# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND INTERIM MANAGEMENT REPORT

## FIRST HALF 2016

# ACERINOX, S.A. AND SUBSIDIARIES

# Condensed Consolidated Interim Financial Statements for the first half of 2016

**30 June 2016**

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

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

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

(In thousands of Euros at 30 June 2016 and 31 December 2015)

| | Note | 30-jun-16 | 31-dic-15 |
|---|---|---|---|
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| Goodwill | 7 | 69,124 | 69,124 |
| Other intangible assets | 7 | 11,521 | 11,181 |
| Property, plant and equipment | 8 | 1,964,528 | 2,025,856 |
| Available-for-sale financial assets | 10 | 12,226 | 10,667 |
| Deferred tax assets | | 190,936 | 188,891 |
| Other non-current financial assets | 10 | 4,102 | 11,811 |
| **TOTAL NON-CURRENT ASSETS** | | **2,252,437** | **2,317,530** |
| | | | |
| **Current assets** | | | |
| Inventories | 9 | 774,972 | 824,929 |
| Trade and other receivables | 10 | 549,530 | 470,367 |
| Other current financial assets | 10 | 10,591 | 15,497 |
| Current tax assets | | 8,857 | 17,394 |
| Cash and cash equivalents | | 639,631 | 479,955 |
| **TOTAL CURRENT ASSETS** | | **1,983,581** | **1,808,142** |
| | | | |
| **TOTAL ASSETS** | | **4,236,018** | **4,125,672** |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

(In thousands of Euros at 30 June 2016 and 31 December 2015)

| | Note | 30-jun-16 | 31-dic-15 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| | | | |
| **Equity** | | | |
| Subscribed capital | | 66,677 | 66,677 |
| Share premium | | 81,403 | 81,403 |
| Reserves | | 1,545,335 | 1,525,178 |
| Profit for the year | | 8,678 | 42,891 |
| Translation differences | | 168,603 | 212,879 |
| Parent shares | | -1 | -1 |
| **EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT** | | **1,870,695** | **1,929,027** |
| Non-controlling interests | | 88,375 | 94,277 |
| **TOTAL EQUITY** | | **1,959,070** | **2,023,304** |
| | | | |
| **Non-current liabilities** | | | |
| Deferred income | | 9,273 | 7,513 |
| Issue of bonds and other marketable securities | 10, 11 | 124,019 | 123,931 |
| Loans and borrowings | 10, 11 | 881,032 | 617,230 |
| Non-current provisions | | 13,239 | 13,698 |
| Deferred tax liabilities | | 219,035 | 227,167 |
| Other non-current financial liabilities | 10, 12 | 4,068 | 6,054 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,250,666** | **995,593** |
| | | | |
| **Current liabilities** | | | |
| Bonds and other marketable securities | 10 | 3,520 | 1,653 |
| Loans and borrowings | 10 | 239,943 | 447,887 |
| Trade and other payables | 10 | 740,257 | 641,726 |
| Current tax liabilities | | 10,536 | 1,092 |
| Other current financial liabilities | 10, 12 | 32,026 | 14,417 |
| **TOTAL CURRENT LIABILITIES** | | **1,026,282** | **1,106,775** |
| | | | |
| **TOTAL LIABILITIES** | | **4,236,018** | **4,125,672** |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

## 2. CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

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

(In thousands of Euros at 30 June 2016 and 2015)

| | Note | 30-jun-16 | 30-jun-15 |
|---|---|---|---|
| | | - | - |
| **Revenues** | **18** | **1,907,019** | **2,315,222** |
| Other operating income | 18 | 7,755 | 5,312 |
| Self-constructed non-current assets | 18 | 5,148 | 9,152 |
| Changes in inventories of finished goods and work in progress | | -80,128 | 15,539 |
| Supplies | | -1,253,499 | -1,651,994 |
| Personnel expenses | | -184,510 | -187,997 |
| Amortisation and depreciation | 7, 8 | -82,928 | -82,170 |
| Other operating expenses | | -282,424 | -302,250 |
| | | | |
| **RESULTS FROM OPERATING ACTIVITIES** | | **36,433** | **120,814** |
| | | | |
| Finance income | | 2,233 | 1,867 |
| Finance costs | | -22,670 | -26,912 |
| Exchange gains/(losses) | | -11,521 | 38,545 |
| Fair value measurement of financial instruments | | 14,604 | -38,291 |
| Share of profit of equity-accounted investees | | | |
| | | | |
| **PROFIT FROM ORDINARY ACTIVITIES** | | **19,079** | **96,023** |
| | | | |
| Income tax | 15 | -14,390 | -37,915 |
| Other taxes | | -2,276 | -891 |
| | | | |
| **PROFIT FOR THE PERIOD** | | **2,413** | **57,217** |
| | | | |
| Attributable to: | | | |
| | | | |
| **NON-CONTROLLING INTERESTS** | | **-6,265** | **-6,706** |
| **NET PROFIT ATTRIBUTABLE TO THE GROUP** | | **8,678** | **63,923** |
| | | | |
| *Basic and diluted earnings per share (in Euros)* | | 0.03 | 0.25 |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

## 3. CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

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

(In thousands of Euros at 30 June 2016 and 2015)

| | 30-jun-16 | 30-jun-15 |
|---|---|---|
| | | |
| **A) PROFIT FOR THE PERIOD** | **2,413** | **57,217** |
| | | |
| **INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | |
| | | |
| I. Measurement of financial instruments | | |
| 1. Available-for-sale financial assets | 1,558 | 3,340 |
| 2. Other income/expenses | | |
| | | |
| II. Cash flow hedges | -7,973 | 15,855 |
| | | |
| III. Translation differences | -43,894 | 177,567 |
| | | |
| IV. Actuarial gains and losses and other adjustments | | |
| | | |
| V. Tax effect | 1,584 | -4,838 |
| | | |
| **B) TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | **-48,725** | **191,924** |
| | | |
| **AMOUNTS TRANSFERRED TO THE INCOME STATEMENT** | | |
| | | |
| I. Measurement of assets and liabilities | | |
| 1. Measurement of financial instruments | | |
| 2. Other income/expenses | | |
| | | |
| II. Cash flow hedges | 11,607 | -11,747 |
| | | |
| III. Translation differences | | |
| | | |
| IV. Actuarial gains and losses and other adjustments | 124 | |
| | | |
| V. Tax effect | -2,916 | 2,940 |
| | | |
| **C) TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT** | **8,815** | **-8,807** |
| | | |
| **COMPREHENSIVE INCOME** | **-37,497** | **240,334** |
| | | |
| a) Attributable to the Parent | -31,595 | 240,187 |
| b) Attributable to non-controlling interests | -5,902 | 147 |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

## 4. CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

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

Movement for the reported period is as follows:

(Expressed in thousands of Euros)

| | Equity attributable to shareholders of the Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Share premium | Reserves (including profit for the period) | Interim dividend | Translation differences | Valuation adjustments | Own shares | TOTAL | Non-controlling interests | TOTAL EQUITY |
| **Total equity 31/12/2015** | **66,677** | **81,403** | **1,579,449** | **0** | **212,879** | **-11,380** | **-1** | **1,929,027** | **94,277** | **2,023,304** |
| **Retained earnings at 30 June 2016** | | | **8,678** | | | | | **8,678** | **-6,265** | **2,413** |
| Measurement of available-for-sale assets (net of tax) | | | | | | 2,710 | | **2,710** | -19 | **2,691** |
| Cash flow hedges (net of tax) | | | | | | 1,169 | | **1,169** | | **1,169** |
| Actuarial valuation of pension commitments | | | | | | 124 | | **124** | | **124** |
| Translation differences | | | | | -44,276 | | | **-44,276** | 382 | **-43,894** |
| **Net profit recognised directly in equity** | | | | | **-44,276** | **4,003** | | **-40,273** | **363** | **-39,910** |
| **Total comprehensive income** | **0** | **0** | **8,678** | **0** | **-44,276** | **4,003** | **0** | **-31,595** | **-5,902** | **-37,497** |
| Scrip dividend (purchase of rights) | | | -26,745 | | | | | **-26,745** | | **-26,745** |
| Purchase of non-controlling interests | | | -1 | | | | | **-1** | | **-1** |
| **Transactions with shareholders** | **0** | **0** | **-26,746** | **0** | **0** | **0** | **0** | **-26,746** | **0** | **-26,746** |
| Acquisition of own shares | | | | | | | | **0** | | **0** |
| Other movements | | | 9 | | | | | **9** | | **9** |
| **Total equity 30/06/2016** | **66,677** | **81,403** | **1,561,390** | **0** | **168,603** | **-7,377** | **-1** | **1,870,695** | **88,375** | **1,959,070** |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

Movement for the same interim period of the prior year is as follows:

(Expressed in thousands of Euros)

| | Equity attributable to shareholders of the Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Share premium | Reserves (including profit for the period) | Interim dividend | Translation differences | Valuation adjustments | Own shares | TOTAL | Non-controlling interests | TOTAL EQUITY |
| **Total equity 31/12/2014** | **65,426** | **81,403** | **1,586,445** | **0** | **18,048** | **-18,181** | **0** | **1,733,141** | **112,552** | **1,845,693** |
| **Retained earnings at 30 June 2015** | | | **63,923** | | | | | **63,923** | **-6,706** | **57,217** |
| Measurement of available-for-sale assets (net of tax) | | | | | | 2,505 | | **2,505** | | **2,505** |
| Cash flow hedges (net of tax) | | | | | | 3,067 | | **3,067** | -22 | **3,045** |
| Translation differences | | | | | 170,692 | | | **170,692** | 6,875 | **177,567** |
| **Net profit recognised directly in equity** | | | | | **170,692** | **5,572** | | **176,264** | **6,853** | **183,117** |
| **Total comprehensive income** | **0** | **0** | **63,923** | **0** | **170,692** | **5,572** | **0** | **240,187** | **147** | **240,334** |
| Scrip dividend (purchase of rights) | | | -47,836 | | | | | **-47,836** | | **-47,836** |
| Purchase of non-controlling interests | | | -1,241 | | | | | **-1,241** | -289 | **-1,530** |
| **Transactions with shareholders** | **0** | **0** | **-49,077** | **0** | **0** | **0** | **0** | **-49,077** | **-289** | **-49,366** |
| Acquisition of own shares | | | | | | | -1 | **-1** | | **-1** |
| Other movements | | | 379 | | | | | **379** | | **379** |
| **Total equity 30/06/2015** | **65,426** | **81,403** | **1,601,670** | **0** | **188,740** | **-12,609** | **-1** | **1,924,629** | **112,410** | **2,037,039** |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

## 5. CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

(In thousands of Euros at 30 June 2016 and 2015)

| | 30-jun-16 | 30-jun-15 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Profit before tax** | **19,079** | **96,023** |
| *Adjustments for:* | | |
| Amortisation and depreciation | 82,928 | 82,170 |
| Impairment | -9,291 | -2,634 |
| Change in provisions | 1,994 | -1,423 |
| Grants recognised in the income statement | -1,007 | 1,017 |
| Gains on disposal of fixed assets | -3,024 | -261 |
| Losses on disposal of financial instruments | 290 | 0 |
| Change in fair value of financial instruments | 851 | 15,504 |
| Finance income | -2,233 | -1,867 |
| Finance costs | 21,423 | 26,913 |
| Other income and expense | -600 | -13,162 |
| *Changes in working capital:* | | |
| Increase/decrease in trade and other receivables | -96,212 | -90,616 |
| Increase/decrease in inventories | 52,914 | -29,957 |
| Increase/decrease in trade and other payables | 112,599 | -122,887 |
| *Other cash flows from operating activities* | | |
| Interest paid | -19,621 | -23,381 |
| Interest received | 2,231 | 1,867 |
| Income tax paid | -7,756 | -79,972 |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | **154,565** | **-142,666** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment | -59,420 | -33,201 |
| Acquisition of intangible assets | -664 | -812 |
| Acquisition of subsidiary, net of cash acquired | -1 | -1,530 |
| Acquisition of other financial assets | -57 | -305 |
| Proceeds from sale of property, plant and equipment | 5,574 | 916 |
| Proceeds from sale of intangible assets | 0 | 2 |
| Proceeds from sale of other financial assets | 1 | 22 |
| Dividends received | 2 | 0 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **-54,565** | **-34,908** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Acquisition of own shares | 0 | -1 |
| External financing received | 657,584 | 164,853 |
| Repayment of interest-bearing liabilities | -592,693 | -222,079 |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | **64,891** | **-57,227** |
| | | |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **164,891** | **-234,801** |
| Cash and cash equivalents at beginning of period | 479,955 | 738,368 |
| Effect of exchange rate fluctuations | -5,215 | 19,239 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **639,631** | **522,806** |

Notes 1 to 21 form an integral part of the condensed consolidated interim financial statements.

## CONTENTS: NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 6. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### NOTE 1 – GENERAL INFORMATION

Acerinox, S.A. (hereinafter the Company) was incorporated with limited liability under Spanish law on 30 September 1970. Its registered office is located at Calle Santiago de Compostela No. 100, Madrid, Spain.

The accompanying condensed consolidated interim financial statements include the Company and all its subsidiaries.

The latest approved annual accounts, which were for 2015, are publicly available at the Company's headquarters, on the Group's website: www.acerinox.es and on the website of the Spanish National Securities Market Commission (CNMV).

These condensed consolidated interim financial statements were authorised for issue by the board of directors on 27 July 2016.

### NOTE 2 – STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and, specifically, International Accounting Standard (IAS) 34 - Interim Financial Reporting. These financial statements do not include all the information required of complete financial statements and should be read and interpreted in conjunction with the Group's published annual accounts for the year ended 31 December 2015.

### NOTE 3 – ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the first half of 2016 have been prepared using the same accounting principles (IFRS-EU) as for 2015, except for the standards and amendments adopted by the European Union which are obligatory as of 1 January 2016, and which have not had a significant impact on the Group. As at year end, the condensed consolidated interim financial statements of the Acerinox Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations (IFRIC) as adopted by the European Union (hereinafter IFRS-EU) and other provisions of the applicable financial reporting framework.

Moreover, new standards and interpretations have been published. These will be obligatory for forthcoming annual periods and have not been applied early. Taking into account the activity of the Group companies, the Company's directors do not expect the future application of the new standards to have a significant impact on the consolidated annual accounts. . The consolidated annual accounts for 2015 include details of the standards or interpretations already adopted or pending adoption by the European Union that will be obligatory in the coming years and are expected to have the most impact on the Group. These standards are IFRS 9 - Financial Instruments, IFRS 16 - Leases and IFRS 15 - Revenue Recognition.

No disclosures or accounting principles have been applied in advance.

### NOTE 4 – ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting estimates and judgements used by the Group during this interim period have been applied consistently with those used for the latest approved annual accounts, which were for 2015.

## NOTE 5 - SEASONAL OR CYCLICAL NATURE OF TRANSACTIONS

The Acerinox Group's activities are not seasonal in nature.

## NOTE 6 – SIGNIFICANT EVENTS TAKING PLACE IN THE FIRST HALF OF 2016

### Stainless steel markets

The two quarters of the first half of 2016 have been notably different.

The first quarter was characterised by the same factors that hindered activities in 2015: ongoing drop in raw material prices, imports from Asia and a reduction in inventories in the warehousing sector.

Market conditions in the second quarter were an improvement on the first three months. The drop in raw material prices levelled off, and imports from Asia to the United States declined whilst inventory levels in the warehousing sector normalised.

### Production

At 1,226,932 tonnes, steel production is up 1.2% compared with the first half of 2015, as a result of the improved market situation across the board. Production in the second quarter was 13% greater than in the first.

In turn, cold rolling production stood at 846,140 tonnes, 2.5% up on the first half of 2015. Production in the second quarter was 2% greater than in the preceding quarter.

Bahru Stainless has continued to grow, despite the complex market conditions, and increased cold rolling production by 7.9%.

### Gains/losses

Acerinox's results for the first half of 2016 were affected by a complicated market environment in the first quarter, but steadily improved in the second quarter.

At Euros 1,907 million, revenue was down 17.6% on the same period in the prior year, due to the drop in prices in all markets. According to Platts, prices fell by 18% in Europe, 31% in the United States and 24% in Asia, dragged down by slipping nickel prices.

EBITDA, at Euros 120 million, is down 41% on the same period of the prior year, but did improve in the second quarter, totalling Euros 79 million (a rise of 92% on the first quarter). EBITDA is calculated as the "result from operating activities", plus "amortisation and depreciation", plus the Euros 371 thousand change in provisions (which has been recognised under other operating expenses in the income statement).

Profit before tax dropped by 79% to Euros 19 million.

Profit after tax and non-controlling amounted to Euros 9 million, a decline of 85%. After three consecutive months of losses, in the second quarter the Group once again achieved a profit, amounting to Euros 17 million.

## NOTE 7 – INTANGIBLE ASSETS

Movement in intangible assets is as follows:

(Expressed in thousands of Euros)

| COST | Emission allowances | Industrial property | Computer software and other | SUBTOTAL | Goodwill |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **7,022** | **24,312** | **24,236** | **55,570** | **69,124** |
| Acquisitions | 3,002 | 0 | 1,259 | 4,261 | |
| Transfers | | | 57 | 57 | |
| Disposals | -1,826 | 0 | -1,184 | -3,010 | |
| Translation differences | 0 | 0 | -401 | -401 | |
| **Balance at 31 December 2015** | **8,198** | **24,312** | **23,967** | **56,477** | **69,124** |
| Additions | 2,101 | 0 | 523 | 2,624 | |
| Transfers | 0 | 0 | 148 | 148 | |
| Disposals | -1,816 | 0 | -50 | -1,866 | |
| Translation differences | 0 | 0 | 29 | 29 | |
| **Balance at 30 June 2016** | **8,483** | **24,312** | **24,617** | **57,412** | **69,124** |
| | | | | | |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | **Emission allowances** | **Industrial property** | **Computer software and other** | **SUBTOTAL** | **Goodwill** |
| **Balance at 1 January 2015** | **0** | **24,310** | **21,949** | **46,259** | **0** |
| Charges | | | 605 | 605 | |
| Disposals | | | -1,184 | -1,184 | |
| Translation differences | | | -384 | -384 | |
| **Balance at 31 December 2015** | **0** | **24,310** | **20,986** | **45,296** | **0** |
| Charges | | | 618 | 618 | |
| Disposals | | | -50 | -50 | |
| Translation differences | | | 27 | 27 | |
| **Balance at 30 June 2016** | **0** | **24,310** | **21,581** | **45,891** | **0** |
| | | | | | |
| **CARRYING AMOUNT** | **Emission allowances** | **Industrial property** | **Computer software and other** | **SUBTOTAL** | **Goodwill** |
| | | | | | |
| Cost at 1 January 2015 | 7,022 | 24,312 | 24,236 | 55,570 | 69,124 |
| Accumulated amortisation and impairment | 0 | -24,310 | -21,949 | -46,259 | |
| **Carrying amount at 1 January 2015** | **7,022** | **2** | **2,287** | **9,311** | **69,124** |
| | | | | | |
| 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 | |
| **5** | **8,198** | **2** | **2,981** | **11,181** | **69,124** |
| | | | | | |
| Cost at 30 June 2016 | 8,483 | 24,312 | 24,617 | 57,412 | 69,124 |
| Accumulated amortisation and impairment | 0 | -24,310 | -21,581 | -45,891 | |
| **Carrying amount at 30 June 2016** | **8,483** | **2** | **3,036** | **11,521** | **69,124** |

### Impairment

The Group has not recognised any impairment on intangible assets at 30 June 2016 or 30 June 2015.

There were no indications of impairment requiring that the recoverability of goodwill be evaluated prior to period end.

## NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment is as follows:

(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 2015** | **742,418** | **3,325,272** | **85,674** | **258,708** | **4,412,072** |
| Additions | 1,652 | 18,592 | 2,389 | 67,115 | 89,748 |
| Impairment | -16 | -184 | 0 | 0 | -200 |
| Transfers | 379 | 11,153 | 1,377 | -12,966 | -57 |
| Disposals | -418 | -19,603 | -1,977 | 0 | -21,998 |
| Translation differences | 37,967 | 146,392 | 1,941 | 29,073 | 215,373 |
| **Balance at 31 December 2015** | **781,982** | **3,481,622** | **89,404** | **341,930** | **4,694,938** |
| Additions | 1,557 | 10,026 | 682 | 41,225 | 53,490 |
| Transfers | 57,443 | 233,312 | 3,312 | -294,215 | -148 |
| Disposals | -5,643 | -3,647 | -628 | 0 | -9,918 |
| Translation differences | -8,555 | -30,450 | -474 | -6,319 | -45,798 |
| **Balance at 30 June 2016** | **826,784** | **3,690,863** | **92,296** | **82,621** | **4,692,564** |

| 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 2015** | **291,419** | **2,070,615** | **78,519** | **0** | **2,440,553** |
| Charges | 16,746 | 141,236 | 5,097 | | 163,079 |
| Transfers | -1,198 | -1,334 | 2,532 | | 0 |
| Disposals | -237 | -8,626 | -1,887 | | -10,750 |
| Translation differences | 10,872 | 63,142 | 2,186 | | 76,200 |
| **Balance at 31 December 2015** | **317,602** | **2,265,033** | **86,447** | **0** | **2,669,082** |
| Charges | 8,180 | 71,265 | 2,865 | | 82,310 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Disposals | -3,181 | -1,550 | -612 | 0 | -5,343 |
| Translation differences | -2,522 | -14,976 | -515 | 0 | -18,013 |
| **Balance at 30 June 2016** | **320,079** | **2,319,772** | **88,185** | **0** | **2,728,036** |

| CARRYING AMOUNT | Land and buildings | Technical installations and machinery | Other property, plant and equipment | Property, plant and equipment under construction | TOTAL |
|---|---|---|---|---|---|
| Cost at 1 January 2014 | 742,418 | 3,325,272 | 85,674 | 258,708 | 4,412,072 |
| Accumulated depreciation and impairment | -291,419 | -2,070,615 | -78,519 | 0 | -2,440,553 |
| **Carrying amount at 1 January 2015** | **450,999** | **1,254,657** | **7,155** | **258,708** | **1,971,519** |
| Cost at 31 December 2014 | 781,982 | 3,481,622 | 89,404 | 341,930 | 4,694,938 |
| Accumulated depreciation and impairment | -317,602 | -2,265,033 | -86,447 | 0 | -2,669,082 |
| **Carrying amount at 31 December 2015** | **464,380** | **1,216,589** | **2,957** | **341,930** | **2,025,856** |
| Cost at 30 June 2015 | 826,784 | 3,690,863 | 92,296 | 82,621 | 4,692,564 |
| Accumulated depreciation and impairment | -320,079 | -2,319,772 | -88,185 | 0 | -2,728,036 |
| **Carrying amount at 30 June 2016** | **506,705** | **1,371,091** | **4,111** | **82,621** | **1,964,528** |

The investments made in property, plant and equipment and intangible assets during the period total Euros 56,113 thousand, of which Euros 29,079 thousand was invested by North American Stainless in the new cold rolling mill and a bright annealing (BA) line and Euros 12,674 thousand was invested by Acerinox Europa in the new cold rolling mill and a fifth annealing and pickling line. Investments in the first half of 2015 amounted to Euros 32,567 thousand (of which Euros 9,863 thousand was invested by Bahru Stainless and Euros 11,140 thousand by North American Stainless).

During the period, 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 is Euros 292 million. The entry into service of these investments increased the depreciation charge by approximately Euros 1 million per month.

### Asset disposals

The gain on the sale of property, plant and equipment or the removal of assets from service totals Euros 3,084 thousand and has been recognised under other operating income 2016 at June 2016 income statement (Euros 457 thousand at June 2015).

The Group has disposed of two warehouses, with a carrying amount of Euros 2,389 thousand, which had been classified as investment property, generating a gain of Euros 2.9 million.

A loss of Euros 59 thousand on the sale of property, plant and equipment or removal of assets from service has been recorded under other operating expenses in the income statement for the period ended 30 June 2016 (Euros 196 thousand at 30 June 2015).

### Commitments

At 30 June 2016, the Group had entered into contracts to acquire new equipment and installations for Euros 149,946 thousand. Of this amount, Euros 68,445 thousand reflects acquisitions by North American Stainless and Euros 76,706 thousand relates to investments approved by Acerinox Europa. At 31 December 2015 the Group had contracts to purchase new equipment and facilities amounting to Euros 154,781 thousand, of which Euros 62,622 thousand was for new investments by North American Stainless, Euros 78,865 thousand was for Acerinox Europa and Euros 11,508 thousand was for investments in the new Malaysian plant.

## NOTE 9 – INVENTORIES

Details are as follows:

(Expressed in thousands of Euros)

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Raw materials and other supplies | 261,772 | 229,937 |
| Work in progress | 180,890 | 185,405 |
| Finished goods | 309,833 | 390,565 |
| By-products, waste and recoverable materials | 22,299 | 18,774 |
| Advances | 178 | 248 |
| **TOTAL** | **774,972** | **824,929** |

The adjustment recognised at 30 June 2016 to measure inventories at their net realisable value amounts to Euros 4,459 thousand (Euros 14,248 thousand at 31 December 2015).

## NOTE 10 – FINANCIAL INSTRUMENTS

Details of the Group's financial assets, except investments in associates, at 30 June 2016 and the 2015 year end are as follows:

(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 | |
| | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** |
| Loans and receivables | | | | | 2,417 | 2,436 | | | | | 552,486 | 469,893 |
| Held-to-maturity investments | | | | | | | | | | | | |
| Assets available for sale | | | | | | | | | | | | |
| - At fair value | 11,940 | 10,382 | | | | | | | | | | |
| - At cost | 286 | 285 | | | | | | | | | | |
| Assets at fair value through profit or loss | | | | | | | | | | | | |
| - Held for trading | | | | | | | | | | | 5,125 | 633 |
| - Other | | | | | | | | | | | | |
| Hedging derivatives | | | | | 1,685 | 9,375 | | | | | 2,510 | 15,338 |
| **TOTAL** | **12,226** | **10,667** | **0** | **0** | **4,102** | **11,811** | **0** | **0** | **0** | **0** | **560,121** | **485,864** |

At 30 June 2016 and the 2015 year end the Group has the following financial liabilities:

(Expressed in thousands of Euros)

| Classes / Categories | Non-current financial instruments | | | | | | Current financial instruments | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and borrowings | | Bonds and other marketable securities | | Payables, derivatives and other | | Loans and borrowings | | Bonds and other marketable securities | | Payables, derivatives and other | |
| | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** | **2,016** | **2,015** |
| Debts and payables | 881,032 | 617,230 | 124,019 | 123,931 | 2,200 | 2,062 | 239,943 | 447,887 | 3,520 | 1,653 | 767,002 | 641,726 |
| Liabilities at fair value through profit or loss | | | | | | | | | | | | |
| - Held for trading | | | | | | | | | | | 4,037 | 14,072 |
| - Other | | | | | | | | | | | | |
| Hedging derivatives | | | | | 1,868 | 3,992 | | | | | 1,244 | 345 |
| **TOTAL** | **881,032** | **617,230** | **124,019** | **123,931** | **4,068** | **6,054** | **239,943** | **447,887** | **3,520** | **1,653** | **772,283** | **656,143** |

## NOTE 11 – LOANS AND BORROWINGS

At 30 June 2016 the Acerinox Group's bank financing facilities and private placements amount to Euros 1,868 million (Euros 1,788 million at 31 December 2015).

The most significant financing operation during the first half of 2016 was the debt rescheduling of the majority of the bilateral loans held by Acerinox S.A. In April and May 2016, the Parent signed 12 bilateral loan contracts with a term of between four and five years, thereby extending their maturities and reducing the spreads applied. The 12 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 loans arranged total Euros 717 million. Given the resulting variations, the Group has for the most part recognised the effects of these new agreements as if they were new loans, and has therefore simultaneously recognised the cancellation and new loans.

Moreover, on 30 June Acerinox S.A. settled the early repayment of the syndicated loan arranged in the United States in January 2012. The outstanding balance of this loan at the date of its early repayment was US Dollars 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.

The amortised cost of financial instruments does not differ significantly from their fair value.

The Group has arranged loans which are subject to compliance with certain annual financial ratios, which are detailed in the Group's consolidated annual accounts at 31 December 2015. However, at present the Group does not have any loans which are subject to compliance with financial ratios each half-year, following the repayment of the syndicated loan and the amendment agreed with Banco Santander during the first half of this year with respect to the loan arranged with the support of OeKB (Austria's export credit agency). None of the new loans arranged is subject to compliance with financial ratios.

## NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

The Group classifies derivative financial instruments that do not qualify for hedge accounting as assets or liabilities at fair value through profit or loss. Those which qualify as hedging instruments are classified as hedging derivatives.

As stated in the Group's annual accounts, in relation to market risk, the Group is essentially exposed to three types of risk in its activities: currency risk, interest rate risk and commodity price risk. The Group uses derivative financial instruments to hedge its exposure to certain risks.

A breakdown of the Group’s financial derivatives at 30 June 2016 and 31 December 2015 by type of hedged risk is as follows:

(Expressed in thousands of Euros)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Exchange rate insurance | 5,127 | 4,037 | 657 | 14,170 |
| Interest rate swaps | 0 | 3,112 | 37 | 4,239 |
| Cross-currency swaps | 4,193 | 0 | 24,652 | |
| **TOTAL** | **9,320** | **7,149** | **25,346** | **18,409** |

The reduction in the amount of cross currency swaps is essentially attributable to the early cancellation of the financial derivative associated with the syndicated loan, as mentioned in **note 11**. On 30 June 2016, Acerinox S.A. cancelled early the derivative arranged in January 2012 with four financial institutions to cover the currency and interest rate risk of the syndicated loan signed in the United States. A cancellation cost of Euros 957 thousand has been recognised under remeasurement of finance costs.

No financial derivatives have been arranged to cover the interest rate risk associated with the new loans.

Derivative financial instruments are measured at fair value and classified, depending on the valuation method used, into the following levels:

LEVEL 1: quoted prices in active markets
LEVEL 2: observable market variables other than quoted prices
LEVEL 3: variables not observable in the market

Details at 30 June 2016 and 31 December 2015 are as follows:

(Expressed in thousands of Euros)

| | 30-jun-16 | | | 31-dic-15 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Available-for-sale financial assets | 11,940 | | | 10,382 | | |
| Financial derivatives (assets) | | 9,320 | | | 25,346 | |
| **TOTAL** | **11,940** | **9,320** | **0** | **10,382** | **25,346** | **0** |
| | | | | | | |
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Financial derivatives (liabilities) | | 7,149 | | | 18,409 | |
| **TOTAL** | **0** | **7,149** | **0** | **0** | **18,409** | **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 institution with which it operates.

## NOTE 13 – APPLICATION OF LOSSES AND DISTRIBUTION OF DIVIDENDS

At their general meeting held on 9 June 2016, the shareholders agreed that the Parent's losses for 2015, amounting to Euros 20,531 thousand, should be carried forward as prior years' losses.

At the same meeting the shareholders also agreed a scrip dividend, for which a share capital increase was approved, with a charge to reserves by issuing ordinary shares to be allocated to the shareholders free of charge.

Based on the agreements reached by the shareholders and the board of directors, those parties who were shareholders of Acerinox at 23:59 hours on 21 June 2016 were to be allocated one right for each share held in the share capital increase. The rights were traded on the stock exchange from 22 June to 6 July 2016 and entitled the shareholders to choose between the following options:

- Sell the rights to the Company for Euros 0.44 per right between 22 June and 30 June inclusive.
- Sell the rights on the stock exchange at the listed market price from 22 June to 6 July 2016 inclusive.
- Subscribe shares in Acerinox on the basis of one (1) new share for every twenty-two (22) rights allocated to them on 21 June 2016.

On 6 July 2016 the definitive amount of the dividend payable and the details of the share capital increase were established, as follows:

- 60,784,070 rights were sold to Acerinox for Euros 0.44 per right, with the Company therefore paying out Euros 26,744,990.8 to its shareholders on 11 July 2016.

- 9,360,150 new shares were issued in the share capital increase. These shares will be listed prior to the end of July 2016.

At the end of the half-year period, the Company has recognised the dividend payable as a reduction in reserves, and has recorded a liability under other current financial liabilities.

## NOTE 14 - CHANGES IN THE CONSOLIDATED GROUP

The only change during the period 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 Acerinox Scandinavia AB, a Group company registered in Sweden, for sales in Norway. Acerinox Scandinavia has absorbed the personnel of the entity. The liquidation had a positive impact of Euros 597 thousand on the Parent's results due to the repatriation of share capital and accumulated reserves. Conversely, the impact on consolidated results has entailed a loss of Euros 290 thousand due to accumulated translation differences. The loss on the liquidation was recognised under finance costs in the consolidated income statement.

## NOTE 15 – TAXATION

The tax rate resulting from the Group's consolidated income statement for the reported interim period was 87.4%, compared with 40.4% for the same period in the prior year. This rate is essentially due to the non-capitalisation of tax credits by certain Group companies, whose losses for the period total Euros 31 million.

There have been no significant amendments to tax legislation during the period.

With respect to the tax inspections and lawsuits in progress, mentioned in the Acerinox Group's annual accounts for 2015, the following changes have occurred in the first half of the year.

- As explained in the annual accounts for 2015, Acerinox Italia has submitted to the Spanish and Italian taxation authorities its request for the elimination of double taxation with respect to the transfer pricing adjustments and is awaiting for an agreement to be negotiated between the two countries. As regards the adjustments for matters other than transfer pricing, which represent a maximum risk of Euros 1.6 million (including interest), the company has ultimately decided to agree a settlement of Euros 336 thousand with the Italian taxation authorities, which has been recognised under income tax in the income statement for the period. As a result of this agreement, all the lawsuits filed against the Italian taxation authorities were resolved, with the exception of the transfer pricing adjustments, which will largely depend on any future agreements reached between Italy and Spain.

- As was the case with the additional tax assessments raised for 2010, the South African taxation authorities have rejected the claims filed by the Group company Columbus regarding the additional tax assessments for 2011 and 2012. The company will therefore file the pertinent objections with the courts by the established deadline. In South Africa, tax conflicts may be resolved through interim proceedings via the appointment of an arbitrator, prior to the objection reaching the courts. The Group has received notification that proceedings will be initiated for this case. Although such proceedings are voluntary, the company intends to exhaust all its options prior to resorting to the courts. The company considers the facts on which the proposed adjustments are based to be incorrect, and also considers the interpretation of the applicable legislation to be erroneous, as they are not in line with the principles or any of the methods approved by OECD guidelines. The transfer pricing method adopted by Columbus is in line with that of the rest of the Group and is OECD-approved. As this transfer pricing adjustment relates to the sales from South Africa to Group companies, primarily in Europe, the Group is also considering – provided that no rectifications are made to the internal claims prior to the final assessment – requesting elimination of double taxation in accordance with the double taxation treaties between South Africa and the countries in which the affected distributors are registered (essentially European distributors).

- In Spain, as explained in the annual accounts for 2015, 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, antidumping and VAT for 2009, 2010 and 2011. Agreements to enforce the rulings were received on 27 April 2016, for amounts of Euros 925 thousand in the case of antidumping, which had been guaranteed, Euros 649 thousand in respect of VAT on imports, (which had been deducted by Acerinox at the time) and Euros 41 thousand in respect of payable external tariffs. The Company has filed an appeal against the assessment decisions, contesting the interest calculation, and will also file the appropriate claims to recover the guarantee expenses.

## NOTE 16 – LITIGATION

There have been no significant cases of litigation during the period.

## NOTE 17 – CONTINGENT ASSETS AND LIABILITIES

At the end of the half-year period, the Group has no new contingent assets or liabilities other than those mentioned in the annual accounts for 2015.

## NOTE 18 – 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, coils, plates, flats, circles and sheets.
- Long stainless steel products: bars, angles, wires and wire rod.
- Other: other stainless steel products not included in the previous segments.

The "unallocated" portion 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 normal commercial terms and conditions governing unrelated 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.

### 18.1 Operating segments

Details of revenues by operating segment are as follows:

(Expressed in thousands of Euros)

| | 30-jun-16 | | | 30-jun-15 | | |
|---|---|---|---|---|---|---|
| | **Revenues from external customers** | **Inter-segment revenues** | **Total revenues** | **Revenues from external customers** | **Inter-segment revenues** | **Total revenues** |
| Flat products | 1,642,655 | 125,757 | 1,768,412 | 1,998,625 | 149,660 | 2,148,285 |
| Long products | 267,944 | 8,074 | 276,018 | 322,275 | 9,554 | 331,829 |
| Other | 9,323 | | 9,323 | 8,786 | | 8,786 |
| | | | | | | |
| (-) Adjustments and elimination of inter-segment revenues | | -133,831 | -133,831 | | -159,214 | -159,214 |
| **TOTAL** | **1,919,922** | **0** | **1,919,922** | **2,329,686** | **0** | **2,329,686** |

Details of consolidated profit by operating segment are as follows:

(Expressed in thousands of Euros)

| | At 30 June 2016 | At 30 June 2015 |
|---|---|---|
| Flat products | 41,447 | 105,670 |
| Long products | 8,241 | 24,283 |
| Other stainless steel products | 1,367 | 1,409 |
| **Total revenues from reported segments** | **51,055** | **131,362** |
| (+/-) Unallocated loss | -31,976 | -35,339 |
| (+/-) Elimination of internal profit/loss (inter-segment) | | |
| (+/-) Other profit/loss | | |
| **PRE-TAX PROFIT** | **19,079** | **96,023** |

### 18.2 Geographical segments

Revenue from geographical segments is presented on the basis of customer location.

Details of revenue by geographical area at 30 June 2016 and 2015 are as follows:

(Expressed in thousands of Euros)

| | At 30 June 2016 | At 30 June 2015 |
|---|---|---|
| Spain | 208,493 | 225,032 |
| Rest of Europe | 509,551 | 667,533 |
| Americas | 869,361 | 1,072,473 |
| Africa | 100,086 | 120,954 |
| Asia | 214,240 | 222,201 |
| Other | 5,288 | 7,029 |
| **TOTAL** | **1,907,019** | **2,315,222** |

## NOTE 19 – AVERAGE HEADCOUNT

The average headcount of the Group in the first half of 2016 is 6,767 employees (6,771 employees in the first half of 2015). The headcount at 30 June is 6,854 employees (6,809 employees at 30 June 2015).

## NOTE 20 – RELATED PARTY TRANSACTIONS

- **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 boards of directors of Group companies, and their related parties.
- 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.

All transactions between related parties are carried out under market conditions.

Details of transactions with related parties are as follows:

- **Balances and transactions with associates**

The Group did not conduct any transactions with associates during this interim period or during the same period of 2015.

- **Balances and transactions with significant shareholders**

At 30 June 2016 the Group has entered into the following financing transactions with Banca March, part of the March Group (shareholder of Corporación Financiera Alba), all of which are under market conditions:

- Non-current loan of Euros 30 million, which has been drawn down in full.
- A derivatives facility for an amount of Euros 0.50 million, which has not been drawn down at the end of the half-year.
- A credit facility for an amount of Euros 4 million, which has not been drawn down at the end of the half-year.
- Guarantees totalling Euros 0.06 million.
- Confirming (reverse factoring) facilities for Euros 15.5 million, of which Euros 0.3 million has been drawn down.
- Non-recourse factoring facilities for Euros 70 million, of which Euros 17.31 million has been drawn down.

Transactions with this same entity at 30 June 2015 were as follows:

- Non-current loan of Euros 30 million, which had been drawn down in full.
- A credit facility for an amount of Euros 4 million, which had not been drawn down at the end of the half-year.
- Guarantees totalling Euros 0.06 million.
- Confirming (reverse factoring) facilities for Euros 16 million, of which Euros 3.99 million had been drawn down.
- Non-recourse factoring facilities for Euros 70 million, of which Euros 50.36 million had been drawn down.

Insurance premiums brokered through March-JLT Correduría de Seguros amount to Euros 7,996 thousand at 30 June 2016 (Euros 7,527 thousand at 30 June 2015).

The balance of transactions with Banca March is as follows:

(Expressed in thousands of Euros)

| | At 30 June 2016 | At 30 June 2015 |
|---|---|---|
| Interest expense | 389 | 647 |
| Fee and commission expenses | 90 | 51 |
| **TOTAL** | **479** | **698** |

The Acerinox Group has also carried out the following transactions with its shareholder Nisshin, either directly or through other companies belonging to its Group:

(Expressed in thousands of Euros)

| | At 30 June 2016 | At 30 June 2015 |
|---|---|---|
| Services received | 587 | 289 |
| Finance costs | 11 | 19 |
| Sale of goods | 410 | 412 |

At period end receivables from the Nisshin group amount to Euros 279 thousand (Euros 304 thousand at 30 June 2015).

- **Directors and key management personnel**

Remuneration received by the members of senior management who do not hold positions on the board of directors of Acerinox, S.A. amounts to Euros 1,038 thousand at 30 June 2016 (Euros 1,367 thousand for the same period of 2015). Euros 436 thousand of this amount reflects salaries (Euros 420 thousand in 2015), Euros 40 thousand comprises allowances (Euros 50 thousand in 2015) and Euros 562 thousand reflect other remuneration (Euros 897 thousand in 2015).

At 30 June 2016, the 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, have received Euros 1,149 thousand in fixed remuneration for attending board meetings and fixed and variable salaries (Euros 1,414 thousand in the same period of 2015), of which Euros 575 thousand reflects salaries and fixed board member remuneration (Euros 570 thousand in 2015), Euros 186 thousand comprises allowances (Euros 194 thousand in 2015) and Euros 388 thousand reflects other remuneration (Euros 650 thousand in 2015).

Long-term commitments with senior management personnel have been accounted for correctly and are adequately covered through insurance contracts. At 30 June 2016 and 2015 no advances or loans have been extended to the members of the board of directors or senior management personnel and the Company has no balances receivable from or payable to these executives.

All transactions carried out between members of the board of directors and the Company or Group companies in the first half of 2016 have been ordinary transactions under market conditions.

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.

## NOTE 21 – EVENTS AFTER THE REPORTING PERIOD

### Scrip dividend

On 6 July Acerinox, S.A. paid out Euros 26,744,990.8 to those shareholders who sold their rights to the Company.

The share capital increase, through the issue of 9,360,150 shares derived from the scrip dividend, was filed at the Madrid Mercantile Registry on 19 July. These new shares were admitted to trading on 22 July 2015.

# INTERIM MANAGEMENT REPORT

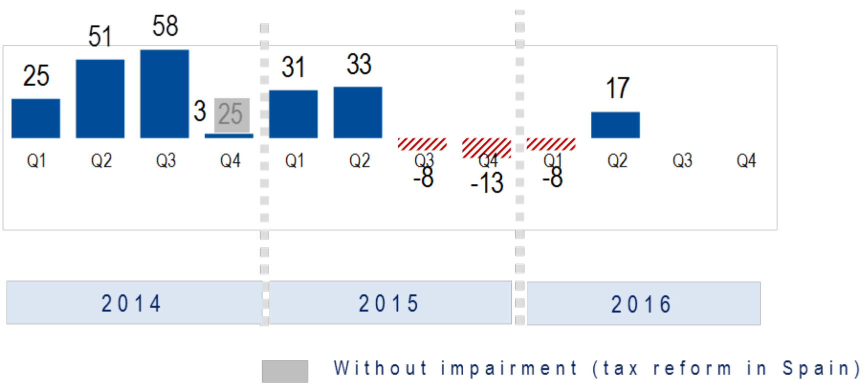
## FIRST HALF OF 2016

# Results for 1st Half 2016

- Acerinox obtained a profit, after tax and minority interests, of 17 million euros, an improvement of 25 million euros over the previous quarter. Meanwhile for the semester as a whole it was 9 million euros, 86% lower than for the same period of 2015
- The EBITDA generated in the second quarter, 79 million euros, is 92% higher than that of the previous quarter. The EBITDA of the first half of the year, 120 million euros, is 41% lower than in the first half of last year
- Melting production, at 1,226,932 tonnes, has increased by 1% compared to the first half of 2015
- The net financial debt of 609 million euros, has decreased by 195 million euros compared to 30 June 2015, and 102 million euros compared to December 2015
- The Group has refinanced a total of 717 million euros, lowering the financial cost and extending the term
- The total cash flow generated in the first half of the year increased to 100 million euros
- In July, Acerinox distributed a dividend of 0.44 euros per share through a scrip dividend. 77% of shareholders chose to take on new shares
- The Excellence Plan IV 2015-2016 is progressing positively and 71% of targets have already been met with six months to conclude the Plan, which we value at 48 million euros
- Consumption continues to grow in most markets, despite the myriad uncertainties

Results after taxes and minorities

Millions of euros



## Stainless Steel Market

Market conditions in the second quarter have stabilised after continuous drops in raw materials and inventory corrections in all markets.

After 20 months of continuous decline, the price of nickel has stabilised in the vicinity of 8,800 USD/t, after the low reached on 11 February of 7,710 USD/t.

Since the second half of June there has been a rise in the price of nickel, which, if sustained, will be reflected in the activity of the third quarter.

Official nickel price on the LME

Average price for cash/three months (USD/t). Years: 2014 - June 2016


Further declines are unlikely in the price of nickel, since analysts predict that demand will exceed supply in 2016 for the first time in 5 years, which is being reflected in the decline in inventories in the London Metal Exchange.

## Europe

We think that the real demand for stainless steel is growing due to the good performance of the consumer sectors. Automobile production increased up to May by +6% and estimated growth for the construction sector and white goods is at +2%.

Inventories are back to normal, unlike in 2015, which has allowed an improvement in apparent consumption of 10% up until May. We highlight countries such as Spain and Italy, with growth levels of +12%. Only in the UK is there a negative evolution, with a decline of -2%.

Imports of cold rolled from China have decreased, but have been replaced by products originating in other countries, notably Korea and Taiwan. Imports of flat stainless steel producer have increased by 19%, reaching a market share of 23%, according to our estimates.

## North America

Final demand continues to show good performance. The construction sector stands out with growth, up to May, of +8%. Additionally, car production grew +2% and white goods +1%, also up to May.

Still, during the first months of the year, the process of reduction of inventories has continued and apparent consumption, according to our estimates, has fallen by 5% up to April (latest available data). Since then, the level of inventories in the wholesale sector has stabilised at levels well below the average of the past four years.

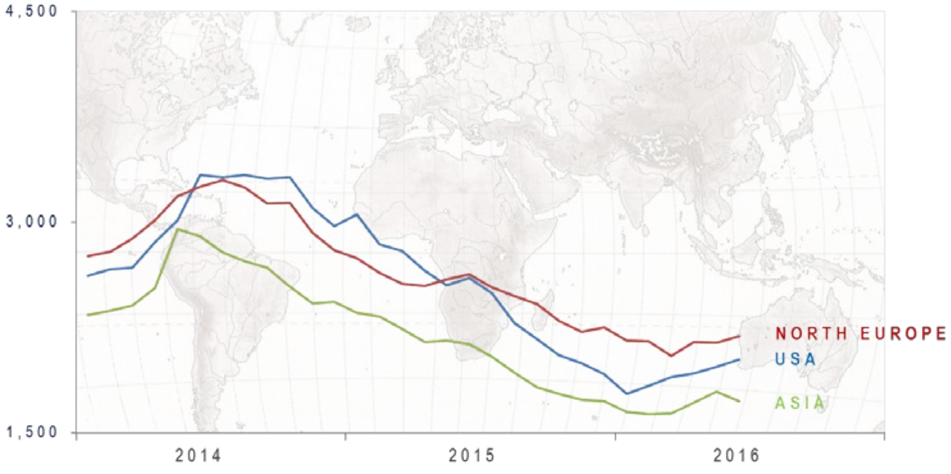
US imports have fallen by 10% up to June.

Base prices, which fell sharply in 2015, are recovering, and during the first half of the year, three price increases for cold-rolled product were recorded, effective on 1 January, 1 March and 1 May.

The United States Department of Commerce declared anti-dumping proceedings admissible and separate anti-subsidy proceedings against cold rolled product from China. Preliminary anti-subsidy measures have been announced with tariffs between 57% and 193%. We also expect that preliminary action on anti-dumping proceedings will be adopted late in the third quarter and will be given retroactive effect over three months.

Prices of cold-rolled stainless steel plate AISI 304, 2mm.

Years: 2014 - June 2016




*Source: Platts*

## Asia

The demand for stainless steel is also increasing in Asia. In China, car production grew by 6%, construction by 7%, although white goods decreased by 4%.

Stocks in the Wuxi and Foxan warehouses have grown in recent months, due to the growth in production by Chinese producers and are slightly above the average of the last three years.

## South Africa

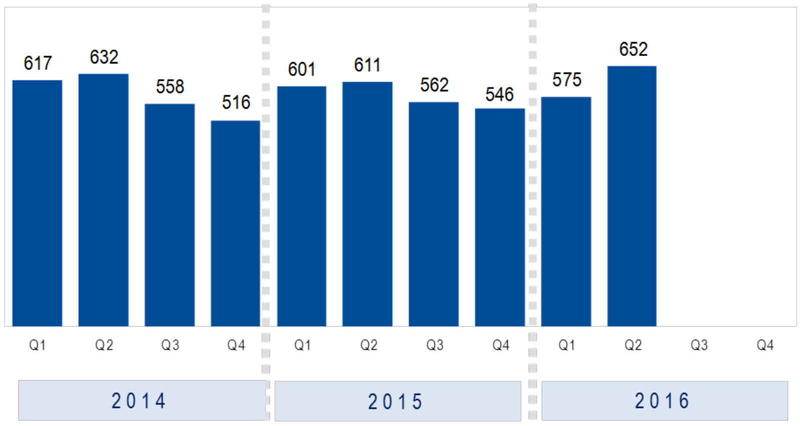
South Africa's apparent consumption increased by 2% compared to May last year, mainly due to the good performance of sectors such as automotive and containers.

# Production

Melting production, at 1,226,932 tonnes, has increased by 1% compared to the first half of 2015. Production in the second quarter was 13% higher than in the first and is at its highest level since the second quarter of 2007.

Evolution of Acerinox's melting production

Thousands of Mt




As regards cold-rolling steel production, this stood at 846,140 tonnes, which is 3% higher than in the first half of 2015. Production in the second quarter was 2% higher than in the previous quarter.

Acerinox Production

Thousands of Mt

| | | 2016 | | | | | 2015 | Variation (%) |
|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Accumulated | Jan-Jun | |
| Melting shop | Thousand Mt | 575.1 | 651.9 | | | 1,226.9 | 1,211.9 | 1.2% |
| Hot rolling shop | | 526.4 | 563.4 | | | 1.089,8 | 1,060.4 | 2.8% |
| Cold rolling shop | | 418.1 | 428.1 | | | 846.1 | 825.5 | 2.5% |
| Long product (Hot rolling) | | 54.8 | 63.8 | | | 118.5 | 117.7 | 0.8% |

The semi-annual hot-rolling production of long products, at 118,549 tonnes, was 1% higher than for the same period of the previous year. Production in the second quarter was 17% higher than in the first.

Bahru Stainless continues growing despite the difficult market conditions and its cold-rolled production has increased by 8%.

# Results

Acerinox's results for the first half of 2016 have been affected by a complicated market environment, with a continuous decline in the prices of raw materials. Once these prices stabilised, since March there has been a progressive improvement.

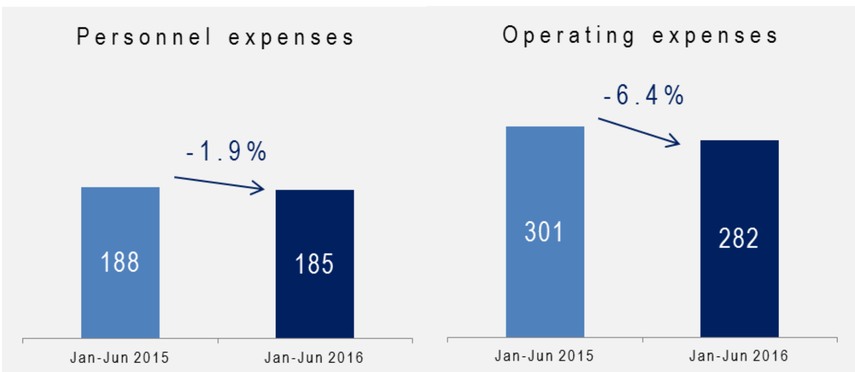
The net sales of 1,907 million euros, shows a decline of 18% with respect to the same period the previous year, due to the fall in prices in all markets: Europe (-18%), United States (-31%) and Asia (-24%), according to Platts, all pulled down by the decline in nickel prices.

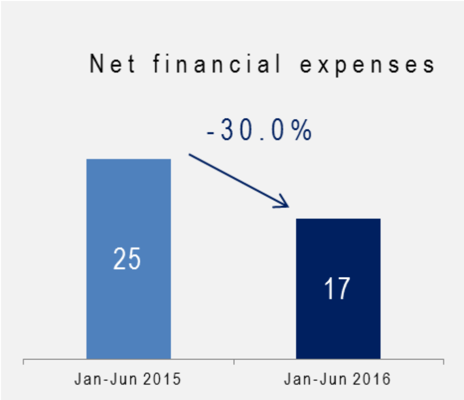
Condensed Profit and Loss account

Millions of euros

| | | | January- June | | |
|---|---|---|---|---|---|
| Million € | Q1 2016 | Q2 2016 | 2016 | 2015 | Variation |
| **Net sales** | 953.35 | 953.67 | 1,907.02 | 2,315.22 | -17.6% |
| Gross operating result / EBITDA | 40.99 | 78.75 | 119.73 | 203.63 | -41.2% |
| *% over sales* | 4.3% | 8.3% | 6.3% | 8.8% | |
| EBIT | 0.55 | 35.89 | 36.43 | 120.81 | -69.8% |
| *% over sales* | 0.1% | 3.8% | 1.9% | 5.2% | |
| Result before taxes | -7.35 | 26.43 | 19.08 | 96.02 | -80.1% |
| **Result after taxes and minorities** | -8.31 | 16.99 | 8.68 | 63.92 | -86.4% |
| Depreciation | 40.20 | 42.73 | 82.93 | 82.17 | 0.9% |
| Net cash flow | 31.89 | 59.72 | 91.61 | 146.09 | -37.3% |

The most important expenses items on the Profit and Loss account show savings compared to the same period the previous year:






Depreciation and amortisation (D&A) increased by 1% as a result of the start of the D&A of the second phase of Bahru Stainless.

EBITDA, 120 million euros, was 41% lower than the same period last year, although that of the second quarter, 79 million euros, showed an improvement of +92% compared to the first quarter.

Profit before tax for the half year was 19 million euros.

It is worth noting that, after three consecutive quarters of losses, the Group returned to positive results in the second quarter, 17 million euros, which allowed it to finish the half year with a profit after tax and minority interests of 9 million euros.

As at 30 June, Acerinox had 1,868 million euros in lines of credit, 33% of which is available.

As at 30 June, the amount of 135 million dollars pending from the syndicated loan principal in the United States, whose maturity was marked for 17 February 2017, was paid in advance.

The net financial debt of 609 million euros decreased by 195 million with respect to 30 June 2015, and by 102 million with respect to December 2015.

Condensed Balance sheet

Millions of euros

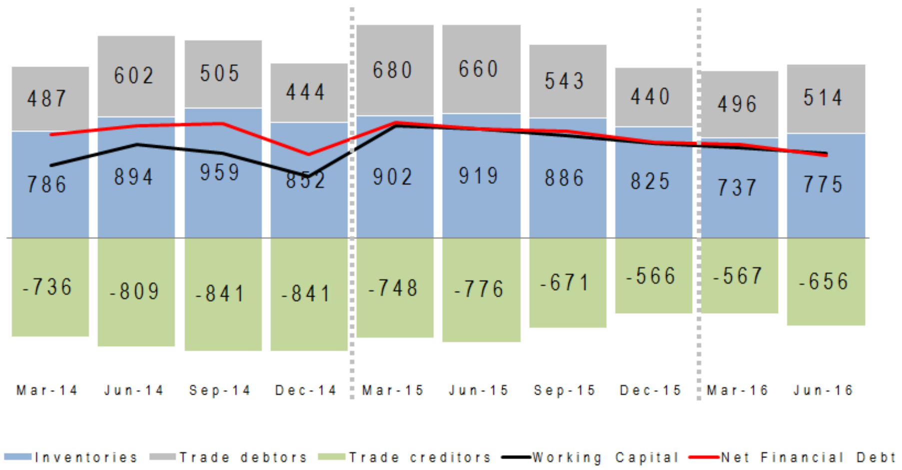
| ASSETS | Jun 16 | 2015 | Variation |
|---|---|---|---|
| Non-current assets | 2,252.44 | 2,317.53 | -2.8% |
| Current assets | 1,983.58 | 1,808.14 | 9.7% |
| - Inventories | 774.97 | 824.93 | -6.1% |
| - Debtors | 540.94 | 478.85 | 13.0% |
| *Trade debtors* | *513.51* | *439.54* | *16.8%* |
| *Other debtors* | *27.43* | *39.31* | *-30.2%* |
| - Cash and other current assets | 667.67 | 504.36 | 32.4% |
| TOTAL ASSETS | 4,236.02 | 4,125.67 | 2.7% |

| LIABILITIES | Jun 16 | 2015 | Variation |
|---|---|---|---|
| Equity | 1,959.07 | 2,023.30 | -3.2% |
| Non-current liabilities | 1,250.67 | 995.59 | 25.6% |
| - Interest-bearing loans and borrowings | 1,005.05 | 741.16 | 35.6% |
| - Other non-current liabilities | 245.61 | 254.43 | -3.5% |
| Current liabilities | 1,026.28 | 1,106.77 | -7.3% |
| - Interest-bearing loans and borrowings | 243.46 | 449.54 | -45.8% |
| - Trade creditors | 656.46 | 566.28 | 15.9% |
| - Other current liabilities | 126.36 | 90.96 | 38.9% |
| TOTAL EQUITY AND LIABILITIES | 4,236.02 | 4,125.67 | 2.7% |

Operating working capital decreased by 66 million euros compared to 31 December 2015. Despite improvements in activity levels reflected in trade receivables (+74 million euros) and trade payables (+90 million euros), the level of inventories in physical units was reduced by 7% (-50 million euros).

Evolution of Operating Working Capital

Millions of euros




Net cash flow generated in the first half of the year increased to 100 million euros, after investments of 54 million euros.

Condensed Statement of Cash Flow

Millions of euros

| | Jan - Jun 2016 | Jan - Dec 2015 | Jan - Jun 2015 |
|---|---|---|---|
| Result before taxes | 19.1 | 76.9 | 96.0 |
| Adjustments for: | 91.3 | 210.2 | 106.3 |
| *Depreciation and amortisation* | *82.9* | *163.7* | *82.2* |
| *Changes in provisions and impairments* | *-7.3* | *2.3* | *-4.1* |
| *Other adjustments in the result* | *15.7* | *44.1* | *28.1* |
| Changes in working capital | 69.3 | -129.5 | -243.5 |
| *Changes in operating working capital* | *66.2* | *-244.0* | *-348.1* |
| *· Inventories* | *50.0* | *26.8* | *-66.9* |
| *· Trade debtors* | *-74.0* | *4.0* | *-216.6* |
| *· Trade creditors* | *90.2* | *-274.8* | *-64.6* |
| *Others* | *3.1* | *114.5* | *104.6* |
| Other cash-flow from operating activities | -25.1 | -140.1 | -101.5 |
| *Income tax* | *-7.8* | *-94.5* | *-80.0* |
| *Financial expenses* | *-17.4* | *-45.6* | *-21.5* |
| NET CASH-FLOW FROM OPERATING ACTIVITIES | 154.6 | 17.4 | -142.7 |
| Payments for investments on fixed assets | -53.8 | -67.5 | -32.3 |
| Others | -0.7 | -0.1 | -2.6 |
| NET CASH-FLOW FROM INVESTING ACTIVITIES | -54.6 | -67.6 | -34.9 |
| NET CASH-FLOW GENERATED | 100.0 | -50.2 | -177.6 |
| Acquisition of treasury shares | 0.0 | -0.1 | 0.0 |
| Dividends payed to shareholders and minorities | 0.0 | -47.8 | 0.0 |
| Changes in net debt | 64.2 | -177.7 | -57.4 |
| *Changes in bank debt/private placement* | *57.8* | *-163.4* | *-27.1* |
| *Conversion differences* | *6.4* | *-14.3* | *-30.2* |
| Attributable to minority interests | 0.0 | 0.0 | 0.0 |
| Others | 0.7 | 0.3 | 0.1 |
| NET CASH-FLOW FROM FINANCING ACTIVITIES | 64.9 | -225.3 | -57.2 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 164.9 | -275.4 | -234.8 |
| Opening cash and cash equivalents | 480.0 | 738.4 | 738.4 |
| Effect of the exchange rate fluctuations on cash held | -5.2 | 17.0 | 19.2 |
| CLOSING CASH AND CASH EQUIVALENTS | 639.6 | 480.0 | 522.8 |

## Shareholder Returns

The General Shareholders Meeting held on 9 June 2016 approved a dividend of up to 0.45 euros/share under the scrip dividend formula, under which Acerinox shareholders could decide whether to receive cash or new shares.

On 22 July, 9,360,150 new Acerinox, S.A. shares were issued, as a result of the option to collect the dividend in shares, which was the option chosen by 77% of the owners of the Company’s share capital. The number of shares in Acerinox, S.A. is currently 276,067,543.

It should be noted that 77% of the capital chose new shares (2013: 57%; 2014: 51%; 2015: 59%). This demonstrates the confidence in the Company felt by shareholders and the potential of Acerinox shares.

## Excellence Plan

With six months to conclude the Excellence Plan IV 2015-2016, 71% of its targets have already been met, which we value at 48 million euros.

At present, a fifth plan is being studied that would bring the duration of this cost-cutting exercise to ten years.

We recall that three Excellence Plans have been carried out, in which the best practices of each plant have been identified and have been applied to the other plants through an internal benchmarking project:

- Excellence Plan I 2009-2010: 97 million euros
- Excellence Plan II 2011-2012: 53 million euros
- Excellence Plan III 2013-2014: 53 million euros

New areas of business have been incorporated into this Plan, as well as Bahru Stainless for the first time, and all the units have developed successfully.

The favourable market conditions will enable us to see the effects of the improvements in costs obtained over the past few years.

## Investments

The investments announced in the US and Spain continue apace. Both are on time and on budget.

The investment by NAS in a bright annealing finish line and *sendzimir* mill is for an amount of 116 million euros and its commissioning is expected in the first half of 2017.

Meanwhile, the investment by Acerinox Europa in an annealing and pickling line and *sendzimir* mill is for 140 million euros, and is expected to start operations in late 2017.

## Financing

Acerinox has reached agreements with 12 banks for a total amount of 717 million euros.

With these new contracts, the Group has extended its payment deadlines until 2021, reduced its interest rates, moderated maturities for the next three years and added new institutions to its banking pool. All of this has enabled the Group to procure favourable financing conditions and to reduce debt expenses, without covenants.

As at 30 June, the amount of 135 million dollars pending from the syndicated loan principal in the United States, whose maturity was marked for 17 February 2017, was paid in advance.

## Financial Risk Management

In the first half of the year, Acerinox tackled the same risks described in the latest approved Annual Accounts. The policies focused on their management, also described in that report, have not changed.

The management of financial risks, such as exchange rate, price and credit risk, reflects what was already described in the approved Financial Statements for the 2015 financial year.

In terms of liquidity risk, Acerinox keeps 1,868 million euros in effective funding lines, 33% of which is available. Net debt to 30 June increased to 609 million euros. Cash balances rose to 640 million euros.

The Acerinox Group has appropriately addressed the amounts of its financial debts as they have matured.

As at 30 June, the amount of 135 million dollars pending from the syndicated loan principal in the United States, whose maturity was marked for 17 February 2017, was paid in advance.

The Acerinox Group currently has no financing subject to compliance with ratios as at 30 June.

In terms of interest rate risk, Acerinox has 35% of its financing secured at an average fixed rate of 3.3%. The average cost of the financing of Acerinox, after the refinancing undertaken, is 2.2%.

# Outlook

After the stabilisation of nickel prices and completion of the process of inventory cutbacks, the results of the Acerinox Group have gradually returned to normal, despite not yet including any positive effects from the increase in the price of nickel.

Large declines are not expected in the price of this material, which will allow an improvement in market conditions in the coming months, given that final demand continues to grow and inventories remain low, with the possible exception of China.

The Group’s order backlog has increased by 30% compared to June last year. In these circumstances, it is expected that the results in the third quarter will continue to improve, despite the seasonality in Western markets.

# Main economic-financial figures

| CONSOLIDATED GROUP | Year 2016 Q1 | Q2 | Q3 | Q4 | Accumulated | 2015 Jan-Jun |
|---|---|---|---|---|---|---|
| Production (Mt.) | | | | | | |
| Melting shop | 575,051 | 651,881 | | | 1,226,932 | 1,211,861 |
| Hot rolling shop | 526,397 | 563,425 | | | 1,089,821 | 1,060,435 |
| Cold rolling shop | 418,064 | 428,076 | | | 846,140 | 825,471 |
| Long product (hot rolling) | 54,754 | 63,795 | | | 118,549 | 117,654 |
| Net sales (million €) | 953.35 | 953.67 | | | 1,907.02 | 2,315.22 |
| Gross operating result / EBITDA (million €) | 40.99 | 78.75 | | | 119.73 | 203.63 |
| % over sales | 4.3% | 8.3% | | | 6.3% | 8.8% |
| EBIT (million €) | 0.55 | 35.89 | | | 36.43 | 120.81 |
| % over sales | 0.1% | 3.8% | | | 1.9% | 5.2% |
| Result before taxes and minorities (million €) | -7.35 | 26.43 | | | 19.08 | 96.02 |
| Result after taxes and minorities (million €) | -8.31 | 16.99 | | | 8.68 | 63.92 |
| Depreciation (million €) | 40.20 | 42.73 | | | 82.93 | 82.17 |
| Net cash flow (million €) | 31.89 | 59.72 | | | 91.61 | 146.09 |
| Number of empoyees | 6,502 | 6,625 | | | 6,625 | 6,562 |
| Net financial debt (million €) | 693.41 | 608.88 | | | 608.88 | 804.17 |
| Debt to equity (%) | 36.2% | 31.1% | | | 31.1% | 39.1% |
| Number of shares (million) | 266.71 | 266.71 | | | 266.71 | 261.70 |
| Return to shareholders (per share) | --- | --- | --- | --- | --- | --- |
| Daily average shares traded (nº of shares, million) | 2.84 | 1.72 | | | 2.27 | 1.69 |
| Result after taxes and minorities per share | -0.03 | 0.06 | | | 0.03 | 0.24 |
| Net cash flow per share | 0.12 | 0.22 | | | 0.34 | 0.56 |

## Alternative Performance Measures

Debt ratio: Net financial debt / Equity

EBIT: Operating income

EBITDA: Operating income + depreciation & amortization + provisions

Net Cash Flow: Profits after tax and minority interests + depreciation & amortization

Net financial debt: Interest-bearing loans and borrowings + bond issue - cash

Net financial expenses: Financial income - interest expenses ± exchange rate differences

Operating Working Capital: Inventories + Trade receivables - Trade payables

Savings concerning the Excellence Plans: efficiency savings estimated on the basis defined in each Plan