, these included the increase in energy costs and the revaluation of the local currency, the rand, which made it less competitive in international markets. This situation was partially mitigated by the inherent advantages of the Columbus factory: its proximity to ferrochrome production facilities and the possibility of performing direct liquid loading of this mineral, leading to significant savings and reduced stocks of raw materials.

Against the above backdrop, Columbus has become established as one of the Group's profit centres, thus demonstrating the effects of the successive excellence plans and the success of the strategy followed.

The impairment test performed at 31 December 2017 reveals that the investment's recoverable amount (372.4 million euros) exceeds its carrying amount (279.6 million euros) by 92.8 million euros for the 76% interest in the company. The discount rate (WACC), the growth rate (g) and the budgeted EBIT margin are considered key assumptions in the impairment test.

Impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 26.7%. The growth rate (g) would have to fall to 0%, and the discount rate (WACC) would have to increase by 18.7% for the

carrying amount to show impairment. The average budgeted EBIT margin would have to fall 24.9% to 4.3%, with the other two assumptions remaining constant, for impairment to occur.

Bahru Stainless Sdn. Bhd

Bahru Stainless is the most recently created factory, located in Johor, Malaysia. In 2017, Bahru Stainless achieved positive EBITDA and increased its cold rolling production by 33.4% in a highly competitive market.

This factor operates mainly in markets of the ASEAN zone, where there is a significant price gap compared to other international markets largely due to the over-capacity in the Chinese market and the resulting pressure on international markets, especially in the Asia-Pacific region. In addition, the ASEAN countries and Asia generally reacted to Chinese over-capacity by instituting anti-dumping or protectionist measures in their local markets.

Nevertheless, according to the International Monetary Fund, the GDP of the ASEAN 5 region (Indonesia, Malaysia, Philippines, Thailand and Vietnam) grew by 5.3% in 2017.

The increase in production continued throughout the year, such that the subsidiary Bahru Stainless had set a new production record by year end, and it is expected to reach maximum production capacity in cold rolling production by 2020. This production increase has resulted and will result in larger shares in the ASEAN market, in addition to improvements in product quality.

The impairment test performed at 31 December 2017 reveals that the investment's recoverable amount (239.5 million euros) exceeds its carrying amount (171.8 million euros) by 67.8 million euros for the 67% interest in the company. The discount rate (WACC), the growth rate (g) and the budgeted EBIT margin are considered key assumptions in the impairment test.

Impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 8.5%. The growth rate (g) would have to decrease to 1.5% to show impairment of the carrying amount. The average budgeted EBIT margin would have to fall 11.9% to 4.1%, with the other two assumptions remaining constant, for impairment to occur.

Impairment in 2016

In 2016, the Company recognised impairment of 10,792 thousand euros on its investment in the company Acerinox SC Malasia Sdn. Bhd., because its recoverable amount, calculated on the basis of discounted expected cash flows, is lower than its carrying amount. The fair value of the investment at 31 December 2016, which was equal to its recoverable amount was 26,763 thousand euros. In addition, the Company reversed 2,205 thousand euros in impairment of the portfolio recognised in prior years of the company Acerinox Pacific, Ltd., with the carrying amount of the investment of Acerinox, S.A. in the company now at 7,467 thousand euros.

Movements in the account of impairment of investments in Group and associated companies, are as follows:

	Opening balance as of 31/12/16	Year's charge	Year's reversal	Accumulated balance as of 31/12/17
Acerinox SC Malaysia, Sdn. Bhd	10,793	7,288		18,081
Acerinox Pacific, Ltd.	19,358			19,358
Betinoks Palanmaz Çelik, A.S.	41	313		354
TOTAL	**30,192**	**7,601**	**0**	**37,793**

Dividends

In 2017, the Company received dividends in the amount of 13,510 thousand euros, as follows:

	2017	2016
Acerinox (Schweiz) AG.		915
Acerinox Argentina, S.A.		1,175
Acerinox Italia. S.R.L.		3,000
Acerinox Shanghai Co. Ltd.	1,743	950
North American Stainless Financial Investments Ltd.	11,767	9,299
TOTAL	**13,510**	**15,339**

Dividends from Group companies are recognised in revenue.

9.2.8 Other information

At 31 December 2017 and 2016:

- There are no firm commitments for the purchase of financial assets
- No financial assets are pledged to secure liabilities or contingent liabilities
- No collateral has been received on financial or non-financial assets

9.3 Information on the nature and risk level of financial instruments

The Company is various financial risks, mainly: market risk (currency risk, interest rate risk), credit risk and liquidity risk. As the Group's main activity is the manufacturing and marketing of stainless steel, the Company is also indirectly exposed to risks inherent to the sector. The Company aims to minimise the potential adverse effect on its profits through the use of derivative financial instruments, where appropriate to the risks, and by taking out insurance policies. The Company does not acquire financial instruments for speculative purposes.

9.3.1 Direct risks

The Company's main activities are those of a holding company. The Company renders legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.

The Company is exposed to the following risks, which mainly arise in its financing activities:

9.3.1.1 Currency risk

The Company finances itself mainly in euros and US dollars, and it invests and lends funds through Group companies mainly in these currencies. The Company hedges exchange rate volatility risk by taking out exchange rate insurance.

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date, at the closing exchange rate prevailing at that date. Any exchange differences that may arise from translation are recognised in profit or loss. To avoid fluctuations in profit and loss due to changes in exchange rates, and to ensure the expected cash flows, the Company uses derivative financial instruments to hedge most of its financial and commercial transactions in currencies other than the euro.

As most commercial and financial transactions in currencies other than the functional currency of the Company are hedged, any fluctuation in exchange rates that could affect assets or liabilities denominated in foreign currency would be offset by a change of the same amount in the derivative contracted.

The derivative financial instruments used to hedge this risk are short-term sale or purchase contracts negotiated with the Group's Treasury Department in accordance with policies approved by management.

The Group also uses other derivatives such as cross-currency swaps to control currency risk in financing operations.

Not all of the exchange rate insurance policies taken out by the Company meet the requirements to be considered cash flow hedging instruments and, therefore, to be recognised in accordance with the policy established in **note 4.5.6**. Policies that do not comply with these criteria have been accounted for as financial instruments at fair value through profit or loss.

The fair value of forward exchange rate contracts is the same as their market value at the reporting date.

In **note 9.2.2** there are details of the financial instruments arranged by the Company to hedge this type of risk at 31 December 2017 and 2016.

9.3.1.2 Interest rate risk

The Company's financing comes from various countries and in different currencies (mainly the euro and the US dollar), with a range of maturity dates and mostly variable interest rates.

The Company's financial liabilities and financial assets are exposed to fluctuations in interest rates. To manage this interest risk rate, curves are analysed regularly and derivatives may be used. These derivatives take the form of interest rate swaps and qualify for recognition as cash flow hedging instruments. The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account interest and exchange rates at that date and the credit risk associated with the swap counterparties.

In recent years, the Company has arranged interest rate hedges for its long-term loans. In note **9.2.2** there are details of the financial instruments arranged by the Company to hedge this type of risk at 31 December 2017 and 2016.

The Company primarily used the second half of 2017 to extend the maturity date of a significant number of its long-term loans, reducing their cost, in addition to the refinancing of many of the Group's loans that took place in the first half of 2016, thereby extending the average life of its debt.

During the last year, the Group has increased the amount of financing with a fixed interest rate, mainly as a result of signing three long-term, fixed-rate financing contracts: a loan of 50 million euros with Banca March, another for 50 million euros with BBVA and a final loan of 120 million euros with Banco Popular. In turn, the number of interest rate hedges has been reduced, as no interest rate hedging instrument was arranged in 2017 and some existing hedges have matured during the year. In 2016, the syndicated loan that was signed in the United States in 2012 was settled by the group, thus cancelling the associated cross-currency swap.

Had interest rates on the outstanding debt at year end been 100 basis points higher, with all other variables remaining constant, the Company's consolidated profit after tax would have been 5.35 million euros lower due to a higher finance cost on variable-rate debt (3.98 million euros lower in 2016). The effect on the equity of higher interest rates across the entire curve would have been a net decrease of 4.94 million euros (decrease of 2.87 million euros in 2016), as the higher borrowing costs would have been partially offset by increases in the values of its interest rate hedging derivatives held at the reporting date.

9.3.1.3 Risk due to changes in the listed price of securities held in listed companies

The risk of price fluctuations in listed securities relates to the shares held by the Company in Nisshin Steel, which is traded on the Tokyo Stock Exchange. The Company has not hedged this risk with derivative financial instruments. **Note 9.2.4** provides details of the effect and impact of the fluctuations in listed securities during the year.

9.3.1.4 Liquidity risk

The Company is primarily financed through the cash flows generated in its operations, in addition to loans and financing facilities.

Although access to liquidity has improved considerably over the last two years, the Group ensures its liquidity and flexibility through long-term loans and financing facilities for amounts exceeding the quantities required at any time.

The Group's cash is centrally managed to optimise resources. The Group's net debt is primarily concentrated in Acerinox, S.A. (more than 92% of total gross debt at year end).

Based on its cash flow estimates and considering its investment plans, the Company has sufficient funding to meet its commitments, and maintains sufficient balances available for drawdown from credit facilities to cover liquidity risk. In 2017 and 2016 no payment defaults occurred on the principal of loans or loan interest on the Group's financing.

Even though the Company presents as of 31 December 2017 a negative working capital amounting to 9,613 thousand euros (56,293 thousand euros positive on 31 December 2016), at year end the Company has been granted current and non-current financing totalling 1,629 million euros. 1,149 million euros has been drawn down from financing facilities at 31 December 2017. In 2016, the Group had current and non-current financing facilities of 1,492 million euros and 1,052 had been drawn down. At 31 December 2017 cash and cash equivalents amount to 3,9 million euros (3 million euros in 2016). Therefore, there is no doubt about the capacity of the company to meet its payment commitments as it has enough cash available to carry out its operations.

The high levels of bank borrowings to guarantee mid-term liquidity along with the ongoing effort to reduce working capital continues to lead to high levels of cash in the Company. The cash balances are available and there is no restriction on their use.

Cash deposits are always short-term – never exceeding three months – and with banks of recognised solvency.

In addition, the Company continually monitors the maturity of its financial debt, seeking to establish the longest possible maturities.

The most significant financing operation during 2016 was the debt rescheduling of the majority of the bilateral loans held by Acerinox S.A., which was undertaken to extend the repayment due dates to between four and five years and to reduce the margins. Details of this financing transaction are provided in **note 9.2.6.**

9.3.2 Indirect risks

The Company, as the parent of the Acerinox Group, whose main activity is the manufacture and marketing of stainless steel products, is exposed to risks inherent to the sector:

9.3.2.1 Price risk

The following are the price change risks of the sector

1. Risks from regional crises

Acerinox's global presence, with factors in four geographical areas and an active commercial presence in five continents, enables it to reduce its exposure to a specific area.

2. Risk of changes in prices of raw materials

Stainless steel is an iron alloy with a minimum chromium content of 10.5%, which also contains other metals such as nickel or molybdenum to give it specific properties. Given the variation in the price of the raw materials used in the production process, stainless steel prices can be highly volatile. The cost of raw materials, of which nickel accounts for approximately 40%, is approximately 70% of the total production cost. The price setting strategy is

therefore one of the most critical functions and requires significant knowledge of the market. In Europe, South Africa and the United States, sale prices comprise a base price and a variable component known as the alloy surcharge. The alloy surcharge is calculated monthly by each of the market's stainless steel producers on the basis of a formula that takes into account the variation in the price of certain raw materials (particularly nickel, chromium and molybdenum) and fluctuations in the EUR-USD exchange rate. The application of this alloy surcharge means that the change in nickel prices on the London Metal Exchange during production of the order, as well as fluctuations in the price of other raw materials and the EUR-USD exchange rate, can be passed on to customers. This natural hedge is applied to 90% of the Group's sales (Europe, America and South Africa).

The productive process is planned on the basis of the existing customer backlog. The Group's manufacturing period is 15 days, allowing it to link the cost of raw materials with the selling price to the customer through the alloy surcharge. Keeping strict control over inventories and adapting production to market circumstances help to alleviate the risk of raw material price fluctuations.

The stainless steel market is characterised by healthy demand, which has grown at an annual rate of approximately 6% for over 50 years. Exceptionally, the market shrank by 11.8% in 2007-2009 because of the worldwide economic recession, but recovered with growth of 26.4% in 2010. The aforementioned annual growth rate is therefore expected to prevail in the medium term. Stainless steel is required for all industrial applications and used in all sectors, which guarantees that this growth will be sustained in the coming years. Although end consumption continues to grow steadily, the fact that this market is largely controlled by independent wholesalers leads to volatility in apparent consumption, reflecting their expectations regarding nickel price trends in the London Metal Exchange (LME) and their ensuing strategies to stockpile or realise inventories.

Fluctuations in the price of nickel also affect consumer demand. Reductions in the price of nickel tend to go hand in hand with short-term drops in demand. Conversely, a rise in nickel prices tends to go hand in hand with higher demand. To counter the risk derived from the fact that independent wholesalers control the majority of the market, the Acerinox Group has developed a sales network that enables it to supply end customers on a continuous basis, by means of warehouses and service centres through which the Group’s production is channelled. This policy has enabled the Group to achieve a significant market share among end customers and, therefore, stabilise sales and reduce this risk.

Maintaining sufficient inventory levels in warehouses entails the risk that these inventories might be recognised above their market price. The Group alleviates this risk by maintaining strict control over inventory levels.

The valuation of raw materials, work in progress and finished goods at average cost also helps to reduce the volatility of costs and, consequently, to decrease the impact of nickel price fluctuations on margins.

The aforementioned factors (an own sales network, controlled inventory levels, alloy surcharges, average cost valuations, shortening of the production cycle and a policy of acceptance of short-term orders) help to reduce exposure to the main risk, namely the cyclical nature of apparent consumption due to the volatility of raw materials. As this is a factor beyond the Group's control, effective risk management is not always sufficient to eliminate its impact.

9.4 Insurance

As the Group’s three integrated flat product production plants, one cold rolling plant and three long product production plants are located in different regions, an accident would not affect more than one-third of total production. This guarantees the continuity of the business, while adequate co-ordination between the remaining factories reduces the consequences of material damage to any of the facilities.

Sufficient coverage has been contracted for the Group’s factories through material damage and loss-of-profit insurance policies, which account for over 56.72% of the Acerinox Group’s insurance expenditure. All assets under construction are covered by both the insurance policies taken out by the respective suppliers in addition to a global building and assembly policy.

The Group also has a reinsurance company based in Luxembourg, Inox Re, which manages these risks by assuming a part as self-insurance and accessing the reinsurance market directly.

The Acerinox Group has also arranged general liability, environmental, credit, transport, and group life and accident insurance policies to reduce its exposure to these different risks.

NOTE 10 – EQUITY

10.1 Subscribed capital and share premium

The Parent Company's share capital solely comprises ordinary shares. All these shares have the same rights and there are no statutory restrictions on their transferability.

At 31 December 2017 and 2016, share capital is represented by 276,067,543 ordinary shares, with a par value of 0.25 euros each, subscribed and fully paid.

All the shares are listed on the Madrid and Barcelona stock exchanges.

At 31 December 2017 the only holders of 10% or more of the share capital of Acerinox, S.A. are Corporación Financiera Alba, S.A., with 18.96%, and Nisshin Steel Holding, Co. Ltd. with 15.49%. Both held the same ownership interest in 2017 and 2016.

There has been no distribution of the share premium in 2017 or 2016.

The share premium is subject to the same restrictions and may be used for the same purpose as the voluntary reserves of the Parent Company, including conversion into share capital.

During the 2016 financial year, at their General Meeting the shareholders agreed to increase share capital with a charge to reserves by issuing ordinary shares to be allocated to the shareholders free of charge. In addition, the Board of Directors resolved to implement the capital increase by means of a flexible dividend, also known as a scrip dividend. The capital increase, through the issue of 9,360,150 shares derived from the scrip dividend, was filed at the Madrid Mercantile Registry on 18 July 2016. These new shares were admitted to trading on 22 July 2016.

10.2 Reserves

Details of reserves at 31 December are as follows:

(Expressed in thousands of euros)

	Legal reserve	Voluntary reserve	Capital redemption reserve	Property, plant and equipment revaluation reserve	TOTAL RESERVES
Balance at 31 December 2015	**12,465**	**536,347**	**3,475**	**5,243**	**557,530**
Capital increase (scrip dividend)		-2,435			**-2,435**
Use of losses from prior years		-20,531			**-20,531**
Dividend charged to Reserves		-26,745			**-26,745**
Balance at 31 December 2016	**12,465**	**486,636**	**3,475**	**5,243**	**507,819**
Capital increase (scrip dividend)					**0**
Use of losses from prior years	134	1,202			**1,336**
Dividend charged to Reserves		-124,230			**-124,230**
Balance at 31 December 2017	**12,599**	**363,608**	**3,475**	**5,243**	**384,925**

10.2.1. Legal reserve

The legal reserve has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires companies to transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. At 31 December 2017 the Company has appropriated an amount equivalent to 18.25% of its share capital (18% in 2016).

10.2.2. Voluntary reserves

At 31 December 2017, voluntary reserves are unrestricted, provided that distribution of unrestricted reserves (voluntary reserves and share premiums) does not reduce equity to below the level of share capital, as provided in article 273 of the Spanish Companies Law.

10.2.3. Capital redemption reserve and Property, plant and equipment revaluation reserve

The reserve for redeemed shares is not unrestricted.

As permitted by Royal Decree-Law 7/1996 of 7 June 1996, containing urgent tax measures and initiatives aimed at boosting and deregulating the economy, the Company revalued its property, plant and equipment. The amount of the property, plant and equipment revaluation reserve reflects the revaluation gains, net of tax at 3%.

The deadline for tax inspection was three years from 31 December 1996. Consequently, as no inspection took place, this balance could be used to offset losses or increase the Company's share capital. Following the elapse of ten years, gains that had been amortised or transferred, or the discounted items derecognised. The outstanding balance relates to land.

The balance of this account will only be distributable, either directly or indirectly, to the extent that gains have been realised.

10.3 Treasury shares

On 15 June 2015 the Parent Company acquired 100 own shares to be exchanged for subscription rights, if necessary, when executing the scrip dividend. There was no movement in own shares in 2017.

10.4 Earnings/losses per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, excluding own shares purchased and held by the Group.

(Expressed in thousands of euros)

	2017	2016
Net Profit	7,999	1,336
Average number of ordinary shares outstanding	276,057,543	270,895,787
Basic earnings/(loss) per share (in Euros)	**0.03**	**0.00**

The weighted average number of shares has been calculated considering the shares outstanding both prior and subsequent to the capital increase and the number of days for which they had been outstanding.

The Company has not issued any financial instruments that give access to capital or convertible debt and therefore diluted earnings per share are the same as basic earnings per share.

10.5 Distribution of dividends

On 1 June 2017, at their General Meeting the shareholders approved the distribution of a cash dividend of 0.45 gross euros per share, charged to unrestricted reserves. The dividend was paid on 5 July 2017 and totalled 124,230 thousand euros.

With respect to 2016, at their General Meeting on 9 June, the shareholders approved the remuneration of shareholders in the form of a flexible dividend (scrip dividend), for which it approved a capital increase charged to reserves by issuing ordinary shares free of charge to shareholders.

Shareholders could choose from the following options:

- Sell their rights to the Company for 0.44 euros per right.
- Sell the rights in the stock exchange at the price set by the market.
- Subscribe to shares in Acerinox on the basis of one (1) new share for every twenty-two (22) rights.

On 1 July 2016 the definitive amount of the dividend payable and the details of the capital increase were established, as follows:

- 60,784,070 rights were sold to Acerinox for 0.44 euros per right, with the Company therefore paying out 26,744,990.8 euros.
- 9,360,150 new shares were issued in the capital increase.

NOTE 11 – FOREIGN CURRENCY

The breakdown in euros of the main items in the balance sheet and income statement denominated in foreign currency is as follows:

(Expressed in thousands of euros)

2017	USD
Trade and other receivables	143
Suppliers and other payables	
Loans to group companies	556,668
Loans and borrowings	13,856
Loans from group companies	883,939

2016	USD
Trade and other receivables	178
Suppliers and other payables	
Loans to group companies	731,438
Loans and borrowings	31,126
Loans from group companies	910,791

The breakdown of translation differences recognised in the profit/loss for the year by type of financial instrument is as follows:

(Expressed in thousands of euros)

	2017		2016	
	Realised exchange gain/loss	**Unrealised exchange gain/loss**	**Realised exchange gain/loss**	**Unrealised exchange gain/loss**
Trade and loans to group companies	325	75,680	3,171	-19,716
Loans and borrowings	6,105	-6,254	28,918	-28,231
Payables and loans from group companies	-227	-114,879	53,610	-23,868
TOTAL	**6,203**	**-45,453**	**85,699**	**-71,815**

Expenses are shown in positive figures and income in negative figures.

These translation differences were offset by the expense related to the change in fair value of financial instruments (exchange rate insurance) in the amount of 34,033 thousand euros (income of 16,763 thousand euros in 2016).

NOTE 12 – TAXATION

Acerinox, S.A. files consolidated tax returns. At 31 December 2017 and 2016, the consolidated tax group comprised: Acerinox, S.A., Acerinox Europa S.A.U, Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U. and Inoxcenter Canarias, S.A.U.

12.1 Legislative changes

There have been no significant tax changes this year that alter the Group's tax burden.

On 2 December 2016 a new suite of tax measures aimed at shoring up public finances was approved in Spain. Among the tax measures approved, the measures that have an impact on the Group are as follows:

- Effective for periods beginning on or after 1 January 2016, the limit on the deduction of prior years' losses is reduced, for those companies with revenues of over 60 million euros, to 25% of the taxable income earned in the year. Since the Group has capitalised tax credits in Spain, this measure increased the periods in which they can be recovered. The recoverability of the Group's tax credits is analysed in **note 18.3**.
- Also, from 1 January 2016, the impairment of investments in Group companies recognised for tax purposes prior to 2013 and not yet offset at that date are offset within a maximum of five years. The amount to be offset is the greater of the following two: the profit earned by these companies in the tax period or one fifth of the amount not yet offset. Impairment on investments pending reversal by the Group at 1 January 2016 amounted to 64,675 thousand euros. For 2016, the Company offset tax amounting to 15,032 thousand euros, and this year estimates a tax offset of 13,037 thousand euros, so the balance yet to be offset at 31 December 2017 is 36,606 thousand euros, to be offset in the next 4 years.
- A limit was set on the application of double taxation relief at 50% of the gross tax payable.
- As of 1 January 2017 onwards, the exemption of gains arising from the transfer of investments is also applicable to losses, which therefore will not be deductible, unless the company is extinguished.

As regards instalment payments, Royal Decree 2/2016 also introduced substantial changes aimed at increasing proceeds in this respect. In addition to increasing the percentage for the calculation of the interim payment, a minimum amount of 23% of the profit reflected in the income statement is thus established for the first three, nine or eleven months of each calendar year. This amount is to be decreased only by the amount of the instalment payments made previously for the same tax period.

12.2 Income tax expense

Details of the income tax income (expense) are as follows:

(Expressed in thousands of euros)

	2017	2016
Adjustments from prior years	-1	-43
Adjustments from agreements on elimination of double taxation		1,344
Current tax	6,494	2,724
Deferred tax	-7,242	407
Total income tax	**-749**	**4,432**

Due to the different treatment tax law allows for certain transaction, the accounting profit of the year differs from the tax base. The following is a reconciliation between the accounting profit and the tax base the Company expects to contribute to the consolidated tax return following due approval of the annual accounts.

(Expressed in thousands of Euros)

2017	Income statement			Income and expense recognised directly in equity		
Balance of income and expense in year			**7,999**			**2,823**
	Additions	**Reductions**	**Net**	**Additions**	**Reductions**	**Net**
Income tax	4,820		**4,820**	940		**940**
Permanent differences	7,807	1,743	**6,064**			
Temporary differences						
- arising in the year	1,303	4,861	**-3,558**	4,528	8,291	**-3,763**
- arising in prior years	13,029	26,929	**-13,900**			**0**
Prior tax base			**1,425**			**0**
Offsetting of prior years' losses			-356			
Tax base (tax result)			**1,069**			**0**

2016	Income statement			Income and expense recognised directly in equity		
Balance of income and expense in year			**1,336**			**5,581**
	Additions	**Reductions**	**Net**	**Additions**	**Reductions**	**Net**
Income tax		915	**-915**	1,861		**1,861**
Permanent differences	10,957	10,437	**520**			
Temporary differences						
- arising in the year	1,778	4,716	**-2,938**	7,145	14,587	**-7,442**
- arising in prior years	13,977	32	**13,945**			**0**
Prior tax base			**11,948**			**0**
Offsetting of prior years' losses			-1,756			
Tax base (tax result)			**10,192**			**0**

Permanent differences reflect:

- o as reductions, the dividends received from companies covered by the exemption to avoid double taxation. The 2016 accounts also recognised gains on the disposal and reduction of investments in Group companies and the reversal of the impairment of Acerinox Pacific, Ltd., as it had been deemed a non-deductible expense owing to its accrual post-2013.
- o Increases mainly relate to the impairment of investment recognised in 2017 and 2016, and detailed in **note 9.2.7.** Law 16/2013 of 29 October rescinded article 12.3, which allowed for deduction of impairment losses on investments in Group companies.

The most significant temporary differences are as follows:

- Arising in the year:

<u>Reductions:</u>

- o Goodwill: a negative adjustment of 3,917 thousand euros is made to the tax base due to application of transitional provision 14 of the Income Tax Law. This deduction went back to 5% last year owing to repeal of the 1% limitation in force in the previous two years.

<u>Additions</u>:

- o This year includes an adjustment of 1,303 thousand euros relating to contributions to insurance companies to cover obligations undertaken with certain employees. (1,778 thousand euros in 2016).

- Arising in prior years:

<u>Additions</u>:

- o Both this year and the previous year include increases in reversals of tax impairments recognised prior to 2013. Since 2016, as mentioned in **note 12.1**, a new limitation was established that requires

reversal of all impairment that had been tax deductible within a maximum period of five years. Reversals amounted to 13,029 thousand euros in 2017 and 13,977 in 2016.

Reductions:

- The year includes as reductions the deduction for finance expense not deducted in prior years due to application of the limitation set out in article 16 of law 27/2014, of 27 November, on Income Tax, in the amount of 26,895 thousand euros.

The reconciliation of tax expense and accounting profit in 2017 and 2016 is as follows:

(Expressed in thousands of euros)

	2017		
	Recognised in income statement	**Recognised directly in equity**	**Total recognised income and expense**
Balance of income and expense in year	**7,999**	**2,823**	**10,822**
Income tax	749	940	1,689
Other taxes	4,071		4,071
Profit before tax	**12,819**	**3,763**	**16,582**
Income tax at the local tax rate (25%)	-3,205	-940	-4,145
Effects on tax payable:			
Deductions			
Adjustments from prior years	-1		-1
Deductions from tax payable	3,973		3,973
Adjustments from agreements on elimination of double taxation			
Tax effect of permanent differences on tax base	-1,516	940	-576
Total tax on income of year	**-749**		**-749**

(Expressed in thousands of euros)

	2016		
	Recognised in income statement	**Recognised directly in equity**	**Total recognised income and expense**
Balance of income and expense in year	**1,336**	**5,581**	**6,917**
Income tax	-4,432	1,861	-2,571
Other taxes	3,517		3,517
Profit before tax	**421**	**7,442**	**7,863**
Income tax at the local tax rate (25%)	-105	-1,861	-1,966
Effects on tax payable:			
Deductions			
Adjustments from prior years	-43		-43
Deductions from tax payable	3,366		3,366
Adjustments from agreements on elimination of double taxation	1,344		1,344
Tax effect of permanent differences on tax base	-130	1,861	1,731
Total tax on income of year	**4,432**		**4,432**

In 2017 the Parent Company received dividends from some of its foreign and other subsidiaries amounting to 13.7 million euros (15.6 million euros in 2016). Under the corresponding double taxation conventions, some of these dividends were subject to withholdings at source amounting to 1,369 thousand euros (1,177 thousand euros in 2016), which have been recognised under other taxes in the income statement. This account also reflects other withholdings on interest paid to Group companies. These withholdings are subject to a deduction for double taxation.

Adjustments pursuant to agreements for elimination of double taxation shown in the above table for 2016, and which resulted in positive impact of 1.3 million in tax for the year, relate to agreements reached by the Spanish and Portuguese authorities that finalized the Mutual Agreement Procedure. In the year 2011, tax inspections were conducted in the Group company Acerol Ltda., in Portugal, on taxes for the years 2007 and 2008. They resulted in a transfer pricing adjustment for sale and purchase transactions between the company Acerol, Ltda and Group factories, primarily Acerinox, S.A. and Roldán, S.A. The adjustment to taxable income amounted to 10 million euros. On 31 July 2012 an application was submitted to the Directorate-General for Taxation through the European Arbitration Convention based on Convention 90/436/EEC of 23 July 1990, requesting the elimination of double taxation arising from the tax assessments issued in Portugal.

On 28 December 2016, the affected Spanish companies received the notifications relating to the agreement reached between the Spanish and Portuguese authorities that finalised the Mutual Agreement Procedure. Under this agreement, the Spanish and Portuguese authorities accepted the complete elimination of the double taxation. This meant that the adjustment made by the competent Portuguese authority to Acerol was reduced to 4 million euros for 2007 and 720 thousand euros for 2008 and that the competent Spanish authorities would make a correlative adjustment of the same amount to the various Spanish Group companies affected. The Company recognised recoverable amounts in Spain of 1.3 million euros in 2016. These amounts, plus interest of 254 thousand euros, were paid by the Spanish authorities in early 2017.

The Group has also submitted requests for elimination of double taxation relating to assessments of transfer pricing arising in inspections in both Spain and Germany.

With respect to Germany, on 5 October 2017, notification was received of the finalisation of the Mutual Agreement Procedure and of agreements reached for 2007 to 2010. These agreements reduce by 40% the assessments initially imposed by the German authorities on transactions between Spain and the German subsidiary. In November written acceptance of the agreements was submitted and they are currently pending execution. In Spain, the Group estimates that it will recover 3.8 million euros (3.5 million in Acerinox, S.A.) of interest and obtain an increase in tax credits of 3.7 million euros (2.4 million in Acerinox, S.A.), which will be recognised in the affected companies as soon as the tax agency sends the settlements arising from the agreements.

There were no advances with regard to Italy during the year. However, it is likely that, as a result of agreements that may generate receivables or tax loss carryforwards to be used in Spain, the amount that may result from the agreements cannot yet be determined.

12.3 Deferred tax

Movement in deferred tax assets and liabilities is as follows:

(Expressed in thousands of euros)

	Deferred tax assets	Deferred tax liabilities
Balance at 31 December 2015	**87,576**	**25,905**
Temporary differences in year recognised in income statement	235	-2,515
Tax reform adjustment of tax rates through profit and loss		
Temporary differences on adjustments from prior years	118	7
Temporary differences recognised directly in equity		
- Changes in value of financial instruments	-1,373	487
Other adjustments	9,306	
Tax loss carryforwards and deductions	-2,186	
Balance at 31 December 2016	**93,676**	**23,884**
Temporary differences in year recognised in income statement	-6,644	-2,278
Temporary differences on adjustments from prior years	-111	-261
Temporary differences recognised directly in equity		
- Changes in value of financial instruments	-404	536
Other adjustments		
Tax loss carryforwards and deductions	-2,876	
Balance at 31 December 2017	**83,641**	**21,881**

Other adjustments to changes on 2016 relate to the Company's recognition tax credits from prior years that were attributable to it on the basis of the consolidated return. Prior to the publication of the Resolution of 9 February 2017 of the Spanish Accounting and Auditing Institute, the Company recognised tax credits that were attributable to it based on the individual tax return (form 200) and not based on the consolidated return. The Company has not recognised a simultaneous reciprocal credit with each of the companies in the consolidated tax group.

The origin of deferred tax assets and liabilities is as follows:

(Expressed in thousands of euros)

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Goodwill		11,750	-11,750		10,771	-10,771
Investments in Group companies and associates		9,146	-9,146		12,664	-12,664
Available-for-sale financial assets	1,575	1,758	-183	1,575	1,222	353
Non-deductible finance costs	21,139		21,139	27,863		27,863
Non-deductible amortisations	68		68	77		77
Other liabilities	4,128	-773	4,901	4,038	-773	4,811
Financial instruments	187		187	592		592
Tax loss carryforwards	51,899		51,899	52,053		52,053
Unused deductions	4,645		4,645	7,478		7,478
Deferred taxes	**83,641**	**21,881**	**61,760**	**93,676**	**23,884**	**69,792**

At 31 December 2017 and 2016, the Group has unused tax loss carryforwards and deductions in the amount of 51,899 and 4,645 thousand euros, respectively. Under Income Tax Law 27/2014, the period for recovery of tax loss carryforwards is unlimited. However, under the recently-approved Royal Decree 3/2017, companies with revenue above 60 million euros can only use 25% of the yearly tax base to offset losses from prior years. The

company offset unused deductions from prior years in the amount of 2,787 thousand euros (estimated 1,904 thousand euros in 2016, final amount of 1,950 thousand after definitive assessment of tax in July). The Group expects to offset 356 thousand euros in the 2017 tax assessment (2,017 thousand euros offset in 2016).

The Company has unrecognised assets of 9.4 million euros arising from temporary differences relating to accounting impairment which is not tax-deductible.

The Company assesses every year whether unused tax credits and deductions are going to be recoverable within a reasonable period, also taking into account legislative limitations on the offsetting of tax loss carryforwards. The Company does not make estimations only at an individual level, but also at the level of the tax consolidation group. To this end, the Company asks companies in the tax consolidation group for a ten-year budget in order to determine the consolidated tax base. The Company also takes account of the existence of deferred tax liabilities against which tax losses may be offset in the future.

During the year, the consolidated tax group expects to use tax loss carryforwards in the amount of 20 million euros (10.5 million used in 2016). All of the Group's subsidiaries that have capitalised tax credits have achieved profits, in line with budgeted profits, so the situation is more favourable than in past years. When preparing the five-year budgets, the Group has taken into account the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each entity. Parameters such as expected growth, use of installed production capacity, prices, etc. are therefore projected considering historical figures, particularly the last year closed, as well as targets set by management. Key assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the analysis. The estimates made for future years have operating margins that are similar to those budgeted in the 2016 estimations.

Based on all of the above aspects, the Directors believe that, in spite of the new limits introduced in Spain, all capitalised tax credits are still likely to be recovered through future taxable income for all companies, in a reasonable period of less than 10 years. The tax credits capitalised were the result of the crisis years and the Group has been reducing these credits since 2013.
Based on these estimations, a sensitivity analysis indicates that projected income would have to decrease by 7% for the recovery period to increase to 11 years. In addition, the estimation would have to be reduced by 16% for the recovery period to increase to 12 years. In addition, the Group has also taken account of the potential impact in Spain of the increase in unused tax loss carryforwards as a result of amicable settlements reached in inspection proceedings undertaken in Germany and Italy.

12.4 Current tax

The amount to be returned on calculation of the tax this year, net of interim payments and withholdings, totals 7,601 thousand euros (2,203 thousand euros in 2016). In addition, the Company recognised an additional amount of 1.3 million euros to be returned resulting from the agreements on elimination of double taxation between the Spanish and Portuguese authorities.

Due to the tax consolidation regime, receivables from Group companies were generated in the amount of 14,679 thousand euros deriving from calculation of consolidated tax. (277 thousand euros in 2016). The total amount of receivables with companies in the tax consolidation group as a result of offsetting of tax loss carryforwards between Group companies amounts to 5,537 thousand euros.

12.5 Tax inspections and years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until the submitted tax returns have been inspected by the tax authorities or until the inspection period has elapsed.

Pursuant to the new Corporate Income Tax Law, tax loss carryforwards declared in the tax returns for years open to inspection become statute-barred ten years from the day following the deadline for filing the tax return or self-assessment for the tax period in which the right to offset arises. Once this period has elapsed, taxpayers must submit the assessment or self-assessment and the accounting records, as well as evidence that they have been filed at the Mercantile Registry during the aforementioned period, in order to demonstrate that these tax loss carryforwards and the amount thereof are appropriate.

The years open to inspection at 31 December 2017 and 2016 for the main taxes to which the Company is subject are as follows:

Tax rate	2017	2016
Income tax	2008 to 2016	2008 to 2015
Value added tax	2014 to 2017	2013 to 2016
Personal income tax	2014 to 2017	2013 to 2016

On 7 January 2016, the Economic-Administrative Tribunal issued a ruling upholding in full the submissions filed by Acerinox, S.A. against the assessment decisions arising from the inspection of rights, anti-dumping and VAT for 2009, 2010 and 2011. On 27 April of the same year, agreements to enforce the rulings were received for the amounts of 925 thousand euros in respect of anti-dumping, which had previously been guaranteed, 649 thousand euros for VAT on imports (which had been deducted by Acerinox at the time) and 41 thousand euros in respect of payable external tariffs. The Company filed an appeal against the assessment decisions, contesting the interest calculation. 61 thousand euros relating to guarantee expenses were also recovered.

NOTE 13 – INCOME AND EXPENSES

13.1 Personnel expenses

Details of the net personnel cost are as follows:

(Expressed in thousands of euros)

	2017	2016
Salaries, wages and similar	10,194	9,913
Social Security	844	779
Other social charges	294	222
Personnel expenses	**11,332**	**10,914**

13.2 Revenue and other operating income

Details of the revenue are as follows:

(Expressed in thousands of euros)

	2017	2016
Dividends received, group companies	13,510	15,339
Services rendered	20,045	18,258
Interest on loans to group companies	36,410	32,996
Revenues	**69,965**	**66,593**

Other operating income mainly relates to lease income in the amount of 328 thousand euros.

13.3 External services

The details are as follows:

(Expressed in thousands of euros)

	2017	2016
Repairs and upkeep	806	535
Independent professional services	3,979	2,818
Utilities	71	59
Travel expenses	509	517
Communications	703	781
Insurance	172	153
Advertising	52	114
Other	1,186	1,094
External services	**7,478**	**6,071**

Services of independent professionals include services from outsourcing of administrative tasks of the Group's European commercial subsidiaries, which were charged to affected companies.

NOTE 14 – PROVISIONS AND CONTINGENCIES

14.1 Non-current provisions

There are no non-current provisions at 31 December 2017 or 2016.

14.2 Contingent liabilities

Guarantees

At 31 December 2017, the Company has provided guarantees to third parties, mainly government bodies and suppliers, totalling 2.1 million euros (2.5 million euros in 2016).

No provisions have been made in these annual accounts for these guarantees, as Company management does not expect any significant liabilities to arise therefrom.

NOTE 15 – EVENTS AFTER THE REPORTING PERIOD

At the date of authorisation for issue of these accounts, no significant event occurred that might affect the financial statements presented herein.

NOTE 16 – RELATED PARTY BALANCES AND TRANSACTIONS

16.1 Identity of related parties

The Company's annual accounts include transactions with the following related parties:

- Group entities
- Associates
- Key management personnel of the Group and members of the Board of Directors of Group companies, and persons related thereto.
- Significant shareholders of the Company.

All transactions between related parties are carried out on an arm's length basis.

16.2 Balances and transactions with Group companies

Trade balances with Group companies at 31 December are as follows:

(Expressed in thousands of euros)

	2017		2016	
COMPANY	Debtors	Creditors	Debtors	Creditors
Acerinox (Schweiz) Ag.	16		9	
Acerinox Argentina, S.A.	121		132	
Acerinox Australasia PTY. LTD	6		4	
Acerinox Benelux, S.A.-N.V.	18		14	
Acerinox Chile, S.A.	2		43	
Acerinox Colombia S.A.S.	29		48	
Acerinox Deutschland GmbH	98		101	
Acerinox do Brasil Representaçoes Ltda.	8		5	
Acerinox Europa, S.A.U.	3,164		5,741	
Acerinox France S.A.S.	221		48	
Acerinox India Pte. Ltd.	6		8	
Acerinox Italia S.R.L.	216		106	
Acerinox Metal Sanayii Ve Ticaret, Ltd Sirketi	15		64	
Acerinox Middle East Dmcc	19		6	
Acerinox Pacific Ltd	18		62	
Acerinox Polska, SP.Z.O.O.	99		45	
Acerinox Russia Llc	4		2	
Acerinox SC Malaysia Sdn Bhd	138		14	
Acerinox Scandinavia, A.B.	156		128	
Acerinox Shanghai Co. Ltd.	40		19	
Acerinox (S.E.A.) Pte. Ltd.	201		170	
Acerinox U.K. Ltd.	195		183	
Acerol Comercio e Industria de Aços Inoxidaveis Unipersoal, Ltda.	71		166	
Bahru Stainless Sdn Bhd.	777		645	
Columbus Stainless (Pty) Ltd	2,190		907	
Corporación Acerinox Peru, S.A.C.	37		31	
Inoxcenter Canarias, S.A.U.	3		3	
Inoxcenter, S.L.U.	110		103	
Inoxfil, S.A.	169		163	
Inoxidables Euskadi, S.A.	50		52	
Metalinox Bilbao, S.A.U.	19		18	
North American Stainless, Inc.	939		846	
Roldan, S.A.	263		-581	
TOTAL	**9,418**	**0**	**9,305**	**0**

The breakdown of current and non-current loans granted to Group companies and associates at 31 December 2017 and 2016 is as follows:

(Expressed in thousands of euros)

	Current loans		Non-current loans	
	2017	2016	2017	2016
Acerinox Europa S.A.U.	272,085	232,222		
Acerinox Middle East Dmcc	75	72		
Acerinox (S.E.A.) Pte. Ltd.	117	339		
Acerinox SC Malaysia Sdn. Bhd.	588	1,115		
Bahru Stainless Sdn. Bhd.	516	432	555,324	603,358
Corporación Acerinox Perú S.A.	124	133		
Inoxcenter Canarias S.L.	27			
Inoxcenter S.L.U.	82	30,200	35,000	
TOTAL	**273,614**	**264,513**	**590,324**	**603,358**

A long-term participative loan granted in 2012 to Inoxcenter, S.L.U. in the amount of 30 million euros was cancelled in December of this year. The loan was for five years. Pursuant to article 20 of Royal Decree-Law 7/1996, of 7 June, the loan was considered equity for the purposes of the capital reduction and liquidation of companies envisaged in mercantile legislation. At the same time, a long-term loan of 35 million euros was granted to it.

The breakdown of current and non-current loans received from Group companies and associates at 31 December 2017 and 2016 is as follows:

(Expressed in thousands of euros)

	Current loans received		Non-current loans received	
	2017	2016	2017	2016
Acerinox Europa.S.A.U.		5,335		
Inox Re S.A.	33,583	33,582		
Inoxcenter Canarias, S.A.U.		2		
Inoxcenter, S.L.U.	2,609	2,400		
Inoxfil, S.A.	250	501		
North American Stainless G.P.	91	151,850	883,847	758,941
Roldan S.A.	1,063	2,260		
Acerinox Scandinavia AB	3			
TOTAL	**37,599**	**195,930**	**883,847**	**758,941**

Non-current loans granted to and received from Group companies have no established maturity.

Transactions with Group companies are as follows:

(Expressed in thousands of euros)

	2017	2016
Income from services rendered and other operating income	20,045	18,258
Interest income	36,410	32,996
Income from equity investment	13,510	15,339
Interest	-11,506	-17,614

Interest income mainly reflects interest at market rates charged by the Company on loans granted to Group companies.

Interest expense mainly related to interest at market rates received on loans granted to Group companies, mainly North American Stainless G.P.

16.3 Balances and transactions with associates

The Company made no transactions and held no balances with associates in 2017 or 2016.

16.4 Directors and key management personnel

Remuneration received by the four members of senior management who do not hold positions on the Board of Directors of Acerinox, S.A. amounts to 1,677 thousand euros. 991 thousand euros of this amount correspond to salaries, 90 thousand euros are for allowances and 596 thousand euros correspond to variable remuneration relating to profit for the previous year. In 2016, the four senior management personnel received 1,531 thousand euros, of which 977 thousand euros were for salaries, 84 thousand euros were for allowances and 470 thousand euros were for variable remuneration relating to profit for the previous year.

In 2017, members of the Board of Directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, received 2,221 thousand euros in fixed remuneration for attending board meetings and fixed and variable salaries (the latter based on the results from the prior year), of which 1,314 thousand euros were for salaries and fixed board member remuneration, 398 thousand euros were for allowances and 509 thousand euros were for variable remuneration relating to results from the prior year. In 2016, the remuneration received totalled 2,080 thousand euros, of which 1,309 thousand euros were for salaries and fixed remuneration, 383 thousand euros were for allowances and 388 thousand euros were for variable remuneration relating to results from the prior year.

Commitments with all senior management, totalling 1,133 thousand euros in 2017, have been accounted for correctly and are adequately covered through insurance policies (1,040 thousand euros in 2016). No commitments have been contracted with Directors representing shareholders or independent Directors of Acerinox, S.A. At 31 December 2017 no advances or loans have been granted to the members of the Board of Directors or senior management and the Company has no balances receivable from or payable to these executives.

The Directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

The Company has a civil liability insurance policy that covers the Company's Directors and members of senior management and also employees. The premium paid during the year amounted to 155 thousand euros (147 thousand euros in 2016).

16.5 Significant shareholders

The Group has entered into the following financing transactions with Banca March, part of the March Group (shareholder of Corporación Financiera Alba), all under fair market conditions:

- Non-current loan of 30 million euros, which had been drawn down in full.

In 2016 the Group arranged the following financing transactions with Banca March, all of which were under fair market conditions:

- Non-current loan of 30 million euros, which had been drawn down in full.

Details of the Group's transactions with Banca March in 2017 and 2016 are as follows:

(Expressed in thousands of euros)

	2017	2016
Interest	1,206	407
Commissions	750	90
TOTAL	**1,956**	**497**

The terms and conditions of all the loans and financial transactions listed in the preceding paragraph are in accordance with fair market conditions.

Furthermore, insurance premiums and other transactions totalling 11,845 thousand euros (11,564 thousand euros in 2016) have been brokered for the Group through March J.L.T. Correduría de Seguros (a March Group company).

The amount of dividends received from Nisshin Steel Holding, Co. Ltd by Acerinox S.A. amounts to 158 thousand euros (228 thousand euros in 2016).

There are no situations of conflict of interest between the Directors and the company.

NOTE 17 – OTHER INFORMATION

17.1 Average headcount during the year

	2017		2016	
	Male	Female	Male	Female
Executives	5		5	
University graduates	22	14	25	14
Administrative staff	5	13	5	12
Total	**32**	**27**	**35**	**26**

The average number of Company employees with a disability equal to or greater than 33% is two in both 2017 and 2016, both in the category of administrative staff.

17.2 Breakdown by gender at 31 December 2017 and 2016 of staff and directors

	2017		2016	
	Male	Female	Male	Female
Board members	11	4	11	2
Executives	4		4	
University graduates	23	14	25	14
Administrative staff	5	13	5	13
Total	**43**	**31**	**45**	**29**

17.3 Audit fees

The appointment of PricewaterhouseCoopers Auditores, S.L. as auditors for the years 2017-2019 was approved by the shareholders at their Annual General Meeting held on 9 June of this year.

The firm auditing the annual accounts of the Company and other companies with which the firm has any of the relationships listed in the fourteenth Additional Provision of Law on Measures for Reform of the Financial System (Disposición Adicional decimocuarta de la Ley de Medidas de Reforma del Sistema Financiero) have invoiced the Company in the year ended 31 December 2017 net fees for audit services in the amount to 185 thousand euros (196 thousand euros in 2016 invoiced by the audit firm KPMG Auditores, S.L), out of which 50 thousand euros correspond to audit-related services for the limited review of the condensed consolidated interim financial statements at 30 June 2017.

Additionally, they also invoiced 29 thousand euros for other services relating to the review of the indicators of the Annual Corporate Social Responsibility Report, the report of agreed procedures of the system of Internal Control over Financial Reporting (ICFR) and the report of agreed procedures on compliance of the financial ratios

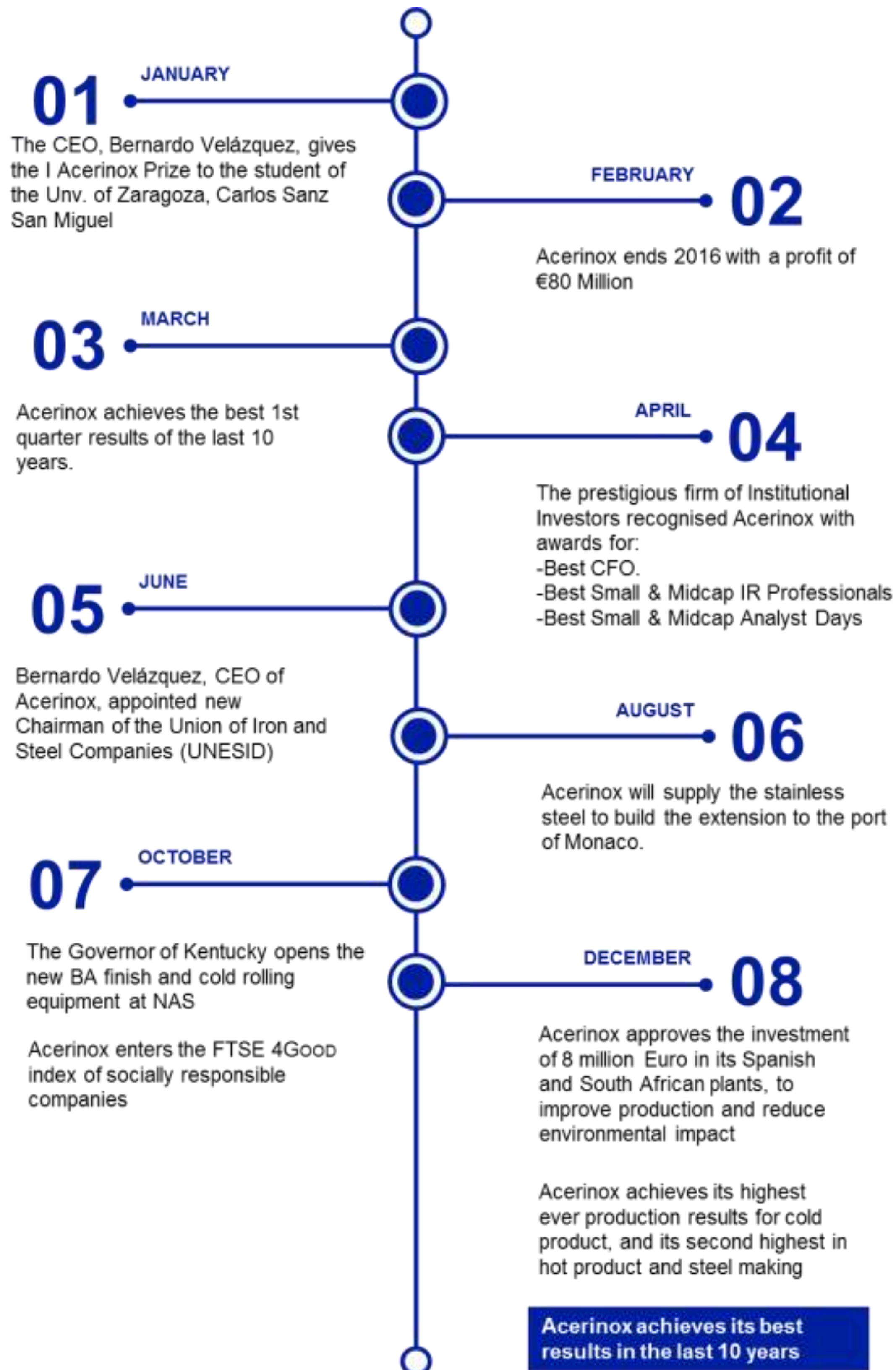
(67 thousand euros in 2016). In 2016, other companies related to the auditor invoiced tax advisory services in the amount of 268 thousand euros. The current audit firm invoiced no tax services in the year.

This amount includes the total fees for audits of 2017 and 2016, irrespective of the date of invoice.

MANAGEMENT REPORT 2017

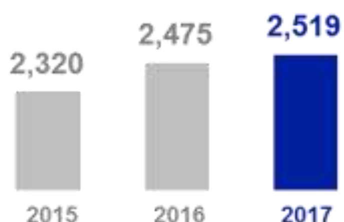
OUR NUMBERS

MILESTONES 2017

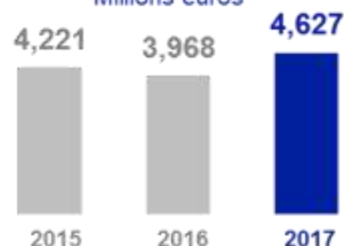


THE YEAR IN NUMBERS

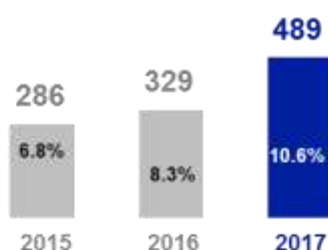
MELTSHOP PRODUCTION
Thousand mt



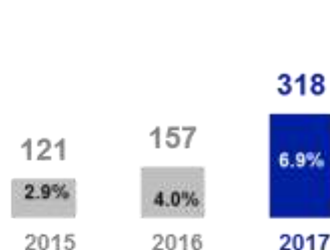
NET SALES
Millions euros



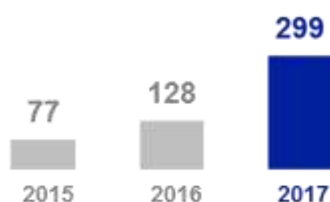
GROSS OPERATING RESULT EBITDA
Million euros
% of sales



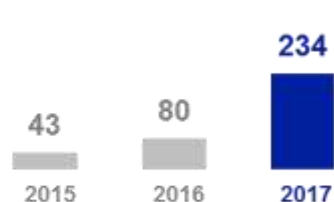
NET OPERATING RESULT EBIT
Million euros
% of sales



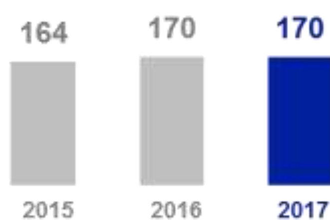
RESULTS BEFORE TAXES
Million euros



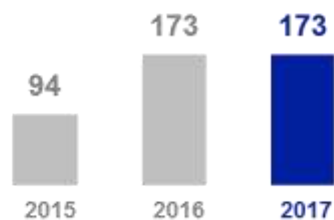
NET RESULT
Million euros

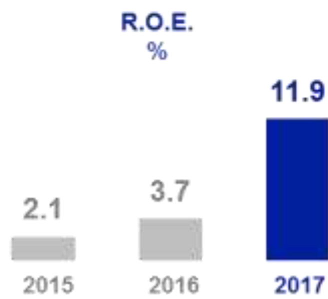


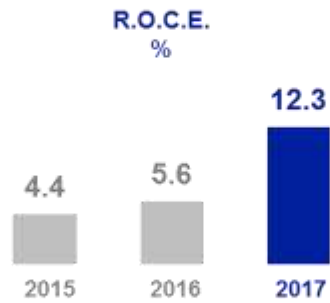
DEPRECIATION AND AMORTIZATION
Million euros



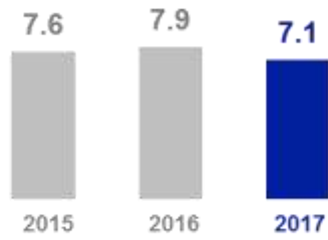
INVESTMENTS
Million euros



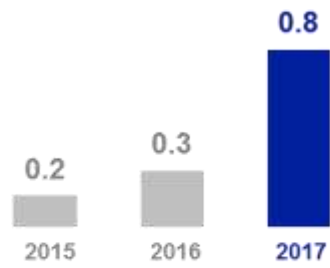




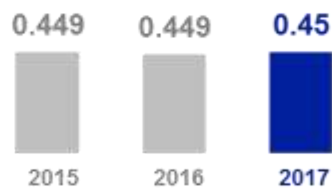
BOOK VALUE PER SHARE IN EURO
December, 31



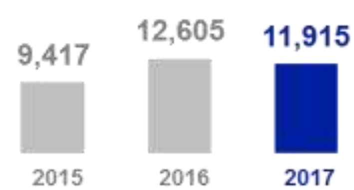
EARNINGS PER SHARE IN EUROS



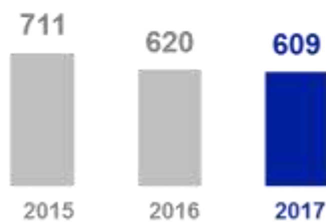
RETURN TO SHAREHOLDERS
Dividend + Share premium



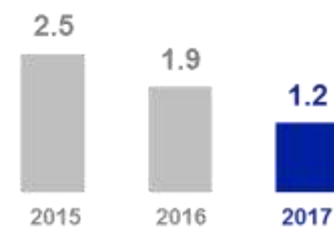
SHARE VALUE OFFICIAL CLOSE OF BUSINESS YEAR
Euros



NET FINANCIAL DEBT
Million euros



NET FINANCIAL DEBT / EBITDA
No. of times



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1. ABOUT US

Acerinox is the most global stainless steel manufacturer and seller. It is leader on two continents, present in all five and has factories in four of them, with sales in 85 and presences in 56 countries including sales delegations in 37 of them.

The Group has a production network serving the entire industrialized world.

It has three major integrated factories on other continents: Campo de Gibraltar (Spain), which was the first to produce over a million tonnes in 2001; North American Stainless, NAS (Ghent, USA), integrated since February 2002, and one of the most competitive factories in the world, and Columbus Stainless (Middleburg, South Africa), which joined the Acerinox Group in 2002. There is also the Bahru Stainless factory (Malaysia, Johor Bahru), which has the most advanced cold rolling lines.

Within this production network there are also the plants at Roldán (Ponferrada, Spain) and Inoxfil (Igualada, Spain) which supply the European market with long products.

Acerinox sells its products on the five continents thanks to a global sales network consisting of offices and service centres. It is the most advanced and sustainable stainless steel on the market, thanks to the use of the most advanced technological processes and use of the best techniques available.

The Group has distinguished itself in its 47 years of existence through a stability based on a solid financial strategy, control of risks and debt and the constant implementation of investments with quick returns that have enabled the factories and sales networks to expand repeatedly and make use of the latest technologies available.

The reinforcement of in-house talent, treatment of know-how as a major asset, development of new ideas and constant investment have made it a leader in the sector.

The main shareholders are also noted for their commitment and continuity, with holdings that date to 1970, when the company was founded, in the case of Nisshin Steel Co. Ltd., 1998 in the case of Omega Capital, from 2001 in the case of Corporación Financiera Alba and 2002 for IDC (Industrial Development Corporation).

Where our net sales comes from (%)

1.1 Acerinox S.A and the production companies

Acerinox, S.A.

Acerinox S.A is the parent company of the Group and the main share holding company of the different subsidiary companies. All of the shares are listed on the Madrid and Barcelona Stock Exchanges. As of 31 December 2017, share capital is made up of 276,067,543 ordinary shares each with a nominal value of 0.25 euros, which are subscribed and fully paid.

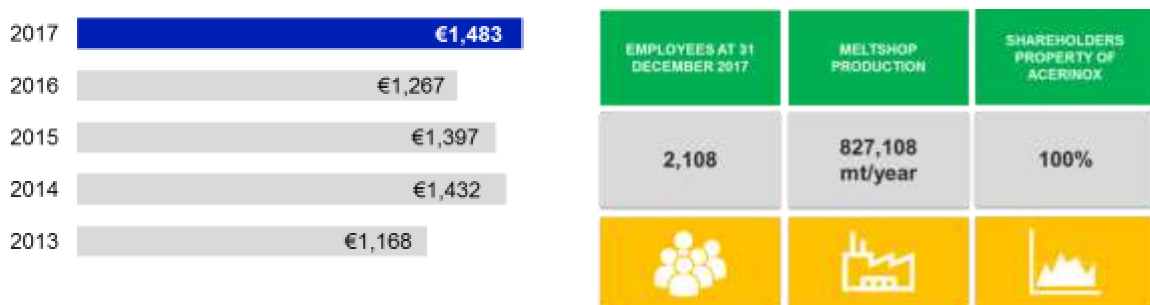
The main activity is that of a holding company, parent company of the Acerinox Group. Also, the Company provides legal, accounting and assessment services to all of the companies of the Group and carries out financing activities within the Group.

The Group's treasury is centrally managed in order to obtain maximum resource optimisation. The Group's net debt is mainly concentrated in Acerinox, S.A. (over 92% of total gross debt at financial year-end). At financial year-end it has both long-term and short-term financing lines in force for the amount of 1,629 million euros. The amount drawn from the financing lines as of 31 December 2017 amounts to 1,149 million euros.

In 2017, Acerinox, S.A. has received dividends for the amount of 13.5 million euros from the subsidiaries of the Group. On 1 June 2017, the General Shareholders' Meeting approved the distribution of a cash dividend, charged to unrestricted reserves for the amount of 0.45 euros per share. The dividend payment became effective on 5 July 2017 and amounted to 124.2 million euros.

Acerinox Europa

Turnover in millions of euros



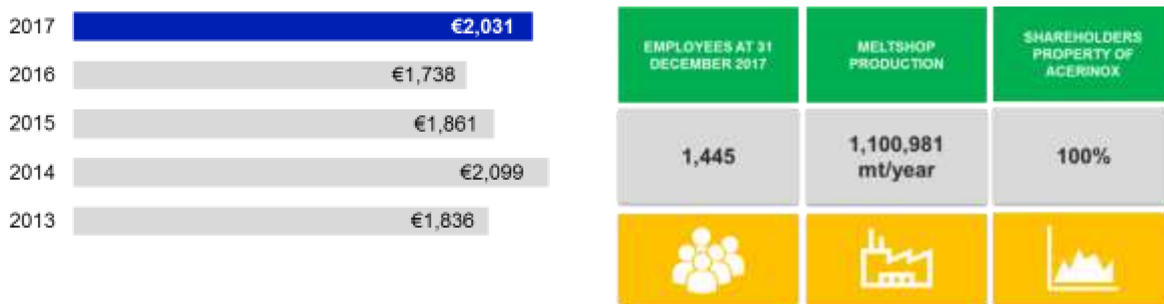
The Acerinox Europa factory is one of the most modern and efficient stainless steel plants on the continent. It was the first integrated plant in the Group and the first in the world to produce stainless steel. The experience acquired here was vital in the development of the ones that followed.

The constant investment and expansion of the factory and its equipment will continue in 2018 with the opening of an annealing and pickling (AP) line and a cold rolling mill, as well as all the auxiliary installations, which represent an investment of 140 million euros.

In terms of the environment, the Board of Directors recently approved an investment of 6.6 million euros to reduce the environmental impact of the plant, with measures such as closing the scrap warehouses and furnaces, improvements in AOD and lighting rigs, and the installation of wind panels, among other things.

North American Stainless

Turnover in millions of euros



North American Stainless, the plant with the highest production and profitability of the Group, where Acerinox has invested 2,300 million euros since it started there in 1990, is the leader in the United States, becoming a global reference for competitiveness and technological progress.

NAS is the clear leader in the American market, it casts nearly half of all the stainless steel in the United States, and is one of the few integrated plants on the continent.

This consolidated leadership of the internal market has been joined since 2017 by its status as the only bright finish stainless steel manufacturer in the country. This new expansion of the factory was possible because of the start of the BA bright annealing line, as well as a cold rolling mill, which was the result of an investment by the Group of more than 120 million euros.

Columbus Stainless

Columbus Stainless, in which Acerinox S.A holds 76% of the shares and the Government of South Africa the other 24% through IDC (*Industrial Development Corporation*), is the clear leader in the whole African continent and especially in its main market, South Africa. Besides being the main supplier of stainless steel for the domestic market, Columbus exports material to the five continents. Few industrial groups can boast of a market share of nearly 50% across a whole continent, Africa.

The plant ended 2017 positively, with increased production in the steelworks and hot rolled steel, along with the new approval by the Board of Directors for the installation of a new slitter cutting line, requiring an investment by the Group of five million euros and, apart from supplying to the local market, will enable it to increase exports with product cut to the client's measures.

The geographical location of Columbus gives it a considerable commercial advantage, because it is close to areas where chrome is mined and transformed, considerably reducing its production costs.

Bahru Stainless

Bahru Stainless is located on the world's principal commercial route, the Straits of Malacca, the most important maritime channel between the Indian Ocean and the Pacific.

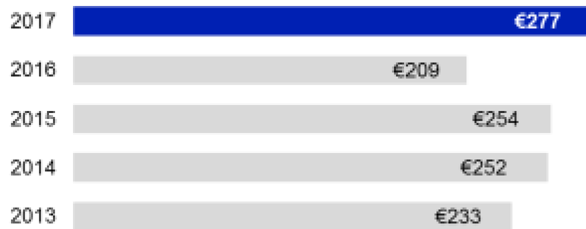
Bahru Stainless produces cold rolled stainless steel that is sold mainly in Malaysia and the other countries of the ASEAN region: Mainly Vietnam, Thailand, Korea, the Philippines, Taiwan and Indonesia.

This is the most recently founded plant, being built in Johor, Malaysia. In 2017, in a fiercely competitive market, Bahru Stainless achieved a positive EBITDA and increased its production of cold rolled steel by 33.4%.

The acquisition of hot rolled coil in other factories of the Group helps Bahru Stainless increase its production and improve the costs of the whole Group.

Roldán and Inoxfil

Turnover in millions of euros



The plants of Roldán and Inoxfil, in the Spanish towns of Ponferrada (León) and Igualada (Barcelona) respectively, are part of the Group's manufacturing network for long product.

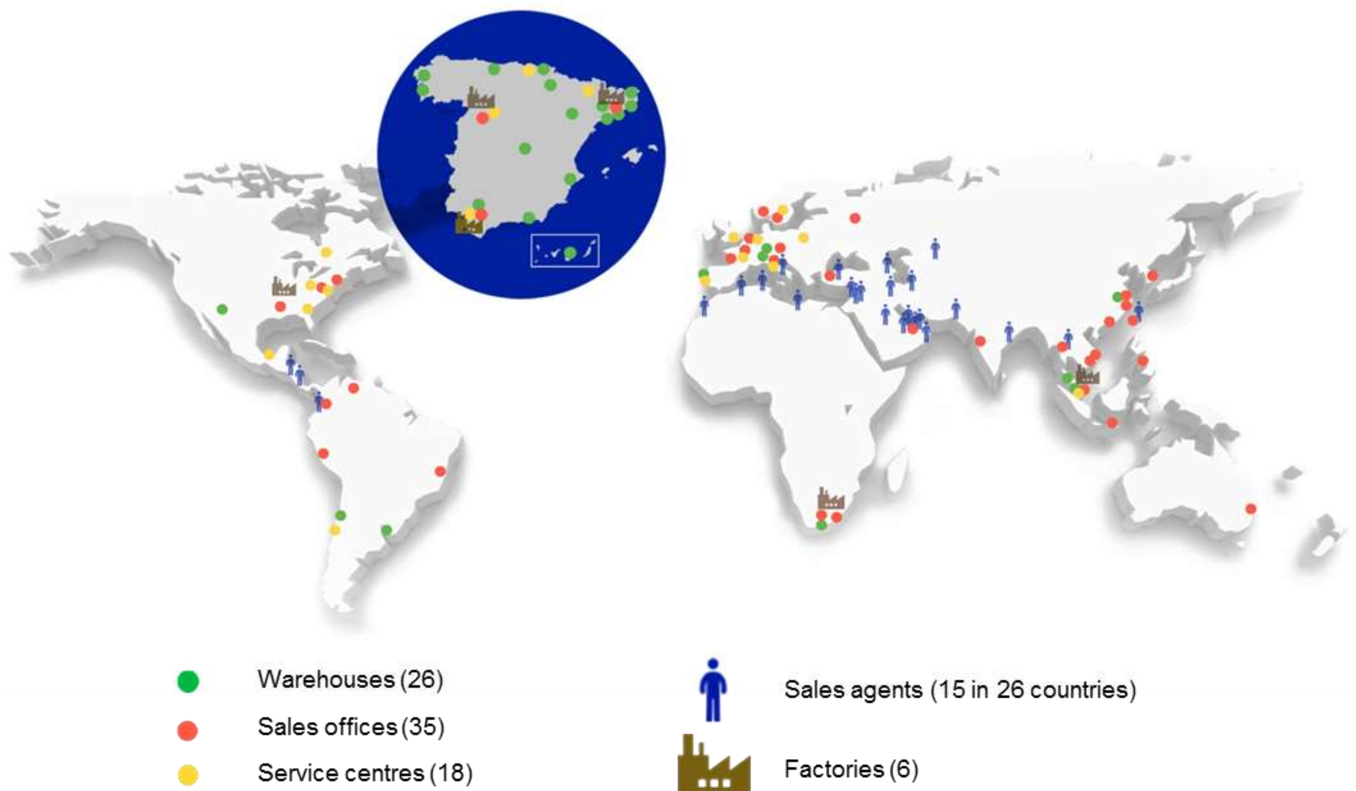
Both are key links in a chain of production that starts in Acerinox Europa (the only Spanish plant with a steelworks) which produces billet that is sent to Roldán where it is made into angles and bars. Ponferrada also produces wire rod which is supplied to Inoxfil for the production of wire.

Roldán is the oldest factory of the Group and owned by Acerinox. It benefited from an investment of 3.7 million euros in 2017 for the acquisition of new equipment and to improve those already there, increasing production by more than 8%.

1.2 Marketing Companies

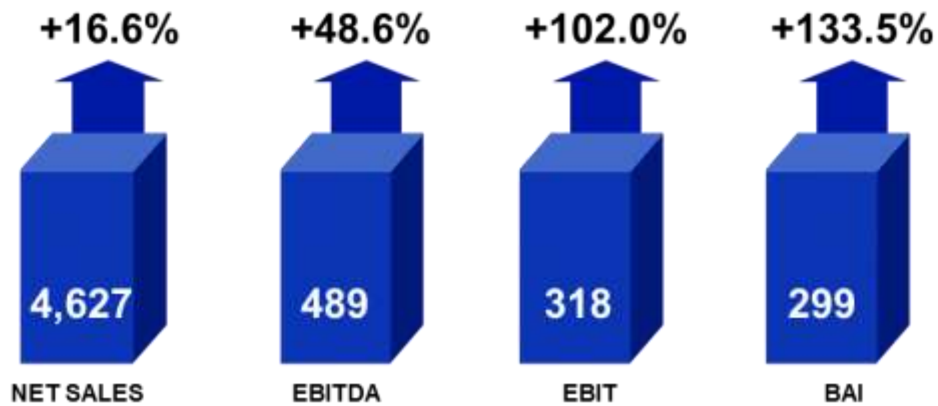
The Acerinox group's sales network was made up of 18 service centres, 26 warehouses and 35 sales offices, not to mention the countless sales agents in various countries which do not have a permanent office.

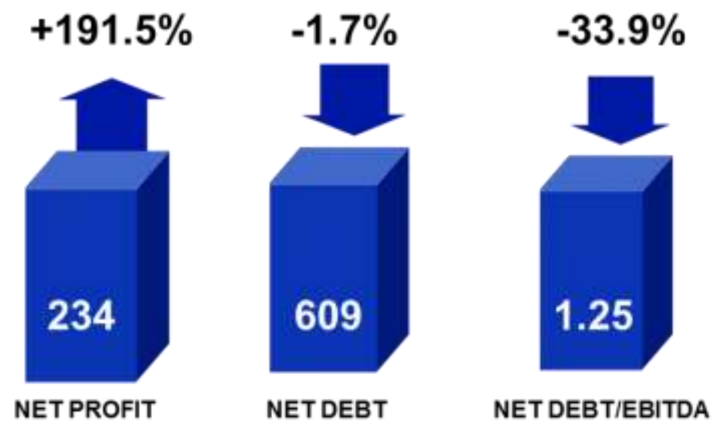
This sales structure, on 31 December 2017 meant that the Group was present in 56 countries, from where it distributes stainless steel to a total of 85 countries in 5 continents.



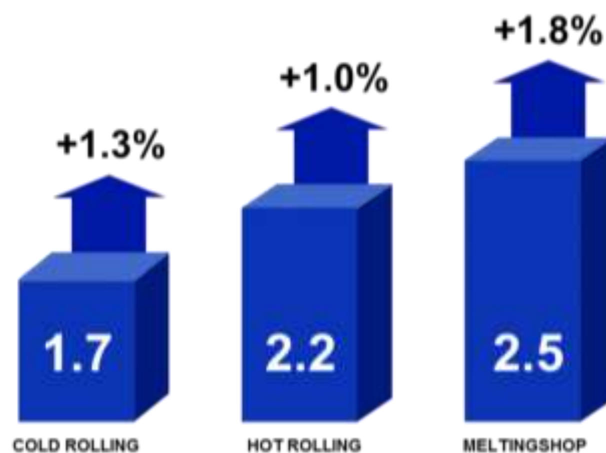
2. FISCAL YEAR RESULTS

Million euros





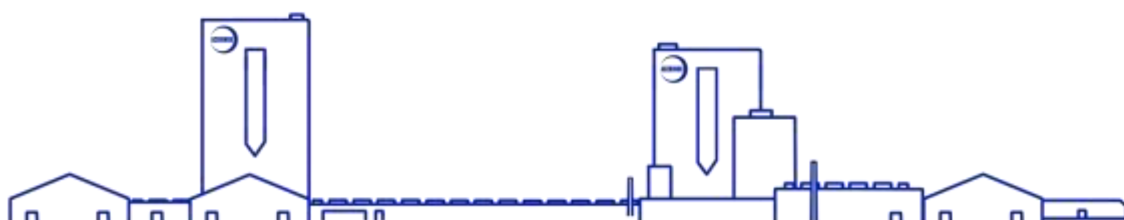
Productions (Million tons)



ACERINOX ACHIEVED ITS BEST RESULTS OF THE LAST TEN YEARS, WITH PROFITS OF 234 MILLION EUROS, AND A 16.6% INCREASE IN NET SALES, UP TO 4,627 MILLION EUROS.

2017 ENDED WITH IMPROVED MARGINS AND RECORD PRODUCTION FIGURES THANKS TO EXCELLENT OPERATIONS AND THE OPTIMISATION OF CAPACITY.

HEALTHY DEMAND IN THE MAIN GLOBAL ECONOMIES HAS ALLOWED THE STAINLESS STEEL SECTOR TO GROW.



In 2017, Acerinox obtained its highest profits of the last decade. The company ended the financial year with a result, after tax and minority interests, of 234 million euros, 191.5% more than the previous year.

Net sales for the year rose to 4,627 million euros, 16.6% more than the previous year. The growth of this revenue was due especially to an astute price management policy in all markets, with the transfer of increased costs of raw materials into the price of finished products.

These results underline the special significance of the operating strategy of the company and its optimisation of its production capacity, but another important factor was the savings achieved by the Excellence Plans.

The good performance of the markets, the positive impact of the tax reforms passed in the United States and the changes in the price of raw materials were other factors that contributed to these profits.

An EBITDA totalling 489 million euros was generated, 48.6% higher than in the same period last year, with a sales margin of 10.6%.

In 2017, Acerinox achieved its historical record for the production of cold rolled steel since it started production in 1970. It was also its second best year for steel production and hot rolling. The volume of stainless steel produced increased compared to the previous year in all workshops, and one figure worth noting among all the others was the 33% increase in production at Bahru Stainless.

The price of nickel, which has a strong impact on the stainless steel market, was volatile during 2017, reaching the lowest levels of 2016 (when it reached the region of 8,700 euros per ton) in the month of June, and the highest level of recent years (12,300 euros per ton) in the month of December.

ACERINOX

3. ACERINOX IN 2017

Despite the uncertainties, the global economy grew by 3.7%, according to the International Monetary Fund with main countries also registering significant growth rates. The GDP of the USA rose by 2.3%, China by 6.8%, the Eurozone by 2.4% and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) by 5.3%, just to mention some of the most important economies. According to the same source, Spain grew by 3.1%.

It was a year in which the strength of the global economy showed itself. Shall the fundamentals of sustainable growth remain, it will encourage trade and production, generating employment and wealth around the world in the coming years.

GDP Growth by regions (IMF WEO January 2018)

	2016	2017	2018
China	6.7	6.8	6.6
Germany	1.9	2.5	2.3
India	7.1	6.7	7.4
ASEAN-5	4.2	5.3	5.3
South Africa	0.3	0.9	0.9
Spain	3.2	3.1	2.4
U.S.A	1.5	2.3	2.5
Eurozone	1.8	2.4	2.2

3.1 The Stainless Steel Market

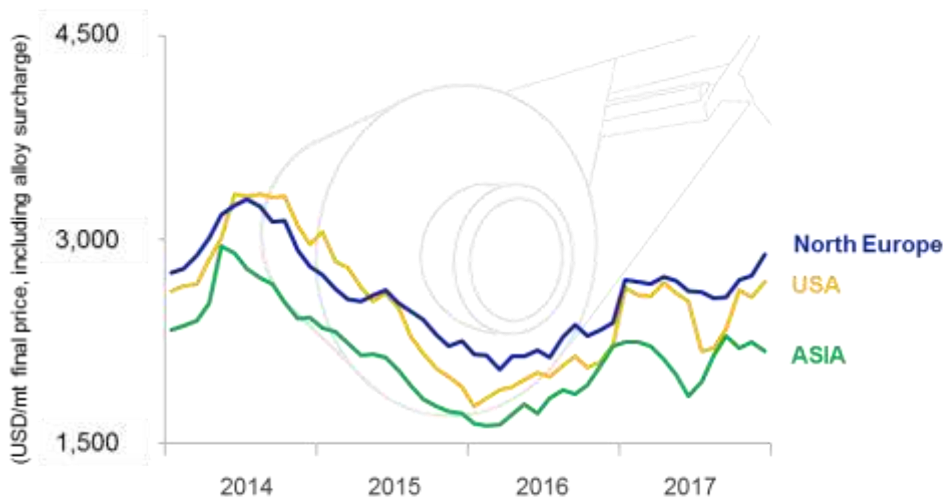
According to the data available, the market for stainless steel exceeded the initial growth forecasts that were set at around 4%. Based on the data from the International Stainless Steel Forum (ISSF) the growth up to September was at 7.4%, whilst our own estimates put growth for the whole year at around 5.7%, with the Annual Compound Growth Rate since 1950 unaltered at 5.9%.

Stainless steel remains a product with one of the highest growth rates and continues to break into new applications that take advantage of its remarkable qualities.

Prices started the year with rises driven by increases in the cost of raw materials, reaching their peak between the end of the first and start of the second quarters before falling back in the second and third quarters, only to recover again at the end of the year.

The reason for the decline in raw material prices seems to be connected once again with the uncertainty about the growth of the Chinese economy and the reduction in activity that the Communist Party Congress in November was expected to cause. This did not occur, and the result was the recovery at the end of the year.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304



3.1.1 Europe

Following the sharp increase in apparent consumption of flat product in Europe in 2016, (8.7%), in 2017, the trend was confirmed and apparent consumption rose again by 0.7% to 5.37 million tons, close to the historic record of 2006, indicating that the crisis in Europe is finally over.

According to our estimates, the European country with the highest increase in consumption was Poland, with an increase of 5.9%, followed closely by Spain with 4.6%, where apparent consumption is still 15% below the highest levels of 2006. Among the other countries, the situation of the UK is worth noting. After the steep fall last year caused by Brexit, its levels remained stable in 2017, ending with a slight decline of 0.5%. In the other

major EU countries, Germany rose by 0.4% while Italy and France fell by 1.9% and 1.7% respectivily.

Imports of flat product continued to rise by 17.9%, with the imports share rising from 23% in 2016 to 27% in 2017. Imports of cold rolled products rose by 15.7%, whilst hot rolled products rose by 24.4%, driven by the imports of hot rolled coil from China for the large steel transformers in the Italian market.

The strong demand noted in the first quarter of the year led to an increase in inventory, which would only return to the average levels of previous years in September, ending the year with adequate levels.

The Acerinox Group consolidated its position in important markets such as Turkey and Russia, which continued to grow at a high pace.

Base prices were stable in the first four months, but later deteriorated towards the end of the third quarter. They gradually recovered during the fourth quarter, which triggered optimism towards the start of 2018.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304
2014- 2017

Source: PLATTS

Real consumption remained strong, and key sectors for stainless steel such as construction confirmed the trend of 2016. According to estimates from Eurofer (February 2018), the construction sector grew by 4.3%, automotive continued as strongly as in recent years and grew by 3.7%, in line with the home appliances industry, which also grew by 3.7%.

3.1.2 Americas

Real consumption of the American market maintained sustained growth, the construction industry grew by more than 4% once again, for the third year running according to the Census Bureau. The domestic appliance sector also grew by 5.8%, according to AHAM, while production and sales in the automotive sector suffered corrections of -2.5% and -1.7% (both figures from Light Vehicles Wards), although this means that levels actually remained high, considering that 2016 had been a record year.

According to the latest available data, the flat product market grew by 3% in 2017. Meanwhile, the reactivation of the Oil & Gas industry revived the market for long product, which grew by more than 20% to compensate for the fall of -13.6% in 2016.

Inventories were constant throughout 2017, but below the average of recent years. The base prices of the American market were fairly stable throughout the year, while variations in raw materials affected the alloy surcharge.

Prices of stainless steel sheet | 2.0mm cold-rolled AISI 304
2014-2017

Both Canada and Mexico registered increases of apparent consumption of flat products, with consumption in the latter country continuing to grow strongly thanks to sectors such as automotive.

In South America, the recovery of Brazil was the highlight, with a growth of 15%, and accounting for nearly 70% of total consumption of flats products in the region.

3.1.3 Africa and Middle East

The apparent consumption of flat products in South Africa fell by 6.9% in 2017 according to our estimates, reflecting problems in the economy and political instability, although there was a recovery in the last months of the year in sectors such as mining, which could lead to further rises in consumption of stainless steel.

As part of its business strategy, and to compensate the weakness of the local market, Columbus continued to increase the number of countries to which it exports to reach a total of 67 countries.

In the Middle East, the United Arab Emirates stands out as the largest market and the best performing country in the region (where the Group has an office in Dubai).

It is also worth mentioning the growth of African markets of Morocco and Algeria, where Acerinox is the market leader.

3.1.4 Asia

The largest stainless steel market, China, increased its apparent consumption again, by 7.2%, according to data from the China Stainless Steel Council. The increase in production was caused by growth of internal consumption, as exports stabilized. This growing balance between internal demand and capacity in China makes us optimistic about its reduction of excess capacity.

Evolution of prices in the Chinese market was similar to other markets throughout the year, although always lower, putting pressure on the international market, especially in the ASEAN region.

The year ended with low inventories in Wuxi and Foshan, in levels below average in recent years. This may contribute to an improvement in prices at the start of 2018.

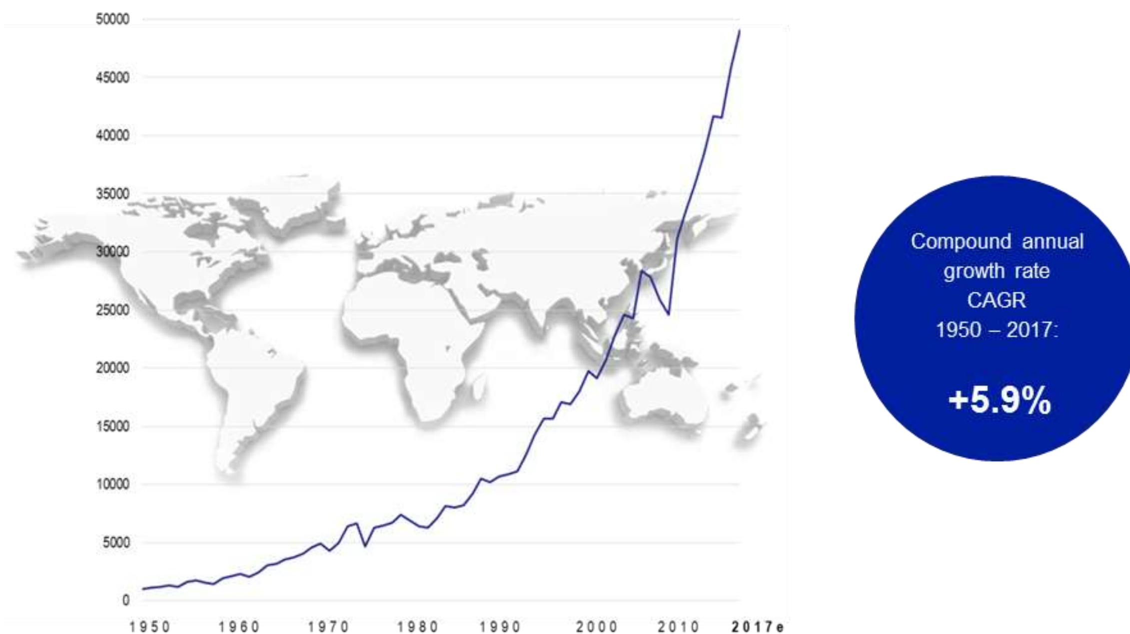
3.2 Global Production of Stainless Steel

According to the available data from ISSF (International Stainless Steel Forum) to September, production in these nine months rose by 7.4% in comparison with the same period of 2016.

While waiting for definitive figures for the fourth quarter, we estimate a yearly total growth of around 5.7% in 2017.

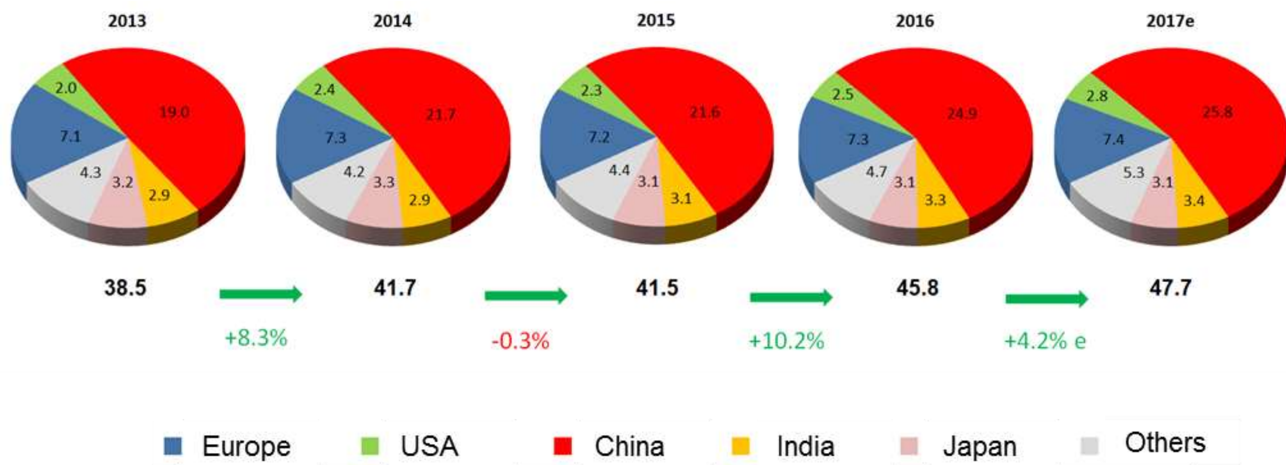
According to these estimates, world steel production in 2017 was 48.1 million tons.

Worldwide production of stainless steel 1950 - 2017 (e)



China remains the main producer, with over half of all world production

Evolution of world meltshop production
Thousand mt



Evolution of world meltshop production
Thousand mt

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2016	10,192	11,745	11,401	12,110	**45,448**
2017	11,664	11,335	12,537	12,519e	**48,054**

Stainless steel meltshop production by region / country
Thousand mt

	2016	2017	Variation
Europe	7,280	7,377	1.3%
USA	2,481	2,754	11.0%
China	24,608	25,774	4.7%
India	3,324	3,502	5.4%
Japan	3,093	3,122	0.9%
Others	4,661	5,526	18.5%
Total	45,448	48,054	5.7%

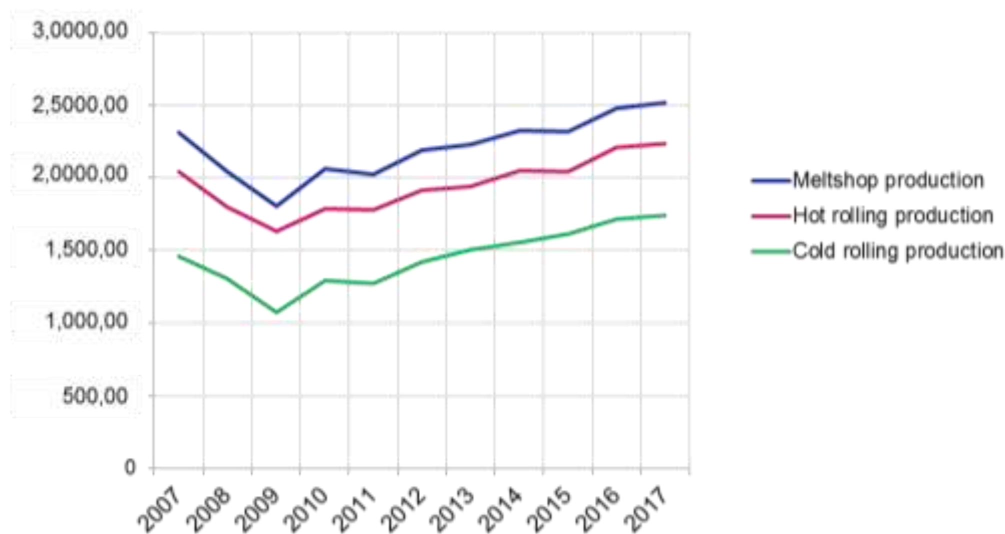
Source: ISSF, Acerinox

3.3 Acerinox Group Production

Acerinox production in 2017 registered its highest figures ever for cold rolling, with 1,738,240 tons, and the second highest figures for hot rolling, with 2,230,678 tons, as well as for melting, with 2,518,919.

Changes in the total official production of Acerinox factories

Mt



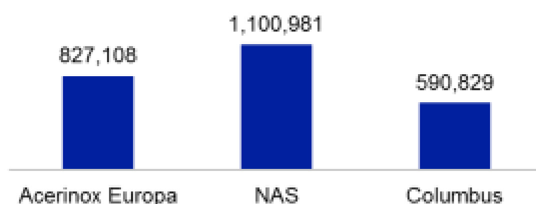
These volumes represent an increase over the previous year of 1.3% in the case of cold rolling and 1.0% and 1.8% in the case of hot rolling and melting, respectively.

Quarterly production figures for the Group

Thousand mt		2017					2016	Variation 2017 / 2016
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated		
Meltshop	Thousands of tonnes	667,523	605,382	614,593	631,420	2,518,919	2,475,374	1.8%
Hot rolling		592,503	535,384	542,443	560,349	2,230,678	2,208,904	1.0%
Cold rolling		438,289	436,223	426,817	436,912	1,738,240	1,715,864	1.3%
Long product (Hot rolling)		58.5	59.3	54.3	61.8	233,900	224,272	4.3%

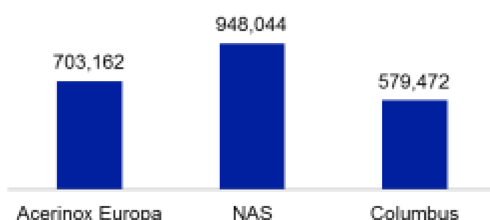
Melting shop production

Mt



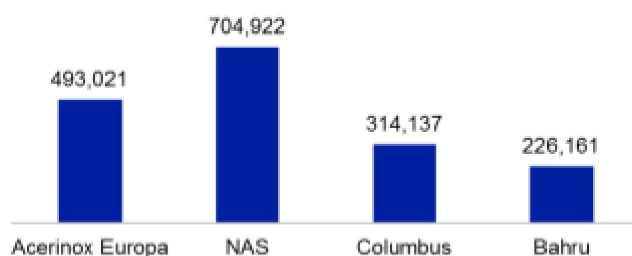
Hot rolling production

Mt

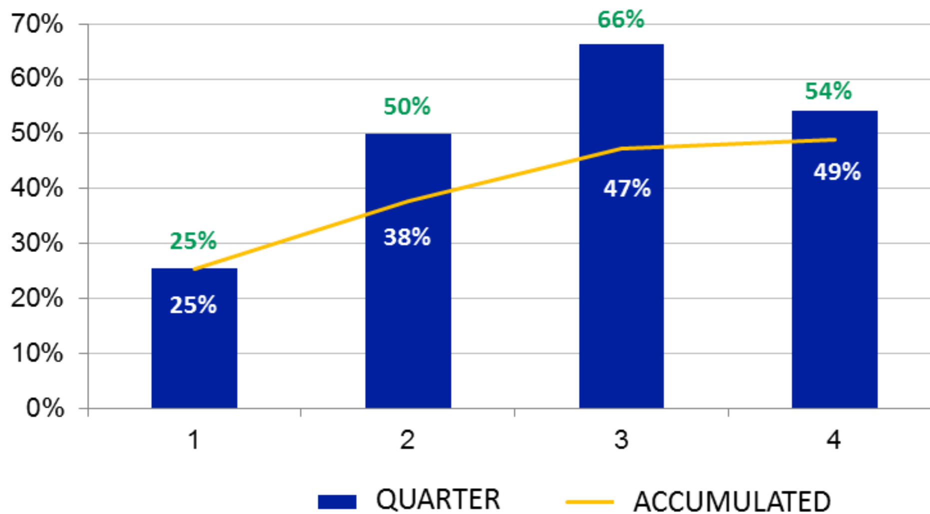


Cold rolling production in the main factories

Mt



3.4 Excellence Plans



Excellence Plan V (2017-2018) is currently under way in the Acerinox Group. The first year of application ended with 49% completion of the total recurring savings target forecast of 50 million euros. Therefore, in the same conditions, the same characteristics and circumstances as the 2016 financial year, this would imply a saving of 24.6 million euros.

The current Plan, approved by the Board of Directors in December 2016, has 20 chapters which look for improvements in areas such as manufacturing, efficiency, flexibility and customer service.

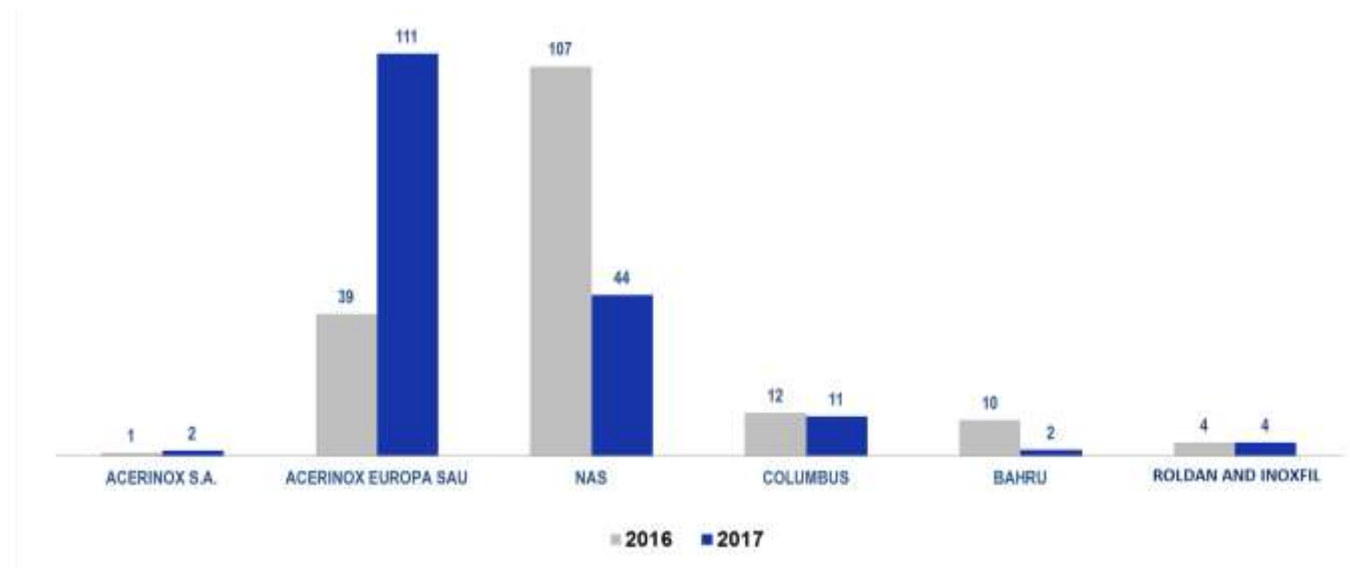
Excellence Plans are a tool for improving production costs along the whole supply chain, resulting from a benchmarking exercise of the best practices in each of the processes and units in the Group. These plans are an essential management tool both for the different companies as well the management of the Group. They have achieved important successes since 2009, when they were first implemented.

Each plan is put forward with the aim and criteria of optimizing and making improvements on the previous ones, so that the accumulated savings to date are consolidated and form the basis of the next plan.

The different plans applied have registered recurring savings of 97 million euros in Plan I (2009-2010), 53 million in Plan II (2011-2012), 53 million euros in Plan III (2013-2014) and 50 million euros in Plan IV (2015-2016).

3.5 Investments in Fixed Assets

Investments in Fixed Assets: 173 million euros



North American Stainless, Acerinox's production company in the United States, started new production lines in 2017 after an investment of nearly 120 million euros. This expansion added a bright annealing BA line and cold rolling mill to the productive capacity of the plant, enabling it to produce bright finish stainless steel (a product with growing demand in this market).

Acerinox Europa will also open new lines in the first months of 2018. After a total investment of 140 million euros, of which 111 were invested last year, the plant will start up a new annealing and pickling (AP) line and a cold rolling mill. A new slitting line, which is already working, completes these investments. This will improve the quality of its products, reduce costs and the environmental impact.

In both cases, these are strategic investments approved by the Board of Directors in 2015 in order to boost and reinforce the leadership of Acerinox in North America and to improve its position in the European Market.

For the South African plant, Columbus Stainless, the Board of Directors of Acerinox approved an investment of 5 million euros in December 2017 for the installation of a new slitter line that will improve the service it offers its customers and reduce delivery times. The Group invested 11 million euros in this plant last year.

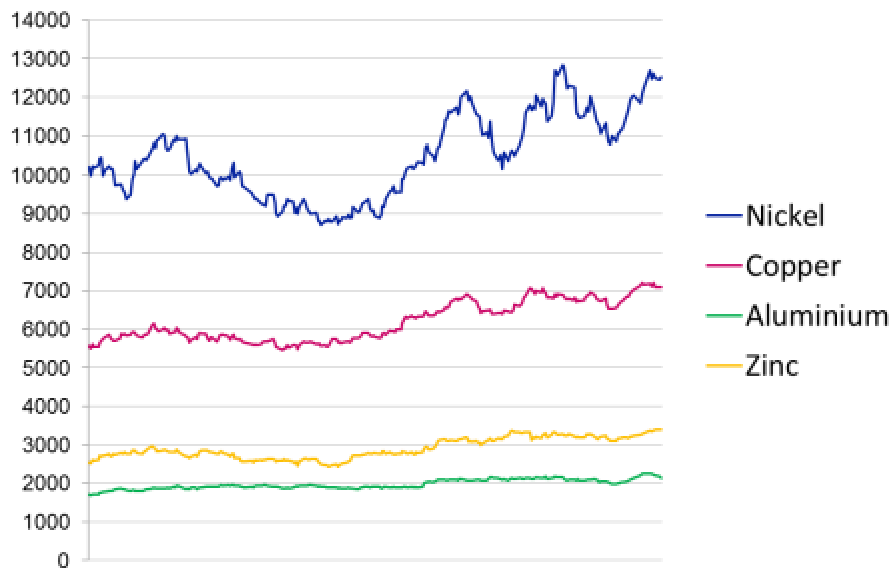
The global amount of investments, as shown in the graph accompanying the text, rose to 173 million euros in 2017, a similar sum to the previous

year, in which maintenance investments are included to equip the installations with the most advanced technology and equipment.

3.6 Raw Materials

The recovery of industrial production entailed an increase in consumption that pushed the prices of raw materials upwards in 2017. As usual, demand in China was an important factor in the movement of some raw materials during the year.

Official raw material prices in the LME (2017)
USD / mt



Nickel

The price of nickel followed a downward trend in the first half of the year. The announcement of the partial lifting of the veto on nickel ore exports from Indonesia, with the consequent potential rise in pig nickel production in China, together with the uncertainty about the resilience of Chinese economic growth led to a drop in prices to the minimum annual price of 8,700 USD/mt in June.

This was a turning point, and prices rose in the second half of the year. The announcement of nickel production caps combined with healthy demand, especially in China, were the basis of the recovery of the prices, which rose over 12,000 USD/mt, levels not seen since July 2015. Besides these factors, the positions taken by financial investors in the metals exchange, due to the interest in nickel as a component in batteries for electric cars, caused the price to rise to higher levels in the last months of the year,

although with greater volatility. Nickel prices reached their highest point in November, at 12,800 USD/mt, before ending the year at 12,200 USD/mt.

Official price of nickel on the LME (2016 - 2017)
Average spot price / three months in USD/mt)

Despite the increase in the production of pig nickel in China and Indonesia in 2017, consumption was stronger than production of this metal for the second year running, leading to an estimated deficit of 128,000 mt at the end of the year, reducing the stocks available on the market.

Stock on the LME fell by 5,454 mt, ending the year at 366,612 mt. The reduction on the Shanghai Exchange was even more pronounced, 49,096 mt to 44,216 mt, at the end of the year.

Despite the recovery of the prices in the second half of the year, nickel was the metal which saw the least movement, with an increase of 20.1% during 2017. The highest increase was for aluminium with 31.7%, followed by zinc with 29.6% and copper with 28.4%.

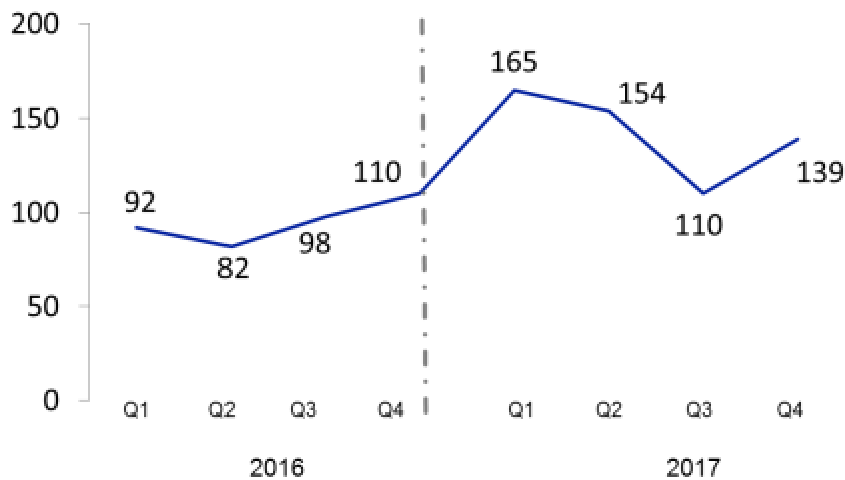
Ferrochrome

The price of ferrochrome has been one of the most volatile in recent years. It started the year with an annual high in the first quarter, when it reached 165 US¢/Lb, which it had not reached since the second quarter of 2008. This steep rise was driven by the changes in the Chinese market. Low stocks of both chrome ore for local production and ferrochrome at the end of 2016 in China caused prices to rise steadily and affected global prices in all markets.

Prices started to fall back as the process of restocking wound down, reaching 154 US¢/Lb in the second quarter.

It was in the third quarter, when stocks had been fully replenished, that the low global demand sent the prices strongly downward, ending up at 110 US¢/Lb. The recovery of demand after the summer saw prices improve reaching 139 US¢/Lb for the fourth quarter. Obviously, this volatility makes managing our stocks difficult and increases uncertainty.

Average quarterly price of ferrochrome
US¢/Lb. Cr



Molybdenum

The sharp cuts in production during 2015 and 2016 meant that demand improved and created a mild deficit that enabled prices to rise in the first months of the year, reaching 9 USD/Lb at the start of April.

This recovery of the prices stimulated an increase in production, especially in China, but the fall in demand in the second quarter forced prices down to their annual minimum of 6.85 US¢/Lb in June.

The improvement anticipated in the second half of the year led distributors to start a process of replenishing their stocks. Prices did recover at the end of July and remained stable at around 8.5 US¢/Lb. The continued rise in demand, especially in China, made it possible for prices to rise strongly at the end of the year, reaching over 10 US¢/Lb at the end of December, its highest level in the last three years.

Price of molybdenum

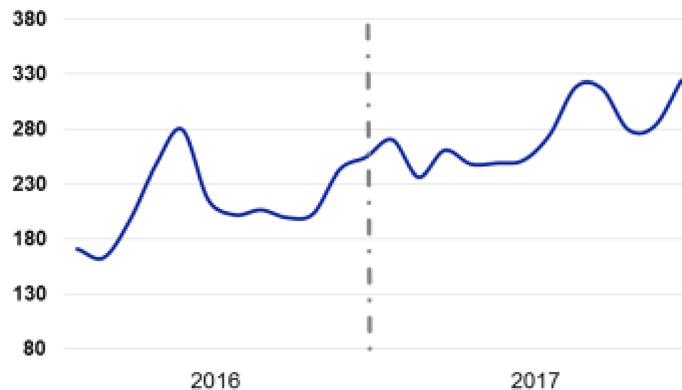
US¢/Lb. Mo.

Ferric Scrap

The price of scrap was stable in the first half of the year, at around 250 USD/mt. It started to rise steadily at the end of June as a result of the strong activity of the main importers like Turkey, which even imported scrap from Oceania for the first time. Prices reached average levels of 320 USD/mt in August. We have to go back as far as 2014 to find similar prices.

The uncertainty generated in the market by the shortage of electrodes, and doubts about whether production could be sustained led to a sharp correction as prices tumbled to 280 USD/mt. Despite this, the improved demand and replenishment of stocks prior to the winter period have enabled prices to recover, so that they reached their annual high in December.

Prices of scrap iron, HMS 1&2 FOB Rotterdam
USD / mt



3.7 Human Capital

The geographical distribution of the 6,742 people who formed part of the Acerinox Group at 31 December 2017 is a clear indication of the international vocation of the company since its foundation.

Total Group Employees		
2015	2016	2017
6,506	6,573	6,742

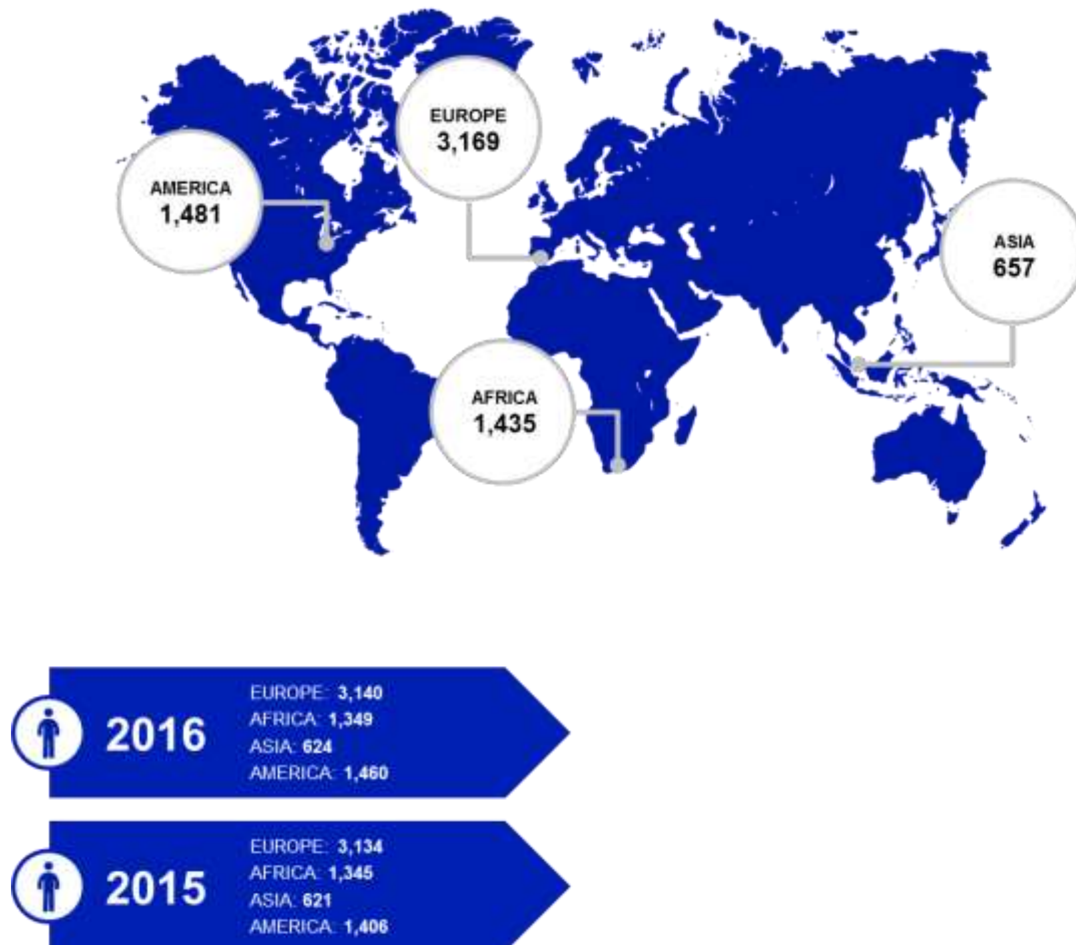
More than half of the employees of the Acerinox Group work outside Europe. There are 3,169 people (46%) working in the Old Continent, while the other 3,573 workers are employed on the other four continents. Specifically, Acerinox has 1,481 employees in America (22%), 1,435 in Africa (21%) and 657 in Asia (9%).

The workforce increased by 2.6% since the implementation of new lines which has increased production.

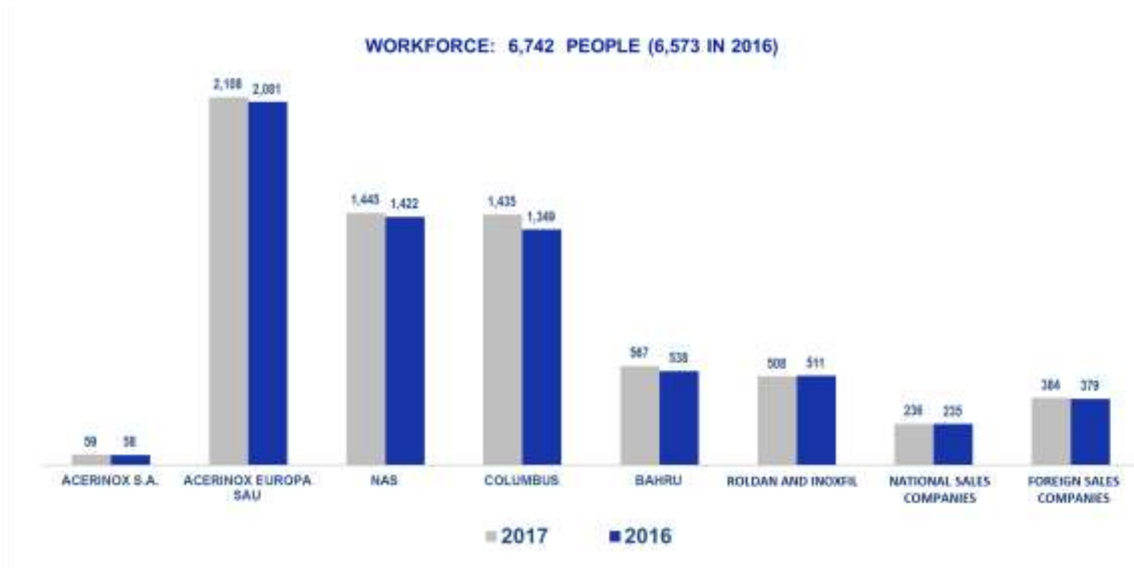
Acerinox considers its reliance on internal promotion a strategic issue, leading to low turnover in the workforce and rewards for hard work and dedication, principles reinforced and emphasised by the Management. This approach to Human Resources has created a strong feeling of loyalty and pride at forming part of the company.

The foundation of this relation is the fact that the contracts of Acerinox employees are indefinite, in 90% of cases, and always of high quality, with professional development, opportunities for promotion and are well-paid.

Number of employees as of 31 December 2017 by geographical locations:



Acerinox offers opportunities to learn and overcome professional challenges. The company places special emphasis on aptitudes for teamwork and learning for worker development, acknowledging proposals and initiatives and a proactive attitude among the workforce. All these characteristics and values can explain the low turnover of personnel among the Group's companies, even in countries where the culture of job mobility is deeply ingrained.



In order to find and retain talent, the companies of the Group have agreements with over 30 universities in Spain, the USA, Malaysia and South Africa.

The Group values gender diversity for the creation of value and promotes exchanges between technicians from all its factories and sales offices located in different countries, with the aim of achieving the best practices by means of benchmarking and cultural exchange.

3.8 R+D+i

Each of the processes of production, distribution and sale of stainless steel, as well as management, require constant effort in research, development and innovation.

From the purchase of raw materials to the final delivery to the client, with all the equipment needed to manufacture the finished product, the transport and optimal routes for moving it, the most appropriate places for storing it and the delivery models are all tasks in which the use of technology and analysis of data and programmes is of vital importance.

Steel making requires constant investment in new equipment, in the use of the latest technology and the monitoring of production processes.

For this reason, the amounts dedicated to investment in the factories in the last decade add up to more than 160 million euros on average each year. It is a significant financial and human effort which is also intrinsically linked to the values of the company and those who form part of it, dedicated to finding new answers that enable us to face new challenges and discover opportunities for business and improvement.

The 13.59 million euros that were invested directly in R+D+i include the 6.9 million euros that Acerinox Europa invested in the acquisition of new technological equipment to enhance the output of the new production lines. North American Stainless invested another 5.4 million in R+D for the same purpose as the Spanish plant. Columbus Stainless invested 343,304 euros.

The different research laboratories that the company has are dedicated to finding better and more profitable alloys and research into new applications for the products, continuously developing innovations to obtain different product finishes and certifications of the physical properties and composition of steel.

Besides improving the different production workshops in the plants and the tools used in the company, most of their work is aimed at enhancing the qualities of stainless steel and looking for new applications and markets where it can be used, as well as increasing production capacity, optimising each of the phases and expanding the range of products made by the company, reducing where possible consumption and costs generated by the activity, and its environmental impact.

The R+D+i within the company is not limited to just one department but is in each production phase so that the majority of the staff participates in it. Therefore, the company awards each year, through the Rafael Naranjo Awards, which have a total economic endowment for all categories of 45,000 euros, the best ideas to improve the quality of the product and the process.

In the 2017 edition, the first prize of "Quality in Progress", endowed with 15,000 euros, fell to the TLC Mechanical Maintenance Group, for its project *Elimination of Apron Mobile accidents in the hot rolling mill finisher.*

The second prize in this category was awarded to work *'Modification of gasifiers in the pools of the steel mill'*, prepared by Francisco García Olivares, who has been rewarded with 10,000 euros. For third place, the jury awarded 5,000 euros to Juan Carlos Enríquez Baladez and Cristóbal Aguera Fernández for their project *'Improvements to diversion bucket. Improvements in spouts and arms '.*

In the category of Safety awards, the project was the winner *'Buzas',* prepared by Matías Sánchez Valentín, who will therefore receive 10,000 euros.

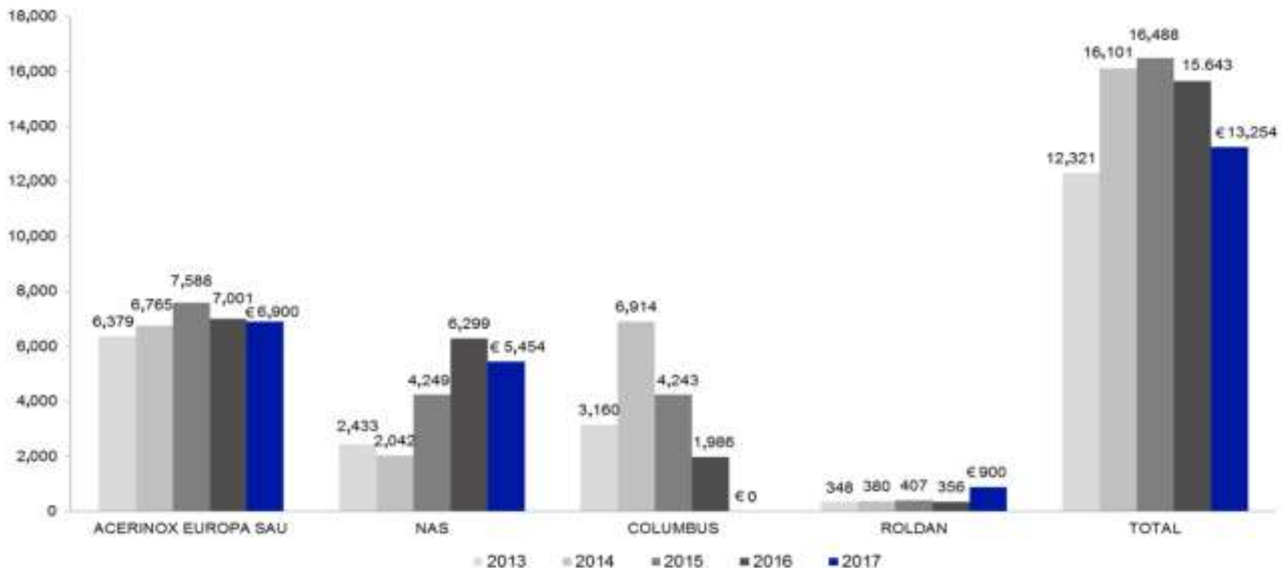
In the Environment section, the award was for *the 'Geolocated and monitored online PH meter for environmental emergencies',* signed by Sergio Pelayo Jimeno and awarded 5,000 euros. In this section, the members of the Committee have also wanted to make a special mention to the finalist project *'Reduction of particulate and fume emissions in the steelworks by exploiting the oxyfuel extractor'* developed by Jonathan Domínguez Vélez, and given the success of this program it has been decided to extend it to all the factories.

The Group also convened the second edition of the Acerinox Prize in 2017, organized by the Association for the Development of Stainless Steel (Cedinox). The student of Industrial Engineering at the Polytechnic University of Madrid, Almudena Menéndez González, was awarded the Acerinox Prize for her work, *'Functionalization of surfaces using LIPSS with femtosecond laser'*.

The jury awarded this study about an application in development for surface treatment using stainless steel (among other metals) laser, with promising possibilities for future use in surface staining and its properties hydrophobic, which can contribute to increase the advantages of the stainless steel in various applications. The award is accompanied by a cash prize of 3,000 euros and is delivered in the presence of all the members of the jury and the Acerinox management in a public ceremony.

In addition, Cedinox, supervised in its entirety by Acerinox, taught courses in the 2016-2017 academic year to 1,415 students from 19 engineering and architecture schools.

Investments of the Group in R + D + i 2013-2017
Thousand euros



3.9 Digital Transformation

Digitalization is not only changing the way people interact within society, but it also poses a challenge for companies in how they adapt their business models to be more competitive.

In November 2017, the Acerinox management presented the Digital Transformation strategy to the Board of Directors. The objective is to give value to the information and knowledge that exists in the Group in order to improve the operational excellence of the entire value chain, enhance the brand image and create a new way of working in which professionals have of tools that allow them to be more effective and make better decisions.

The Group's strategy has drawn a roadmap for the next few years in which the following projects are identified:

1). Optimization in transportation contracting through data analytics

2). Improvement of energy efficiency through the identification of opportunities in the production process with Big Data tools

3). Pilot projects in the new production lines to add sensors to critical parts with the objective of capturing signals that allow their subsequent study

4). Platforms that will allow cross integrate data of operation in order to achieve more predictive management models in the areas of maintenance and quality

5). Integrated planning from the purchase of raw materials to the sale of final product thus increasing customer service

In order to prepare the organization to face this transformation, collaborations with universities and technology centres have been strengthened in order to incorporate profiles with the necessary capabilities.

In 2017, the first year of life of the Chair of Connected Industry was completed, of which Acerinox is a sponsor, along with other relevant industrial and technological companies. During this period, we have shared how to approach data analytics projects, what professional profiles are going to be demanded in the future by companies and how it affects security in a hyperconnected environment.

3.10 Risk Management

All business activity involves internal and external risks which must be adequately managed.

Acerinox, S.A. has implemented a risk management model, designed to identify, classify, and assess the potential risks that can affect all units and relevant functions of the Organization, with the ultimate aim of managing them and providing a reasonable assurance on the achievement of the objectives, be they strategic, operational, compliance or information.

The Group's governing bodies have implemented a risk management process throughout the organization, as part of the usual management activities, based on the principles of efficiency, commitment, leadership, compliance, transparency and supervision.

The heads of all the units carry out an analysis of the potential events that involve risks, thus creating an inventory of risks and carrying out their preliminary taxonomy. To measure its probability and impact, qualitative and quantitative techniques are used based on the knowledge, judgement and experience of the people involved, sometimes complemented with the corresponding actuarial technique. The Management Committee of Acerinox, SA supervises the evaluations and the conclusions reached.

For the graphic representation, a heat map is used that allows great visibility and comparability, allowing the identification of the relevant units of the Group and their impact, probability and risk assessments, as well as

serving as a basis for the determination of appetite rules and thresholds of controlled admissibility of those.

The Director of Corporate Risk Management, under the direct supervision of the Chief Executive Officer, analyses, evaluates and, where appropriate, proposes to the latter the update of the risk map and the response of the mitigation measures.

The company has grouped the relevant risks into seven essential categories, which have minor sections. The total number of covered sections is 60, as of 31 December 2017, and each of them has mitigation or neutralization measures.

Like other companies in the sector, which make their list of most relevant risks public, the Acerinox Group sees the volatility of raw materials at the present time, the impact that the economic crisis has had on the industrial sector, the existence of overcapacity worldwide (especially in the factories of the People's Republic of China), the abnormally high competition in the sector (consequence of the previous risk). To all of them, the Group's management committee and the Director of Corporate Risk Management devote all their attention.

4. FINANCIAL REPORT

4.1 Results

The results obtained were the best of the last ten years.

EBITDA
Million euros and % of sales

The EBITDA reached, both in absolute terms, 489 million euros, and in margin over sales, 10.6%, exceeding that obtained in satisfactory years such as 2010 and 2014, even though prices in the main markets were well below those of those years. All this proves the high levels of efficiency achieved in this period, which was particularly complicated for the sector.

With respect to the previous period, with a growth in turnover of 16.6%, it improved the EBITDA by 48.6%. The result after tax, 234 million euros, almost triples that of 2016.

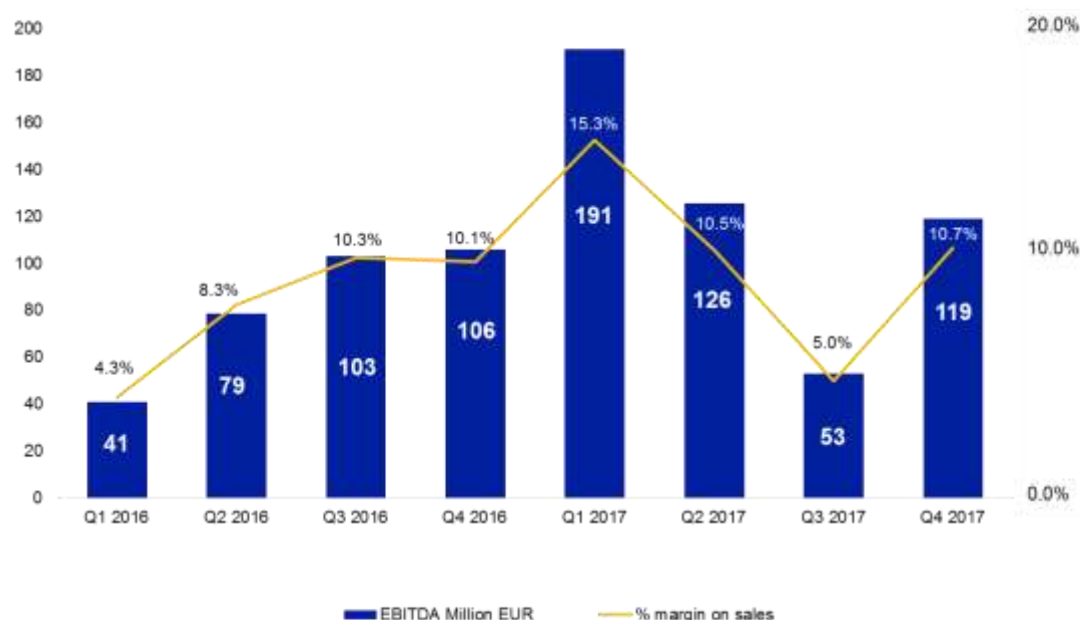
The Most significant Acerinox figures
Million euros

	2016	2017	Variation
Net sales	3,968	4,627	16.6%
EBITDA	**329**	**489**	**48.6%**
EBIT	157	318	102.0%
Gross result (before taxes and minority interests)	128	299	133.5%
Net results (attributable)	80	234	191.5%

This result is particularly commendable in a year marked by high volatility in raw materials, which had highly significant consequences within the market and on prices.

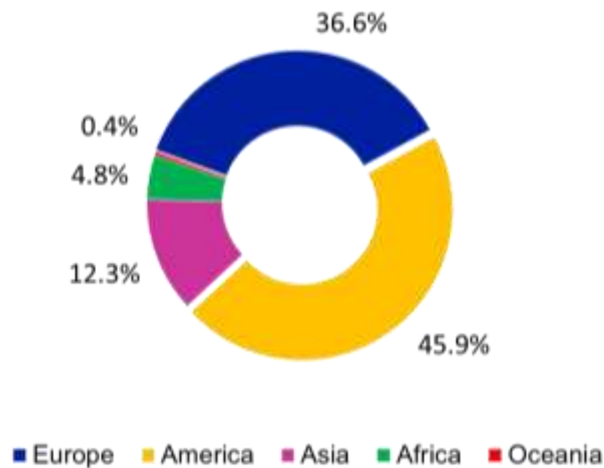
The exceptional first quarter was compensated for by an equally abnormal third quarter, this time due to its weakness. This volatility, which is so harmful for the sector, not only affects results, but also has consequences for the receipt of orders, for apparent consumption, and for the consolidation of improvements in prices attained.

Quarterly EBITDA
Million euros (% of sales)



The net turnover, 4,627 million euros, was 16.6% higher than in the previous year, thanks to an upturn in prices. The average price of the AISI 304 coil (according to Platts) increased by 18% in Europe, 26% in the USA and by 17% in Asia, compared to 2016.

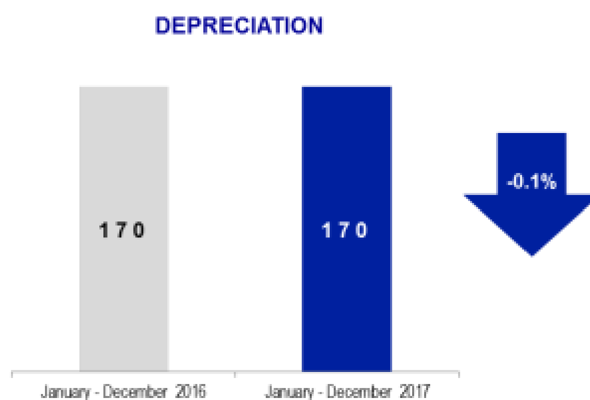
Geographical Distribution of Acerinox Revenue in 2017



The total operating costs, 994 million euros, increased by 6.5%, in a year in which melting production increased by 1.8%.

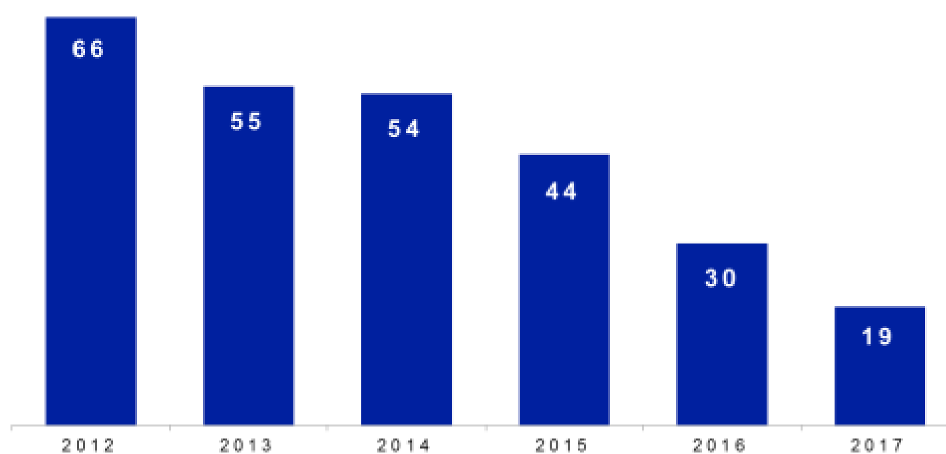
- Personnel costs rose by 4.5%. This increase not only corresponds to the increase in staff by 2.6%, but also an increase in remuneration due to the effect of improvements in productivity and results.
- Operating costs, 629 million euros, increased by 9.0%. Among these costs the increases of 9.1% for supplies and 7.5% for freight stand out.

Depreciation and amortization, 170 million euros, remained stable with respect to the previous year.



The net financial costs, 19 million euros, were 34.7% lower than the previous year. It is the fifth consecutive year that the financial costs have been cut, having been reduced during this period (2012-2017) by 70.9%.

Net financial expenses
Million euros



Results before taxes, 299 million euros, were 133.5% higher than in the previous year.

At the end of December, the American tax reform was passed, which will have a very beneficial effect on North American Stainless and the Consolidated Group. Although it will come into force and its effects will be seen in 2018, the net result for 2017 benefited from the adjustment of deferred tax liabilities to the new tax rate.

4.2 Cash generation

The generation of cash continues to be a priority for the Group.

The unwavering control of working capital within the scope of a favourable cycle allowed the Group to obtain an operational *cash flow* of 366 million euros.

Cash Flow
Million euros

	Jan - Dec 2017	Jan - Dec 2016
EBITDA	**489**	**329**
Changes in working capital	1	16
Tax on profits	-82	-56
Financial charges	-28	-35
Others	-13	14
OPERATING CASH FLOW	**366**	**269**
Payments for investments	-185	-157
FREE CASH FLOW	**181**	**111**
Dividends	-124	-27
CASH FLOW AFTER DIVIDENDS	**57**	**85**

The satisfactory surge in investment in the USA and the advances state of those of Campo de Gibraltar, together with the rest of the plants, resulted in a payment of 185 million euros for the period. As a result, the free cash flow generated in the period was 181 million, which allowed the payment of a cash-only dividend of 124 million euros.

Analysing a longer period, the Acerinox Group, in the most complicated period for the industry, was capable of generating 3,081 million euros, which allowed it to undertake investments for 1,771 million euros, pay the shareholders 996 million euros, and reduce the net financial debt by 314 million euros. There was not another manufacturer in the industry in this period which was capable of maintaining its strategic investment plan and its policy of shareholder remuneration, while at the same time reducing its debt.

4.3 Balance sheet

The income statement for the period was not significantly affected by the variation in exchange rates, but the main entries on the balance sheet, with regards to the exchange rate at period end, reflect these variations, with the main effect being caused by the depreciation of the dollar by 13.8%.

Balance sheet
Million euros

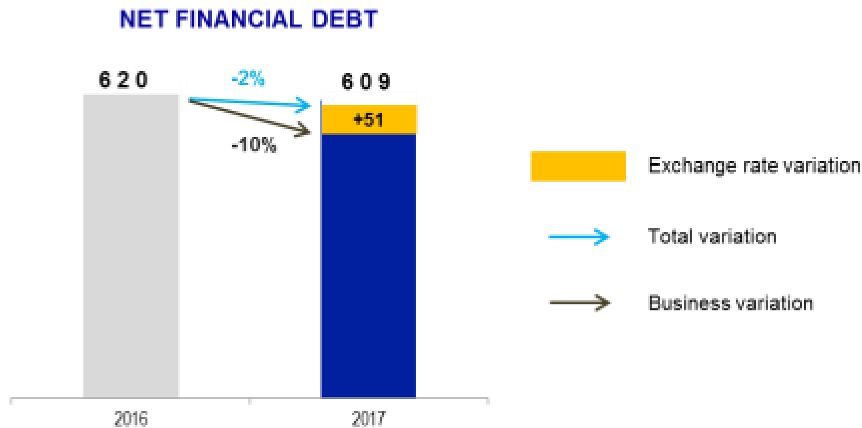
ASSETS			
Millions euros	2017	2016	Variation
Non-current assets	**2,147.6**	**2,357.5**	**-8.9%**
Current assets	**2,256.4**	**2,097.5**	**7.6%**
- Inventories	990.5	887.4	11.6%
- Trades	613.2	575.5	6.5%
Debtors	*552.1*	*527.8*	*4.6%*
Other debtors	*61.1*	*47.7*	*28.1%*
- Cash and others	652.7	634.6	2.9%
Total Assets	**4,404.0**	**4,455.0**	**-1.1%**

LIABILITIES			
Millions euros	2017	2016	Variation
Equity	**1,970.3**	**2,168.7**	**-9.1%**
Non-current liabilities	**1,149.4**	**1,191.2**	**-3.5%**
- Interest-bearing loans and borrowings	936.7	936.8	0.0%
- Other non-current liabilities	212.7	254.4	-16.4%
Current liabilities	**1,284.3**	**1,095.2**	**17.3%**
- Interest-bearing loans and borrowings	293.1	281.6	4.1%
- Trade creditors	856.7	713.0	20.2%
- Other current liabilities	134.5	100.6	33.7%
Total Equity and Liabilities	**4,404.0**	**4,455.0**	**-1.1%**

The Group is exposed to fluctuations within the dollar due to the significance of its investments in North American Stainless and Bahru Stainless. For that reason, despite the good results from the period, equity was reduced by 9.1%, and non-current assets by 8.9%.

The net financial debt, which fell by 11 million euros, would have seen a significantly greater fall were it not for a depreciation in cash positions held in dollar, which had a 62 million euros effect. Net Financial Debt / EBITDA ratio is 1.2 times.

Net financial debt sensitivity to the exchange rate
Million euros



4.4 Financing

During the 2017 period, the Group proceeded with the refinancing of its debt, with the aim of extending due dates, reducing costs and improving the quality of the debt.

Overall operations were closed for a total of 725 million euros, of which 430 were aimed at reducing the cost of existing finance, and 295 million euros were new operations at a very competitive cost. Of these, 160 million euros has a maturity period equal to or greater than 7 years.

The bulk of the debt is covered by a fixed rate, and practically all of it is free of covenants.

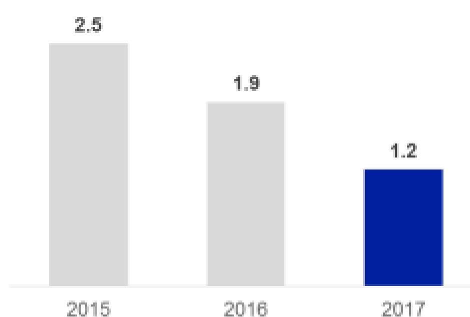
In addition, Columbus Stainless renegotiated and restructured the borrowing base facility of 3,500 million South African rand, in an operation that not only extended the maturity period, but also modified specific conditions in the structure in order to provide Columbus with greater financial flexibility, while reducing the cost, and increasing the number of intervening banks to 11. The final maturity date for the operation is June 2020.

4.5 Financing Ratios

The main ratios benefit from both the improved results and the continuous strengthening of our balance.

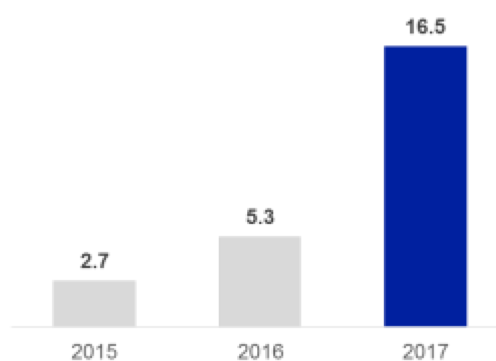
The net financial debt / EBITDA ratio stood at 1.2 times and has fallen by 50% since 2015.

Net Financial Debt / EBITDA
No. of times

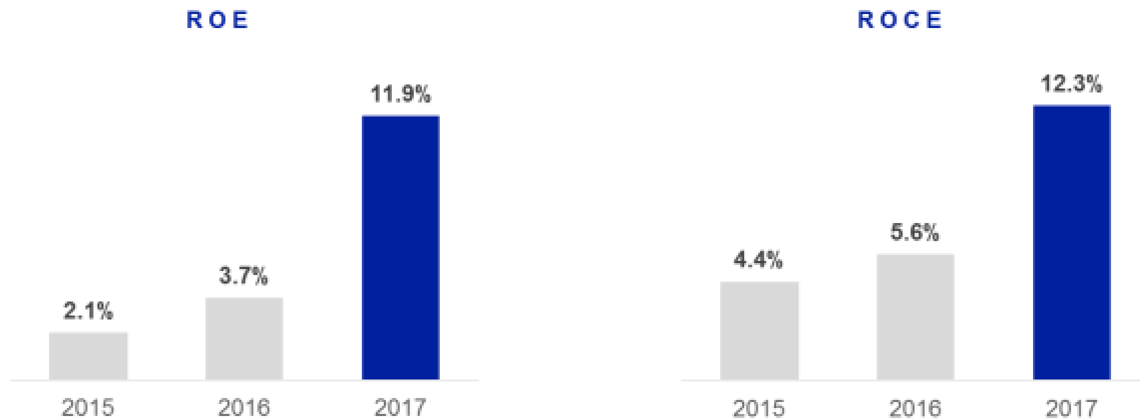


The ICR (interest coverage ratio) reflects the continuous improvement of the Group's financing, which stands at 16.5 times, compared with 2.7 in 2015.

Interest coverage (EBIT / Net financial costs)
No. of times



The ROE has increased from 2.1% in 2015 to 11.9% in 2017. The ROCE has developed along similar lines, improving by 179%.



The average period for payment

The average period for payment to suppliers of the Spanish companies of the Acerinox Group, and once payments made to companies of the Group are discounted, is 70 days (73 days in 2016). This figure includes payments made to any supplier, whether national or foreign and excludes companies of the Group.

Alternative Performance Measures (definitions):

- Saving relating to the Excellence Plan: estimated saving on efficiency on the basis of this study defined in each Plan
- Operating Working Capital: Inventories + Trade receivables – Trade payables
- Net Cash Flow: Results after taxes and minority interest + Depreciation and amortization
- Net Financial Debt: Debt with banks + bond issuance - cash
- EBIT: Operating income
- EBITDA: Operating income + depreciation and amortization + variation of current provisions
- Net financial expenses: Financial income – financial expenses ± exchange rate variations
- ROCE: Operating income / (Equity + Net Financial Debt)
- ROE: Results after taxes and minority interest / Equity
- Debt Ratio: Net Financial Debt / Equity
- ICR (interest coverage ratio): EBIT/Net financial expenses

<u>**Significant events subsequent to year end**</u>

The Group has not registered significant events following the 2017 year end.

4.6 Evolution of shares

The Ibex35 index closed 2017 positively, with profits of 7.4%, and put an end to two consecutive years of falls. It is its best result since 2013.

Percentage Market Evolution IBEX-35
Daily percentage data, 2017 to 29th December

The index began the year at 9,418.70, reached a minimum on 23 January (9,304.80), then produced positive results for the rest of the year. On 10 March it closed above 10,000 points for the first time since 2015. It reached a peak on 5 may, when it reached 11,135.40 points.

IBEX35 daily data from IBEX 2016 and 2017, in points
Daily quoted price 2016-2017

The good macroeconomic and business data encouraged investors to opt for the stock market. Geopolitical tensions, such as the tension between the USA and North Korea, had a one-off effect. The role of the central banks was also decisive, as they began a new more restrictive phase. While the Federal Reserve began to raise interest rates, the Central European Bank (CEB) prepared the market for a reduction in the volume of debt purchase from 2018.

In relation to European stock markets, the Italian FTSE Mib stood out among the main European markets, with a growth of 13.6%, thanks to the pull of financial securities, followed by the German Dax, with a 12.5% rise closing at a record high thanks to the healthy state of exporters. The French Cac also grew 9.2%, in a year in which President Macron put aside the fear of populism. The rise of 7.4% in the Ibex positioned it behind the 7.6% of the British FTSE 100.

In the United States the escalation was even greater. Markets closed in the region of historic highs. The Nasdaq closed the year with a growth of 28.2%, followed by 25.0% from the *Dow Jones* and 19.4% from S&P 500. The S&P 500 closed every month of the year positively for the first time since 1988, with volatility below 10% during more than 200 sessions, in what is a 50 year record. It is now expected to continue on an upward trend with the fiscal reforms of Donald Trump.

Market evolution of Acerinox and the Ibex 35
Daily percentages, 2017

With respect to Acerinox shares, following a 2016 in which value rose by 33.8%, there was a good start to the year (up to +11.0% on 3 March). Following the publication of the good results from the first quarter, investors

reaped profits due to the good performance of the shares to that point, and moved on to other sectors.

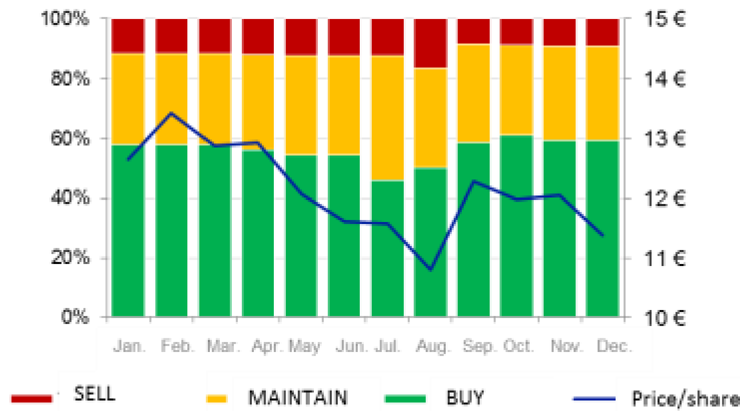
From August, and coinciding with a rise in the price of raw materials, the interest from the investment community grew, returning the share price to levels above 12 euros (12.6 euros on 1 November).

The announcement of the *joint venture* by Allegheny and Tsingshan (on 2 November) and uncertainty in China, once again put pressure on the share price to fall, and it closed the year at 11.9 euros, signifying a fall of 5% with respect to the previous year.

This downward trend was not exclusively for Acerinox, but the entire stainless steel sector was affected, as can be seen in the following graph which shows the evolution of the Acerinox share price, the Ibex35, and European competitors:

European producer market evolution
Daily percentage data, 2017 to 29 December

At the end of the year, 59% of analysts recommended “buying” set against 9% who recommended “selling”. On the following graph the evolution of recommendations can be seen throughout the year:

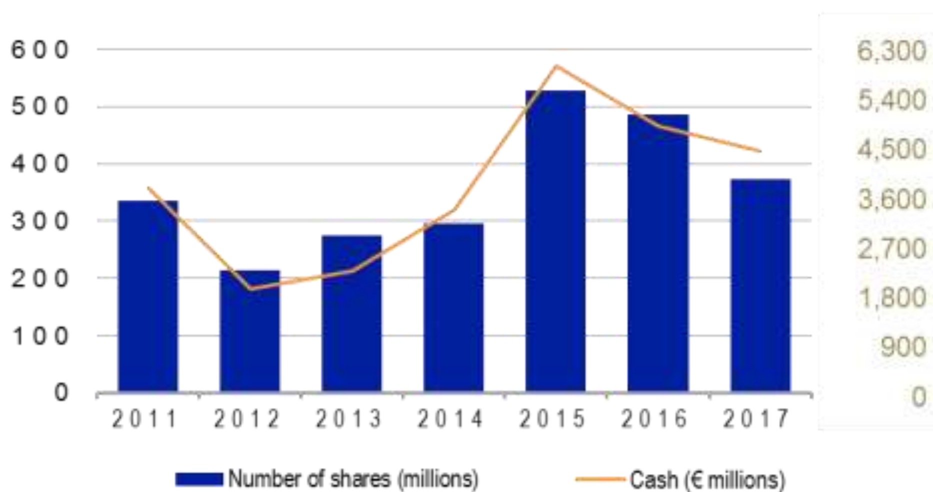


Source: Bloomberg

In 2017, Acerinox shares were traded for the 255 days the Continuous Market was open for business. The total number of shares traded totalled 372,133,861, equivalent to 1.35 times the number of shares which make up the share capital, with average daily trading of 1,459,348 shares.

The volume traded in 2017 totalled 4,572,882,235.7 euros, a figure which represents a daily average of 17,932,871.5 euros.

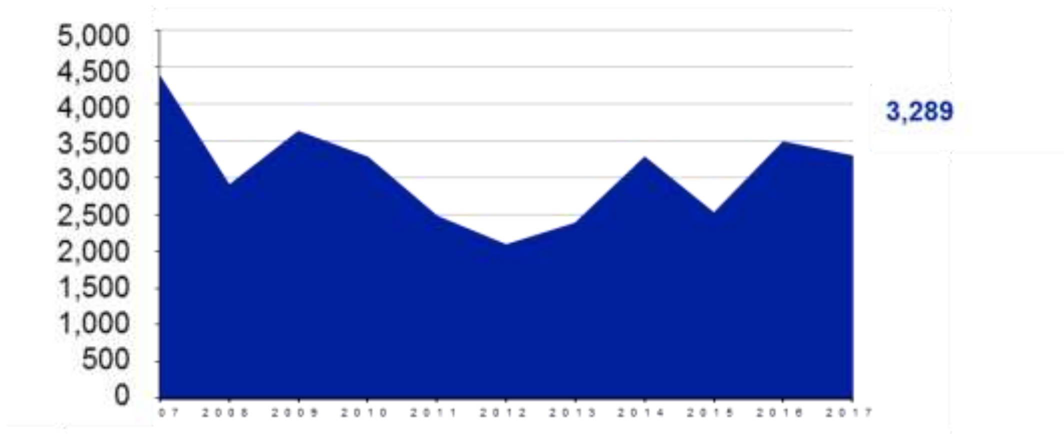
Shares and volume traded



4.7 Capitalisation

At the close of 2017, the market capitalisation of Acerinox reached 3,289 million euros, some 5% lower than 2016.

Market capitalisation of Acerinox, S.A. 2007 - 2017
Million euros

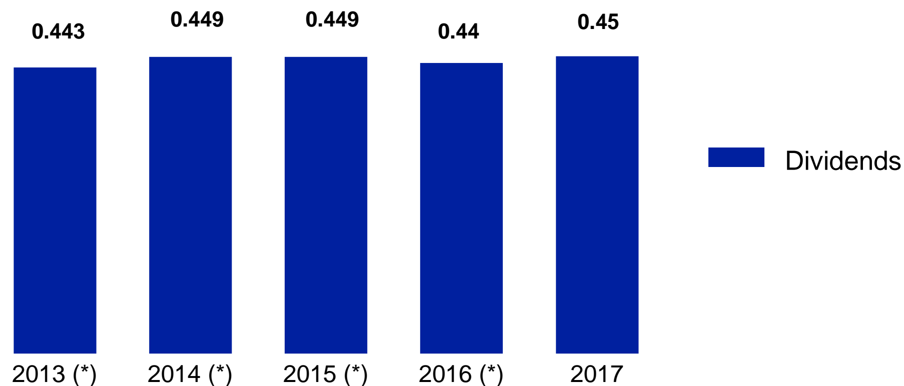


4.8 Shareholder Remuneration

Following the years 2013 to 2016, in which Acerinox offered its shareholders the option of a flexible dividend, the General Shareholders' Meeting held on 1 June 2017 agreed to make a single payment of 0.45 euros per share in cash, which was paid to shareholders on 5 July 2017.

Since 2006, Acerinox has remunerated its shareholders without interruption with an annual sum of 0.45 euros per share, whether through a cash dividend or flexible dividend.

Annual shareholder remuneration
Euros / share



4.9 Outlook

The recent tax reform in the United States will have a clearly positive effect on the results of Acerinox. To anticipate the behaviour of the Group in 2018, it will be necessary to be very aware of the possible protective measures in that country, of the reaction of Europe and other countries if these measures were adopted and of the management of the excess installed production capacity, especially in Asia. Regarding this issue, growth in production in Indonesia is particularly important, but also the closing of mills in China or their change of activity towards the manufacture of carbon steel.

Once again flexibility, efficiency and cost control will be key factors that will determine the results of Acerinox, for which we trust in the increase of competitiveness achieved in the last few years and in the current improvement plans.

The good situation of the economy in practically all countries should boost the consumption of stainless steel, especially if investments in infrastructure are reactivated and a phase of expansion of public spending is entered, as private consumption and production of capital goods are showing positive performances.

Although the comparison with the year 2017 will start being negative due to the exceptional results obtained in the first quarter of the previous year, favoured by the sharp increases in prices of raw materials, the current situation, together with the control of stocks in the main consumer markets and the recovery of prices in the fourth quarter, allows us to be optimistic for the year 2018. The alloy surcharges are rising and the base prices have already improved in the United States.

5. CORPORATE GOVERNANCE AND COMPLIANCE

Composition of the Board of Directors of Acerinox, S.A.

LAURA ABASOLO GARCÍA DE BAQUEDANO

Board Member
Independent External Director

A Graduate in Economic and Business Sciences from the Universidad Comercial de Deusto and MBA from Norwegian School of Business Administration

Director of Finance and Control at Telefónica S.A.

PEDRO BALLESTEROS QUINTANA

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

A graduate in Business Science from the UCM

Ex non-executive President of March JLT. Broker at

Seguros y Reaseguros S.A. within the March Group.

MANUEL CONTHE GUTIÉRREZ

Board Member
Independent External Director

A graduate in Law from the UAM.

Commercial Expert and State Economist

President of the Advisory Board of Expansión.

ROSA MARÍA GARCÍA PIÑEIRO

Board Member
Independent External Director

Industrial Engineer and Master in Organisation, Industrial Management and Environmental Engineering.

Vice-President for Global Sustainability at Alcoa.

President of the Alcoa Foundation.

MVULENI GEOFFREY QHENA

Board Member
Proprietary Director, representing the Industrial Development Corporation (IDC) Ltd.

A graduate in Accountancy Science and fiscal expert from UNISA and SEP, from the universities of Wits and Harvard.

CEO of Industrial Development Corporation of South Africa Limited IDC.

State Accountant from South Africa.

LAURA G. MOLERO

Board Member
Independent External Director

A graduate in Pharmacy from the UCM and Executive.

MBA from IE Business School.

Currently an Independent Director of the Ezentis, S.A. Group and the Adecco Foundation (NGO).

RYO HATTORI

Board Member
Proprietary Director, representing NISSHIN STEEL CO. Ltd.

A graduate in Law from the University of Sophia, Tokyo.

Special Assignments Director-General of the Stainless Steel Sales Department and the Overseas Projects Department of Nisshin Steel Co. Ltd.

TOMÁS HEVIA ARMENGOL

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

A graduate in Business Administration and Management and Law from the ICADE and MBA from IESE Business School .

Previously a member of the Investment Department at Corporación Financiera Alba S.A.

DONALD JOHNSTON

Board Member
Independent External Director

Bachelor of Arts in Political Science from Middlebury College and Master of Arts in International Economics and Latin-American Studies, from Johns Hopkins University.

Independent director of Merlin Properties Socimi S.A. and Banco Sabadell.

YUKIO NARIYOSHI

Board Member
Proprietary Director, representing Nisshin Steel Co Ltd.

A graduate in Management from the University of Tokyo.

Board member and Executive Vice-President of Nisshin Steel Co Ltd.

MARTA MARTÍNEZ ALONSO

Board Member
Independent External Director

A graduate in Mathematical Sciences from the UCM.

Senior Management Programme for companies at IESE.

President of IBM Spain, Portugal, Greece and Israel.

SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Board Member
Proprietary Director, representing Corporación Financiera Alba, S.A.

Roads, Canals and Ports Engineer, Master in Business Management from ICADE, and Diploma in Nuclear Technology from ICAI.

Chief Executive Officer at Corporación Financiera Alba, S.A., and Board member of Banca March S.A., Indra Systems, S.A., Bolsas y Mercados Españoles, S.A., Artá Capital SGECR, S.A., Deyá Capital SCR, S.A. and Artá Partners, S.A.

RAFAEL MIRANDA ROBREDO

Chairman
Independent External Director

Industrial Engineer from ICAI.

Management Science from EOI.

President of the Management Progress Association.

President of Hispania Activos Inmobiliarios S.A.

Honorary President of Eurelectric.

Board member of Brookfield Asset Management Inc. and Board member of Nicolás Correa S.A., among others.

BRAULIO MEDEL CÁMARA

Board Member
Independent External Director

A graduate and Doctor in Economic and Business Sciences from the Universidad Complutense de Madrid, and Professor in Public Finance from the University of Malaga.

President of the Unicaja Banking Foundation and the Andalusian Federation of Building Societies.

BERNARDO VELÁZQUEZ HERREROS

Chief Executive Officer
Executive

Industrial Engineer from ICAI.

Chairman of Acerinox Europa and North American Stainless.

Chairman of UNESID.

Vice-Chairman of ISSF.

Board member of World Steel.

LUIS GIMENO VALLEDOR

Secretary to the Board

A graduate in Law from the UAM.

State Lawyer.

EXECUTIVE COMMITTEE

- RAFAEL MIRANDA ROBREDO (Chairman)
- BERNARDO VELÁZQUEZ HERREROS
- RYO HATTORI
- GEORGE DONALD JOHNSTON
- SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
- TOMÁS HEVIA ARMENGOL
- LUIS GIMENO VALLEDOR

APPOINTMENTS, REMUNERATIONS AND CORPORATE GOVERNANCE COMMITTEE

- MANUEL CONTHE GUTIÉRREZ (Chairman)
- RAFAEL MIRANDA ROBREDO
- SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
- BRAULIO MEDEL CÁMARA
- LUIS GIMENO VALLEDOR

AUDIT COMMITTEE

- LAURA ABASOLO GARCÍA DE BAQUEDANO (Chairwoman)
- PEDRO BALLESTEROS QUINTANA
- GEORGE DONALD JOHNSTON
- LAURA GONZÁLEZ MOLERO
- LUIS GIMENO VALLEDOR

ACERINOX

MANAGEMENT COMMITTEE

The Management Committee of Acerinox is made up of five people: the Chief Executive Officer, the Chief Financial Director, the Commercial Director, the Production Director and the General Secretary.

The remunerations associated with these posts are proposed to the Board of Directors by the Appointments, Remuneration and Corporate Governance Committee. The amounts received during 2017 by this collective, not including that of the Chief Executive Officer, totalled 1,676,801.74 euros.

- BERNARDO VELÁZQUEZ HERREROS (Chief Executive Officer)
- DANIEL AZPITARTE ZEMP (Commercial Director)
- MIGUEL FERRANDIS TORRES (Financial Director)
- ANTONIO MORENO ZORRILLA (Production Director)
- LUIS GIMENO VALLEDOR (General Secretary)

5.1. General Shareholders' Meeting

The General Shareholders’ Meeting was held in Madrid on 1 June 2017 and was presided over by Mr. Rafael Miranda Robredo. As was the case the previous year, the meeting took place in the Mutua Madrileña Automovilística building, on Paseo de la Castellana, No. 33.

Attendance at the General Meeting, including shareholders present and represented, amounted to the equivalent of 179,009,551 shares, or 64.84% of the company's share capital.

No shareholders made use of the on-line discussion forum, but the increase in on-line voting is worthy of being mentioned.

The resolutions on the Agenda were approved in their entirety, by the following margins:

	Votes in favour %	Votes against %
1. Approval of annual accounts	99.97	0.00
2. Application of the results	99.92	0.05
3. Approval of the Board of Directors' management	99.74	0.02
4. Approval of the dividend distribution	99.19	0.62
5. Approval of the Board Member Remuneration Policy for 2017, 2018 and 2019	87.59	12.35
6.1. Re-election of Mr. Ryo Hattori as Proprietary Director	99.82	0.08
6.2. Ratification of the appointment of Mr. Tomás Hevia Armengol as Proprietary Director	99.84	0.06
6.3. Ratification of the appointment of Ms. Rosa María García Piñeiro as Independent Director.	99.90	0.00
6.4. Ratification of the appointment of Ms. Laura González Molero as Independent Director.	99.90	0.00
6.5. Ratification of the appointment of Ms. Marta Martínez Alonso as Independent Director.	99.90	0.00
7. Delegation of powers to the members of the Board of Directors and the Secretary of the Board	99.95	0.02
8. Approval of Board Members' Annual Remuneration Report.	87.46	12.48
9. President's report on the most relevant aspects of the Company's Corporate Governance (not put to the vote).	--	--
10. Appointment of administrators to approve the Minutes of the General Shareholders' Meeting	99.97	0.00

5.2 Main Executives of the Group's companies

Top Executives in our Industrial Companies

- Acerinox Europa: ANTONIO MORENO ZORRILLA
- North American Stainless: CRISTÓBAL FUENTES TOVAR
- Columbus Stainless: LUCIEN MATTHEWS
- Bahru Stainless: OSWALD WOLFE GOMEZ
- Roldán: JORGE RODRÍGUEZ ROVIRA
- Inoxfil: ÁNGEL BRUÑÉN CEA

ACERINOX

Top Executives in our Commercial Companies

SPAIN

- Inoxcenter: LUIS GUTIERREZ MÁS
- Inoxidables de Euskadi: JOSÉ CRUZ DE VICIOLA GARCÍA
- Service Centre in Pinto FLORENCIO ZURDO GÓMEZ
- Service Centre in Gavá JUAN ESTEVE VESTIT
- Service Centre in Betanzos ÁLVARO SUÁREZ LLANOS

EUROPE

- Acerinox Deutschland (Germany): JOACHIM MAAS
- Acerinox Benelux (Belgium): ANEL VILJOEN
- Acerinox France (France): JAAN ROXAN
- Acerinox Italia (Italy): GIOVANNI DE CARLI
- Acerinox Polska (Poland): PILAR SENISE GARCIA
- Acerinox Scandinavia (Sweden): JAN GJERLAUG
- Acerinox Schweiz (Switzerland): IVANA HORAKOVA
- Acerinox UK (United Kingdom): PABLO CANTLE CORNEJO
- Acerinox Russia (Russia): ROMAN BUTYRIN
- Acerinox Metal Sanayi (Turkey): SANTIAGO MUÑOZ MARTI

AMERICA

- Acerinox Argentina (Argentina): JOSE CARLOS RODRÍGUEZ ARANDA
- Acerinox Brasil (Brazil): JUAN ANTONIO RODRIGUEZ ARROYO
- Acerinox Chile (Chile): JAIME DEL DIEGO SANZ
- Acerinox Colombia (Colombia): GONZALO DEL CAMPO BARCÓN
- Acerinox, S.A. Venezuela (Venezuela): GONZALO DEL CAMPO BARCÓN

ASIA

- Acerinox South East Asia (Singapore): IRENE TEO LIN LING
- Acerinox India (India): PRATIK KACHCHHI
- Acerinox SC. Malaysia (Malaysia): BARRY FOO
- Acerinox, S.A. Shanghai (China): MARY XU
- Acerinox Indonesia S.A. (Indonesia): EFRAT AGUNG
- Acerinox SEA (Vietnam): TRAN THI THANH HANG
- Acerinox SEA (Thailand): PRAWIT LERTWIMONRAT
- Acerinox SEA (Philippines): ENRIQUE DAVID B. SANTIAGO
- Acerinox Pacific (Korea): JUNGHO CHOI
- Acerinox Pacific (Hong Kong): MARY XU
- Acerinox Pacific (Taiwan): SAMUEL TAM
- Acerinox Middle East (United Arab Emirates): FERNANDO GÓMEZ AIELLO

OCEANIA

- Acerinox Australasia (Australia): CLAUDIO LEÓN DE LA BARRA