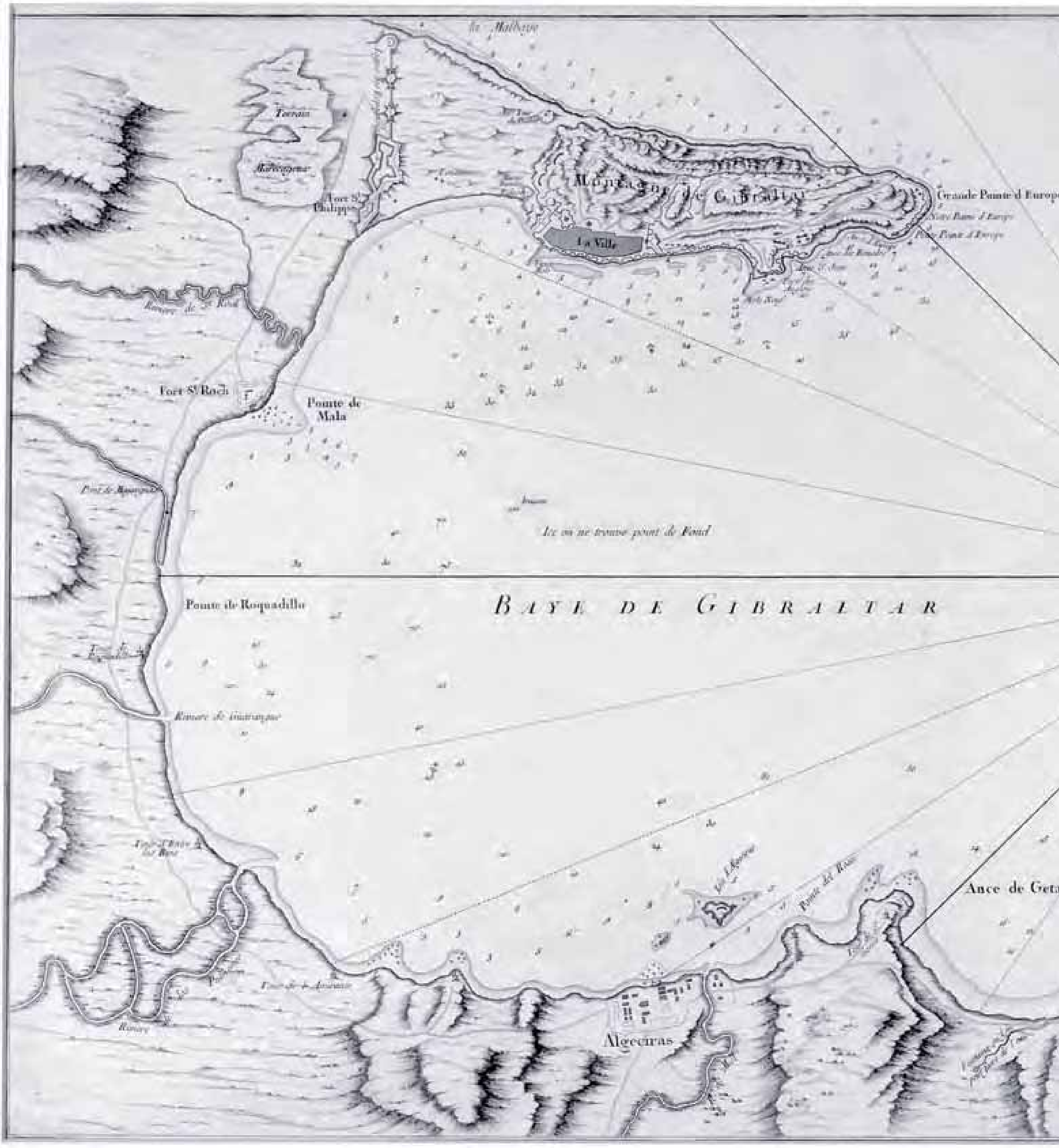
ACERINOX

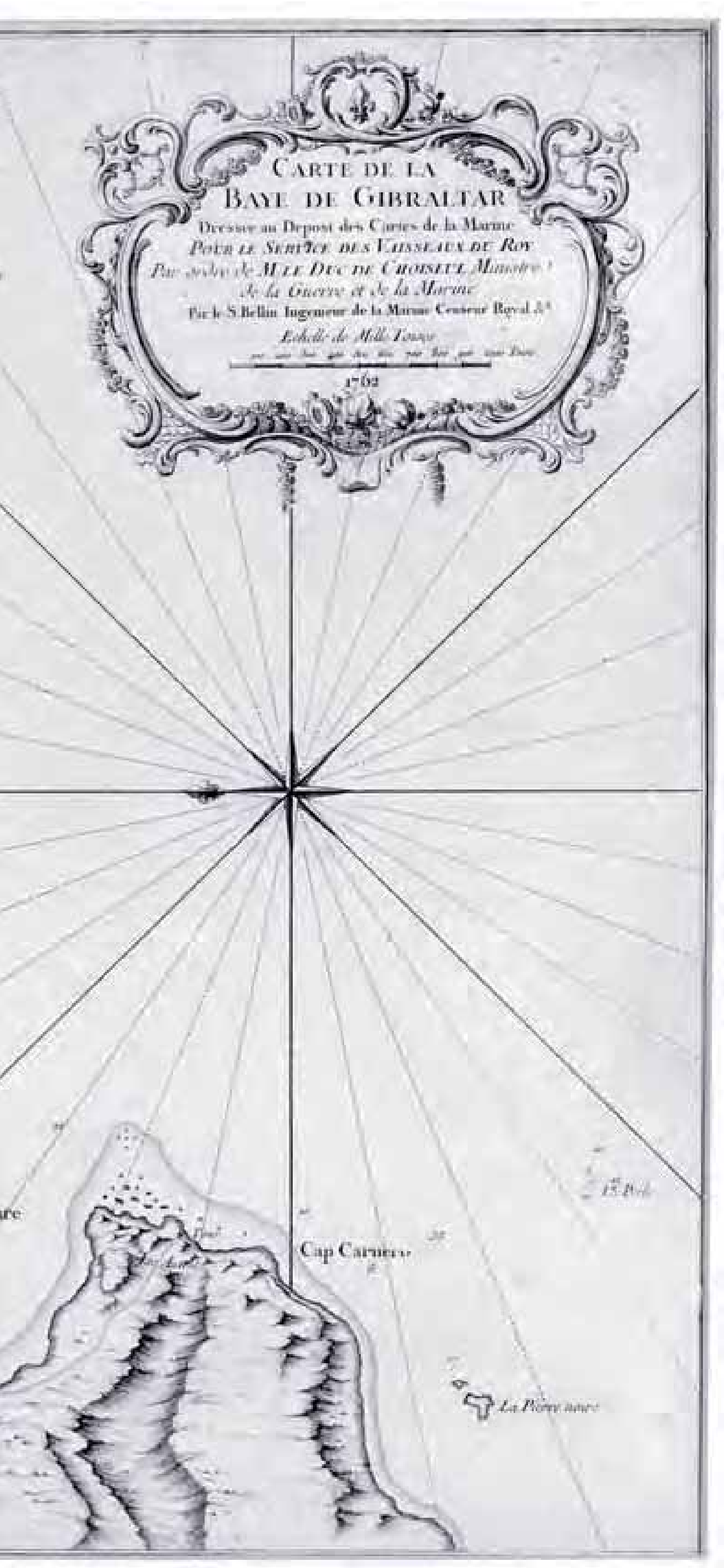
Excell

ANNUAL
REPORT2016

ACERINOX

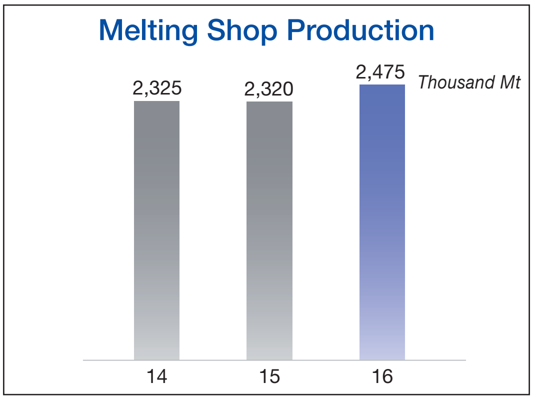
annual REPORT 2016

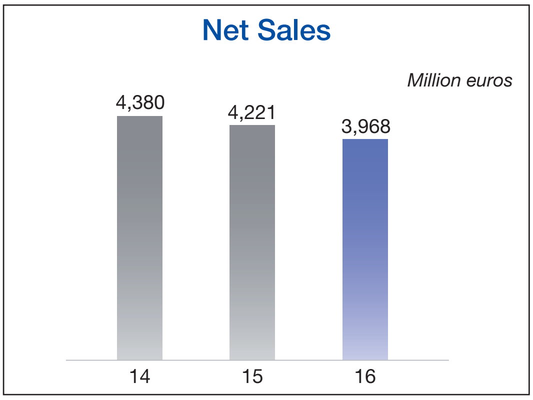

Baye de Gibraltar
La Ville
Grande Pointe d'Europe
Fort St. Roch
Pointe de Mala
Ici on ne trouve point de Fond
Pointe de Roquadillo
Algeciras

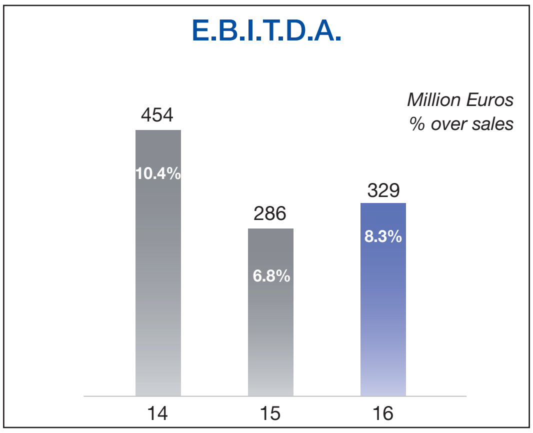

Carte de la
Baye de Gibraltar
Pour le Service des Vaisseaux du Roy
Echelle de Mille Toises
1762
Cap Carnero

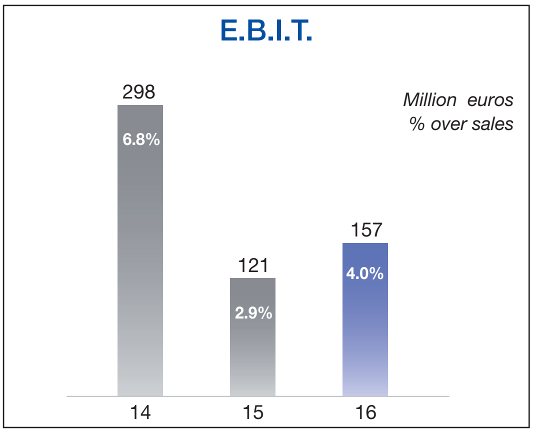
Index

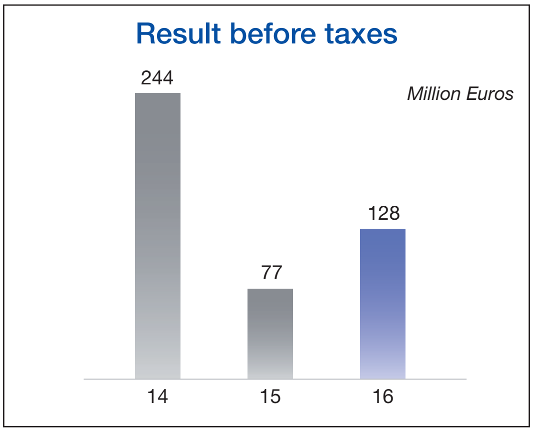
ACERINOX in numbers

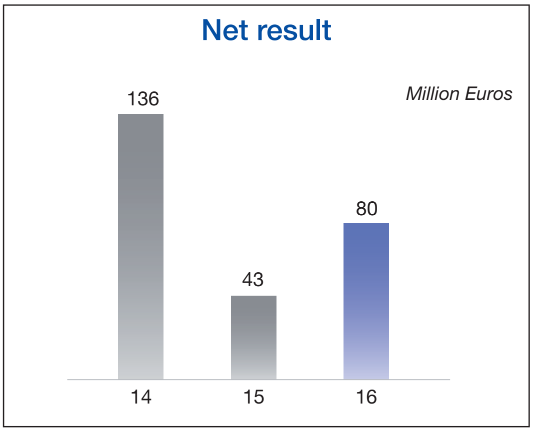


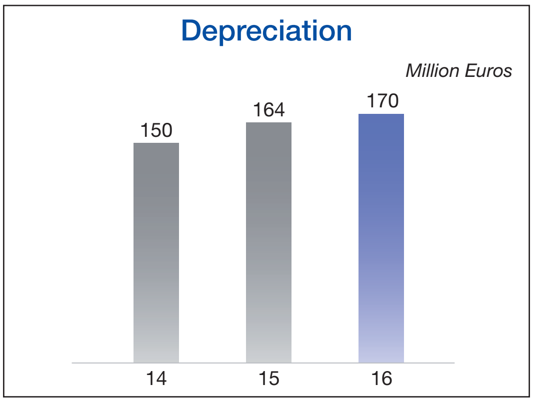


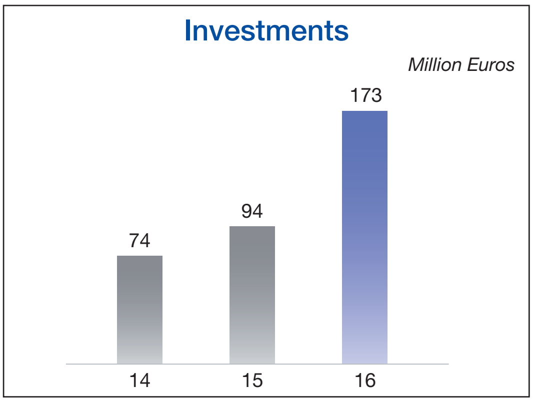




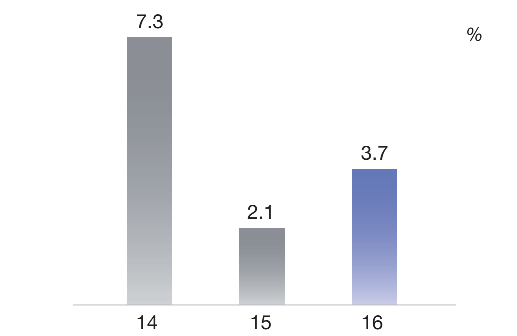




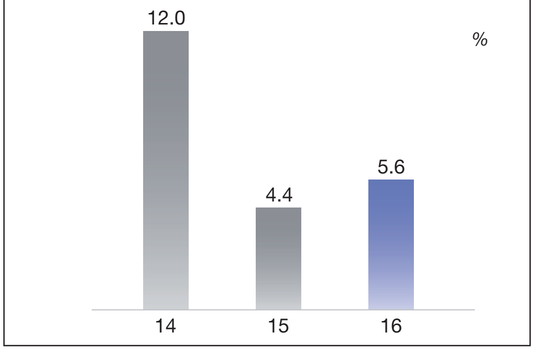




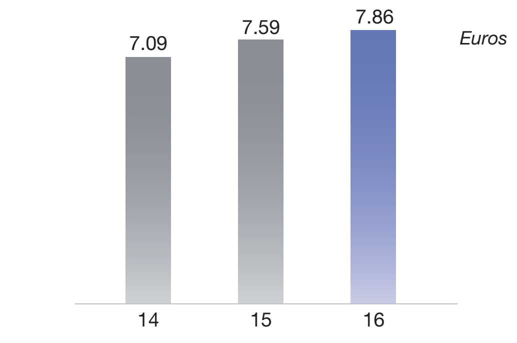
R.O.E.



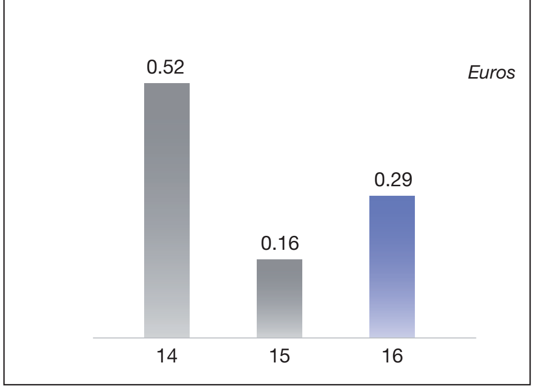
R.O.C.E.



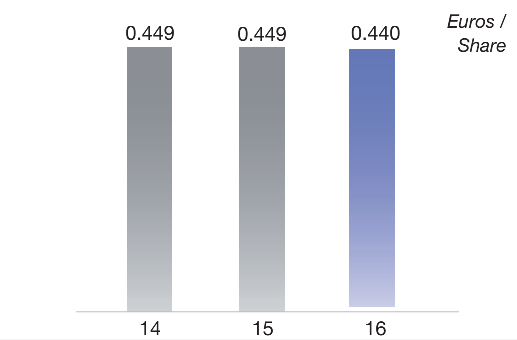
Book value per share December, 31



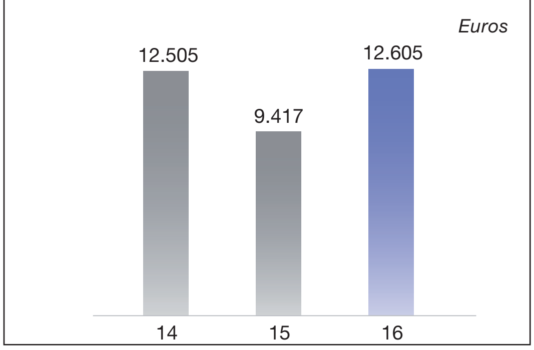
Earnings per share



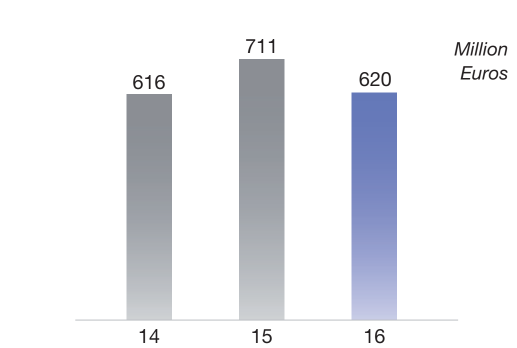
Return to shareholders Dividends



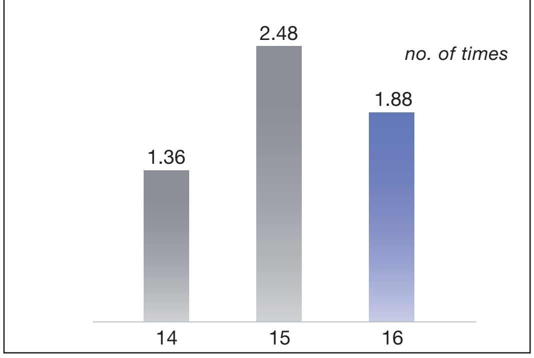
Share value Official close of business year



Net financial debt



Net financial debt / E.B.I.T.D.A.



Letter from the Chairman

Dear Shareholders,

It is an honour to address you once again, to explain the results for the 2016 financial year, as well as the most significant events which occurred within our Company during that time.

The international context within which our activity was conducted during the year was plagued by a series of uncertainties which were the result of political events familiar to us all which took place in the course of the period. These events heralded a negative impact on the growth of the world economy and, in particular, the economies of those markets most relevant to us, with the logical effects on the development of the stainless steel industry.

Fortunately, the premonitions which were bandied around at the beginning of the year did not come to pass, and the world economy grew by 3.1%, a figure very similar to that of the previous year. But the most important news for our activity is that world stainless steel production, after undergoing a fall in 2015, resumed its growth by 10.2%, as a result of the growth in Europe and Africa (2,3%), America (6.7%), Asia excluding China (5.2%) and China (15.7%).

Within the above setting in which our Company's activity had to be conducted, the results achieved during the year can be regarded as positive. With a turnover 6% lower than that of the previous year, despite a 9% increase in the number of tonnes sold, we were able to generate an EBITDA totalling 329 million euros (a figure 15% higher than that recorded in 2015), a gross result of 127.9 million euros and a net result of 80.3 million euros, representing respective increases of 66.3% and 87.3% in comparison with the previous year.

This positive evolution of the results for the year was due to a set of events and circumstances which can be summarised as follows:

- The upturn in stainless steel production worldwide and the high production levels of our Company during the year.

- The increase in apparent consumption in our most important markets, more specifically in Europe and the USA, which stood at 7% for flat product, as well as the improvement in the base prices in this market.

- *The positive trend of nickel prices and their stabilisation throughout the year, lying within the range of 10,000 to 11,000 dollars per tonne.*

- *The containment of operating costs, in spite of the levels of production achieved.*

- *The standardisation of the product inventories, which stood at appropriate levels.*

- *The anti-subsidy measures and anti-dumping duties imposed in the USA against different stainless steel manufacturers from the People's Republic of China, in addition to those previously imposed by Europe.*

Special mention should be made of the cash flow from operating activities, which totalled 269 million euros, enabling us to invest 156 million euros, pay the dividends of the shareholders who opted for cash in the year's "scrip dividend" and reduce the debt by 91 million euros to 620 million euros.

It should be stressed that, in May, debt totalling 717 million euros was refinanced with 12 banking institutions, extending the maturities until 2021, reducing the interest rates and moderating the payments for the next three years.

Our shares performed very positively during the year, reflecting the upward course of our Company's results and, undoubtedly, the expectations for our value gauged by the market. In the first few weeks, 20 January witnessed the lowest level in the year, but the highest level, 13.2 euros/share, was reached by the end, representing an appreciation of 85.9%. Our shares were the second highest value in the IBEX 35, with the greatest appreciation (33.85%), exceeding the index itself, which fell by 2.01%.

With regard to the Company's Corporate Governance, the Board of Directors continued to work on its optimisation, completing the task begun in 2015. The Board Regulations were amended during the year, establishing that the majority of the members of the Audit Committee should be independent, limiting the number of boards our directors can sit on and approving all the Company's general policies, together with a list of relevant decisions too lengthy to go into, shaping a Corporate Governance policy which, in addition to complying with the recommendations for Spanish Listed Companies, puts the Company at the forefront of the best practices worldwide.

Once again, I am also pleased to inform you that our Company applies a policy of corporate social responsibility at all levels, perfectly outlined in the Acerinox Sustainability Report, which constitutes our particular way of understanding our social commitment and our pledge to the societies and environments in which we conduct our activity.

Prior to the publication of this report, we circulated the results for the first quarter of 2017. They were extremely positive, showing an increase of 31.4% in turnover in comparison with the same period in the previous year, generating an EBITDA of 191 million euros, an amount 4.7 times higher than that recorded in the first quarter of 2016, and a net profit of 98 million euros, a figure exceeding the total for the whole of 2016. These results clearly show the improvement in market conditions, which were already reflected in the latter quarters of 2016, made possible as a result of the excellent performance of the markets in which we operate; particularly the US market, which displayed the greatest dynamism in terms of both volumes and prices, consolidating the announced price increases. The above improvement is also due to the flexibility and agility of our Company, which knows how to capitalise on the opportunities arising in the changing market environment, drawing on the significant improvements achieved in terms of competitiveness.

Among the agreements to be proposed at the General Shareholders' Meeting, there are two which I would like to highlight as being particularly significant.

The first of them is related to the dividend to be distributed. A proposal will be made to distribute a dividend of 0.45 euros per share, to be made effective in a single cash payment in July. With this proposal, the Company will return to its cash remuneration policy, following four years during which the remuneration has been performed by means of a flexible dividend (scrip dividend). This renewed policy has been made possible thanks to the confidence we have acquired from the improvement in the results and the cash generation in 2016, the progress made in 2017 and our expectations of greater stability in the coming years.

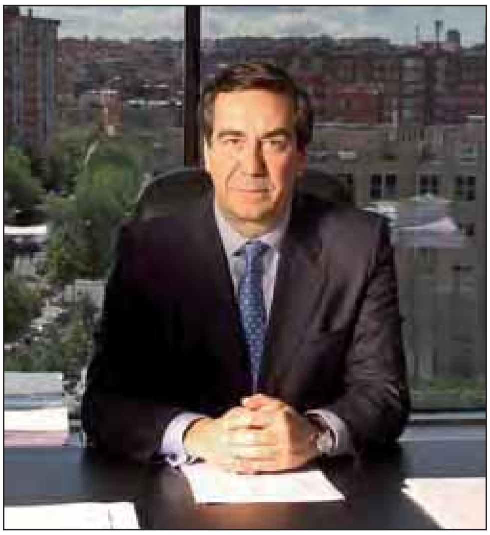
The second proposal is the ratification of the appointments of two independent directors and a proprietary director, as well as the direct appointment of another director by the Board, in order to fill the vacancies on the Board brought about by the resignations of the directors Mr Óscar Fanjul, Mr Diego Prado, Mr Javier Fernández and Ms Rosa María García, whom I would like to take this opportunity to thank for the services they have rendered to our Company during their respective tenures. By means of the above-mentioned incorporations, we achieve two objectives related to the Company's good corporate governance: firstly, by bringing in three female directors, thereby practically fulfilling, three years in advance, the aim of having women comprising 30% of our Board and, secondly, by ensuring that the Board reflects the Company's shareholding structure, consisting as it does of a majority of independent directors.

As I mentioned at the beginning of this letter, we are facing a future that is characterised by uncertainty and the speed at which changes occur; a time during which it seems that political risk may condition and even modify the status quo, previously well-established in the world order, thereby potentially affecting the markets in which we operate. Despite these uncertainties, Acerinox is better prepared than ever to face this future: our competitive position, our product, our enviable geographical diversification, with presence and leadership in the best markets, together with a well-defined strategy, lead us to be optimistic about the evolution of our business in the coming years, with the constant aim of developing, together with our social commitment, an attractive asset for our shareholders.

All the above is possible thanks to our Company's management and human team, whom I would like to thank for their work and commitment. Lastly, I would like once again to thank the Board of Directors, for its devotion and hard work, and all the shareholders of our Company, for their unreserved trust and support.

Yours sincerely,
Rafael Miranda Robredo
Chairman of the Board of Directors

Letter from the Chief Executive Officer



Dear Shareholders,

It is my privilege and honour to be able to inform you of the company's progress during 2016, the results obtained and the context in which our work has been carried out, both within the general framework of the global economy and the specific context of the stainless steel sector.

To explain recent events, I would like to mention the "raw materials crisis" which showed its first effects in 2014 and intensified from September 2015 onwards. The cause of this was uncertainty about the continuation of the economy's growth in emerging countries, particularly in China, and doubts about the credibility of economic plans and information published in this country, as well as a lack of confidence in the recovery of the global economy, following the harsh adjustments made during the crisis and the various recurrences that arose.

Despite numerous uncertainties facing us in political and geostrategic terms, we are undoubtedly entering a phase of economic recovery, after having overcome the worst-case scenarios discussed in early 2016, which did indeed take place: the United Kingdom leaving the European Union, a growth in populist agendas and a rise in political tensions on different fronts. Today, practically every economy is experiencing growth, and we trust that the lessons learnt will make this new cycle of growth moderate and sustainable.

In any case, the effect of this last phase in the crisis resulted in a continuous decrease in the price of raw materials, from oil to traded metals, nickel in particular, which affects our business given the significance it has for the cost of our products and the formation of the sale prices of stainless steel.

The price of nickel decreased to levels not seen since 2003, and this long period of decrease caused the gradual deterioration in prices of stainless steel and the reduction of our margins, despite our efforts to reduce costs and shorten the production cycle to minimise the impact of the market's volatility.

For this reason, we suffered losses in three consecutive quarters, the last two of 2015 and the first of 2016. This situation came to an end in early February 2016, when nickel reached its lowest price of 7,700 dollars per tonne, a price below the cost of the majority of manufacturers of this metal. Its price then stabilised at 10,000 dollars per tonne, and this situation allowed us to re-balance our costs and begin improving our margins from March onwards.

As we have previously explained, our business is not affected by the price of nickel but by its trend, since this indicates the pace of the markets and, therefore, prices. The formation of stainless steel prices is characterised by transparency, since customers can anticipate their evolution at any time, by monitoring the prices of the main alloy elements involved in the calculation of the so-called alloy surcharge. With the price of nickel falling, customers try to accelerate their inventories awaiting a lower purchase price and, to reduce costs, increase the pressure on prices again.

Recent years have been characterised by price volatility and this uncertainty has a negative effect on consumption. Therefore, the greater stability which is gradually imposing itself will be positive, and even more so if nickel prices remain at their current low levels, since this makes stainless steel more competitive compared with other metals and it will contribute towards the development of consumption through the introduction of new applications.

Therefore, the 2016 financial year went from less to more. With the price of nickel stable and inventory excesses in the markets corrected, we were able to focus our attention on accomplishing our strategic plan, increasing our global sales and handling a large volume of orders efficiently and productively.

Another factor which had a significant influence in 2016 was April's announcement of anti-dumping and anti-subsidy measures in the USA against cold-rolled stainless steel from China, which were ratified in March 2017. One year earlier, it was the European Union which penalised unfair competition from products manufactured in China, resulting in the displacement of large quantities of these imports to the USA, seriously damaging the market's conditions.

The proliferation of stainless steel factories in China in recent years, which has resulted in the country being responsible for 54% of global production, has disturbed the sector's normal growth, altering traditional commercial flows and devastating the markets from which this excess capacity has deviated.

Today, both Europe and the USA maintain a percentage of imports between 20% and 25%, a level which is very similar to those seen when the anti-dumping lawsuits were examined. However, by replacing cold-rolled products from China with products from other, mainly Asian, countries with regulations that are very similar to those of Western economies, the distortion is less significant and the competition healthier.

In any case, the announcement of the introduction of anti-dumping and anti-subsidy measures in the US market in April 2016 drastically reduced imports of cold-rolled materials from China. Thanks to this, prices gradually increased, and this improved our Group's results, particularly in the latter part of the year.

We hope that the Government of the People's Republic of China will follow through with its plans to reduce the excess steel production capacity in its country through the closure of inefficient and contaminating facilities, and withdraw grants to construct new factories, which would balance supply and demand given the expected global growth in stainless steel consumption in the coming years.

The other remarkable news was the sharp increase in the global production of stainless steel to more than 10%, which is above the historical rate of 6.0% we have maintained since 1950. If we look only at the period between 2008 and 2016, we can see that this rate has accelerated to 6.8%. There is no doubt that the growth is concentrated in mainly Asian emerging countries, but for years Acerinox has been expecting this growth model with the conviction that the development of countries that have a large population, such as China, India, Indonesia and other South-East Asian countries, and whose consumption per capita is relatively low, will make it possible to maintain these rates which make stainless steel an exceptional material that is extending to new areas of application in industry and construction year after year and is evolving much more quickly than other industrial metals and alloys, and one which still has a very long way to go.

Looking at Acerinox's results for 2016, we can happily say that we are benefiting from the greater stability of the main parameters influencing our business and from the increase in stainless steel consumption, and demonstrating our flexibility to adapt to the cycles and achieve the best results possible at all times. Since the middle of the first quarter of 2016, circumstances have allowed us to boost our sales, which grew by 9% in terms of physical units over the year, and increase production in all of the group's factories. Cold-rolled production grew by 6.6% to 1.72 million tonnes, resulting in the highest turnover in our history, and milled production grew by 6.7% to 2.48 million tonnes, the second best result in our history.

Even more notable is the fact that that these increases were achieved with exhaustive control of manufacturing costs, since staffing costs only increased by 1.8% while operating costs fell by 0.1%. Our Excellence Plan is undoubtedly related to this achievement, but the greatest merit is due to the great efforts made by everyone that is part of the Acerinox team. As a result, during the second half of the year, we achieved EBITDA sales margins of over 10%, a very commendable figure given the very competitive prices in the market, and one which allows us to have an optimistic view of the future.

Excellence Plan IV 2015-2016 concluded with 74% of the target achieved, resulting in a recurrent annual saving of 50 million euros, but with the singularity that during the second year of application we worked on almost 100% of the targets, which demonstrates that these targets have already become a standard in our processes.

After eight years implementing these plans, in December 2016 we dared to launch Excellence Plan V 2017-2018 with the aim of achieving a recurring annual saving of 50 million euros and consolidating the improvements made during the eight years in which we have worked hard to improve our competitiveness.

Although our turnover of 3,968 million euros was down 6.0% due to the low prices of stainless steel, the EBITDA of 329 million was 15.0% higher than in the previous year, and the result after taxes and payments to minority interests of 80 million euros grew by 87.3%.

The cash flow from operating activities was 269 million euros, which allowed us to make payments for investments in equipment amounting to 156 million, give 27 million to the 23% of shareholders opting for this flexible dividend method of 0.45 euros per share approved by the General Shareholders' Meeting in 2016 and the net financial debt was reduced by 91 million to 620 million.

In May 2016, Acerinox concluded agreements with 12 banking entities for a total amount of 717 million euros, extending the maturity dates for its debt and moderating the financial cost. This operation, coupled with the reduction in debt and the better results, allow us to face the coming years with positivity.

The gradual improvement in our results increased our share value in 2016, when it appreciated by 33.9% during the year compared to the 2.0% loss suffered by the IBEX-35, this being the second best value for companies in the index.

The total investment in fixed assets was 173 million euros, compared with 94 million in 2015. During 2016, construction and equipment installation works took place at North American Stainless (NAS) in Kentucky, which, at the time of this report's publication, already has a new BA bright annealing line and a new cold-rolling mill, which will increase the range of products and total production offered by this factory, currently considered as the most competitive in the world by the majority of specialised analysts. In addition, work was started on the new AP annealing and pickling line and the new cold-rolling mill for the Acerinox factory in Campo de Gibraltar, which will replace the first equipment commissioned in 1972 and which has already more than fulfilled the objectives for which it was acquired. The first tests are planned for late 2017 and will allow this factory to make use of the most advanced technology for the manufacture of stainless steel. Once again, we think we have anticipated the market investing at the most difficult times to capitalise on new equipment, rapidly achieving an improvement in the economic cycle.

These investments deserve to be included in the research, development and innovation section, since they include the contributions and experience of our engineers and involve significant technological improvements for our facilities. We are a large consumer of R&D+i and have invested 16 million euros in this area, focussing mainly on improving production processes, improving the quality of our products, the safety of our workers and reducing our environmental impact.

Although up until now research has been focused in our laboratories, the analysis of the data will give us an advantage in many areas of our business, taking advantage of the so-called digital transformation. The processing of large quantities of data from our manufacturing departments and our supply chain, as well as the application of new available technologies, will allow us to improve *our manufacturing technique and our productivity and grow our results in the coming years. For this reason, we are eagerly tackling new projects to improve the maintenance and reliability of our lines and to optimise the efficiency and costs of our production chain.*

We are optimistic because we are convinced that with the growth of the economy and the greater stability, we will be able to increase our sales and, thanks to the competitiveness achieved, exceed the best margins in our history, despite market requirements being much more severe these days.

Our geographical diversification, which is unique in the sector, will allow us to be local in the world's largest markets, while our extensive commercial network will allow us to distribute our products with the perspective of a global company that is able to enjoy opportunities anywhere on the planet. No other stainless steel production company in the world enjoys such a positive position for dealing with the difficult process of the globalisation of the economy in its new version, "globalisation with barriers", in view of all the protection mechanisms that are being put in place.

We trust that Spain and Europe will join us in the fight to reduce emissions and that the moral European leadership, in order to achieve a sustainable economy, with the cost that this entails, does not to allow European industry to succumb to producers from other countries with greater permissiveness, which would, furthermore, have the opposite effect from the one desired as it would result in an increase in global contamination. It must curb imports of products which do not comply with our idea of sustainability and must give strong support to efficient and clean industry.

We also hope that the Spanish government, in whatever form this takes, makes a decided commitment to national industry and does not allow the gap between the price of electricity in our country to continue increasing in comparison, not with Asian or American countries, but with other industrial European countries. There is also the effect of taxes and fees, which has a significant effect on our electricity bills and the very low compensation concerning CO_2 emissions, which means that the price we pay for electricity in Spain is already between 30% and 50% higher than that of our most direct competitors.

Finally, I would like to mention our company's progress in corporate governance, in line with our decision to incorporate the vast majority of recommendations from the Good Governance Code and become an example of transparency and good practices. We have developed policies which define the Company's general guidelines, we have developed the Prevention and Compliance Model and we have modified our internal regulations, along with a great many other actions. Above all, in these documents we have tried to embody the principles of integrity and the culture of effort which has formed part of Acerinox's character since its creation.

We are committed to making our facilities safe places to work and to eradicating accidents in our industry, and we are proud to announce that last year saw the lowest accident rate in our history, with no serious accidents occurring. We will continue to work towards our target of zero accidents.

We recommend the reading of our 2016 Annual Report, which provides more details about the work performed during 2016 and our achievements. What cannot be fully reflected in the Report are the great efforts made by everyone at Acerinox, in each of the departments, in forty countries on five continents. Thank you to everyone for the efforts made. I hope we can continue working with loyalty, commitment and dedication while eagerly and confidently taking great opportunities to continue growing and achieving excellent results which will allow us to maintain our leadership in the sector and increase our contribution to society. I would like to express my sincere thanks to my direct colleagues and the management team, who deserve a special mention.

I hope that through our work and efforts we can continue to be deserving of the trust and support always shown to us by our customers, our suppliers, the financial community and, above all, our shareholders. Many thanks to all of you.

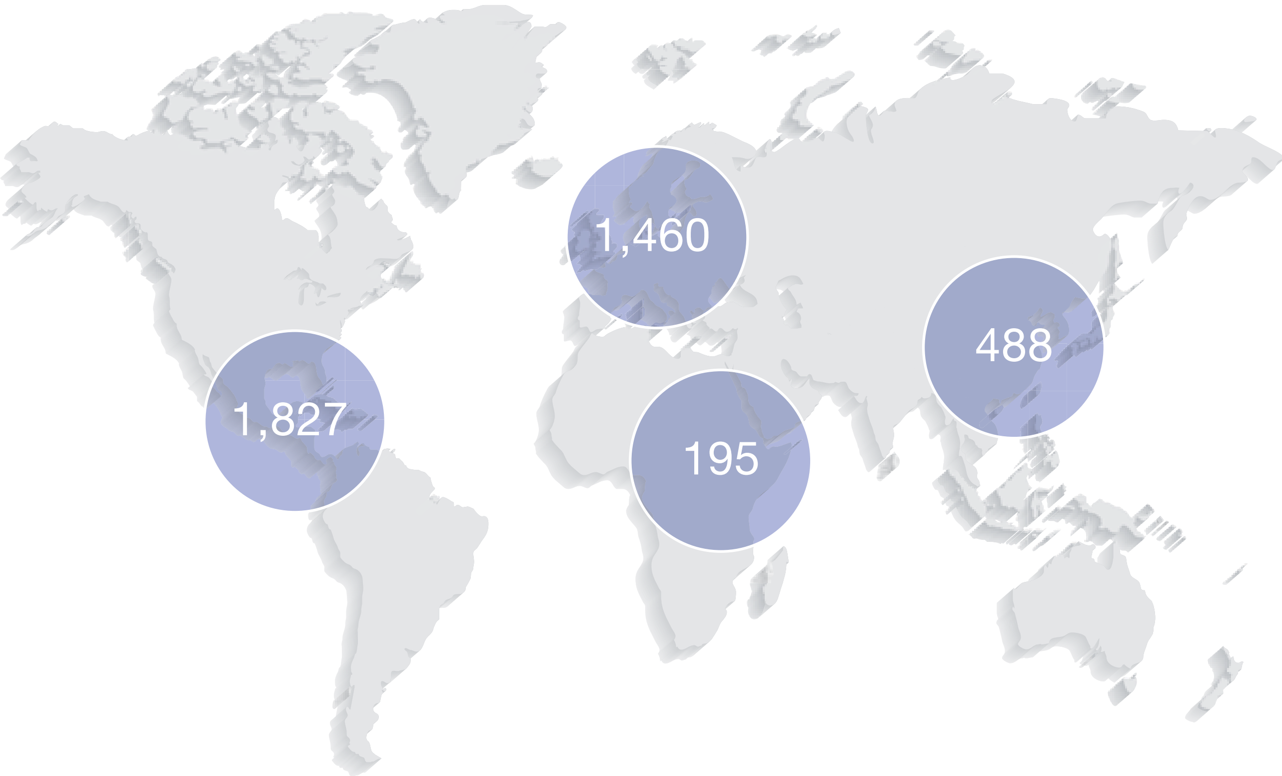
Yours sincerely,
Bernardo Velázquez
CEO

Directors’ Report

1. Our business

ACERINOX, CREATED IN 1970, HAS GROWN TO BECOME THE ONLY GLOBAL PRODUCER AND ONE OF THE MOST COMPETITIVE COMPANIES IN THE MANUFACTURE AND SALE OF STAINLESS STEEL

Where we sell (million euros)



6,573 employees around the world

82 Countries where we sell our products

2.5 Million Mt produced this year

>370 Salaries and social welfare expenses paid each year (million euros)

>8,000 Number of clients around the world

5,000 Million euros of accumulated investment

Acerinox S.A. (Madrid) Office.

Acerinox is one of the largest manufacturers of stainless steel in the world (with a 5.5% market share of production) and is the only company in its sector with a global nature and factories on four continents.

The Group came into being with a clear export vocation. When the first stone was laid in what was to become its first factory in Los Barrios in 1970 (Campo de Gibraltar), it was designed to produce ten times more stainless steel than the total amount consumed in Spain that year.

The Acerinox Group is currently the market leader in North America, where it casts about 50% of the stainless steel, and in Africa, where the Company maintains a market share close to 55%. The Acerinox Group is one of the main producers in Europe, ASEAN and Oceania, with market shares above 10%.

The Company has three integral process plants for the production of flat products: the one mentioned above in Campo de Gibraltar (Spain, 1970), the first to exceed one million tonnes per year (in 2001), North American Stainless, NAS (Kentucky, USA, 1990), also fully integrated since February 2002, and Columbus Stainless (Middleburg, South Africa), which joined the Acerinox Group in 2002.

Bahru Stainless, the building of which began in 2008, will become the group's fourth integral factory. It is located at one of the most strategic points in the world, the Strait of Johor (Malaysia), due to its importance as an axis of global trade.

Within its productive network, the Group has two long product factories in Ponferrada (Spain) and Igualada (Spain), chiefly designed to supply the European market, and another integrated into NAS.

The Company has undergone strong growth throughout its 46-year history, with a mainly organic development based on the creation and expansion of its factories and commercial network.

Acerinox has reference shareholders characterized by their continuity and permanence within the Group. This connection, in the case of Nisshin Steel Co. Ltd., dates back to the creation of the company itself in 1970 and in the cases of Omega Capital to 1998, the Alba Financial Corporation to 2001 and IDC to 2002.

1.1 Production Companies

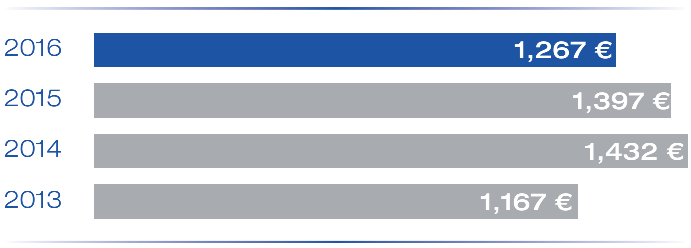
Acerinox Europa - Factory in Campo de Gibraltar (Andalusia, Spain)

EMPLOYEES
2,081
at 31st December 2016

SHAREHOLDERS
100%
Acerinox shares

PRODUCTION CAPACITY
1 million Mt/year
Meltshop production capacity

SALES (million euros)



Acerinox Europa is one of the most efficient stainless steel factories in Europe as a result of its cutting-edge technology and the experience of the 2,081 employees who work there.

Located in Campo de Gibraltar, Acerinox Europa is one of the main exporters and creators of employment in Andalusia, where it has had its head offices since 2014, and it is the company with the third highest economic turnover in the region and the highest in the province of Cádiz.

Acerinox Europa is one of the key assets of the Company's new Strategic Plan for the coming years. As a continuation of the factory's policy of constant investment and improvement since its creation in 1970, it will be expanded in 2017, following a significant investment of 140 million euros, to include a new annealing and pickling line and a new cold-rolling mill.

The experience acquired in manufacturing techniques and the constant search for excellence in the production processes at the plant have been fundamental for the success of the other Group factories, which have benefited from the profound knowledge that Acerinox Europa has accumulated on how to manufacture and sell stainless steel.

Campo de Gibraltar (Spain).

North American Stainless - Factory in Ghent (Kentucky - USA)

EMPLOYEES

1,422

at 31st December 2016

SHAREHOLDERS

100%

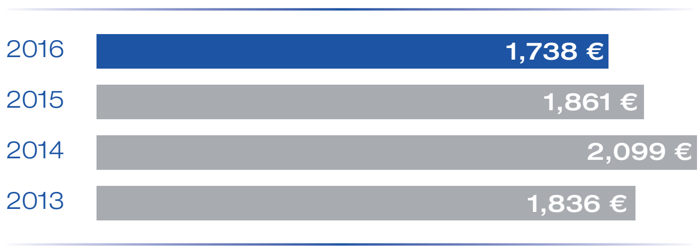
Acerinox shares

PRODUCTION CAPACITY

1.4 million Mt/year

Meltshop production capacity

SALES (million euros)



North American Stainless (NAS) casts about 50% of stainless steel throughout North America and has a market share in the United States which stands at around 35%, figures which guarantee its leadership of the American market.

It is the Group's largest factory, fully-owned by Acerinox, and has continued to grow steadily, with a cumulative investment of 2,233 million euros since its construction in 1990. NAS is a worldwide reference in the sector due to its technical efficiency and economic profitability and stands at the forefront of high-quality stainless steel production.

In 2017 the factory will once again increase its cold-rolling capacity, reduce delivery times to customers and offer a wider range of products with the launch of a new BA-finish bright annealing line and a cold-rolling mill, in which the Company has invested 116 million euros.

Kentucky (USA).

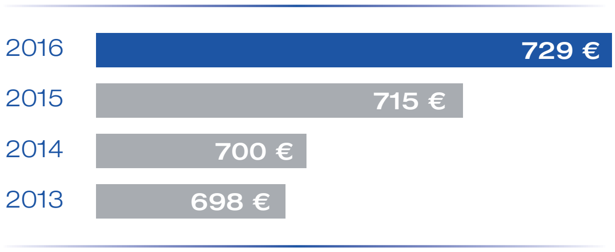
Columbus Stainless - Factory in Middelburg (Mpumalanga, Republic of South Africa)

EMPLOYEES
1,349
at 31st December 2016

SHAREHOLDERS
76%
Acerinox shares

PRODUCTION CAPACITY
1 million Mt/year
Meltshop production capacity

SALES (million euros)



Columbus Stainless is a leader in terms of production and sales on the African continent, with significant market share in South Africa, its main market. Acerinox acquired the plant in 2002 after reaching an agreement with the South African government through its investment arm the IDC (Industrial Development Corporation) and the mining companies Anglo-American and BHP Billiton. At present, the IDC has 24% of the shareholdings of Columbus and Acerinox 76%. The IDC is also represented on the Board of Directors of Acerinox S.A, where it a participation of 3.05%.

The products from the South African plant supply its domestic market and are also exported to five continents.

The Columbus plant enjoys a privileged strategic location, due to its proximity to areas where the raw materials essential for the manufacture of stainless steel can be acquired and transformed.

Middelburg (South Africa).

Bahru Stainless – Factory in Johor Bahru (Johor, Malaysia)

EMPLOYEES

538

at 31st December 2016

SHAREHOLDERS

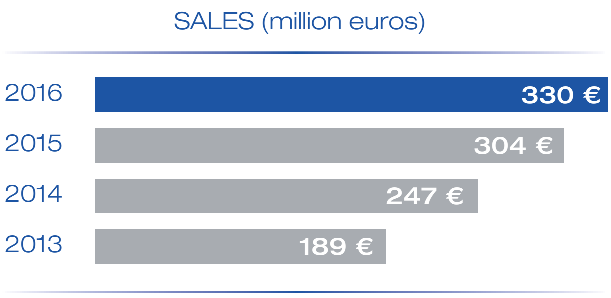
67%

Acerinox shares

PRODUCTION CAPACITY

400,000 Mt/year

Production capacity



Bahru Stainless is probably the world's most cutting-edge and technologically advanced stainless steel production centre. The company was set up as a joint venture between Acerinox and Nisshin Steel, companies with a long history of mutual cooperation going back 46 years. The ownership structure in the project for NISSHIN STEEL is (30%), Metal One (3%) and ACERINOX (67%). Construction began in 2008 in Johor, at the beginning of the Strait of Malacca, one of the most strategic geographical points for world trade.

Bahru is currently operating as a cold-rolling mill and, when the project has been completed, it will be an integral factory with a production capacity of 1 million tonnes/year. The factory is designed to supply the emerging market in Southeast Asia.

Bahru further contributes to the Group by means of the purchase of semi-finished products from other factories of the Group. The Company's productive activity is thus increased and the production costs of the supply factories are improved.

Johor Bahru (Malaysia).

Roldán and Inoxfil - Factories in Ponferrada and Igualada (Spain)

EMPLOYEES

511

at 31st December 2016

SHAREHOLDERS

100%

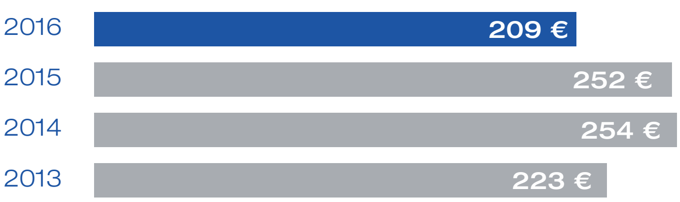
Acerinox shares

PRODUCTION CAPACITY

160,000 Mt/year

Final products production capacity

SALES (million euros)



The plants in Roldán (Ponferrada, Spain) and Inoxfil (Igualada, Spain) specialize in long products. Roldán manufactures wire rod, angles and bars from billet produced in Campo de Gibraltar. Inoxfil is a wire drawing producer. These companies form part of the Acerinox Europa production chain, as the latter supplies billet to Roldán and Inoxfil receives wire rod from Ponferrada.

The Ponferrada long product factory is the oldest in the Group, as it already existed prior to the creation of Acerinox. Up until now, 99.77% of the shares of Roldán, the company which owns the factory, belong to Acerinox.

Ponferrada (Spain).

Inside the BA tower under construction, NAS Factory.

1.2 Marketing Companies

As of 31 December 2016, the sales network of the Acerinox Group present in 48 countries is made up of 19 service centres, 27 warehouses and 34 sales or representative offices, as well as sales representatives in different countries where it has no permanent offices.

This structure enables it to perform sales in 82 countries on five continents. These include the most advanced economies in the world and virtually all the developing countries which aspire to offer high levels of quality of life to their citizens.

2. Results

Milion Euros

80	Net Profit	+87%
128	Result before taxes	+66%
157	EBIT	+30%
329	EBITDA	+15%
3,968	Net Sales	-6%
> 2	Sales Volume (Million Mt)	+9%
620	Net Debt	-13%
1.9	Net Debt / Ebitda	-24%

PRODUCTION (Million Mt)

2.5	+6.7%	Melting Shop
2.2	+8.3%	Hot Rolling Shop
1.7	+6.6%	Cold Rolling Shop

One of the best results since the beginning of the crisis was achieved in 2016. This result and the company’s mid-term operational and financial strength was based on the execution of the 2016-2020 Strategic Plan and its pillars of excellence in the operation, production-capacity optimization and execution of rapid return investments.

Within a complex environment, Acerinox once again was able generate high cash flow, allowing it to make payments to its shareholders, guarantee its financial solidity through debt reduction and continue its programme of expansion and future growth of the group by means of executing ambitious investments currently under way.

The Acerinox Group achieved a new record of activity in 2016 with the units sold increasing by 9% in comparison with the previous year and the factories reaching a new high in terms of cold-rolling production. 2016 Was also the second best year for acerinox in terms of steel production and hot-rolling.

Acerinox ended the 2016 financial year with a profit of 80 million euros after taxes and minority interests, thereby improving on that achieved in 2015 by more than 87%, when it obtained 43 million euros.

Following three quarters of consecutive losses due to the continual decline in raw materials (the last two in 2015 and the first in 2016), once the nickel price stabilised, the results underwent a steady progression during the year, from the losses of eight million euros in the first quarter to a profit of 35 million euros in the last.

The EBITDA for 2016 totalled 329 million euros, an amount which lies 15% above that obtained in 2015 (286 million euros). The Acerinox Group increased the number of physical units sold by 9%, although the Group's turnover of 3,968 million euros in 2016 was 6% lower than that of the previous year, owing to the lower average price of the raw materials used during the year.

The results are even more relevant if they are situated within the context in which they were achieved: the lowest nickel price since 2008, the pressure exerted by the new production exporters and the still incipient recovery from a serious consumption crisis. They were made possible as a result of the determined effort to reduce costs arising from the Excellence Plan IV, which led to savings of 50 million euros, and a strong focus on stock management. In accordance with the Company's Strategic Plan, an increase in activity in the group's factories was achieved as another of the pillars upon which the achievement of these profits was based.

Last year was the best in history since the foundation of the Group (1970) in terms of cold-rolling production and the second best year for steel production and hot-rolling. 2.48 million tonnes were cast at the steel mill (a figure only exceeded in 2006) and 2.21 million tonnes were hot-rolled (only in 2006 has there been a greater volume of production). The new cold-rolling production record was set at 1.72 million tonnes.

During the year, due to the increase in the consumption rates, there were base price increases in both the North American and European markets. The situation led to a growth in the margins, situating the EBITDA in double digits which reflects the level of competitiveness reached during the second half of the year, a circumstance which, with the exception of 2014, had not occurred since 2006, when the nickel price soared by 150%, with the corresponding revaluation of the Company inventories.

3. Management review of the year

Last year was marked by an international environment fraught with numerous uncertainties. There were doubts about the strength of China's economy, the UK's possible exit from the European Union, the electoral process in the USA, the political instability in the Middle East and the tensions between Russia and the European Union, among others.

Within this context, especially during the first half of the year, the different international organizations were very cautious about the expectations for the growth of the economy in general, and this same impression affected the forecasts for the growth of stainless steel and, in general, the expectations for all the raw materials.

The institutions' estimates did not come to pass and the economy eventually performed better than expected. The world economy grew; China closed the year with an increase of 6.7% and its disposable income per capita rose by 6.3%, India underwent an upturn of 6.8%, the Eurozone advanced by 1.7% and the GDP in the USA rose by 1.6% in spite of the instability arising from the electoral process.

The maintenance of constant growth in these circumstances, in the wake, moreover, of the period of sharp deceleration suffered in recent years, highlights both the solidity of the world economy and the stability of a global system which continues to create wealth and tends towards steadiness.

Stainless Steel in wine cellar.

3.1 The Stainless Steel Market

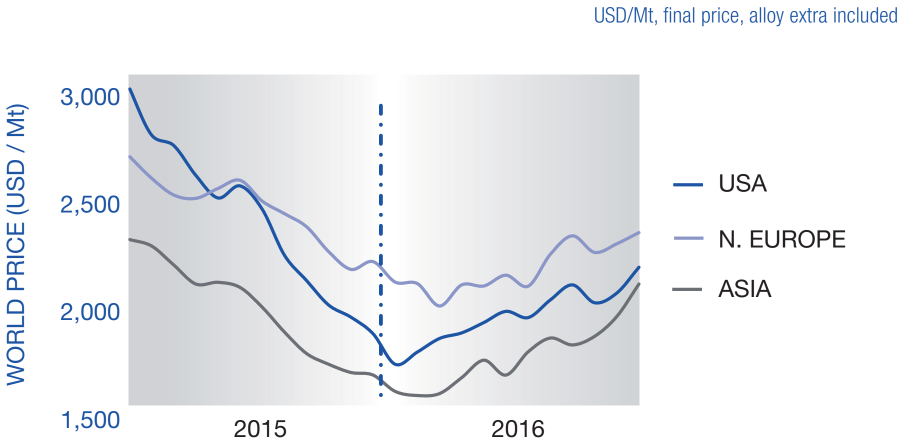
In both the presentation of the 2015 annual results and the accompanying report, Acerinox declared, with regard to the Company's prospects, that "sales of physical units are increasing, the order book has improved and there have been two price increases in the American market. The inventories are below normal levels and actual consumption remains solid in the main user sectors. Due to all the above factors, the situation should improve, once the price of nickel stabilizes."

The forecasts for the stainless steel market suggested global growth of around 2% in 2016, which, if they had been fulfilled, would have meant a significant slowdown, as our product grows at a historical average of 6.0%. However, the year ended with growth of 10.2%, according to the ISSF (International Stainless Steel Forum), as a result of which the market recovered and returned to figures which were slightly higher than usual.

Once again, the increase in the worldwide consumption of stainless steel confirms that this material remains extremely competitive. In the applications in which its use is most common it is impossible to find a substitute with better characteristics and its use is extending to new products. The benefits of stainless steel make its growth over time superior to that of comparable materials.

The trend of the price during the year in all markets was an upward one. In the USA throughout the year, in Asia from the second quarter of the year onwards and during the second half of the year in Europe. At the end of the year, according to our information, the price in Asia remained below that of the USA, while Europe maintained a price differential with respect to the other markets.

PRICE OF STAINLESS STEEL SHEET AISI. 304 COLD ROLLED 2,0 mm (2015 – 2016)



SOURCE: Platts & Acerinox

Below we analyse the evolution of our main markets throughout 2016.

3.1.1 Europe

Apparent consumption of flat products in the European Union increased by 7.8%, reaching a level of 5.3 million tonnes, according to Eurofer. This consumption is the second highest ever, exceeded only in 2006, and therefore Europe appears to have achieved the levels of consumption of stainless steel recorded before the crisis.

Significant growth was achieved in all major markets, except the United Kingdom. We should highlight the performance of Spain, where Acerinox also increased its market share.

Imports of flat products, despite the anti-dumping measures against China and Taiwan, increased by 11.9% mainly in hot-rolled products. The increase in imports, therefore, exceeded that of the market and stood at levels prior to to the anti-dumping measures imposed in 2015 by the European Commission.

The main exporter of stainless steel to Europe was South Korea, with a sharp rise in imports of cold-rolled products. As for China, it became the second largest importer of flat products on the continent; affected by the anti-dumping measures, the country replaced its imports of cold-rolled products with hot-rolled products.

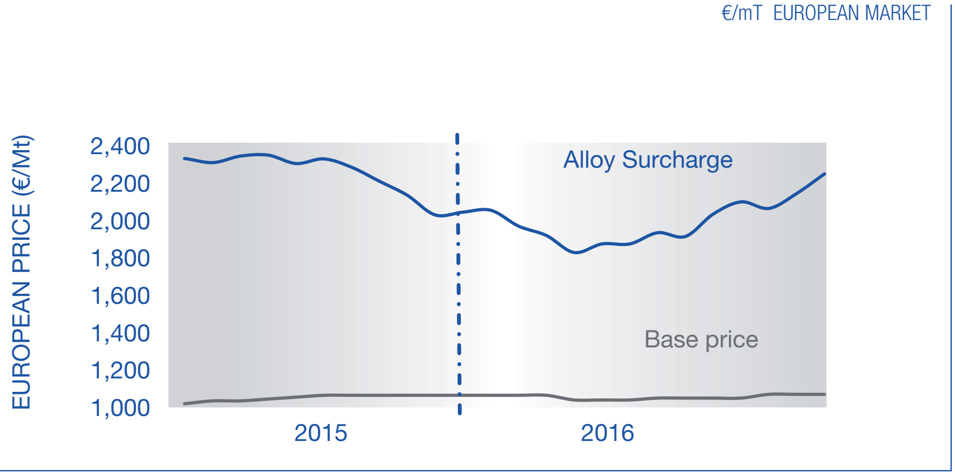
The inventories in Europe underwent a steady decline during the year, after a small recovery in the initial months, eventually reaching levels suitable for European consumption.

This year, the Acerinox group also increased its presence in Russia and Turkey, markets which without a doubt will be important in the future.

Base prices eventually increased slightly, aided by good market dynamics and developments in raw materials during the second half of the year.

Melting shop at the Acerinox Europa factory.

PRICES OF STAINLESS STEEL SHEET AISI. 304 COLD ROLLED 2,0 mm (2015 – 2016)



Source: Platts

Within the sectors we should highlight the automotive industry, which after a number of years with significant growth follows this trend, +5.5% according to Eurofer estimates, while white goods also evolve positively, +1.1% according to Eurofer estimates. The first signs of both public and private investment were detected in the construction industry.

3.1.2 Americas

The performance of the American market during the year was affected by the restrictions on Chinese steel imports announced on 12 July by the United States Department of Commerce. Among the above, it announced preliminary anti-subsidy measures ranging between 57.3% and 193.1%. On 13 September, preliminary anti-dumping tariffs were subsequently added to these ranging from 63.9% to 76.6% on China's cold-rolled flat product. In a global world, the different stainless steel markets are closely linked and these measures altered the flow of material around the world.

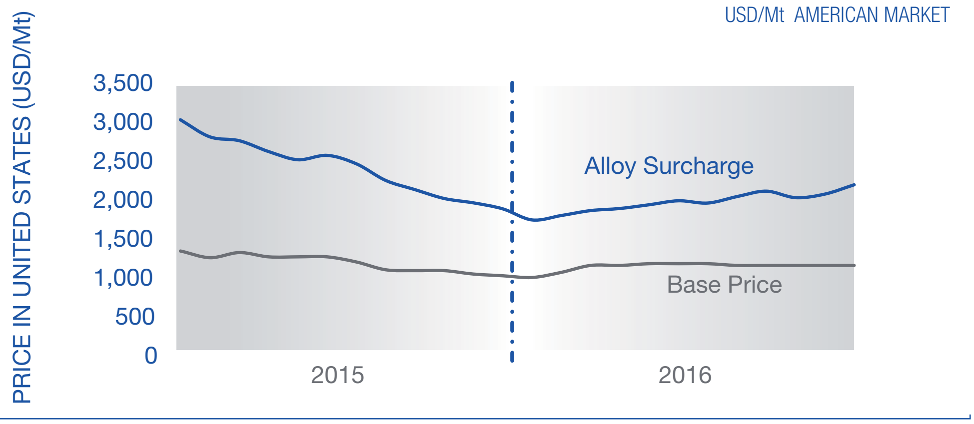
The flat product market increased by 7% in the United States. However, the growth in the country's total apparent consumption was lower (4.1%), affected by the lack of investment in the Oil & Gas sector, which resulted in a 13.6% decrease in long products.

The evolution of apparent consumption in the American market was uneven throughout the year: after a moderate first semester, the market accelerated later in the year with a sharp rise following the regularization of stocks and the announcement by the US Department of Commerce, which led to a sharp decline in imports from China, although the latter was partially offset by the arrival of products from other countries such as Vietnam, Italy and Mexico.

Stock levels during 2016 maintained the evolution of the apparent consumption, undergoing a decline during the first quarter of the year and a subsequent increase to levels similar to 2015, adequate for consumption in the US market.

After the sharp falls in 2015, base prices recovered from the beginning of the year onwards, ending with values which were still somewhat lower than those recorded at the start of 2015. At the time of writing this text, new price increases have already been announced and have been in effect since the beginning of 2017.

PRICE OF STAINLESS STEEL SHEET AISI. 304 COLD ROLLED 2,0 mm (2015 – 2016)



Source: Platts

The main sectors of consumption of stainless steel evolved favourably. These include the automotive sector, +1.3% according to Wards Auto estimates, which once again grew at record levels, and the construction industry, which increased sharply for the second consecutive year, +4.5% according to US Census Bureau estimates. Considerable signs of improvement were detected in the market following the increase in price of oil.

Alongside the United States, the markets in Canada and Mexico recorded good performances given the reciprocity with the USA.

In South America, according to the Company's own estimates, the increases in apparent consumption in Colombia and Chile were particularly significant. We should also mention the negative performance of the Brazilian market, the largest in South America, where apparent consumption fell by 5%.

3.1.3 Africa and Middle East

The Acerinox Group was, once again, a leader throughout the continent and especially in South Africa, its most important market.

According to our own estimates, in South Africa, the main market on the continent, apparent consumption of stainless steel flat products fell by 8.5%, affected by the country's weak economy, chiefly due to the temporary fall in activity in the mining sector and in the auxiliary industry. Despite this fall, Columbus increased its market share exceeding the pressure of imports.

Meanwhile, the evolution of prices in South Africa during 2016 followed a trend similar to the one recorded in the European market although price recovery was lower due to the pressure of Asian prices.

The shortage and high prices of electrical energy in the country forced an adjustment of the production schedules, although the factory continued to enjoy many of the benefits afforded by its location near the raw materials.

Despite weak local market conditions, Columbus benefited from exports due to the depreciation of the Rand and the improvement of the US and EU economies. These advantages meant that, in 2016, the Company managed to export to 66 countries, seven of them new ones.

On the rest of the African continent, due to the sharp rise in the apparent consumption, there were significant developments in Algeria and Morocco, countries where the Acerinox Group considerably increased its presence.

In the Middle East we should highlight the United Arab Emirates, where Acerinox recorded a remarkable increase in sales and estimated apparent consumption rose by 6% in 2016.

3.1.4 Asia

In 2016, once again, China was the country with the highest apparent consumption in the world, with around 19 million tonnes and an increase of 15.7% in comparison with 2015. In view of the lack of new projects and the continued natural growth of demand in the country, the factories in the area could achieve stabilization between production capacity and market demand in the coming years, reducing the flow of surplus production to the rest of the world.

The local market prices followed a similar evolution to the other world markets until the fourth quarter of the year, reducing the difference in price with respect to the rest of the planet. Meanwhile, the main consumption sectors in China evolved very positively, particularly the automotive sector, with a rise of 14.4% according to CAAM estimates, the construction industry, with an upturn of 6.9% according to NBS estimates, and white goods, where production went up by 3.0%, NBS estimates.

China remains the driving force of the world growth of stainless steel consumption.

The year ended with the inventories of Wuxi and Foshan, the main official markets in the area, at above-average levels, albeit well below the highs recorded in July 2016.

Meanwhile, throughout the region, tariffs were imposed on trade by means of anti-dumping and other restrictive import measures which did not favour free trade.

Bahru Stainless, the Acerinox plant in Malaysia, was able to increase its market shares in the main Asean markets: Malaysia, Indonesia, Vietnam and Thailand, despite the difficult context and the complex regulations in these countries.

The Malaysian factory continued to increase sales as a result of the Acerinox Group's powerful commercial network. In 2016, Bahru sold its products in 38 countries on five continents, complementing its main market (ASEAN) with sales to other strategic points of the globe such as the Middle East.

With the help of Nisshin Steel, its Japanese industrial partner, Bahru Stainless began supplying some of the most important Japanese car and motorcycle manufacturers in the area.

Stainless steel tank for processing plants.

3.2 Global Production of Stainless Steel

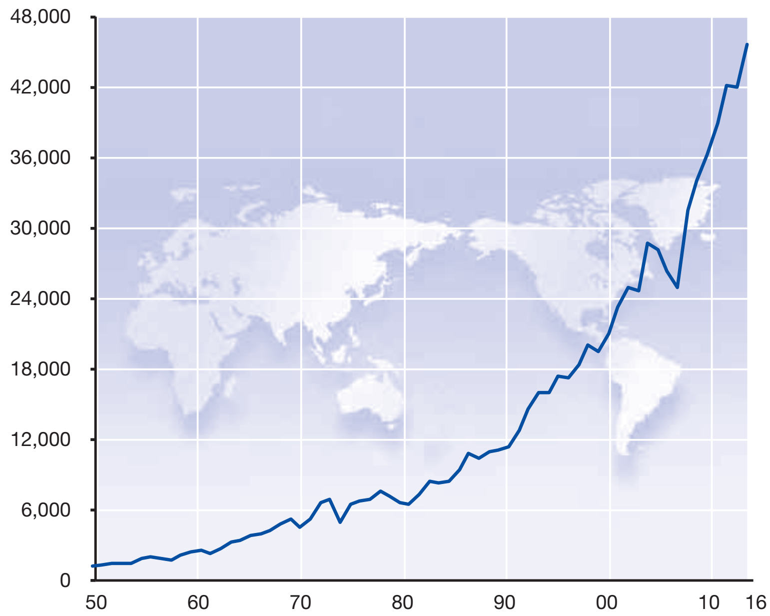
Following the stagnation recorded during 2015, production in 2016 returned to normal, with increases above 6%.

WORLD STAINLESS STEEL PRODUCTION

Thousand Mt.

2016 World production of Stainless Steel:
45.8 million Mt

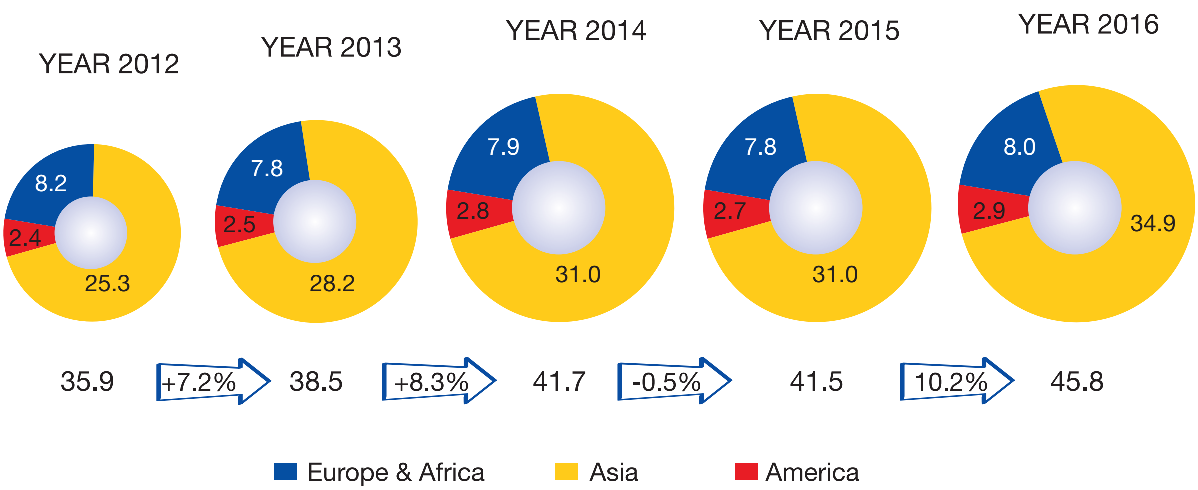
Compound annual growth 1950 – 2016:
+6.0%



Source: ISSF & Acerinox

EVOLUTION OF THE STAINLESS STEEL WORLD PRODUCTION

Million Tm.



Source: International Stainless Steel Forum (ISSF)

Worldwide steel production reached 45.8 million tonnes, an increase of 10.2% over 2015, according to the ISSF's.

After a start to the year when world steel production in the first quarter was similar to that of 2015, growth accelerated and recorded a double-digit increase during the second semester.

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year 2015	Thousand Mt	10,220	10,982	10,195	10,152	41,548
Year 2016		10,274	11,827	11,483	12,193	45,778

Production increases were recorded on all the continents, with special mention for China, which has accounted for most of the world growth in recent years. In this country, the rise stood at 15.7% with respect to the previous year, with around 25 million tonnes, accounting for 54% of all the steel produced in the world.

		2015	2016	Variation
Europe / Africa	thousand Mt	7,777	7,952	2.3%
America		2,747	2,931	6.7%
Asia without China		9,461	9,957	5.2%
China		21,562	24,938	15.7%
TOTAL		41,548	45,778	10.2%

Even so, it is particularly interesting that, during 2016, the first closures of stainless steel factories took place in China, in keeping with the policy announced by Beijing. The closure of these plants for environmental reasons was aimed at reducing industrial surpluses and limiting the overproduction the country suffers from. News of possible further closures continues to arrive, in keeping with the above decisions.

In the United States, the announcement of the definitive closure of the Allegheny Midland plant in October was particularly significant.

3.3 Acerinox Group Production

2016 was a good year in terms of production. All the Group's plants increased their production with respect to the previous year. In all, 2.5 million tonnes of steel were produced, together with 2.2 million tonnes of hot-rolled and 1.7 million tonnes of cold-rolled products.

Thousand Mt	Year 2016					Year 2015	Variation 2016 / 2015
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated	Jan-Dec	
Meltshop	575.1	652.0	637.3	611.0	2,475.4	**2,319.6**	**6.7%**
Hot Rolling	526.4	563.4	571.9	547.1	2,208.9	**2,038.7**	**8.3%**
Cold Rolling	418.1	428.0	429.0	440.8	1,715.9	**1,609.0**	**6.6%**
Long Product (Hot Rolling)	54.1	63.8	53.7	52.7	224.3	**215.9**	**3.9%**

The latter figure is especially significant, by virtue of being the record for cold-rolling in the entire history of the Group. Meanwhile, the steel and hot-rolling figures are the second highest ever and strengthen the leadership position Acerinox holds on continents such as America and Africa.

Bahru, in the development stage, was able to achieve its objectives and increased its production by 18%, gradually enabling it to gain market share in the ASEAN area and, in general, in the Far East, while its consumption of hot-rolled coil led to optimum uses of the respective steel mills in Campo de Gibraltar and South Africa.

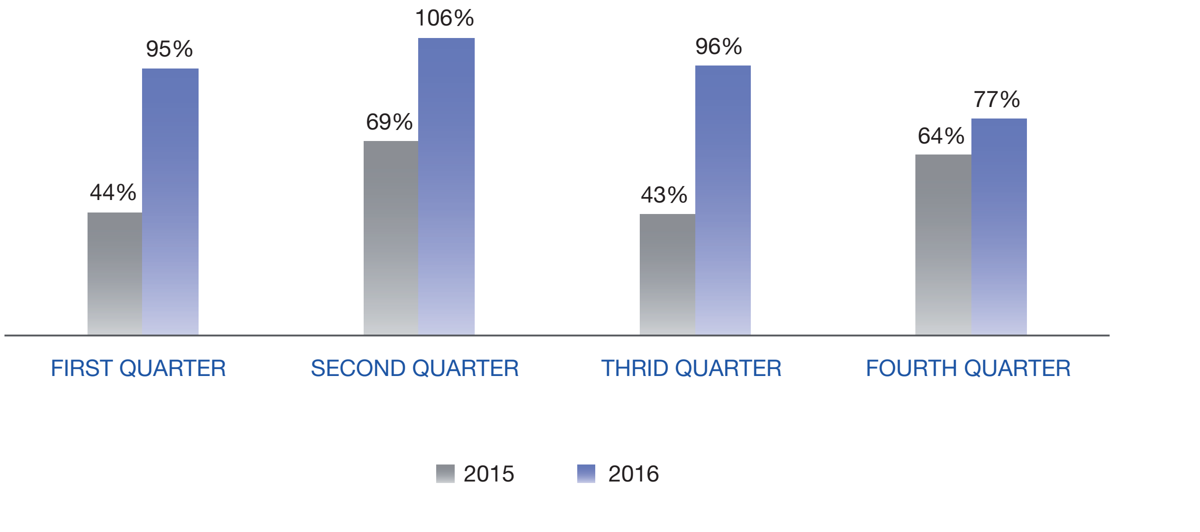
Bahru Factory in Malaysia.

3.4 Excellence Plan

The Excellence Plan is a tool to improve manufacturing costs, essentially the variable costs, and stem from a prior benchmarking process applied to all the best practices available in the activities under analysis in the Group's different units. The accumulated savings are consolidated and form the basis of the next plan. They constitute a powerful management and improvement tool, which already forms part of the Group's culture.

In 2016, the IV Excellence Plan was completed, covering the years 2015 and 2016, with 74% of the objectives achieved, which represents a recurring impact of 50 million euros per year on the Group's results.

EXCELLENCE PLAN IV 2015-2016 – ACCUMULATED RESULT 74% (55% IN 2015)

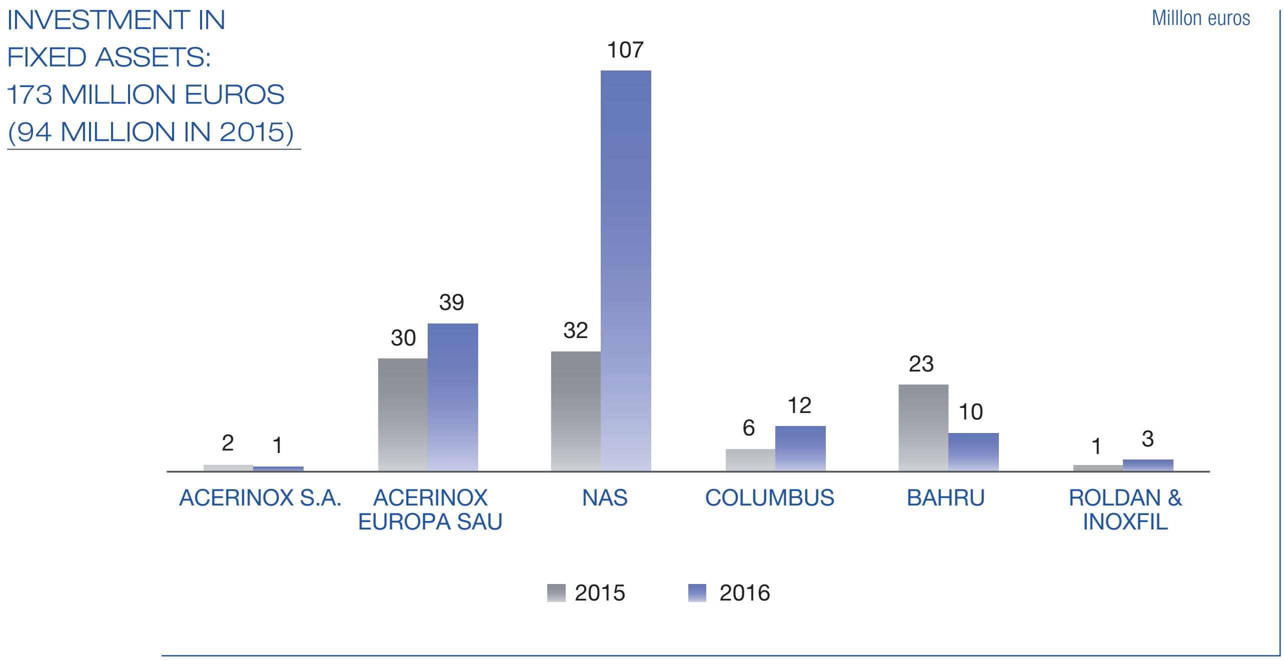


94% of the Plan's objectives were achieved in 2016, together with a record level of competitiveness in the Group's operations, working capital management, supply chain optimization and commercial and personnel management.

Other milestones included a reduction of inventories in physical units (6.6%), despite the increases in sales (9.0%) and production (6.7%).

At its December meeting, the Board of Directors approved the Company's V Excellence Plan, incorporating new features in several sections. This new plan will be conducted during 2017 and 2018 and envisages a recurring savings target of 50 million euros per year.

3.5 Investments in Fixed Assets



A major Investment Plan was approved in 2015, including a BA-finish bright annealing line and a rolling mill at NAS, as well as the acquisition of a pickling and annealing line and a cold-rolling mill at the Campo de Gibraltar factory.

These investments, whose total cost is 256 million euros, will lead to an increase in cold-rolling production capacity and supply to the American market, as well as cost and quality improvements and the manufacture of products with greater added value for our customers in Europe.

This ambitious Investment Plan was made possible as a result of the profits generated by the Group's good performance in a complex context for the world stainless steel market.

During 2016, the construction of the equipment took place in accordance with the agreed deadlines and budgets, something remarkable in works of this complexity.

In January 2017, the first coils at the new rolling mill in the USA began to be cold-rolled, thereby increasing the potential production of NAS, while the start of the bright annealing line is expected for March. During the fourth quarter of 2017, the new annealing and pickling line is expected to begin in Spain, together with the new rolling mill.

These investments include the latest advances within the framework of the digital revolution, such as high sensitivity equipment, big data, artificial vision and advanced mathematical prediction models.

The registered amounts of fixed assets arising from the progressive execution of the approved investments are as follows:

	Acerinox Europa	NAS
Main equipment	1 x Annealing and pickling line	1 x Bright annealing line
	1 x Cold Rolling Mill	1 x Cold Rolling Mill
Approved investment (million euros)	140	116
Executed in 2016 (million euros)	22	82
Accumulated executed (million euros)	31	94
% Execution	22%	81%
Estimated date of project completion	4thQ 2017	March 2017

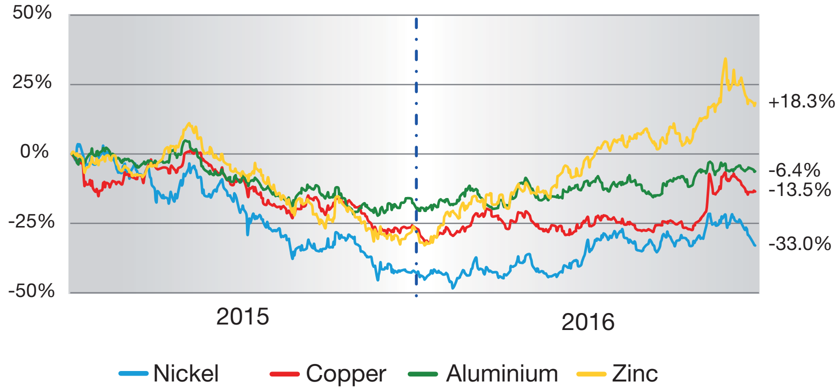
Construction of the AP-5 line in the Acerinox Europa factory.

3.6 Raw Materials

The pessimistic production forecasts for 2016 had their logical effect on the prices of the main raw materials, which recorded a clear downward trend at the start of the year.

However, the reality of the year did not coincide with the forecasts and the greater demand ended up reversing the trend.

OFFICIAL RAW MATERIAL PRICES IN THE LME - 2015 - 2016



Daily % change (US$/Mt, cash) Base 31-12-2014

However, prices did not improve sufficiently to encourage the opening of mines and facilities which had closed in previous years, which, with an eye on the good prospects for 2017, has generated a certain degree of fear and moments of unease in some cases with regard to the scarcity of some minerals, such as ferrochrome, as we will see in the following sections, with very large and very sharp rises in prices towards the end of the year.

3.6.1 Nickel

Nickel prices started the year by recording a new low, with levels of 7,700 USD/tonne in early February. This led to cuts in production, as well as the closure of some production plants, although the impact on prices was limited.

OFFICIAL PRICE OF NICKEL ON THE LME – YEARS 2015 – 2016

Average trading price / three months USD/Mt

The main basis for the improvement was the announcement in July and the subsequent execution of an environmental audit in the Philippines on nickel ore producers, which resulted in the temporary closure of some facilities.

In the past two years the Philippines has become the main source of minerals for nickel pig iron producers in China. Uncertainty over the future availability of the mineral, coupled with the improvement of nickel consumption worldwide, led to a recovery of the prices quoted on the LME (London Metal Exchange), which stood at between 10,000 and 11,000 USD/tonne until the beginning of November, when they exceeded 11,700 USD/tonne. The end-of-year corrections left nickel prices at around 10,000 USD/tonne. It is estimated that, at these prices, about one-third of producers still cannot cover their production costs.

For the first time in five years, world nickel consumption outpaced production, with an estimated year-end deficit of 65,000 tonnes, although the global stock levels of nickel remained high. During 2016 the nickel stock on the LME fell by 69,228 tonnes, ending the year at 372,066 tonnes. This reduction was partially offset by an increase of 45,573 tonnes on the Shanghai Stock Exchange, which ended the year at 93,312 tonnes. Together with the other stocks within the supply chain, it was possible to end the year with an overall stock equivalent to 6 months of consumption, slightly lower than the 7 months recorded at the end of 2015.

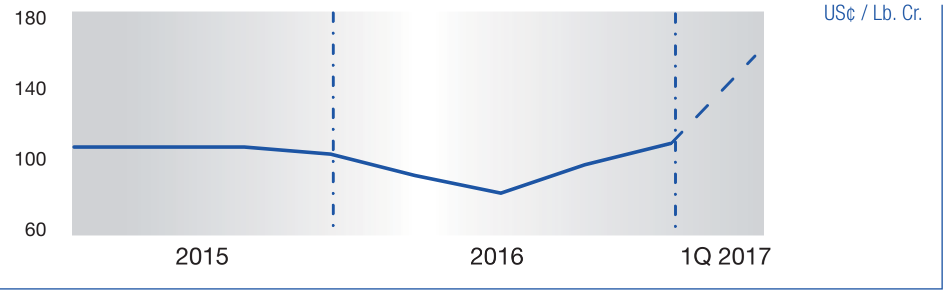
All the metals improved their prices during 2016: zinc rose by 64.9%, followed by copper by 18.4%, nickel by 17.6% and aluminium by 16.9%. The global contracting volume on the LME fell by 7.7%, with nickel being the only metal which maintained the same volume as in 2015, about 124 million traded tonnes, approximately 62 times its annual consumption.

Stainless steel scrap.

3.6.2 Ferrochrome

There were two clearly different periods for chrome prices in the first and second halves of 2016. They started with a fall in the first quarter to 92 US¢/Lb, driven by the feeling of weak global demand, mainly in China, and fell again to 82 US¢/Lb in the second quarter.

AVERAGE QUARTERLY PRICE OF FERROCHROME



Source: Metal Bulletin

We have to go back as far as 2009 to find such low prices. These price levels, unsustainable for much of the industry, led to a further closure of a South African producer at the end of the first quarter. In the last two years South Africa has lost three ferrochrome producers.

The improvement in world demand, as well as China's need to replenish stocks of the mineral for local production, which had recorded historical lows, and ferrochrome, led to a recovery of prices in the second half of the year, with two consecutive rises to 98 US¢/Lb in the third quarter and 110 US¢/Lb in the fourth.

This situation intensified at the end of the year and the fear of a shortage of material in the short term led to a figure of $165 US¢/lb in the first quarter of 2017. We have to go back as far as 2006 to find similar price values.

3.6.3 Molybdenum

Despite last year's molybdenum production cuts and consumption uncertainty, chiefly caused by the weak recovery of the energy sector, molybdenum prices remained stable at around 5.5 USD/Lb during the first months of the year.

The worldwide recovery of steel production and the announcements of new molybdenum production cuts led to a recovery in May, when the price reached an annual high of 8.6 USD/Lb. However, the excess production in China and the lack of confidence in the firmness of consumption led to a correction of prices in the following months.

In spite of a slight recovery in prices, due to a stock replenishment prior to the summer period, the trend in prices in the rest of the year was a downward one, ending at levels of 6.5 USD/Lb. These levels remain unsustainable for the vast majority of primary molybdenum producers and only producers of secondary molybdenum, a sub-product obtained from the extraction of copper, can operate at these price levels.

PRICE OF MOLYBDENUM

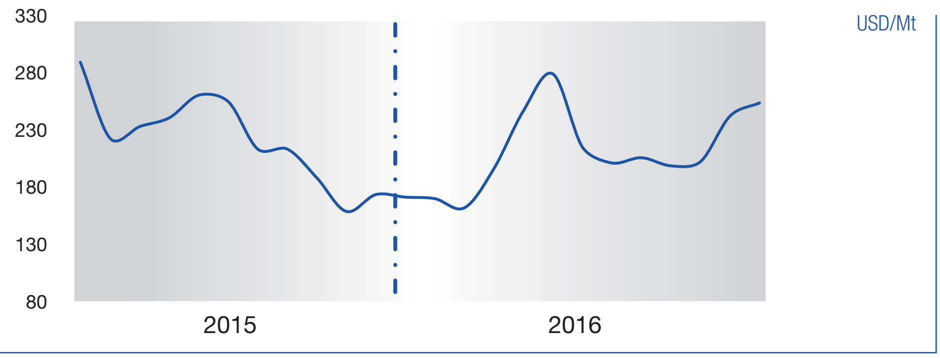
Source: Metals Daily

3.6.4 Scrap Iron

Scrap iron prices rose steadily from mid-February onwards, reaching an annual high of 280 USD/tonne in May as a result of the improved global demand for steel, the sharp increase in imports from countries such as Turkey and India and the recovery of iron ore prices.

However, following the replenishment of stocks from the importing countries, prices fell in July. The political situation in Turkey, the world's leading importer, as well as the announcement of steel production cuts in China, kept prices stable until mid-October when, owing to the strong recovery of metallurgical coal and iron ore, scrap iron prices increased again, ending the year at around 255 USD/tonne.

PRICE OF SCRAP IRON FOB ROTTERDAM HMS 1&2



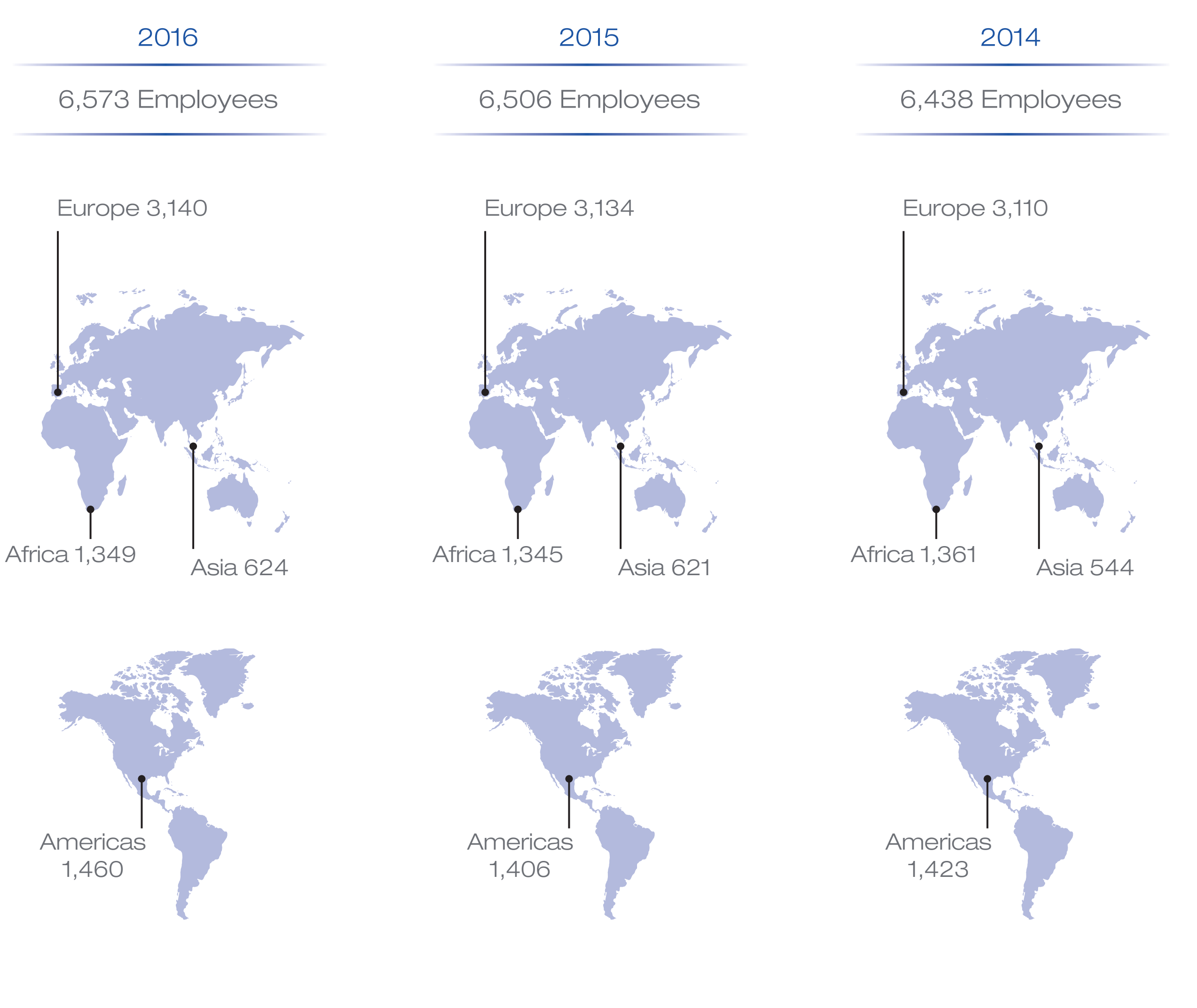
Source: Metal Bulletin

Hot-rolling in the Acerinox Europa factory.

3.7 Human Capital

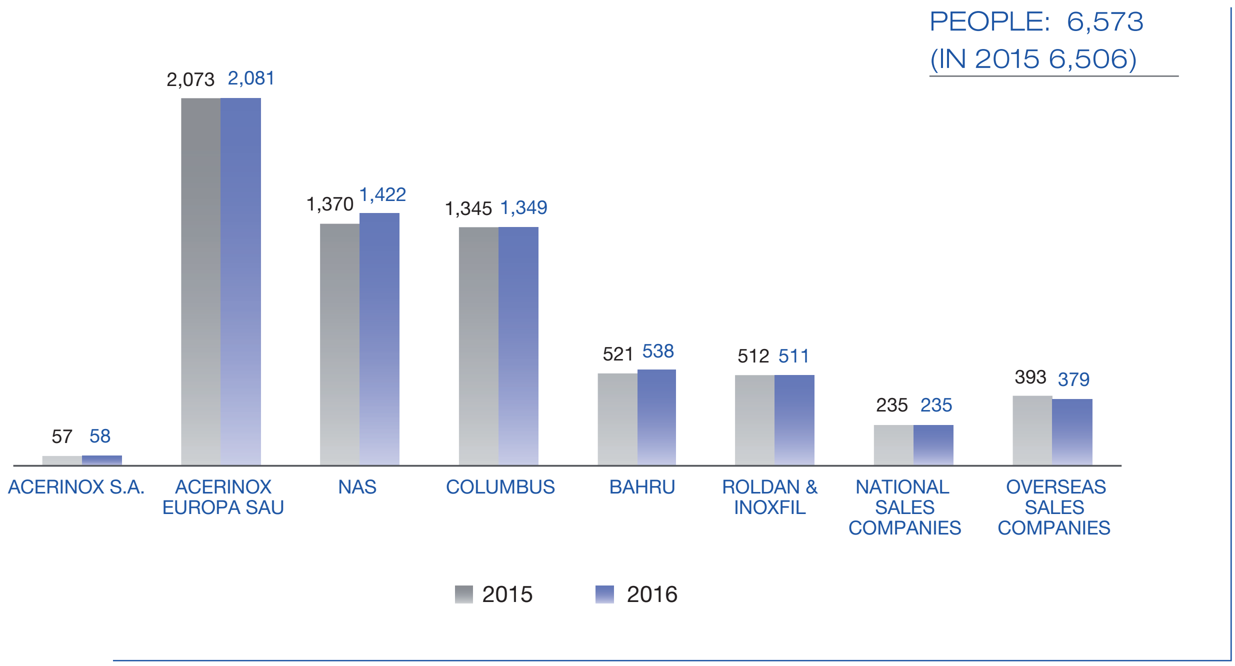
Working on the purchase and processing of raw materials, steel manufacturing and marketing, deliveries and Group management, Acerinox had 6,573 employees as of 31 December, not including partially-retired personnel. Of the above, more than half (52.2%) had their jobs outside the European continent.

NUMBER OF EMPLOYEES AS OF 31 DECEMBER BY GEOGRAPHICAL LOCATIONS:



Specifically, Acerinox had 3,140 employees in Europe (47.8%), 1,460 in America (22.2%), 1,349 in Africa (20.5%) and 624 in Asia (9.5%). The number of employees grew slightly at all the large plants, due to the higher levels of production, and remained stable in the different regions in which the company operates.

NUMBER OF EMPLOYEES AS OF 31 DECEMBER BY GROUP COMPANIES:



More than 90% of the Acerinox workforce was linked to the company by a permanent and full-time contract. The company creates and maintains stable, high-quality work, with professional prospects and international opportunities. They are well-paid jobs full of challenges and opportunities for learning and development. Due to this employment profile and the activity performed by the company, the ability to work in a team and learn is fundamental at Acerinox. The Group particularly values proactive people with initiative and proposals.

The thorough knowledge of the steel industry and its processes, the experience accumulated over more than 45 years in the sector and the skills developed for the correct management are the main assets by which the company leads the sector in whole continents such as North America and Africa, achieving very high market shares in many of the most developed economies. To maintain all the above knowledge and to make it available to all the members of the Group, Acerinox conducts very ambitious internal training programmes. In some of them, as an illustration of their ties and feeling of belonging to the Group, retired Acerinox personnel take part as teachers, generously making their knowledge available to the younger generations.

The arrival and application of new ideas are also essential for remaining competitive. For the above, for the new, to innovate, to improve and to capitalize on the rapid development of technology, Acerinox needs people who are ready with alert minds. Last year, the Group signed new agreements with universities for joint collaboration in the training of engineers and technicians and for taking advantage of the enormous opportunities offered by the industry for the intensive use of the new digital technologies. These agreements contribute to the training of young professionals and help them in their career development in countries like the United States, Spain, South Africa and Malaysia.

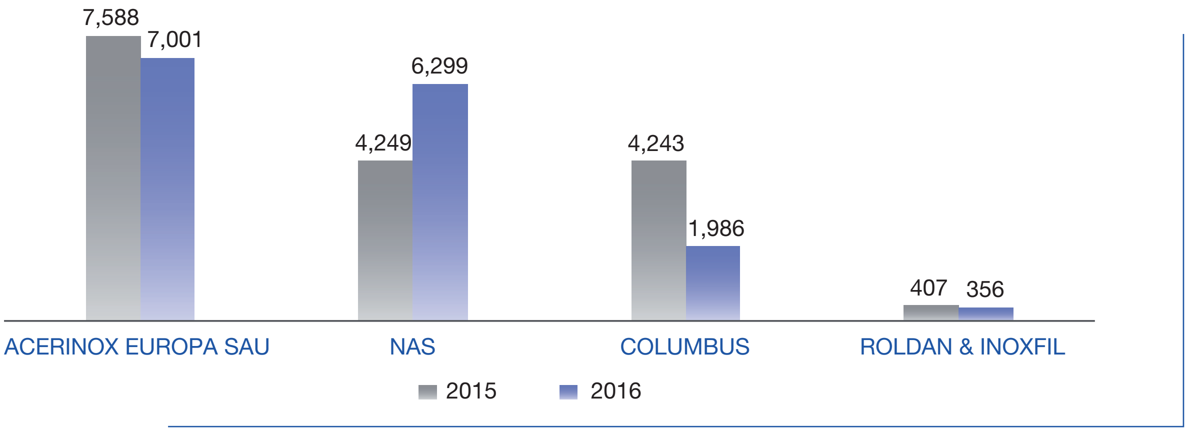
The Group entered into agreements with the Universidad Pontificia de Comillas, Universidad Complutense in Madrid, Universidad Politécnica in Madrid, Universidad de Alcalá de Henares, Universidad Carlos III in Madrid, Universidad Rey Juan Carlos in Madrid, Universidad de Cádiz and Universidad de Algeciras, the Louisville School of Engineering, the University of Pretoria and the University of Cape Town.

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.

Dome in the Louvre Museum in Abu Dhabi, made of Stainless steel, among other materials.

3.8 R+D+i

INVESTMENT IN R+D+i: 15,643 THOUSAND EUROS (16,487 IN 2015)



Investment in new equipment and the modernization of that already in existence, the use of the latest available technologies, the study of improvements in the processes and the development of new types of stainless steel have resulted in an average annual investment of over 180 million euros since 2008 for the Acerinox Group.

An investment designed to create new production lines, maintain the existing ones and implement new technological systems so as to increase the manufacturing capacity, improve efficiency and extend the range of final products of its factory.

This constant economic and human endeavour is in keeping with the very nature of the Company's activity. Industry is a sector in which remaining the leader at the forefront of activity is only possible by means of study and a daily search for improvement in the processes. This is why many of the world's leading experts in the manufacture of stainless steel form part of the Acerinox workforce and constantly analyse, study, propose and apply improvements in each of the steps of the lines.

These advances enable the Group to continue to increase production, reduce costs, expand the range of stainless steels and enhance the technical and mechanical qualities of the material.

Among other items, Acerinox assigned a total of 15.6 million euros to the activities of the research and innovation laboratories located in the factories the Group has on four continents.

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 40,000 euros, to reward the best ideas in this field.

This year the following projects received awards:

- The first Quality in Progress award went to Juan Pedro Fuentes Martínez from the cold-rolling department, for his work titled "Efficiency and savings in the polishing process". This award was accompanied by a prize totalling 15,000 euros.

- The second Quality in Progress award went to the project titled "Method of taper tension operation" by Juan Manuel Ocaña Laza from the cold-rolling department, accompanied by a prize totalling 10,000 euros.

- The third Quality in Progress award went to the work titled “System for the cleaning of plasma” by Luis Marcos Sánchez Peña from the hot-rolling department, with a prize totalling 5,000 euros.
- The Safety award, accompanied by a prize totalling 10,000 euros, went to Juan Ricardo Mateos Serrano from the maintenance department, for the project titled:

“*Modification of the location of the receivers of the vertical laser barriers by means of the intercalation of mirrors in the hot-rolling slab furnace*”.

CEDINOX, the Stainless Steel Research and Development Association, held 17 seminars in order to bring the University closer to the different applications of stainless steel, in which 1,139 attendees from different Spanish universities took part.

In 2016, Cedinox organized the first “Acerinox Award”, in which university students from nine Spanish universities took part in projects related to stainless steel. The award seeks to promote knowledge of the applications of this material among young architects and engineers. Acerinox CEO Bernardo Velázquez personally presented the award to the winner, Carlos Sanz San Miguel, an engineering student at the University of Zaragoza, for his final degree paper titled “*Comparative study of behaviour due to corrosion by chloride ions between stainless steels*”.

At North American Stainless, the Group allocated 6.3 million euros to research tasks, with ambitious projects for the development of new types of steel for high added value applications, improvements in product quality and improvement in production. North American Stainless maintains cooperation and training agreements with the Louisville School of Engineering in Kentucky.

In Columbus, two million euros were invested in research and development projects specific to the plant’s activity. By means of its training programme, students from the University of Pretoria, in partnership with others from the University of Cape Town, are working on research to improve stainless steel intended for cars.

Our researchers create value and innovation for our customers and for society by means of better products and more efficient processes.

Signing of the agreement with the Pontificia de Comillas University.

3.9 Digital Transformation

One of the keys to Acerinox's success was, and will continue to be, the importance given to innovation and to staying ahead in the industrial technology used in the manufacture of stainless steel.

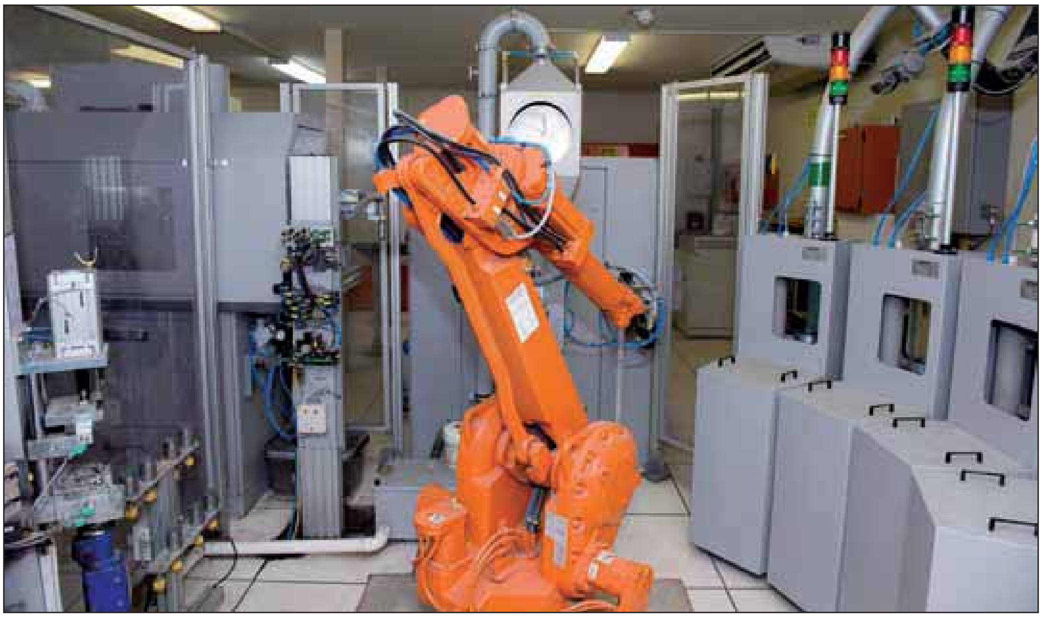
In contrast to the widespread perception that the steel industry is a technologically mature industry, it is actually a sector which makes significant investment in Research and Development, with highly advanced technology in its factories and pioneering techniques applied to its production lines.

Within this context, many of the tools contained in the so-called digital transformation, such as the application of artificial intelligence elements, the handling of large amounts of information, predictive maintenance and programmes to improve energy efficiency, have formed part of the culture and approach employed at Acerinox for many years.

Acerinox remains attentive to all the social areas in order to maintain its technological leadership. During the year, the Group was involved in all kinds of entrepreneurial, institutional, sectoral and academic forums and associations, acquiring new ideas and knowledge related to the so-called Digital Transformation. With the above in mind it will study how to update and enhance the areas of digitization, sensorization and connectivity by means of new technologies related to industry, information and communications.

Last year, Acerinox also joined the Universidad Pontificia Comillas ICAI-ICADE University in order to initiate the Chair in Connected Industry, with a view to studying the opportunities for Spanish industry and the economy offered by the so-called "Fourth Industrial Revolution".

The activities of the Research and Development programmes conducted at each of the plants undertake projects which use the new tools available for improving the production processes and our steels.



Automated laboratory at the Columbus factory.

The following projects in this field have already been implemented at our factories

1. **The SiMoDiM project is designed for the predictive maintenance of the industrial machinery used in the hot-rolling process:** Acerinox is experimenting with a predictive analytics system which will allow it, in real time, to capture, manage and process large amounts of data by means of intelligent sensors, Big Data techniques and neural networks.

2. S**ystem for the detection of the status of the refractory of the blast furnace:** An implemented project which combines an X-ray meter and a robot which identifies the location and seriousness of the breakdowns of the hot refractory, automatically proceeding to its repair.

3. **The detection of mill scale by DECAREX**, which continuously locates the mill scale present on the surface of the material by means of a camera system and enables conditions of the pickling process to be altered in order to eliminate these defects.

4. **Ausinox** is targeted at obtaining austenitic stainless steels with minimum inclusion content from the development of new advanced simulation models in the steelworks processes.

5. **Ferrinop** is focused on the experimental development of new advanced technological solutions for the manufacturing of ferritic stainless steels optimized through the analysis and control of oxidation by means of identification of the origin of the micro cracks which cause it.

6. The **Horus** Project seeks to obtain a new design of the reheating oven. It focuses on the installation of new cameras inside the over in order to know the temperature of the slabs and, therefore, their thermal evolution. This information will be used to optimize the hot-rolling process.

7. **Ultraslim** is a project of which its objective is to develop an austenitic stainless steel of fine grain size to increase the mechanical properties for the automotive industry.

Acerinox has also developed an action plan in the Group's Information Systems with the following objectives:

- Unification of the computer platform in all its units, as well as the applications which manage the main business activities - commercial, financial, costs and production - and support activities - warehouses and maintenance.

- Management of communication to guarantee the sending of information between the different units with full security.

The use of these tools currently enables the Company to make rapid business decisions, serving as a basis for undertaking future projects.

3.10 Risk Management

The Board of Directors, at its meeting held on 15 December 2015, approved the Risk Control and Management Policy of Acerinox, S.A. and its Group of Companies, in which it establishes the basic principles and general framework for the control and management of the risks of all kind faced by Acerinox and its Group of Companies.

Through the General Risk Control and Management Policy, the Board of Directors establishes the basic mechanisms and principles for the adequate management of risks and opportunities, with a level of risk which enables it 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 shareholders, customers, other groups interested in the progression of the Group and society in general.
- Ensure business stability and financial solidity in a sustained manner over time.

Acerinox has implemented a Risk Management Model, promoted by the Senior Management and designed to identify, classify and assess any potential events which may affect the organization's relevant units and functions, with the ultimate aim of managing the risks and providing a reasonable level of security with respect to achieving its objectives, whether they be related to strategy, operations, compliance or information.

Acerinox is aware of its exposure to a series of uncertainties which are unique and inherent to the industrial sector in which it operates, chiefly characterized by volatility in terms of its most important indexes and values, which can affect both the financial and the non-financial results.

New cold-rolling mill at the NAS factory.

Acerinox's Main Risks

Financial risk

This is normally defined as a lack of liquidity, restricted access to funding sources, increasing funding costs, volatility of exchange rates, volatility of interest rates and credit risk. The Group's financial strength has increased this year, with an improvement in its financial indicators. Similarly, the credit risk indices remain at very acceptable levels, with an increase in sales and without missing out on any business opportunities.

Raw Material Price Volatility

The production of stainless steel requires considerable amounts of raw materials (mainly nickel, chrome and molybdenum, etc.). The price of nickel, which is listed on the LME (London Metal Exchange), is subject to the volatility of the financial markets, which has a direct effect on the apparent consumption of stainless steel. The fundamental parameters which govern the sector stabilized throughout 2016, especially the price of nickel, contributing to an improvement in expectations.

Overcapacity

This risk envisages a global excess of installed capacity, resulting in lower prices. The stainless steel industry is affected by global production capacity and fluctuations in imports and exports. Global production capacity has increased considerably, particularly in China, which is currently the world's largest stainless steel manufacturer by a large margin. We are witnessing surplus reductions during the year, with closures of facilities in major markets, including China, which, if this trend is maintained in the mid term, will give rise to a more balanced relationship between installed capacity and consumption.

Economic crises and cycles

The demand for steel products is directly related to the global economy's fluctuations. These circumstances produce imbalances between supply and demand and have a significant impact on prices. The complex global political and economic situation will remain a risk for the developed and emerging economies.

Competition

The stainless steel market is characterised by a high level of competition, which leads to price reductions in order to increase or maintain market share on a global scale.

Regulatory risks

The Acerinox Group's significant presence on the international stage means that it carries out its activities in a number of different countries, under different and sometimes contradictory regulatory frameworks and in different business areas within the stainless steel sector. In mid-2015 Acerinox launched a regulatory compliance programme which enables it to achieve higher levels of assurance in all areas - regulation, compliance and corporate governance, raising the levels of transparency with all its stakeholders.

3.11 The Acerinox Group´s Individual Companies

ACERINOX EUROPA

In 2016 the steel production of the factory was 827,715 tonnes which represents an increase of 1.1% compared to 2015.

The year began at the Campo de Gibraltar plant with the announcement of a significant investment of 140 million euros for the construction of an annealing and pickling line and a new cold-rolling mill, as well as civil work and auxiliary equipment necessary for the functioning of these large facilities and the means to optimize the factory production, improve the quality of its products, reduce costs and reduce the environmental impact.

The construction work for this equipment took place during the year and it will be able to start operation and join the plant's production line towards the end of 2017.

Market conditions in 2016 led to a sharp price rise based on greater demand, the increase in the activity of industries which require stainless steel and the restrictions on the imports of this material imposed on China and Taiwan on the continent.

The European Commission imposed anti-dumping measures against imports from China and Taiwan, which reduced the distortions caused by the entry of material from these countries at below-market prices. Despite the announced measures, imports into the European Union remained at 23% of the market, due to the replacement of the imports from the affected countries with those from other Asian countries. Although the imports eventually stayed at a similar level, the anti-dumping measures contributed to stabilizing prices, as the new importers which substituted China and Taiwan were private companies from market economy countries.

Europe in general and Spain in particular recovered during the year and the improvement of the economy had a considerable impact on the increase in product margins.

Our factory also benefited from the fall in electrical energy prices in Spain, although it remained at a disadvantage in comparison with the competing neighbouring countries.

Service Centre in Pinto (Madrid).

NAS

In 2016 the steel production of the factory was 1.065.658 tonnes which represents an 8.0% increase compared to 2015.

North American Stainless began the year with a complex market situation due to the low prices with which it ended 2015, considerably lower than those of Europe due to the strong imports from China.

From then onwards, the market entered a stabilization process leading to a rise in base prices and allowing an increase in factory production, which exceeded that of the previous year by 10%. Even so, by the end of the year prices had not reached the level at which they began 2015 and, on average, they were lower than those of the previous year.

North American Stainless Factory in Ghent (Kentucky-USA).

Despite the above-mentioned recovery and the stabilization of the market conditions, the 2016 results were affected by the difficult start to the year and, in spite of the good second semester for NAS, they were lower than those recorded in 2015.

Two external factors were decisive in the normalization of the conditions in America. Firstly, in June 2015 the US Department of Commerce announced provisional protective measures against China's unfair imports of cold-rolled stainless steel products. Subsequently, in October, Allegheny Technologies Inc announced the closure of its Midland plant, which reduced installed capacity in the USA.

The start-up of the new BA-finish bright annealing line and the cold-rolling mill, in which the Company is investing more than 120 million dollars, will lead, in early 2017, to an increase in the Group's production capacity and an expansion of its range of final products.

The launch of the new lines and the consolidation of market conditions allow for a certain degree of optimism in 2017.

COLUMBUS

In 2016 the steel production of the factory was 582,001 tonnes which represents a 13.1% increase compared to 2015.

The first half of the year was affected by the steady decline in the price of raw materials and the final prices of the finished products. Under these conditions, the good management of stocks and good use of the competitiveness generated by the depreciation of the rand, the local currency, together with the plant's proximity to the producers of raw materials, allowed it to achieve praiseworthy results in a difficult year, during which the Columbus Stainless plant made a profit every month.

During the second half of the year, Columbus was unable to benefit from the slight but constant increase in the price of the raw materials. However, the improvement of the market conditions resulted in a considerable uptick in production in the different plant workshops, accompanied by higher volume and amount of sales.

The South African subsidiary suffered from a rise in the price of electrical power, a trend affecting the whole country. Columbus offset the restrictions by intensifying the use of liquid ferrochrome and concentrating the plant's hours of peak activity during the night shift, thereby preventing any loss of production. The rising cost of electrical power is having a negative impact on the competitiveness of Columbus and South African industry in general.

Columbus Stainless Factory in Middelburg (South Africa).

BAHRU

In 2016 the cold-rolling production of the factory was 169,422 tonnes which represents an 18.9% increase compared to 2015.

Bahru Stainless displayed a positive EBITDA during the second half of the year, allowing it to end it with a net contribution to the Group totalling 19 million euros, as a result of the contributions of the EBITDAs of the other Group companies resulting from the supply of black coil.

In a difficult and aggressive market environment, owing to the Chinese producers' need to transfer a large part of their overproduction to areas where this was possible, Bahru Stainless ended the year with an EBITDA almost in breakeven. The application of barriers to Chinese imports in Europe and the United States, while benefiting other Group productions, hindered activity in Southeast Asia.

In recent years the increase in the supply generated by China has led to a fall in prices in the area, from which it has yet to recover. Moreover, as this factory is located further from raw material suppliers, it needs greater stocks, as a result of which their fall in price is particularly punishing.

Even so, Bahru managed to have a good year. The collaboration with its Japanese partners at Nisshin Steel in the development of new customers was especially productive and there were notable increases in sales in Asia. As a result of this joint work Bahru was able to export to 38 countries, 17 more than in the previous year.

Together with the above, the Company increased its market share in the Middle East, capitalizing on its enormous potential.

Bahru Stainless Factory in Johor Bahru (Malaysia).

ROLDAN AND INOXFIL

The results at the factory in Roldán (Ponferrada) underwent a positive evolution during 2016, recovering from losses during the first half of the year to making profits in the second, with two consecutive quarters with gains.

Sales were slightly lower than in 2015, due to the fall in bar products, although the increase in rolled products was significant. Production also went down in comparison with the previous year.

In 2016, the Roldán plant also collaborated in the production of the Campo de Gibraltar factory with the processing of more than 100,000 tonnes of billet.

Inoxfil achieved production totalling 10,000 tonnes and a net positive result in 2016. The plant is also developing a strategy of product and service excellence for the improvement of its processes.

Inoxfil Factory in Igualada (Spain).

3.12 Relevant events since the end of the year

Since the end of the financial year and as of the date of the publication of this report, the following significant events have occurred:

- On 2 February the US administration ratified the anti-dumping measures provisionally approved in 2016 against several stainless steel manufacturers from the People's Republic of China. Among them, it affirmed antidumping duties ranging from 63.86% to 76.64% on the imports, and anti-subsidy rates ranging from 75.60% to 190.71%.

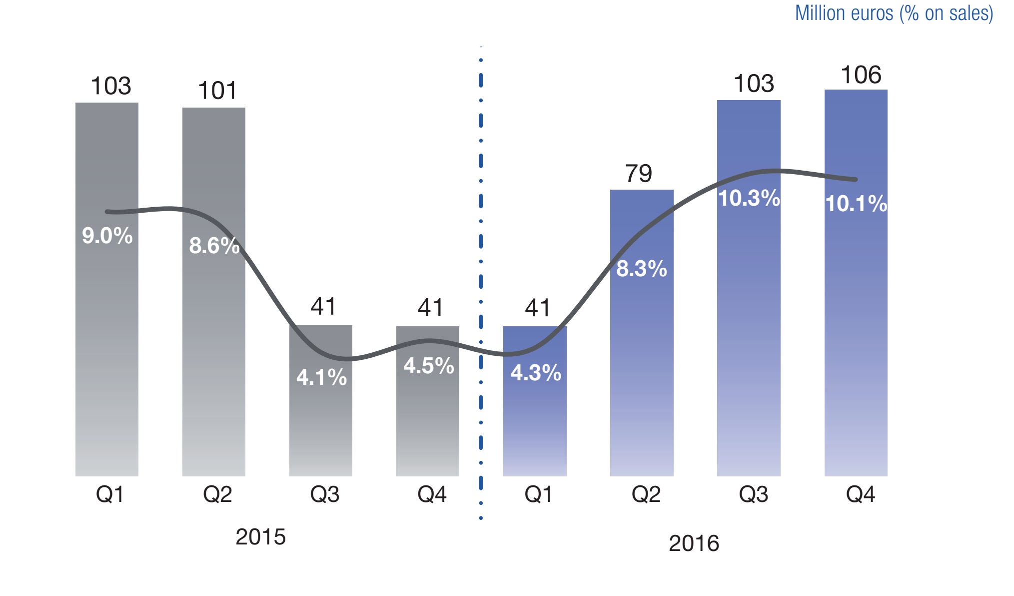
- NAS has begun rolling with its new equipment. In 2015 the Board of Directors of Acerinox SA authorized further investments to be made at the Group's factory in Ghent (Kentucky/USA), designed to increase the capacity of NAS to produce 2B and BA-type cold-rolled coils. The first tests and the start-up of the new equipment took place in February, and production is expected to rise as these six months progress in terms of both quality and quantity.

4 Financial Report

The profits after taxes and minority interests, 80 million euros, were 87% higher than in the previous year.

The quarterly evolution was very favourable once the prices of raw material prices stabilized, as a result of the gradual improvement of the market conditions in the United States and Europe, where apparent consumption rose by 7% in both cases.

EBITDA EVOLUTION OF THE CONSOLIDATED GROUP



As shown in the chart, the sharp drop experienced in the second half of 2015 was overcome, with the EBITDA/ sales margins rising from 4% to 10% in the second half of 2016.

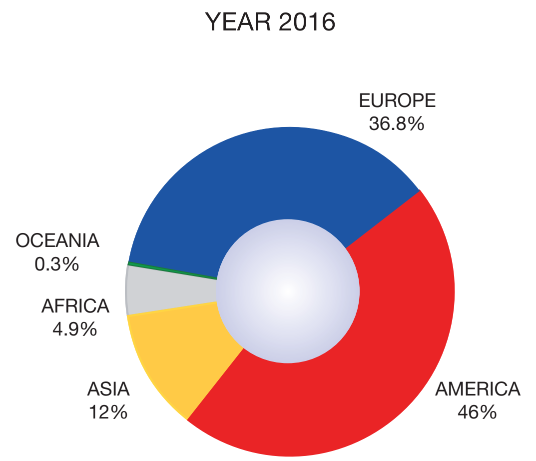
MOST SIGNIFICANT ACERINOX FIGURES

Thousand euros

	2016	2015	Variation
Net Sales	3,968,143	4,221,426	-6.0%
EBITDA	329,068	286,225	15.0%
EBIT	157,436	120,887	30.2%
Result before taxes and minorities	127,869	76,895	66.3%
Result after taxes and minorities	80,320	42,891	87.3%

The net turnover, 3,968 million euros, was 6% lower than in the previous year, despite the 9% increase in the number of tonnes sold. The main reason was the lower price of stainless steel mainly due to the decrease in Nickel price. In 2016 (according to Platts) the average price of the AISI 304 coil fell by 18% in the United States, by 11% in Europe and by 10% in Asia compared with the average price in 2015.

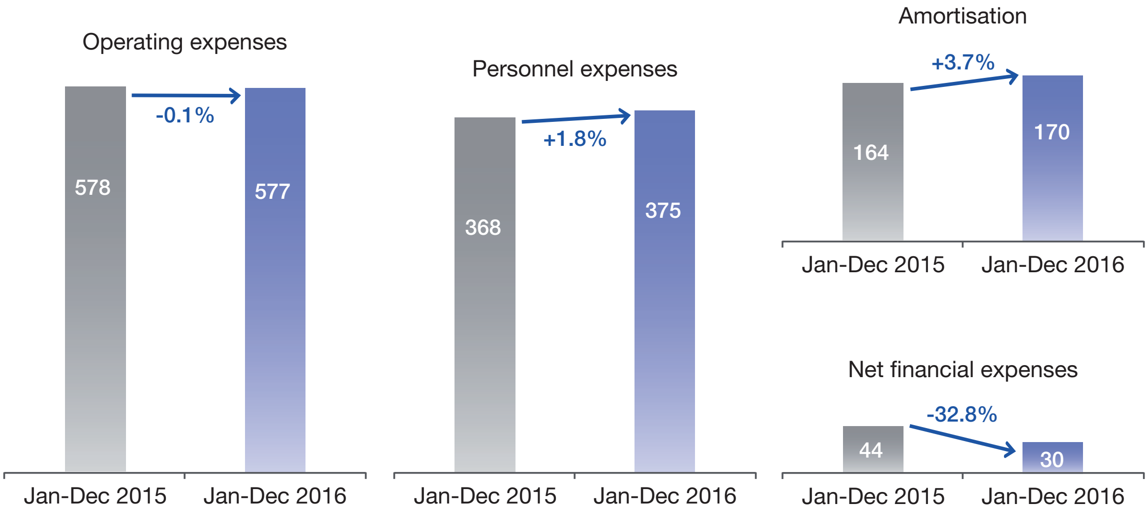
GEOGRAPHICAL DISTRIBUTION OF ACERINOX REVENUE IN 2016



Despite the production levels achieved (+7% higher than in 2015) and the higher number of tonnes sold, the operating expenses, totalling 577 million euros, were slightly lower than in the previous year, personnel costs increased a little, by 2%, and amortisation rose by 4%, due to the investments at Bahru Stainless. The reduction of 33% in net financial costs is especially noteworthy.

MAIN EXPENSES

January-December 2015 vs January-December 2016



Million EUR

The pre-tax result, 128 million euros, was 66% higher than in the previous year. The post-tax profits, 80 million euros, increased by 87%.

ABRIDGED BALANCE SHEET ACERINOX CONSOLIDATED GROUP

Million euros

ASSETS	2016	2015	Variation
NON-CURRENT ASSETS	2,357.53	2,317.53	1.7%
CURRENT ASSETS	2,097.51	1,808.14	16.0%
Inventories	887.42	824.93	7.6%
Debtors	575.51	478.85	20.2%
- Trade Debtors	527.79	439.54	20.1%
- Other Debtors	47.73	39.31	21.4%
Cash and other current assets	634.58	504.36	25.8%
TOTAL ASSETS	4,455.05	4,125.67	8.0%

LIABILITIES	2016	2015	Variation
EQUITY	2,168.68	2,023.30	7.2%
NON CURRENT LIABILITIES	1,191.17	995.59	19.6%
Interest-bearing loans and borrowings	936.81	741.16	26.4%
Other non-current liabilities	254.37	254.43	0.0%
CURRENT LIABILITIES	1,095.20	1,106.77	-1.0%
Interest-bearing loans and borrowings	281.61	449.54	37.4%
Trade creditors	712.97	566.28	25.9%
Other current liabilities	100.61	90.96	10.6%
TOTAL EQUILITIES AND LIABILITIES	4,455.05	4,125.67	8.0%

With regard to the main balance sheet items, there was an increase of 172 million euros in tangible fixed assets in the course of the year.

WORKING CAPITAL

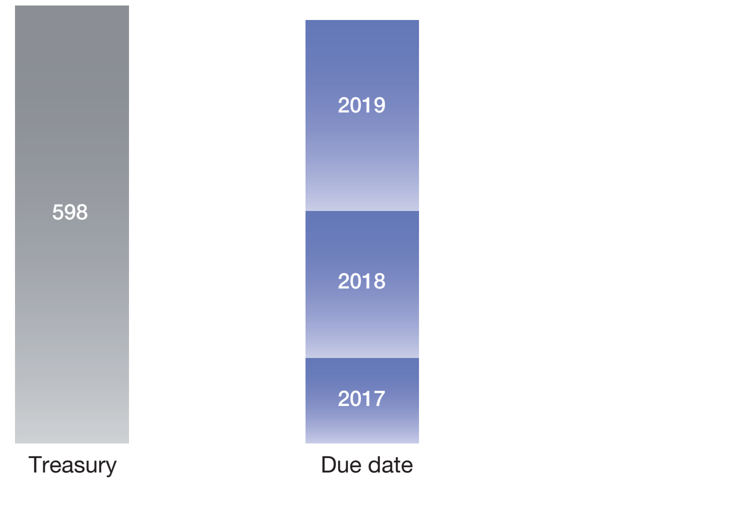
Million EUR	2016	2015
Inventories	887	825
Debtors	528	440
Creditors	713	566
Working Capital	702	698

The working capital increased by 4 million euros. Inventories at the end of the year fell by 25,000 tonnes, although their value rose by 62 million euros due to the appreciation of Nickel; the evolution of customers and suppliers reflected the improvement in market activity.

The net financial debt, 620 million euros, fell by 91 million euros. The treasury, standing at 598 million euros on 31 December, will enable the Company to meet the debt maturities for the next 3 years.

TREASURY

Milllon euros



Presentation of Third Quarter Results 2016.

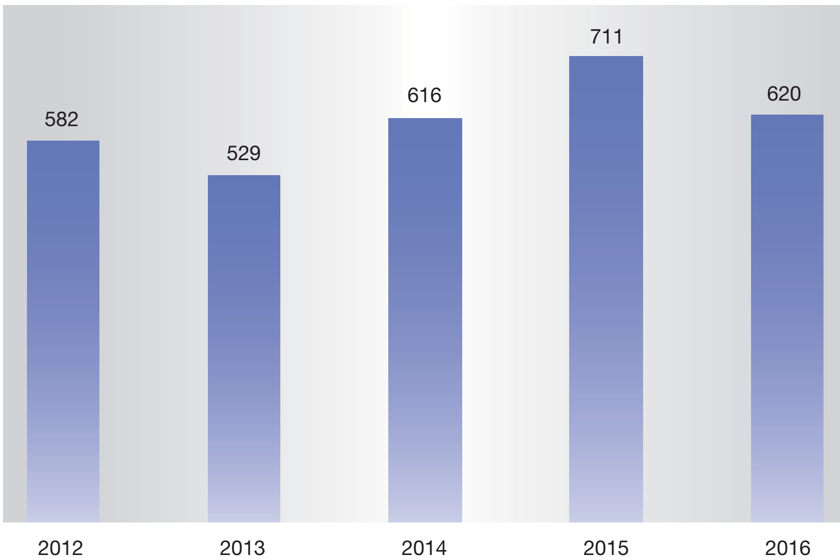
In May, Acerinox reached financing agreements with 12 banking entities for a total amount of 717 million euros.

With these new contracts, the Group extended its debt maturities until 2021, reduced interest rates, moderated payments for the next three years and added new institutions to its banking pool. The above enabled it to procure favourable financing conditions and reduce the cost of the debt, without covenants.

On 30 June, the 135 million dollars pending from the syndicated loan principal in the United States, whose maturity was set for 17 February 2017, was paid in advance.

At the end of 2016, Acerinox held valid credit lines worth 1,819 million euros, 33% of which were available for use.

NET FINANCIAL DEBT CONSOLIDATED GROUP



Milllon euros

The cash flow from operating activities amounted to 269 million euros. The cash flow after investments was positive, standing at 111 million euros, after having made investment payments totalling 156 million euros.

The shareholder remuneration was performed as in previous years, by means of a scrip dividend, with 23% of the shareholders opting for cash. Thus, the remuneration paid to the shareholders totalled 27 million euros.

ABBREVIATED STATUS OF CASH FLOWS

(million euros)

	Jan-Dec 2016	Jan-Dec 2015
Result before taxes	**127.9**	**76.9**
Adjustments for:	**215.1**	**210.2**
Depreciation and amortisation	169.8	163.7
Changes in provisions and impairments	-8.4	2.3
Other adjustments in the result	53.7	44.1
Changes in working capital	**16.3**	**-129.5**
Changes in operating working capital	-4.1	-244.0
- Inventories	-62.5	26.8
- Trade debtors	-88.3	4.0
- Trade creditors	146.7	-274.8
Others	20.3	114.5
Other cash-flow from operating activities	**-90.5**	**-140.1**
Income tax	-55.8	-94.5
Financial expenses	-34.6	-45.6
NET CASH-FLOW FROM OPERATING ACTIVITIES	**268.8**	**17.4**
Payments for investments on fixed assets	**-156.4**	**-67.5**
Others	**-0.9**	**-0.1**
NET CASH-FLOW FROM INVESTING ACTIVITIES	**-157.3**	**-67.6**
NET CASH-FLOW AFTER INVESTING ACTIVITIES	**111.5**	**-50.2**
Acquisition of treasury shares	**-0.1**	**-0.1**
Dividends payed to shareholders and minorities	**-26.7**	**-47.8**
Changes in net debt	**18.3**	**-177.7**
Changes in bank debt/private placement	27.7	-163.4
Conversion differences	-9.4	-14.3
Attributable to minority interests	**0.0**	**0.0**
Others	**0.9**	**0.3**
NET CASH-FLOW FROM FINANCING ACTIVITIES	**-7.6**	**-225.3**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**103.9**	**-275.4**
Opening cash and cash equivalents	**480.0**	**738.4**
Effect of the exchange rate fluctuations on cash held	**14.6**	**17.0**
CLOSING CASH AND CASH EQUIVALENTS	**598.5**	**480.0**

In relation to the information to be included in the Annual Report by implementation of the Resolution of 29 January 2016 of the Institute of Accounting and Account Audits (ICAC), the average period for payment to suppliers of the Spanish companies which form part of the Acerinox Group, and after excluding payments made to companies of the Group, is as stated below:

	2016	2015
Avarage period for payment to suppliers	73 days	79 days
Ratio of paid transactions	77 days	82 days
Ratio of outstanding transaction payments	49 days	45 days

(Figures in thousands of euros)	Amount	Amount
Total payments made	1,227,213	1,607,137
Total outstanding payments	226,805	176,420

This table includes the payments made to any supplier, whether nationally and internationally and excludes companies of the Group.

The same figures, including national suppliers only, would be those detailed below:

	2016	2015
Avarage period for payment to suppliers	66 days	68 days
Ratio of paid transactions	69 days	70 days
Ratio of outstanding transaction payments	51 days	54 days

(Figures in thousands of euros)	Amount	Amount
Total payments made	631,091	735,109
Total outstanding payments	104,206	82,688

Alternative Performance Measures (definitions)

Savings related to the Excellence Plans: estimated efficiency savings on the basis of the study defined for each Plan
Operating Working Capital: Inventories + Customers - Trade payables
Net Cash Flow: Result after tax and minority interests + amortisation
Net Financial Debt: Interest-bearing loans and borrowings + bond issue - cash
EBIT: Operating income
EBITDA: Operating income + amortisation + provisions
ROCE: Operating Income / (Equity + Net financial debt)
ROE: Result after taxes and minorities / Equity
Net financial expenses: Financial income - financial costs ± exchange rate differences
Debt Ratio: Net Financial Debt/Equity

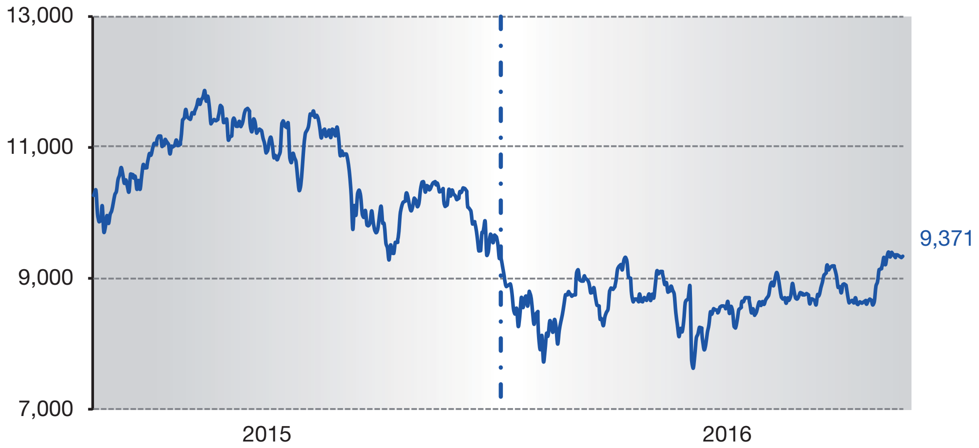
4.1 Evolution of shares

The Ibex 35, the main reference index of the Spanish stock market, ended 2016 in the red, with a loss of 2.01%, in a very difficult year due to the numerous socio-political uncertainties encountered by investors.

At no point in the year did the Ibex manage to exceed the level at the beginning of the year and it experienced its worst moment on 27 June, just after the United Kingdom's "No" to the EU, when the index fell by about 20% (since the beginning of the year). It later displayed a significant reaction capacity and only lost 2% by the end of the year.

This decline can be added to that of 2015, during which the IBEX 35 closed with losses totalling 7%.

MARKET
EVOLUTION
IBEX 35



Daily data

In Europe, the British FTSE 100 recorded a 14.43% rise in 2016 and even reached a historic high of 7,142.83 points. These increases, despite Brexit, were due to the strong influence of the mining companies and the depreciation of the pound, which favoured the listed export companies. The other continental indexes registered losses almost all year, although the appreciations recorded in December, following the American elections, enabled the German DAX and the French CAC to close with respective increases of 6.87% and 4.86%.

The US markets, on the other hand, registered positive figures from March onwards and the year ended with a 13.42% rise in the Dow Jones, 9.54% in the S&P 500 and 7.50% in the Nasdaq.

The market was also attentive to the central banks. The Federal Reserve was expected to raise interest rates in 2016. The postponement of these rises following Brexit and the good economic data led to an increase in confidence among the investment community.

In 2016 the share trend changed with respect to the performance in the previous year. The year's low was set in the initial weeks when, on 20 January, it closed at 7.2 euros/share, while, at the end of the year, a high was reached on 15 December, with a figure of 13.2 euros/share. This represents an 85.9% appreciation from low levels.

Acerinox is one of eleven Ibex securities which ended the year with an appreciation of more than 10%. In fact, it was the index security with the second greatest appreciation in 2016.

MARKET EVOLUTION OF ACERINOX AND THE IBEX 35

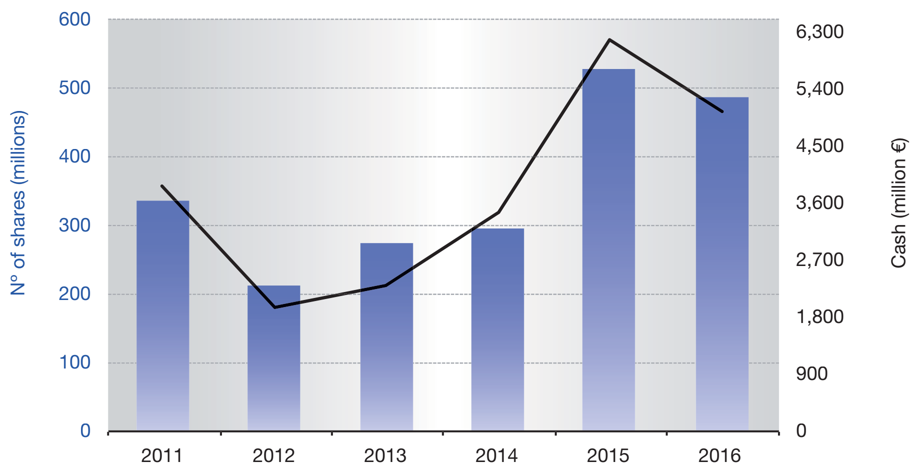
Daily percentages, 2016

At the end of the year, 58% of analysts recommended “buying” set against 12% who recommended “selling”.

In 2016, Acerinox shares were traded for the 257 days the Continuous Market was open for business. The total number of shares traded totalled 487,243,138, equivalent to 1.76 times the number of shares which make up the share capital, with average daily trading of 1,895,887 shares.

The volume traded in 2016 totalled 5,057 million euros, a figure which which represents a daily average of 19,686 million euros.

SHARES AND VOLUME TRADED

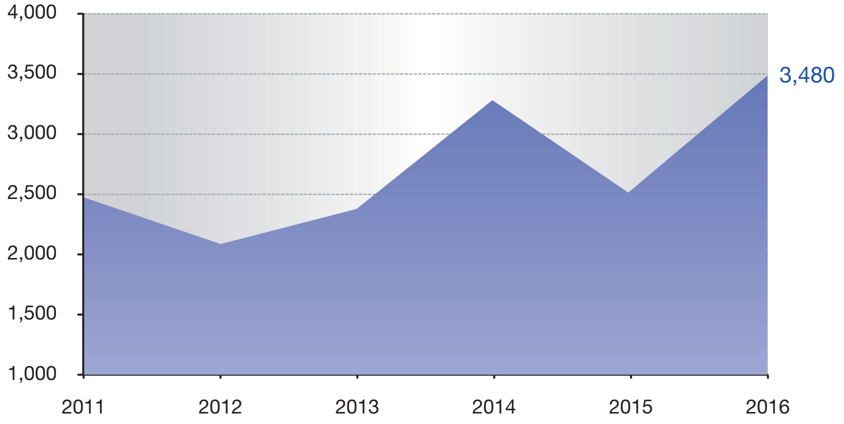


4.2 Capitalization

On 31 December 2016, Acerinox's market capitalization totalled 3,480 million euros (39% higher than in 2015)

MARKET CAPITALIZATION OF ACERINOX S.A.

Million euros

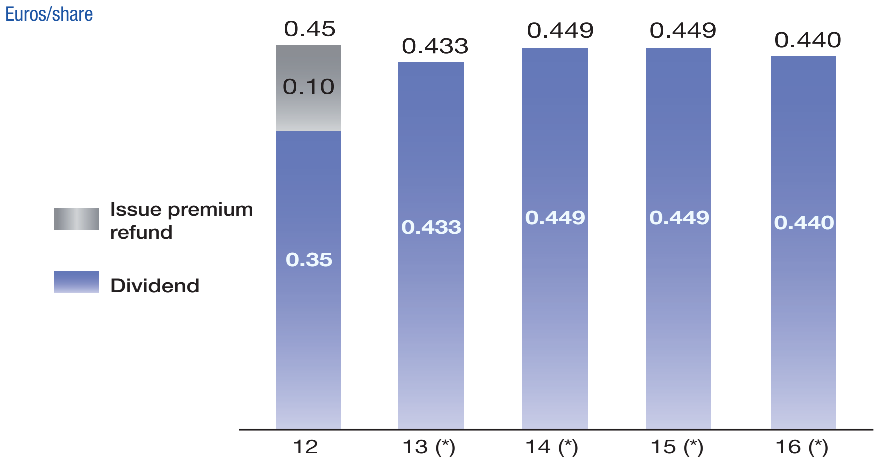


Corrugated stainless steel wire rod used for reinforcing the structure of the "Queensferry Crossing" bridge (Scotland).

4.3 Shareholder Remuneration

The General Shareholders' Meeting held on 9 June 2016 approved the payment of a scrip dividend up to a maximum amount of 120,018,326.85 euros, equivalent to the approximate sum of 0.45 euros per share. This amount is the same as the one the company has offered shareholders since 2007, despite the difficulties of this period.

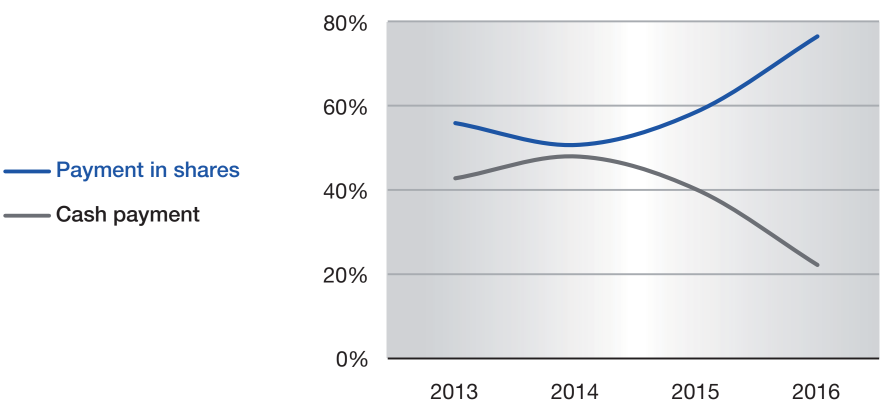
ANNUAL SHAREHOLDER REMUNERATION



(*) Scrip dividend

For the fourth consecutive year, the General Meeting decided to make a scrip dividend available to shareholders, in view of the success of the operation in the previous three years. In 2016, shareholders representing 77.21% of the share capital also opted to acquire new shares. The rate applied was 1 new share for every 22 shares already held.

EVOLUTION OF THE SUBSCRIPTION TO THE SCRIP DIVIDEND (%)



On 22 July 2016, the 9,360,150 new shares resulting from the capital increase of the scrip dividend approved at the General Meeting were admitted to official trading on the Madrid and Barcelona Stock Markets through the continuous market.

Shareholders who chose to subscribe to shares with their free allotment rights saw their number of shares increase by 4.55%.

During recent years, the share remuneration has increasingly been the option preferred by our shareholders.

The scrip dividend of recent years and the uptake of the option by shareholders in the last four years are summarized in the following table:

	2013	2014	2015	2016
Cash payment	43.3%	48.6%	40.7%	22.8%
Payment in shares	56.6%	51.4%	59.3%	77.2%
Capital amount after issue (000 euros)	64,287	65,426	66,677	69,017
Dividend distributed in cash (000 euros)	46,831	56,135	47,836	26,745

Acerinox General Shareholders' Meeting 9 June 2016.

5 Corporate Governance and Compliance

The Acerinox Annual Corporate Governance Report corresponding to the 2016 financial year forms part of the Management Report and, when the annual accounts have been published, it will be available for consultation on the web page of the National Securities Market Commission and the Acerinox web page.

In 2015, the Acerinox Group, via its listed parent company, Acerinox, S.A., began the major process of adapting its corporate governance to the provisions of the recent Spanish Capital Companies Act, as well as to the recommendations made in the new Corporate Governance Report for Spanish Listed Companies.

These changes have essentially involved improvements in the Group's corporate governance, mainly thanks to the strengthening of the role of the Board of Directors' committees, with more clearly defined responsibilities and a higher number of independent board members on them.

The Board of Directors also decided to set in motion all the procedures designed to meet the highest number of the Recommendations detailed in the Corporate Governance Report in the shortest time possible. Details of said levels of compliance can be found in the Annual Corporate Governance Report hosted on our website at www.acerinox.com.

In 2016, in keeping with the above, the articles of the Board's Regulations were modified to establish that the majority of the members of the Audit Committee should be Independent and the number of Boards on which our Board Members can sit should be limited.

Moreover, during 2016, all the Company's general policies were approved and can now be found on our website.

The most relevant events which occurred in 2016, are listed below.

Modifications to the Regulations of the Board of Directors

Despite its recent nature, the Capital Companies Act has already undergone several amendments. The most significant one, as far as Acerinox is concerned, is the need for the majority of the members of the Audit Committee to be independent board members.

Although it was possible to envisage the above in the original wording of the Regulations of the Company's Board of Directors, it was not formulated as a requirement, as a result of which it was necessary to modify the recent Regulations to establish it clearly and accurately. Once the amendment had been performed, it became necessary to restructure the Commission to reflect the majority. This was done immediately and the Audit Committee currently consists of a single proprietary director.

Compliance with the recommendations of the Code of Good Governance.

From the beginning, 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, an objective it achieved.

To do so it made a series of decisions of great importance. 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 also acted accordingly and prioritized the search for suitable candidates for the appointments of Independent Board Members made since that date.

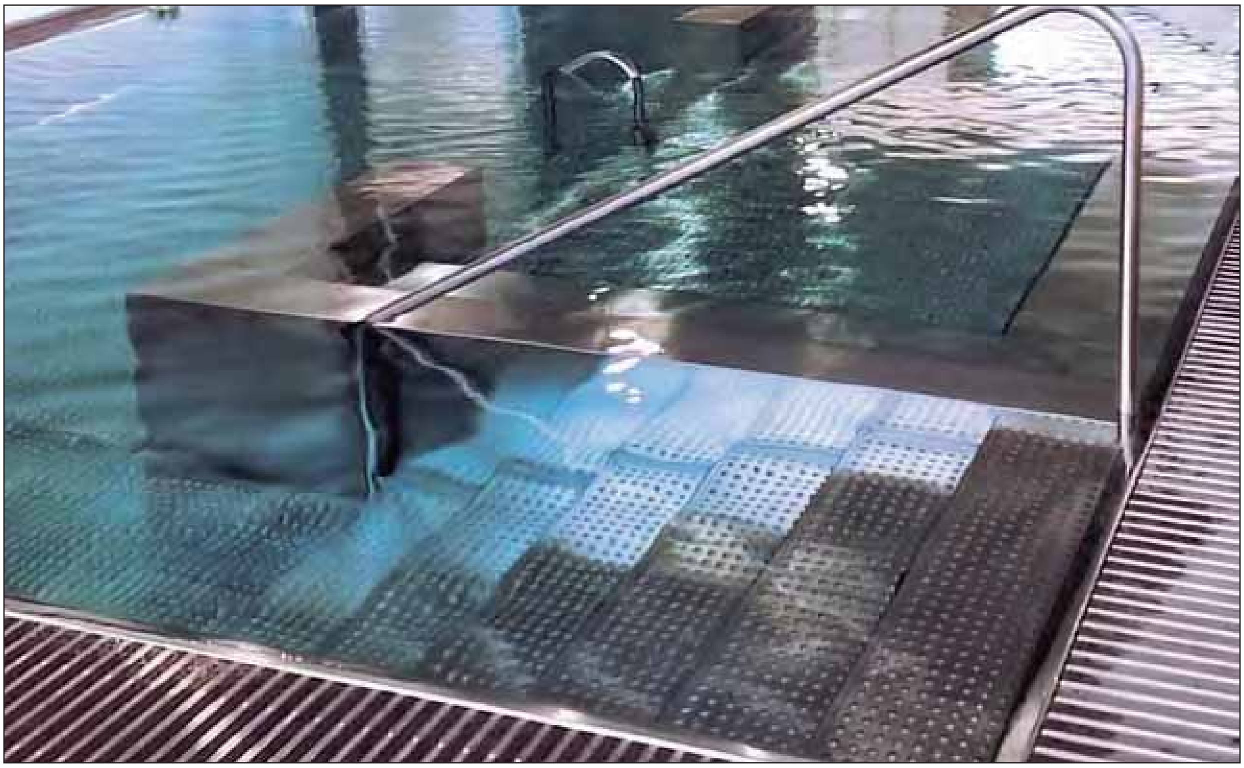
The second decision approved was to broadcast the General Meeting in real time. This was done for the first time in 2016, with great success in terms of quality and fidelity of reproduction. Similarly, two new items were added to the agenda of the Meeting, of a non-binding nature, so that the Chairman would be accountable and explain to the attendees the level of compliance with the recommendations of good governance and the modifications made to the regulations of the Board of Directors explained above.

Approval of the policies advocated by the Code of Good Governance and the Capital Companies Act

Between December 2015 and October 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 orientation, slant and general guidelines of the Company and its Group of companies in the following matters, corresponding to their title and content:

- General Policy for Selection of Acerinox, S.A. Directors
- General Policy of Corporate Social Responsibility of Acerinox, S.A. and it´s Group of Companies
- General Policy for the Remuneration of Acerinox, S.A Directors
- General Policy for Risk Management and Control at Acerinox, S.A and its Group of Companies.
- General Policy for Communication and Contact with Shareholders and Investors of Acerinox, S.A. and its Group of companies.
- Tax Policy of Acerinox, S.A and its Group of Companies.
- General Corporate Governance Policy of Acerinox, S.A.
- General Treasury Stock Policy of Acerinox S.A

Due to their general interest, these policies are available on the Company’s website so that they can be viewed and compared by any interested party.



Swimming pool interior and ornaments made of stainless steel.

Prevention and compliance model

At the last session held in 2015, the Board of Directors approved the prevention and compliance model bringing together and governing all the actions of the Spanish companies of the Acerinox Group. A Chief Compliance Officer was appointed at the same session. The above Model, which was implemented during 2016, meant the appointment of prevention and compliance officers in all the Spanish units of the Group, as well as the analysis of compliance risks and their respective preventive measures. In order to support the Chief Compliance Officer in his role, a Committee made up of specialists in the field was appointed, with the presence of the financial, legal and internal audit departments.

Market Abuse

The entry into force in July of Community regulation 596/2014 had significant consequences for Acerinox. Firstly, given the greater conceptual and time-based rigidity of the prohibitions on operating in the market applying to companies which hold proprietary directors in others, two proprietary members of the Board of Directors chose to resign from it, although their principal decided on - and announced - the maintenance of their stake in Acerinox.

Secondly, the new Regulation and its development regulations underlined the need to update the internal regulation governing the performance of Acerinox and its board members and directors in the stock markets. The regulation then in force, dating back to 2004, needed updating to include the new requirements and, at the same time, to provide greater certainty for those interested in their actions and an authorization and registration system suitable for the new parameters. To achieve the above, the Board of Directors replaced the Code of Conduct in matters related to the stock market with a new one, together with its annexes.

The new standard, Internal Code of Conduct, was sent to the National Securities Market Commission and published on the Acerinox website. As a result of its entry into force, the Company created the appropriate records and demanded the declarations of knowledge and compliance envisaged in it.

Containers for collecting waste manufactured from stainless steel.

Code of Conduct

In 2009 the Board of Directors approved an initial Code of Conduct for the Group companies. Even though it was a fully valid and useful regulation, the Board suggested introducing new subjects into it which had not been covered in the original version. The above, together with the desire to take advantage of the review to turn the Code of Conduct into a regulation which would also serve as a basis for the regulatory compliance and crime prevention system, in accordance with the patterns established in the Prevention Plan approved at the end of 2015, meant that the systematic and qualitative changes were greater than those initially envisaged when initiating the new wording.

The new Code, which was announced by the Appointments, Remuneration and Corporate Governance Committee and approved by the Board of Directors, clearly distinguishes between the axiomatic principles of the system, the fundamental standards grouped in accordance with the conducts whose breach could be subject to reproach by the jurisdiction and the procedural or adjectival provisions which, in the first instance, must monitor and ensure its fulfilment.

The geographical spread of the companies of the Acerinox Group around the world made it necessary to pay particular attention to the rules of validity of this Code, which logically cannot ignore the existence of specific requirements in several countries in which the Group operates. This Code is therefore a higher standard for the internal purposes of Acerinox but respects the existence and validity of specific regulations in countries where it is necessary to enact ethical standards of a nature similar to the Group Code. The bodies and functions of social or ethical committees in the companies where they are already established are also maintained, without detriment to the need for a report to be established for reasons of the coordination and control of the corporate policies.

As in the previous cases, this new Code of Conduct can be found on the Acerinox website.

Board Member Portal

The growing need for transparency, agile management and the rapid and constant flow of information which characterize the governing bodies of a company with such a strong international component requires the constant improvement of the internal communication channels. This issue is particularly relevant when it involves ensuring the quality and speed of the information within the governing bodies themselves. The recent standards and the most reputable recommendations postulate a constant improvement in the channels of communication and the decision-making of boards of directors and their committees.

For several months, studies have been conducted on how to improve and streamline the channels of interaction between the company and its directors, choosing, following the inevitable search and selection process, a digital platform which favours the above purposes and optimizes the reception of information, its classification and its subsequent search, while offering high standards of reliability and security for users. This project, called “Board Member Portal”, began in the second half of the year so as to completely replace paper correspondence from 1 January 2017 onwards.

Change of 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. At the same meeting, it was also agreed to appoint KPMG Auditores, S.L. to perform the review and legal audit of the financial statements of Acerinox S.A. for 2016.

Changes in the Board of Directors

The following changes occurred on the Board of Directors in 2016:

- José Ramón Guerediaga Mendiola resigned from his position as Independent Director on the occasion of the General Meeting held on 9 June 2016, having completed the four-year term for which he was appointed. He could not be re-elected, having reached the maximum age allowed in the articles of association and in the Board Regulations on re-elections and appointments. In order to replace Mr Guerediaga, the General Meeting appointed Laura Abasolo García de Baquedano as an Independent Director.

- Óscar Fanjul Martín resigned from his position as Proprietary Director at the Board Meeting held on 27 July 2016 on a voluntary basis, as a result of the recent entry into force of Community Regulation 596/2014 and the limitations it introduces for operating with shares in investee companies which have proprietary directors in them. The position of Mr Fanjul Martín on the Board has not been covered on the date of publication of this report.

- Diego Prado Pérez-Seoane resigned from his position as Proprietary Director at the Board Meeting held on 27 July 2016 on a voluntary basis, as a result of the recent entry into force of Community Regulation 596/2014 and the limitations it introduces for operating with shares in investee companies which have proprietary directors in them. The position of Mr Prado Pérez-Seoane on the Board has not been covered on the date of publication of this report.

- Javier Fernández Alonso resigned from his position as Proprietary Director at the Board Meeting held on 21 December 2016, due to taking on other professional responsibilities within the Alba Financial Corporation. In order to replace Mr Fernández Alonso, Tomás Hevia Armengol was appointed as Proprietary Director of Acerinox by co-optation at the Board Meeting held on 21 December 2016.

Presentation of the Acerinox Award at the University of Zaragoza.

5.1 Share Capital

At year-end 2016, 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.

On 22 July 2016, a total of 9,360,150 new shares of Acerinox, S.A. were floated on the Madrid and Barcelona Stock Exchanges as a result of the capital increase approved at the Ordinary General Shareholders' Meeting held on 9 June 2016, held to set up the scrip dividend system.

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 2016, Acerinox had a total of 33,595 shareholders.

5.2 The Board of Directors and its Committees

MAIN GOVERNANCE 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.

As of 31 December 2016 the Board of Directors was made up of 13 members, given that, after the General Shareholders' Meeting, the resignations of two Proprietary Directors took place. These positions were still to be covered at the end of December. The Secretary does not qualify as a Member of the Board.

Its composition responds to the traditional principles of diversity and balance. The company only has one executive director - namely the CEO - and has six proprietary directors and six independent directors, one of them being the Chairman of the Company.

All Board members have extensive professional experience in the business and academic worlds, and public administration. The Council reflects the diversity existing in the Group: four of its components are of foreign nationality and come from three 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 Act, the General Shareholders' Meeting held on 9 June 2016 approved the Remuneration Policy for Acerinox Directors for 2016, 2017 and 2018, with the favourable vote of 88.41% of the shareholders who attended the Meeting.

In line with this transparency policy, the Group made public that, in 2016, all the remunerations arising from the Board Members belonging to and attending the Board of Directors and its committees totalled 1,256,202 euros during the year (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)

The General Shareholder Meeting held on 9 June 2016, on the motion of the Board of Directors, agreed to re-elect the following Board Members for a period of four years, as established in the Articles of Association:

- Óscar Fanjul Martín, as External Proprietary Director representing Feynman Capital, S.L. (Omega Capital) who later resigned as already mentioned in the section on changes in the Board of Directors.
- Braulio Medel Cámara as External Independent Director.

Similarly, the General Meeting of Shareholders, at the proposal of the Board of Directors, agreed to appoint Ms Laura Abasolo García de Baquedano as Director. This appointment was made to cover the Board Member vacancy left by Mr José Ramón Guerediaga Mendiola, who resigned from his position due to having reached the age limit established in the Articles of Association to be re-elected.

In total, the Board of Directors held eight meetings in 2016.

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, which has proportions of proprietary and independent directors similar to those of the Board of Directors, is presided over by the Chairman of the Board. The CEO is necessarily a 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 eight 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 three times in 2016.

The Audit Committee

This Committee met in 2016 on a total of eight occasions, allowing it to develop its planned work schedule and fulfil its main responsibilities, involving:

- 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.

The Audit Committee is chaired by an Independent Director, while the Secretary of the Board of Directors acts as its secretary.

Appointments, Remuneration and Corporate Governance Committee

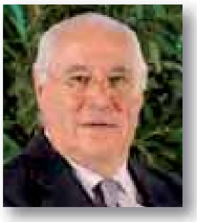
It held five meetings during 2016. It continued with its initiative of previous years of proposing the maintenance of the remunerations of the Board Members, without any changes, to the Board of Directors, by means of the Board Member Remuneration Policy. It was also involved in setting the remunerations of the senior management. Similarly, it informed the Board of Directors of the re-election of the Proprietary Director Óscar Fanjul Martín, proposed that of Independent Director Braulio Medel Cámara and performed the selection and proposed the appointment of Laura Abasolo García de Baquedano as Independent Director. It also announced the appointment of Tomás Hevia, having made sure that he met the requirements necessary for the position.

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.

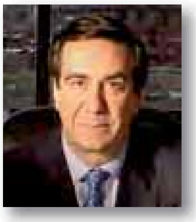
Susana Diaz President of Andalusia visiting the Acerinox Europa Factory on 25 February 2016.

Board of Directors



Rafael Miranda
Chairman

- Industrial Engineer through ICAI.
- Chairman of Hispania Activos Inmobiliarios S.A.
- Chairman of APD.
- Honorary President of Eurelectric.
- Board member of Brookfield Infraestructures.

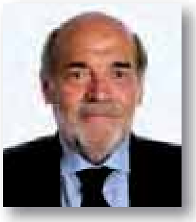


Bernardo Velázquez
Chief Executive Officer

- Industrial Engineer through ICAI.
- President of NAS.
- Vice-President of UNESID.
- Vice-President of the ISSF.
- Board member of World Steel.

Laura Abasolo
Independent

- Bachelor's degree in Economics and Business Science from the Deusto Business School.
- Managing Director of Planing, Accouting Control and tax for Telefonica.



Pedro Ballesteros
Proprietary

- Bachelor's Degree in Business Administration and Management from the Universidad Complutense in Madrid.
- Former Non-Executive Chairman of March-JLT, Correduría de Seguros y Reaseguros, S.A. of the March Group.

Manuel Conthe
Independent

- Bachelor's degree in Law from the *Universidad Autónoma in Madrid*.
- Spanish State Economist
- President of the Advisory Board of Expansión.

Rosa García
Independent

- Bachelor's degree in Mathematics from the *Universidad Autónoma*, Madrid.
- President of Siemens S.A Spain.
- Board Member of APD.
- Board Member of the *Universidad Europea* in Madrid.

Ryo Hattori
Proprietary

- Bachelor's Degree in Law from the University of Sophia,Tokyo.
- General Manager of Special Assignments Tasks in the Stainless Steel Sales Department and Overseas Projects Department of Nisshin Steel Co., Ltd.

Donald Johnston
Independent

- Bachelor's Degree in Political Science from Middlebury College and a master's degree in International Economics and Latin American Studies from the Johns Hopkins University.
- Independent Board Member of Merlin Properties Socimi, S.A.

Braulio Medel
Independent

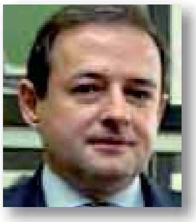
- Bachelor's degree and doctorate in Economic Sciences from the Universidad Complutense in Madrid and Senior Professor of Public Purse at the Universidad de Málaga.
- President of Fundación Bancaria Unicaja
- President of the Andalusian Federation of Savings Banks.

Mvuleni Geoffrey Qhena
Proprietary

- BCompt (Hons) and Advanced Tax Certificate (Unisa)
- SEP (Wits and Harvard universities)
- Chartered Accountant of South Africa
- CEO of Industrial Development Corporation (IDC).

Tomás Hevia
Proprietary

- Bachelor's Degree in Business Administration and Management and Law (ICADE E-3) from the Universidad Pontificia de Comillas in Madrid.
- Investment Department of Corporación Financiera Alba S.A.



Santos Martínez-Conde
Proprietary

- Bachelor's Degree in Civil Engineering from the *Universidad Politécnica* in Madrid.
- Chief Executive Officer of Corporación Financiera Alba, S.A.
- Board Member of Banca March, S.A., Indra Sistemas, S.A and BME, S.A.

Yukio Nariyoshi
Proprietary

- Bachelor's Degree in Management from the University of Kyoto.
- Director and Executive Vice President of Nisshin Steel Co., Ltd.

Luis Gimeno
Secretary of the Board of Directors

- Bachelor's Degree in Law from the *Universidad Autónoma* in Madrid.
- Spanish State Attorney.
- General Secretary of the Acerinox Group.

Executive Committee

RAFAEL MIRANDA ROBREDO (Chairman)
BERNARDO VELÁZQUEZ HERREROS
RYO HATTORI
GEORGE DONALD JOHNSTON
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Secretary:
LUIS GIMENO VALLEDOR

Appointments, remuneration and Corporate Governance Committee

MANUEL CONTHE GUTIÉRREZ (Chairman)
RAFAEL MIRANDA ROBREDO
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
BRAULIO MEDEL CÁMARA

Secretary:
LUIS GIMENO VALLEDOR

Audit Committee

LAURA ABASOLO GARCÍA DE BAQUEDANO (Chairwoman)
PEDRO BALLESTEROS QUINTANA
GEORGE DONALD JOHNSTON
ROSA GARCÍA GARCÍA

Secretary:
LUIS GIMENO VALLEDOR

Management Committee

Acerinox's Management Committee is made up of five people: the CEO, the Chief Financial Director, the Commercial Director, the Production Manager 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 2016 by this collective, not including that of the CEO, totalled 1,531 thousand euros.

BERNARDO VELÁZQUEZ HERREROS
Chief Executive Officer

DANIEL AZPITARTE ZEMP
Commercial Director

MIGUEL FERRANDIS TORRES
Chief Financial Director

ANTONIO MORENO ZORRILLA
Production Director

LUIS GIMENO VALLEDOR
General Secretary

View of the new BA line at NAS.

Stainless steel structure spiral staircase.

5.3 General Shareholders’ Meeting

The General Shareholders’ Meeting was held in Madrid on 9 June 2016 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 a total of 180,922,933 shares, equivalent to 67.84% 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	99.94	0.06
2. Application of the results	99.94	0.06
3. Approval of the Board of Directors' management	99.72	0.27
4.1 Appointment of 2016 account auditors (KPMG)	99.61	0.38
4.2 Appointment of 2017, 2018 and 2019 account auditors (PWC)	99.94	0.06
5. Share capital increase to carry out scrip dividends	99.30	0.70
6. Delegation to the Board of Directors of the power to issue bonds, debentures and convertible debentures, with the power to exclude the preferential subscription right	82.67	16.85
7. Approval of the Board Member Remuneration Policy for 2016, 2017 and 2018	88.41	11.51
8.1. Re-election of Mr Óscar Fanjul Martín as Proprietary Director	88.71	10.81
8.2. Re-election of Mr Braulio Medel Cámara as Independent Director	99.83	0.16
8.3. Appointment of Ms Laura Abasolo García de Baquedano as Independent Director	99.94	0.05
9. Delegation of powers to the members of the Board of Directors and the Secretary of the Board	99.98	0.02
10. Consultative vote on the Annual Report on Director Remunerations for 2015	88.28	11.70
11. Information on the Meeting about modifications to the 1st Regulation of the Board (without a vote)	--	--
12. Chairman’s Report on the degree of compliance with Good Governance in 2015 (without a vote)	--	--
13. Appointment of administrators to approve the Minutes of the Meeting	99.99	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 GÓMEZ

Roldán:
JORGE RODRÍGUEZ ROVIRA

Inoxfil:
ÁNGEL BRUÑÉN CEA

Top Executives in our Commercial Companies

1. SPAIN

Inoxcenter:
LUIS GUTIERREZ MÁS

Inoxidables de Euskadi:
JOSÉ CRUZ DE VICIOLA GARCÍA

C.S. de Pinto:
FLORENCIO ZURDO GÓMEZ

C.S. de Gavá:

JUAN ESTEVE VESTIT

C.S. de Betanzos:
ÁLVARO SUÁREZ LLANOS

2. EUROPE

Acerinox Deutschland (Germany):
JOACHIM MAAS

Acerinox Benelux (Belgium):
LUIS PABLO GONZÁLEZ ROBLES

Acerinox France (France):
PHILIPPE AUDEON

Acerinox Italia (Italy):
GIOVANNI DE CARLI

Acerol Comércio e Industria de
Aços Inoxidáveis (Portugal)
FERNANDO MONTEIRO

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):
JAAN ROXAN ARROYO

3. AMERICA

Acerinox Argentina (Argentina):
JOSÉ CARLOS RODRÍGUEZ ARANDA

Acerinox Brasil (Brazil):
JUAN ANTONIO RODRÍGUEZ

Acerinox Chile (Chile):
JAIME DEL DIEGO SANZ

Acerinox Colombia (Colombia):
GONZALO DEL CAMPO BARCÓN

Corporación Acerinox Perú (Peru):
GUILLERMO IZAGUIRRE

Acerinox, SA. Venezuela (Venezuela):
GONZALO DEL CAMPO BARCÓN

North American Stainless México (Mexico):
EDGAR GARZA

North American Stainless Canada (Canada):
ROGER MANSFIELD

4. ASIA

Acerinox South East Asia (Singapore):
IRENE TEO LIN LING

Acerinox India (India):
PRATIK KACHCHHI

Acerinox SC. Malaysia (Malaysia):
BARRY FOO

Acerinox SA. Shanghai (China) :
MARY XU

Acerinox Indonesia SA. (Indonesia):
EFRAT AGUNG

Acerinox SEA (Vietnam):
HANG THAN THI THANH

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

5. OCEANIA

Acerinox Australasia (Australia):
CLAUDIO LEÓN DE LA BARRA

Consolidated Annual Accounts

Stainless steel wire road at the Roldan Factory (Ponferrada).

ACERINOX, S.A.
and Subsidiaries

Annual Accounts of the Consolidated Group
31 December 2016

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

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

To the Shareholders of
Acerinox, S.A.

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Acerinox, S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

Directors' responsibility for the consolidated annual accounts

The Directors of the Company are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they present fairly the consolidated equity, consolidated financial position and consolidated financial performance of Acerinox, S.A. and subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions in the financial reporting framework that are applicable to the Group in Spain, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and that we plan and conduct our audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's Directors' preparation of the consolidated annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and consolidated financial position of Acerinox, S.A. and subsidiaries at 31 December 2016 and their financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other applicable provisions of the financial reporting framework.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2016 contains such explanations as the Directors of Acerinox, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2016. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Acerinox, S.A. and subsidiaries.

KPMG Auditores, S.L.

(*Signed on the original in Spanish*)

Borja Guinea López

28 February 2017

1. CONSOLIDATED BALANCE SHEETS

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

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

ASSETS	Note	2016	2015
Non-current assets			
Goodwill	7	69,124	69,124
Other intangible assets	7	2,769	11,181
Property, plant and equipment	8	2,086,403	2,025,856
Available-for-sale financial assets	10	12,618	10,667
Deferred tax assets	17	178,774	188,891
Other non-current financial assets	10	7,846	11,811
TOTAL NON-CURRENT ASSETS		2,357,534	2,317,530
Current assets			
Inventories	9	887,421	824,929
Trade and other receivables	10	572,246	470,367
Other current financial assets	10	27,123	15,497
Current tax assets	17	12,254	17,394
Cash and cash equivalents	11	598,470	479,955
TOTAL CURRENT ASSETS		2,097,514	1,808,142
TOTAL ASSETS		4,455,048	4,125,672

Notes 1 to 20 form an integral part of the consolidated annual accounts.

(In thousands of Euros at 31 December 2016 and 2015)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

EQUITY AND LIABILITIES	Note	2016	2015
Equity			
Subscribed capital	12	69,017	66,677
Share premium	12	81,403	81,403
Reserves	12	1,546,215	1,525,178
Profit for the year	12	80,320	42,891
Translation differences	12	301,736	212,879
Parent shares	12	-1	-1
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		2,078,690	1,929,027
Non-controlling interests	12	89,989	94,277
TOTAL EQUITY		2,168,679	2,023,304
Non-current liabilities			
Deferred income	13	7,798	7,513
Issue of bonds and other marketable securities	10	124,106	123,931
Loans and borrowings	10	812,699	617,230
Non-current provisions	14	15,475	13,698
Deferred tax liabilities	17	228,275	227,167
Other non-current financial liabilities	10	2,820	6,054
TOTAL NON-CURRENT LIABILITIES		1,191,173	995,593
Current liabilities			
Issue of bonds and other marketable securities	10	1,653	1,653
Loans and borrowings	10	279,961	447,887
Trade and other payables	10	803,953	641,726
Current tax liabilities	17	3,418	1,092
Other current financial liabilities	10	6,211	14,417
TOTAL CURRENT LIABILITIES		1,095,196	1,106,775
TOTAL EQUITY AND LIABILITIES		4,455,048	4,125,672

Notes 1 to 20 form an integral part of the consolidated annual accounts.

2. CONSOLIDATED INCOME STATEMENTS

(Expressed in thousands of Euros)

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

	Note	2016	2015
Revenues	**15**	**3,968,143**	**4,221,426**
Other operating income	15	13,565	13,017
Self-constructed non-current assets	15	6,927	18,888
Changes in inventories of finished goods and work in progress		-31,975	-19,783
Supplies		-2,673,574	-3,000,348
Personnel expenses	15	-374,928	-368,176
Amortisation and depreciation	7.8	-169,792	-163,684
Other operating expenses	15	-580,930	-580,452
RESULTS FROM OPERATING ACTIVITIES		**157,436**	**120,888**
Finance income	16	6,252	4,292
Finance costs	16	-43,383	-51,175
Exchange gains/losses	16	-22,424	62,400
Fair value measurement of financial instruments	16	29,988	-59,509
PROFIT FROM ORDINARY ACTIVITIES		**127,869**	**76,896**
Income tax	17	-57,025	-45,589
Other taxes	17	-3,541	-4,989
PROFIT FOR THE PERIOD		**67,303**	**26,318**
Attributable to:			
NON-CONTROLLING INTERESTS		**-13,017**	**-16,573**
NET PROFIT ATTRIBUTABLE TO THE GROUP		**80,320**	**42,891**
Basic and diluted earnings per share (in Euros)	12,7	0.30	0.16

Notes 1 to 20 form an integral part of the consolidated annual accounts.

3. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of Euros)

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

	Note	2016	2015
A) PROFIT FOR THE YEAR		**67,303**	**26,318**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
I. Measurement of financial instruments			
1. Available-for-sale financial assets	10,2,5	1,948	1,991
2. Other income/expense			
II. Cash flow hedges	10,2,6	-7,193	15,323
III. Translation differences	12,4	97,439	193,394
IV. Actuarial gains and losses and other adjustments	14,1	0	188
V. Tax effect		1,299	-4,426
B) TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**93,493**	**206,470**
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	10,2,6	12,489	-8,412
III. Translation differences		161	
IV. Actuarial gains and losses and other adjustments		124	
V. Tax effect		-3,098	2,161
C) TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		**9,676**	**-6,251**
TOTAL COMPREHENSIVE INCOME		**170,472**	**226,537**
a) Attributable to the Parent		174,756	244,523
b) Attributable to non-controlling interests		-4,284	-17,986

Notes 1 to 20 form an integral part of the consolidated annual accounts.

4. ECONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of Euros)

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

		Equity attributable to shareholders of the Parent											
	Notes	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	Interim dividend	TOTAL	Non controling interest	TOTAL EQUITY
Equity at 31/12/2014		65,426	81,403	1,581,203	5,242	-10,504	-7,150	-527	18,048	0	1,733,141	112,552	1,845,693
Profit for 2015				42,891							42,891	-16,573	26,318
Measurement of available-for-sale assets (net of tax)	10.2.5						1,494				1,494		1,494
Cash flow hedges (net of tax)	10.2.6					5,204					5,204	-8	5,196
Actuarial valuation of employee benefit commitments	14.1							103			103	32	135
Translation differences	12.4								194,831		194,831	-1,437	193,394
Income and expense recognised in equity		0	0	0	0	5,204	1,494	103	194,831	0	201,632	-1,413	200,219
Total comprehensive income		0	0	42,891	0	5,204	1,494	103	194,831	0	244,523	-17,986	226,537
Capital increase	12.1	1,251		-1,344							-93		-93
Distribution of dividends	12.2		0	-47,836							-47,836		-47,836
Transactions with shareholders		1,251	0	-49,180	0	0	0		0	0	-47,929	0	-47,929
Acquisition of own shares													-2
Disposal of own shares	12.1									-1	1		1
Acquisition of non-controlling shares from non-controlling interests				-1,241							-1,241	-289	-1,530
Other movements				534							534		534
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)	10.2.5						1,460				1,460		1,460
Cash flow hedges (net of tax)	10.2.6					3,995					3,995	-10	3,985
Actuarial valuation of commitments	14.1							124			124		124
Translation differences	12.3								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		94,436	8,733	103,169
Total comprehensive income		0	0	80,320	0	3,995	1,460	124	88,857		174,756	-4,284	170,472
Capital increase (scrip dividend)	12.1	2,340		-2,435							-95		-95
Distribution of dividends (scrip dividend)	12.2		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 non-controlling shares from non-controlling interests	5.2			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

Notes 1 to 20 form an integral part of the consolidated annual accounts.

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Euros)

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

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		127,869	76,896
Adjustments for:			
Amortisation and depreciation	7 & 8	169,792	163,684
Impairment		-13,459	3,705
Change in provisions		5,067	-1,373
Grants recognised in the income statement	13	-3,037	-2,772
Gains/losses on disposal of fixed assets	8	-2,723	-185
Change in fair value of financial instruments		-17,414	36,733
Finance income	16	-6,249	-4,292
Finance costs	16	42,136	51,175
Other income and expense		41,024	-36,520
Changes in working capital:			
Increase/decrease in trade and other receivables		-92,939	155,849
Increase/decrease in inventories		-19,386	48,753
Increase/decrease in trade and other payables		128,584	-334,126
Other cash flows from operating activities			
Interest paid		-40,660	-49,452
Interest received		6,017	3,869
Income tax paid		-55,837	-94,520
NET CASH FROM OPERATING ACTIVITIES		**268,785**	**17,424**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-162,084	-68,863
Acquisition of intangible assets		-940	-1,255
Acquisition of non-controlling interests	5	-2	-1,022
Acquisition of other financial assets		-267	-345
Proceeds from sale of property, plant and equipment		5,674	1,338
Proceeds from sale of intangible assets		0	2
Proceeds from sale of other financial assets		74	2,139
Dividends received		232	423
Other amounts received/paid for investments			
NET CASH USED IN INVESTING ACTIVITIES		**-157,313**	**-67,583**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of own equity instruments	12	-95	-93
Acquisition of own shares	12	0	-1
External financing received		775,448	157,452
Repayment of interest-bearing liabilities		-756,179	-334,806
Dividends paid	12	-26,745	-47,836
Distribution of share premium			
Contribution from non-controlling shareholders			
NET CASH USED IN FINANCING ACTIVITIES		**-7,571**	**-225,284**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**103,901**	**-275,443**
Cash and cash equivalents at beginning of year	11	479,955	738,368
Effect of exchange rate fluctuations		14,614	17,030
CASH AND CASH EQUIVALENTS AT YEAR END	**11**	**598,470**	**479,955**

Notes 1 to 20 form an integral part of the consolidated annual accounts.

CONTENTS NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

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

6 NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTE 1 GENERAL INFORMATION

Parent: 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 and principal activity: The Group's statutory 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 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 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 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's principal activity is that of a holding company, as parent 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 the 12-month period from 1 January to 31 December.

Annual accounts: these consolidated annual accounts were authorised for issue by the board of directors of Acerinox, S.A. on 28 February 2017.

NOTE 2 ACCOUNTING POLICIES

2.1 Statement of compliance

EThe 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 2016 have been prepared using the same accounting principles (IFRS-EU) as for 2015, except for the change in policy adopted by the Group to classify emission allowances as inventories as opposed to intangible assets and for the standards and amendments adopted by the European Union mentioned below, which are obligatory as of 1 January 2016, and which have not had a significant impact on the Group.

The most significant standards for the Group taking effect from 1 January 2016 are as follows:

- Annual improvements to IFRS, 2010-2012 Cycle, which amend various standards, effective for annual periods beginning on or after 1 February 2015. These improvements have had no impact on the Group.

  Effective for annual periods beginning on or after 1 February 2015.

- Annual improvements to IFRS, 2012-2014 Cycle, which amend various standards, effective for annual periods beginning on or after 1 January 2016. These improvements have had no impact on the Group.

- Amendments to IAS 1 (Disclosure Initiative), with an emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. Effective for annual periods beginning on or after 1 January 2016. The Group has applied this amendment during the year.

The following are 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 a greater impact on the Group:

- Amendments to IAS 12 - Recognition of deferred tax assets for unrealised losses. This amendment clarifies that unrealised losses on debt instruments measured at fair value (available-for-sale financial instruments) but at cost for tax purposes can give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument. Effective for annual periods beginning on or after 1 January 2017. No expected impact on the Group.

- Amendments to IAS 7: Disclosure Initiative. This amendment introduces requirements relating to the disclosure of financing activities in the statement of cash flows. Mandatory application foreseen for annual periods beginning on or after 1 January 2017.

- Annual Improvements to IFRS, 2014 -2016 Cycle, amendments to IFRS 1, IFRS 12 and IAS 28. No expected impact on the Group.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. This interpretation clarifies the exchange rate to be used in receipt or payment of advance consideration in a foreign currency. Effective for annual periods beginning on or after 1 January 2018. No expected impact on the Group.

- IFRS 16 - Leases. This new standard on leases supersedes IAS 17. Effective for annual periods beginning on or after 1 January 2019. This standard requires that entities recognise lease assets and liabilities in the statement of financial position (except for short-term leases and leases of low-value assets). Acerinox, as lessor, has mostly arranged contracts to extend the rights to use certain assets to third parties. As a result, no significant impact is expected on the financial statements of Acerinox as a result of applying this standard.

- IFRS 9 - Financial Instruments. This standard is effective for periods beginning on or after 1 January 2018. Pending adoption by the European Union. This standard reduces the number of financial instrument categories to two: amortised cost and fair value. This standard also stipulates that debt instruments may only be classified as at amortised cost when they are payments of principal and interest, so all other debt should be recognised at fair value. The Group will need to adapt the classification of its financial instruments as a result. Changes in the value of available-for-sale financial assets are to be recognised as changes in equity, and not transferred to profit or loss, even if the assets are impaired. The standard also proposes significant changes in terms of aligning hedge accounting and risk management, defining a target-based approach and eliminating inconsistencies and shortfalls in the existing model. Some aspects of the measurement of equity instruments have also been modified. The Group is assessing the impact of this standard, although no significant effect on the Group's equity is expected.

- IFRS 15 - Revenue from Contracts with Customers. Effective for periods beginning on or after 1 January 2018. Pending adoption by the EU. The Group is assessing the impact of this standard, although little impact is expected on the recognition of the Group's revenues.

No disclosures or accounting principles have been applied in advance.

2.2 Basis of presentation of the consolidated annual accounts

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to give a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2016 and 2015, as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the years then ended.

The 2016 annual accounts include comparative figures for the prior year.

The consolidated annual accounts are presented in Euros rounded off to the nearest thousand. They are prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets, which have been measured at fair value. 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'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 consolidated 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 2015 were approved by the shareholders at their annual general meeting held on 9 June 2016. The Group's consolidated annual accounts for 2016 are currently pending approval by the shareholders. The directors of the Company consider that these consolidated annual accounts will be approved with no changes by the shareholders at their annual general meeting.

2.3 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.

2.4 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 at 31 December 2016 and 2015 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 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 2016 or 2015.

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 for the year of equity-accounted investees in the consolidated income statement.

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 consolidation.

2.5 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'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 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 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.

2.6 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. 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 2.8**). 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 2.8**)

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, amortisation 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.

2.7 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, whereupon 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) Investment property

Investment property comprises Group-owned buildings held to earn rentals or for capital appreciation 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.

As investment property represents only a minor proportion of the Group's assets, it is included within property, plant and equipment. Details are, however, provided in the notes.

Lease income is recognised using the criteria described in **note 2.17 b**).

c) 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 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

2.8 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.

2.9 Financial instruments

2.9.1 Classification

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

2.9.2 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 2016 and 2015 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.

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 fixed or determinable payments that are not quoted 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 of the consideration given, including transaction 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 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 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.

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

The Group's equity investments in other companies are included in this category. 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.

2.9.3 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.

2.9.4 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.

2.9.5 Determination 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.

2.10 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, namely the weighted average cost method, for all inventories of the same nature and with a similar use.

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.

2.10.1 Emission allowances

Pursuant to Royal Decree 602/2016 of 2 December 2016, on 1 January 2016 the Group recognised CO2 emission allowances as inventories, rather than under intangible assets as had previously been the case. As International Financial Reporting Standards do not specify how to classify emission allowances, the Group has opted to harmonise the two policies by adopting similar classification criteria in both the individual and consolidated accounts. This movement has been recognised as a transfer in the intangible asset details provided in **note 7**.

CO2 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. 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 2016 and 2015 is included in **note 9** Inventories.

2.11 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.

2.12 Grants

2.12.1 Capital grants

Capital grants are those received by the Group for the acquisition of property, plant and equipment and intangible assets or as consideration for emission allowances acquired free of charge. 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, except for those relating to CO2 emission allowances, which are taken to income in line with the recognition of the corresponding greenhouse gas emission expense.

2.12.2 Operating grants

Operating grants are those received to finance specific expenses and are recognised as income as the expenses are incurred.

2.13 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 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.

2.14 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 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.

2.15 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.

2.16 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 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 reversed 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 has not recognised any tax effect in this respect as these reserves are not expected to be distributed in the foreseeable future.

The Parent 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 2016 and 2015 the consolidated tax group comprises Acerinox, S.A., Acerinox Europa, S.A.U, Roldán, S.A., Inoxfil, S.A., Inoxcenter, S.L.U. and Inoxcenter Canarias, S.A.U.

2.17 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.

2.18 Environmental issues

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.

The Group has not recognised any environmental provisions.

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 2.7**.

2.19 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. 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.

Given that the change in policy with respect to emission allowances is merely a change in classification, with no significant impact on the consolidated accounts, the Group has not restated the balances for the prior period, but rather has presented the movement as a transfer, as reflected in movements in intangible assets (see **note 7**).

NOTE 3 ACCOUNTING ESTIMATES AND JUDGEMENTS

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 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 2.8**.

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 amount of a cash-generating unit is determined based on its value in use, except in the case of certain investment property, which has been appraised by an independent expert. These calculations are made using reasonable assumptions based on past returns and future production and market development expectations. **Notes 7.1** and **8.1** include details of the analyses conducted by the Group in 2016 and 2015.

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.

Estimated useful lives remain unchanged in 2016 and 2015.

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. Note 10.2.4 contains additional information on financial instruments measured in accordance with these assumptions.

d) Provisions

As mentioned in **note 2.14**, 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 2.10**, 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 bases as stipulated in certain legislation. Details of the basis on which the Group assesses the recoverability of capitalised tax credits are provided in **note 17.3**.

Significant restrictions to the deductibility of prior years' tax losses were introduced in Spain in 2016, thereby prolonging their recovery periods (see **note 17.1**). Based on the estimates made, the Group considers that the tax credits recognised are still recoverable within a reasonable time frame.

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 insurance. **Note 10.2.6** includes a detailed analysis of the Group's derivatives 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 is therefore exposed to currency risk when operating with foreign currencies, especially with regard to the US Dollar. Currency risk arises from commercial transactions, financing and investment operations, and from translation of financial statements in functional currencies other than the Group's presentation currency (Euros).

In order to control currency risk associated with commercial transactions, Group entities use forward currency sale or purchase contracts negotiated with the Group's Treasury Department in accordance with policies approved by management.

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

The Group hedges most of its financial and commercial transactions in currencies other than the functional currency of each country. 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.

Not all of the exchange rate insurance contracts entered into by the Group qualify for cash flow hedge accounting as established in **note 2.9.4**. Contracts 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.

Note 10.2.6 includes details of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2016 and 2015.

As most commercial 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.

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 2015 year was 1.0887, while at 2016 year end it stood at 1.0541. The exchange rate of the South African Rand to the Euro at 2015 year end was 16.953, while at 2016 year end it was 14.457, reflecting appreciation of 14.72%.

Based on the exchange rates of these currencies against the Euro at the end of 2016, 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
31 December 2016				
USD	3,761	-3,077	221,602	-181,311
ZAR	2,143	-1,753	25,882	-21,176
31 December 2015				
USD	4,076	-3,335	182,533	-149,345
ZAR	1,537	-1,257	19,385	-15,860

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.

Risk premiums and credit spreads increased from 2009 until the end of 2013 as a result of the international financial crisis and money market turbulence. Since then, the Acerinox Group has witnessed a considerable improvement. The Group has taken advantage of the favourable market conditions to refinance the majority of its long-term debt in the first half of 2016, thereby extending the average life of its debt.

During 2016 the Group has reduced the outstanding amount of its interest rate hedges, in part as a result of the refinancing operations carried out in the first half of the year, the majority of which were arranged at floating rates, and also due to the early repayment of the syndicated loan arranged in the United States in 2012, which has led to the cancellation of the associated cross-currency swap. Note 10.2.6 includes details of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2016 and 2015.

Had interest rates on the outstanding debt at year end been 100 basis points higher, with all other variables remaining constant, the Group's consolidated profit after tax would have been Euros 6.07 million lower due to a higher finance cost on variable-rate debt (Euros 5.03 million lower in 2015). The effect on the Group's equity of higher interest rates across the entire curve would have been a net decrease of Euros 4.97 million (Euros 0.79 million decrease in 2015), as the higher borrowing costs would have been 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, which is traded on the Tokyo Stock Exchange. The Group has not hedged this risk with derivative financial instruments. **Note 10.2.5** provides details of the impact of the fluctuations in listed securities during the year.

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 all 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 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 helps to reduce the volatility of costs and, consequently, to decrease the impact of nickel price fluctuations on margins.

The Group's policy of taking firm orders naturally hedges the costs of raw materials, as all accepted orders have a known risk. The Group has also made considerable efforts to reduce its production cycle to two weeks. Keeping strict control over inventories and adapting production to market circumstances help to alleviate the risk of raw material price fluctuations.

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 2016 payouts of Euros 1,672 thousand have been collected under the credit insurance policy (Euros 1,674 thousand in 2015).

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 10.2.1.

At 31 December 2016, consolidated trade receivables amount to Euros 527,787 thousand (Euros 439,537 thousand in 2015). Revenues for 2016 total Euros 3,968,143 thousand (Euros 4,221,426 thousand in 2015). Credit risk insurance has been contracted for 54% of consolidated net sales (55% in 2015). Cash conditions exist for 1% (2% in 2015). Confirmed letters of credit or guarantees are used to hedge credit risk in 2% of consolidated net sales (2% in 2015). 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 2015).

The ageing analysis of receivables is as follows:

(Expressed in thousands of Euros)

	2016	% of payables	2015	% of payables
Outstanding	452,024	86%	366,051	83%
Less than 30 days	58,832	11%	49,622	11%
30-60 days	7,148	1%	8,950	2%
60-90 days	1,505	0%	3,801	1%
Over 90 days	8,278	2%	11,113	3%
TOTAL	527,787	100%	439,537	100%

The Group has made provisions for Euros 7,260 thousand (Euros 9,815 thousand in 2015). Provision was made for an amount of Euros 522 thousand during the year (Euros 648 thousand in 2015), accounting for 0.01% of sales in 2015 and 2016.

Most of the Group's past-due receivables are insured and generally reflect customary delays in trading activity (78% of past-due receivables are aged less than 30 days). At 17 February, over 84% of the above past-due debt has been collected (73% in 2015).

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.

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 (more than 85% 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 2016 and 2015 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 Euros 1,819 million and non-recourse factoring facilities of Euros 420 million. Euros 1,218 million has been drawn down from financing facilities at 31 December 2016 (Euros 135 million from factoring facilities). In 2015, the Group had current and non-current financing facilities of Euros 1,788 million and non-recourse factoring facilities of Euros 420 million. Drawdowns from financing facilities amounted to Euros 1,191 million and drawdowns from factoring facilities amounted to Euros 100 million. At 31 December 2016 cash and cash equivalents amount to Euros 598 million (Euros 480 million in 2015).

The high levels of bank borrowings to guarantee mid-term liquidity along with the ongoing effort to reduce working capital continues to provoke 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 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 operation are provided in **note 10.2.3**.

An analysis of the Group's payment obligations at the 2016 close is as follows:

(Expressed in thousands of Euros)

	Amount at 31/12/2016	Future cash flow maturities	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Non-current payables	936,805	-1,005,581	-9,368	-8,868	-249,376	-653,281	-84,688
Current payables	281,614	-286,954	-230,564	-56,390			
Suppliers and other payables	780,691	-780,691	-780,691				
FINANCIAL DERIVATIVES							
Hedged using interest rate swaps and cross-currency swaps	3,354	3,325	551	1,017	2,050	-293	0
Export exchange rate insurance	3,350	325,637	325,637				
Import exchange rate insurance	15,684	425,656	425,656				
TOTAL	2,021,498	-1,318,608	-268,779	-64,241	-247,326	-653,574	-84,688

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

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 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 Euros 1,840 thousand).

The ratio of net financial debt to EBITDA is 1.88x, lower than in 2015 (2.48x) and well within the limits stipulated in the covenants governing Group borrowings, as detailed in **note 10.2.3**.

After taking into account investments of Euros 157.3 million made in in 2016 (Euros 67.6 million in 2015), the Group generated cash flows of Euros 111.5 million (consumption of Euros 50.2 million in 2015) due to the greater pre-tax profit of Euros 127.9 million (Euros 76.9 million in 2015) and optimal management of working capital, which fell by Euros 16.3 million (increase of Euros 129.5 million in 2015). Net financial debt, which amounts to Euros 619.9 million, is down by 12.8% with respect to the prior year (Euros 710.7 million).

The Group's gearing ratio is 28.6% (35.1% in 2015), the lowest achieved in the past 14 years.

As described in **note 10.2.3**., in May Acerinox restructured the maturities of the majority of its bilateral loans and agreed to simultaneously cancel its previous loans and recognise the the new loans. Through these new agreements (Euros 717 million), the Group extended the maturities of its debt up to 2021, lowered interest rates, reduced payments for the next three years and brought new institutions into its banking pool. As a result, the Group has negotiated advantageous financing conditions and lowered the cost of its debt, without covenants.

On 30 June, the US Dollars 135 million principal of the syndicated loan arranged in the United States was repaid in advance. This loan was originally scheduled to mature on 17 February 2017.

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.

The total remuneration offered to shareholders was Euros 0.45 per share in 2016, as has been offered each year since 2007. At the ordinary annual general meeting held on 9 June 2016, the shareholders approved a scrip dividend – also known as a flexible dividend – in which Acerinox shareholders were able to choose between cash and new shares. Through this decision the Company abided by its traditional policy of maintaining shareholder remuneration. An amount of Euros 26.75 million was ultimately paid (Euros 47.84 million in 2015).

On 22 July, 9,360,150 new Acerinox shares, created as a result of shareholders representing 77.2% of the Company's share capital opting to receive their dividend in the form of shares, began trading (5,005,253 new shares, for shareholders representing 59.3% of the Company's share capital, in 2015). Acerinox, S.A.'s share capital is currently represented by 276,067,543 shares (266,707,393 shares at the 2015 reporting date).

4.5 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 53.52% 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 - SCOPE OF CONSOLIDATION

5.1 Subsidiaries and associates

At 31 December 2016 and 2015, in addition to Acerinox, S.A., the Acerinox consolidated group includes 39 fully consolidated subsidiaries and one equity-accounted associate.

Investments in subsidiaries and associates in 2016 are as follows:

FULLY CONSOLIDATED COMPANIES	2016				
	INTEREST			COMPANY HOLDING INVESTMENT	AUDITORS
	COUNTRY	COST (in thousands of Euros)	% OWNERSHIP		
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	327	100%	ACERINOX S.A	KPMG
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	598	90%	ACERINOX S.A	Chinen, Morbelli y asociados
		13	10%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX AUSTRALASIA PTY. LTD.	Sydney, Australia	385	100%	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels, Belgium	209	100%	ACERINOX S.A	KPMG
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo, Brazil	373	100%	ACERINOX S.A	
		0	0.001%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX CHILE, S.A.	Santiago de Chile, Chile	7,545	100%	ACERINOX S.A	KPMG
ACERINOX COLOMBIA S.A.S	Bogota, Colombia	68	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	45,496	100%	ACERINOX S.A	KPMG
ACERINOX EUROPA, S.A.U	Algeciras, Spain	341,381	100%	ACERINOX S.A	KPMG
ACERINOX FRANCE S.A.S	Paris, France	18,060	99.98%	ACERINOX S.A	KPMG
		0	0.02%	INOXIDABLES DE EUSKADI S.A.U	
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 MALAYSIA SDN. BHD	Johor, Malaysia	4,752	100%	ACERINOX S.C. MALAYSIA SDN. BHD	KPMG
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu/Beyoglu, Turkey	150	99.73%	ACERINOX S.A	
		0	0.27%	INOXIDABLES DE EUSKADI S.A.U	
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	KPMG
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	25,174	99.98%	ACERINOX S.A	KPMG
		4	0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg, Russia	98	95.00%	ACERINOX S.A	
		5	5.00%	ACERINOX SCANDINAVIA AB	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	31,909	100%	ACERINOX S.A	KPMG
ACERINOX S.C. MALAYSIA SDN. BHD	Johor, Malaysia	26,764	100%	ACERINOX S.A	KPMG
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	KPMG
ACERINOX U.K, LTD.	Birmingham, United Kingdom	28,444	100%	ACERINOX S.A	KPMG
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia, Portugal	15,828	100%	ACERINOX S.A	KPMG
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	171,769	67%	ACERINOX S.A	KPMG

FULLY CONSOLIDATED COMPANIES	2016				
	INTEREST			COMPANY HOLDING INVESTMENT	AUDITORS
	COUNTRY	COST (in thousands of Euros)	% OWNERSHIP		
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	279,615	76%	ACERINOX S.A	KPMG
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	58	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	1,225	100%	ACERINOX S.A	KPMG
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain	270	100%	INOXCENTER	KPMG
INOXCENTER, S.L.U	Barcelona, Spain	17,758	100%	ACERINOX S.A	KPMG
INOXFIL S.A.	Igualada (Barcelona), Spain	6,247	100%	ROLDAN S.A	KPMG
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain	2,705	100%	ACERINOX EUROPA, S.A.U	KPMG
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia, Portugal	12,843	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	KPMG
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	3,718	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	545,072	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS CANADA, INC	Canada	28,800	100%	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico	18,948	100%	NORTH AMERICAN STAINLESS INC.	KPMG
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	KPMG

ASSOCIATES	COUNTRY	2016		
		INTEREST		COMPANY HOLDING INVESTMENT
		COST (in thousands of Euros)	% OWNERSHIP	
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	313	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 marketing 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 2015 are as follows:

FULLY CONSOLIDATED COMPANIES	2015				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands of Euros)	% OWNERSHIP		
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	326	100%	ACERINOX S.A	KPMG
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	598	90%	ACERINOX S.A	Chinen, Morbelli y asociados
		13	10%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX AUSTRALASIA PTY. LTD.	Sydney, Australia	385	100%	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels, Belgium	209	100%	ACERINOX S.A	KPMG
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo, Brazil	373	100%	ACERINOX S.A	
		0	0.001%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX CHILE, S.A.	Santiago de Chile, Chile	7,545	100%	ACERINOX S.A	KPMG
ACERINOX COLOMBIA S.A.S	Bogota, Colombia	68	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	45,496	100%	ACERINOX S.A	KPMG
ACERINOX EUROPA, S.A.U	Algeciras, Spain	341,381	100%	ACERINOX S.A	KPMG
ACERINOX FRANCE S.A.S	Paris, France	18,060	99.98%	ACERINOX S.A	KPMG
		0	0.02%	INOXIDABLES DE EUSKADI S.A.U	
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 MALAYSIA SDN. BHD	Johor, Malaysia	4,752	100%	ACERINOX S.C. MALAYSIA SDN. BHD	KPMG
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu/Beyoglu, Turkey	150	99.73%	ACERINOX S.A	
		0	0.27%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai, United Arab Emirates	10	100%	ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX NORWAY A.S	Oslo, Norway	13	100%	ACERINOX S.A	
ACERINOX PACIFIC LTD.	Wanchai, Hong Kong	5,262	100%	ACERINOX S.A	KPMG
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	25,174	99.98%	ACERINOX S.A	KPMG
		4	0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg, Russia	98	95.00%	ACERINOX S.A	
		5	5.00%	ACERINOX SCANDINAVIA AB	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	31,909	100%	ACERINOX S.A	KPMG
ACERINOX S.C. MALAYSIA SDN. BHD	Johor, Malaysia	37,556	100%	ACERINOX S.A	KPMG
ACERINOX SHANGAI CO., LTD.	Shanghai, China	6,347	100%	ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore, Singapore	193	100%	ACERINOX S.A	KPMG
ACERINOX U.K, LTD.	Birmingham, United Kingdom	28,444	100%	ACERINOX S.A	KPMG
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia, Portugal	15,828	100%	ACERINOX S.A	KPMG
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	171,769	67%	ACERINOX S.A	KPMG
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	279,615	76%	ACERINOX S.A	KPMG
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	58	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	1,225	100%	ACERINOX S.A	KPMG

FULLY CONSOLIDATED COMPANIES	2015				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands of Euros)	% OWNERSHIP		
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain	270	100%	INOXCENTER	KPMG
INOXCENTER, S.L.U	Barcelona, Spain	17,758	100%	ACERINOX S.A	KPMG
INOXFIL S.A.	Igualada (Barcelona), Spain	6,247	100%	ROLDAN S.A	KPMG
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain	2,705	100%	ACERINOX EUROPA, S.A.U	KPMG
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia, Portugal	13,743	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	KPMG
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	3,718	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	545,072	100%	ACERINOX S.A	KPMG
NORTH AMERICAN STAINLESS CANADA, INC	Canada	28,800	100%	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico	18,948	100%	NORTH AMERICAN STAINLESS INC.	KPMG
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky, U.S.A.	15	100%	ACERINOX S.A	
ROLDAN S.A.	Ponferrada, Spain	17,404	99.76%	ACERINOX S.A	KPMG

ASSOCIATES	COUNTRY	2015		
		INTEREST		COMPANY HOLDING INVESTMENT
		COST (in thousands of Euros)	% OWNERSHIP	
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	313	25%	ACERINOX S.A

5.2 Changes in the consolidated Group

In 2016 the only significant 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 for the Group company Acerinox Scandinavia AB, registered in Sweden, for sales in Norway. Acerinox Scandinavia has absorbed the personnel of the entity. This operation had a positive Euros 597 thousand impact on the Parent's results, which was derived from the repatriation of share capital and accumulated reserves. Conversely, this operation had a negative impact of Euros 290 thousand on consolidated profit due to accumulated 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 the year, a further 50 shares of the Group company Roldan, S.A. were also acquired from non-controlling shareholders for Euros 1 thousand, thereby raising the ownership interest held by Acerinox, S.A. to 99.77%.

The only change in the consolidated Acerinox Group in 2015 was the acquisition in January of the remaining non-controlling interest of 1.67% in the Spanish trading companies Inoxcenter, S.L.U. and Metalinox Bilbao, S.A.U., giving Acerinox, S.A. a 100% stake in these two companies. These shares were purchased for Euros 1,530 thousand. The Euros 1,241 thousand difference between the acquisition price and the carrying amount of the non-controlling interest was taken to equity.

5.3 Capital increases and reductions

In 2016 the Group company Acerinox Shanghai reduced its capital by Yuan 46,418 thousand, which is equivalent to Euros 6.2 million. This company is a wholly-owned investee of Acerinox, S.A. and its share capital at year end amounts to Yuan 19,331 thousand.

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

In 2015 the Parent, Acerinox, S.A., waived a loan granted to its wholly owned investee, the Group company Acerinox Pacific Ltd. This loan amounted to Euros 15.9 million. This loan was waived to redress the Company's equity balance. This transaction had no impact on the consolidated financial statements.

In 2015 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 Euros 1,100 thousand received from its parent.

5.4 Impairment of investments

At 31 December 2016 and 2015 the Parent 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, the Parent has only recognised impairment on its investment in Acerinox SC Malaysia Sdn. Bhd.

The Parent has recognised impairment of Euros 10,792 thousand on its investment in Acerinox SC Malaysia Sdn. Bhd. because its recoverable amount, calculated on the basis of discounted expected cash flows, is less than its carrying amount. At 31 December 2016, this investment has been recorded in the individual annual accounts of Acerinox, S.A. at Euros 26,764 thousand, which is equal to its recoverable amount.

During the year the Parent has reversed 2,205 thousand 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 2015 have improved its prospects, thereby increasing its expected recoverable amount. The carrying amount of Acerinox, S.A.'s investment in this company is Euros 7,467 thousand.

Impairment equal to the amount of the waived loan mentioned in the preceding note, Euros 15.9 million, was recognised in 2015.

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.

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 rod.

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

Unassigned liabilities essentially comprise the Parent's financial debt.

2015 figures are as follows:

(Expressed in thousands of Euros)

	2015					
	Flat products	Long products	Other	Unallocated	Adjustments	Total
Income statement						
Revenue	3,832,314	582,930	14,377	3,032	-179,322	4,253,331
Inter-segment sales	-167,667	-11,655	0	0	179,322	0
Total revenues	3,664,647	571,275	14,377	3,032	0	4,253,331
Gross operating profit/loss	244,523	53,874	1,924	-15,749		284,572
Amortisation and depreciation	-146,878	-16,042	-182	-582		-163,684
Finance income	2,821	130	197	1,144		4,292
Finance costs	-18,625	-654	-343	-31,553		-51,175
Exchange gains	1,949	53	3	886		2,891
Profit/loss before tax	83,790	37,361	1,599	-45,854	0	76,896
Income tax	-50,438	-12,033	-399	12,292		-50,578
Consolidated profit/loss for the period	33,352	25,328	1,200	-33,562	0	26,318
Attributable to:						
Non-controlling interests	-16,561	-12	0	0		-16,573
Net profit/loss attributable to the Group	49,913	25,340	1,200	-33,562	0	42,891
Balance sheet						
Segment assets	3,546,367	359,138	20,688	199,479	0	4,125,672
Total consolidated assets	3,546,367	359,138	20,688	199,479	0	4,125,672
Segment liabilities	1,010,393	42,775	16,185	1,033,015		2,102,368
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	1,010,393	42,775	16,185	1,033,015	0	2,102,368
Property, plant and equipment	1,873,853	136,499	4,750	10,754		2,025,856
Investments in property, plant and equipment and intangible assets	90,228	2,653	15	1,115		94,011

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 2016 is presented below:

(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	243,015	66,427	887,181	145,609	744,168	3	**2,086,403**
Investments in property, plant and equipment and intangible assets at origin	43,236	465	106,767	12,046	10,363	0	**172,877**

2015 figures are as follows:

(Expressed in thousands of Euros)

	2015						
	Spain	Rest of Europe	Americas	Africa	Asia	Other	Total
Revenue by destination of goods	423,273	1,181,103	1,927,101	226,149	452,391	11,409	**4,221,426**
Segment assets by origin	994,154	378,355	1,449,763	401,576	901,571	253	**4,125,672**
Property, plant and equipment at origin	237,830	72,980	841,308	130,947	742,779	12	**2,025,856**
Investments in property, plant and equipment and intangible assets at origin	32,345	318	32,060	6,497	22,792	0	**94,011**

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 2016 and 2015: United States; 37.83% (38.23% in 2015), Spain; 10.45% (10.13% in 2015) and Germany; 6.62% (7.28% in 2015).

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues for 2016 or 2015.

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 2015	7,022	24,312	24,236	55,570	69,124
Acquisitions	3,002	0	1,259	4,261	
Transfers	0	0	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
Acquisitions	0	0	774	774	
Transfers	-8,198	0	235	-7,963	
Disposals	0	0	-114	-114	
Translation differences	0	0	333	333	
Balance at 31 December 2016	0	24,312	25,195	49,507	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	0	0	605	605	
Disposals	0	0	-1,184	-1,184	
Translation differences	0	0	-384	-384	
Balance at 31 December 2015	0	24,310	20,986	45,296	0
Charges	0	0	1,239	1,239	
Disposals	0	0	-114	-114	
Translation differences	0	0	317	317	
Balance at 31 December 2016	0	24,310	22,428	46,738	0

CARRYING AMOUNT	Emission allowances	Industrial property	Computer software and other	SUBTOTAL	Goodwill
Cost at 31 December 2014	7,022	24,312	24,236	55,570	69,124
Accumulated amortisation and impairment	0	-24,310	-21,949	-46,259	
Carrying amount at 31 December 2014	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	
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

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

The transfer of emission allowances amounting to Euros 8,198 thousand reflects their reclassification to inventories as established in the additional provision of Royal Decree 602/2016 of 2 December 2016. Detailed information on emission allowances is provided in **Note 9.1**.

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 Euros 15,642 thousand (Euros 16,488 thousand in 2015).

At 31 December 2016 and 2015 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 2016, goodwill totals Euros 69 million 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. 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.

In 2016 Columbus Stainless, Ltd improved significantly on the budgeted profit forecast for the year, posting a pre-tax profit of ZAR 567.33 million (ZAR 358.77 million in 2015). 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:

	2016	2015
Budgeted EBIT margin (*)	5.1%	5.5%
Weighted average growth rate (**)	2.5%	2.5%
Discount rate applied (***)	12.6%	11.7%

(*) EBIT margin, considered equivalent to operating profit/loss (as a percentage of revenue)
(**) Used to extrapolate cash flows beyond the budgeted period
(***) Pre-tax discount rate applied

The discount rate applied (weighted average cost of capital or WACC) is 12.6%. 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% 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, 2021, 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 2016 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2016 period.

Apparent consumption of stainless steel in the South African market has fallen by 8.5% in 2016 compared with 2015 (+1.9%), due to the weakness of the national economy, which is largely related to the temporary decline in the activity of the mining industry and its ancillary sector. Consequently, Columbus' volume of sales in the local market was lower. Nevertheless, the company succeeded in increasing its market share, despite greater pressure from imports.

The aforementioned decline in local sales was more than offset by the rise in exports, resulting in an overall increase of 12.7% compared with 2015. Turnover grew by 15.3% (+1.5% in 2015). Production also increased, by 10%, during the year.

2016 was a good year for Columbus Stainless, Ltd, but not without significant challenges. These included the aforementioned weakness of the local economy, the volatility of the South African Rand, the price of raw materials - with substantial growth towards the end of the year - and power cuts (at the end of August and beginning of September), with the consequent rise in costs and reduction in production capacity.

Besides adequate management of the situation in the country, the increase in sales in strategic markets, the supply of semi-products to Bahru Stainless, Sdn Bhd, the Group's factory in Malaysia, and increased penetration in the Middle and Far East and Latin America have all contributed to this positive trend. 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 relevant key assumptions are the Euro-Rand exchange rate (14.457) and the price of raw materials (10,500 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 2015 were a Euro-Rand exchange rate of 14.2862 and a raw materials price of 11,000 USD/MT.

The impairment test performed at 31 December 2016 shows that the recoverable amount exceeds the carrying amount by Euros 59 million (Euros 66 million in 2015). 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 18% (22.3% in 2015). In the case of the growth rate (g), even with a growth rate of 0%, the discount rate (WACC) would have to increase by 9.6% for the carrying amount to show impairment.

The average budgeted EBIT margin would have to fall by 18.3% (22.5% in 2015) to 4.1% (4.2% in 2015), 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 2016 and 2015 are shown in the following table:

(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 31 December 2014	**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			-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	2,700	24,273	1,866	143,264	172,103
Impairment	-570	0			-570
Transfers	61,172	271,732	3,742	-336,881	-235
Disposals	-5,712	-9,863	-8,116	0	-23,691
Translation differences	13,873	114,860	1,639	10,839	141,211
Balance at 31 December 2016	**853,445**	**3,882,624**	**88,535**	**159,152**	**4,983,756**

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 31 December 2014	**291,419**	**2,070,615**	**78,519**	**0**	**2,440,553**
Charges	16,746	141,236	5,097	0	163,079
Transfers	-1,198	-1,334	2,532	0	0
Disposals	-237	-8,626	-1,887	0	-10,750
Translation differences	10,872	63,142	2,186	0	76,200
Balance at 31 December 2015	**317,602**	**2,265,033**	**86,447**	**0**	**2,669,082**
Charges	17,054	146,763	4,736	0	168,553
Transfers	23	-48	25	0	0
Disposals	-3,234	-5,224	-8,125	0	-16,583
Translation differences	5,334	69,355	1,612	0	76,301
Balance at 31 December 2016	**336,779**	**2,475,879**	**84,695**	**0**	**2,897,353**

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	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 31 December 2014	**450,999**	**1,254,657**	**7,155**	**258,708**	**1,971,519**
Cost at 31 December 2015	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 31 December 2016	853,445	3,882,624	88,535	159,152	4,983,756
Accumulated depreciation and impairment	-336,779	-2,475,879	-84,695	0	-2,897,353
Carrying amount at 31 December 2016	**516,666**	**1,406,745**	**3,840**	**159,152**	**2,086,403**

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 Euros 172,877 thousand. These included North American Stainless' Euros 106,738 thousand investment in a new cold-rolling mill and a bright annealing (BA) line and Acerinox Europa's Euros 39,377 thousand investment in a new mill and a fifth annealing and pickling line. In 2015 investments totalled Euros 94,009 thousand, including Euros 22,719 thousand made by Bahru Stainless, Euros 31,917 thousand by North American Steel and Euros 30,191 thousand by Acerinox Europa.

Property, plant and equipment under construction

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

(In thousands of Euros)

	2016	2015
Buildings	35,039	64,890
Technical installations and machinery	123,515	265,586
Other property, plant and equipment	405	1,307
Advances	193	10,147
TOTAL	159,152	341,930

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 start-up of these investments increased depreciation for the year by approximately Euros 1 million a month.

Of the total amount recognised under this caption, Euros 114 million corresponds to the aforementioned investments made by North American Stainless, which are due to start up in Spring 2017 (Euros 25 million in 2015), and Euros 38 million to Acerinox Europa's investment, due to enter service at the end of 2017 (Euros 14 million in 2015). Additionally, in 2015 this caption included Euros 302 million in phase II investments of the Malaysian plant.

Assets located outside Spain

Details of assets located outside Spain are as follows:

(In thousands of Euros)

	2016		2015	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and buildings	595,529	-181,956	520,768	-162,232
Technical installations and machinery	2,750,284	-1,441,893	2,356,807	-1,256,454
Other property, plant and equipment	42,439	-39,953	43,700	-42,334
Property, plant and equipment under construction	118,939	0	327,771	0
TOTAL	3,507,191	-1,663,802	3,249,046	-1,461,020

Changes in accounting estimates

Estimated useful lives remained unchanged in 2016 and 2015.

Guarantees

At 31 December 2016 and 2015 none of the Group's assets has been pledged to secure loans and borrowings.

Commitments

At 31 December 2016 the Group has entered into contracts to purchase new equipment and facilities amounting to Euros 127,034 thousand, of which Euros 26,686 thousand is for the new investments by North American Stainless, Euros 92,412 thousand for Acerinox Europa and Euros 4,783 thousand for investments in the new Malaysian plant. At 31 December 2015 the Group had entered into 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 for Acerinox Europa and Euros 11,508 thousand for investments in the new Malaysian plant.

Capitalised borrowing costs

Borrowing costs of Euros 2,317 thousand have been capitalised in 2016 (Euros 7,377 thousand in 2015). The capitalisation rate in 2016 was 4.23% (3.85% in 2015).

Asset disposals

A loss of Euros 516 thousand on the sale of property, plant and equipment or removal of assets from service has been recorded under other operating expenses in the 2016 income statement (Euros 332 thousand in 2015).

The gain on the sale of property, plant and equipment or the removal of assets from service totals Euros 3,239 thousand and is recognised under other operating income in the 2016 income statement (Euros 517 thousand in 2015). This balance primarily reflects the disposals of investment property referred to in the corresponding note.

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 2016 and 2015 are as follows:

(In thousands of Euros)	2016		2015	
Nature and use	Gross value	Accumulated depreciation	Gross value	Accumulated depreciation
Water treatment	95,906	-58,705	90,759	-51,025
Acid neutralisation	57,331	-36,767	41,789	-25,181
Gas emission treatment	74,619	-62,314	75,210	-62,434
Automatic additions systems	8,608	-5,878	8,459	-5,585
Other items	115,196	-75,389	121,346	-76,261
Total	351,660	-239,053	337,563	-220,486

During 2016 the Group has received energy saving grants totalling Euros 406 thousand. In 2015 the Group received no grants for investment in infrastructure aimed at protecting the environment.

In 2016 the Group incurred environment-related ordinary expenses of Euros 105,611 thousand (Euros 109,674 thousand in 2015).

At 31 December 2016 and 2015 no significant contingencies exist relating to the protection and improvement of the environment and, accordingly, no provision has been made in this regard.

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 the corresponding section.

One of the production lines of the Group company Columbus Stainless (Pty) Ltd. ceased to be used for production in 2015 given its age and low productivity. Its carrying amount was Euros 200 thousand, which the Group impaired in full.

Other information

At 31 December 2016 and 2015 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.

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.

Details of movements in investment property in 2016 and 2015 are as follows:

(In thousands of Euros)

COST	2016	2015
Opening balance	16,714	12,610
Transfers	12,404	4,427
Disposals	-5,526	-323
Impairment	-570	
Translation differences	-605	
Balance at 31 December	22,417	16,714

ACCUMULATED DEPRECIATION AND IMPAIRMENT	2016	2015
Opening balance	6,053	5,677
Charge	245	166
Transfers	1,087	403
Disposals	-3,144	-193
Translation differences	-60	
Cost at 31 December	4,181	6,053

CARRYING AMOUNT	2016	2015
Cost at 31 December	22,417	16,714
Accumulated depreciation	-4,181	-6,053
Carrying amount at 31 December	18,236	10,661

The Group currently has several industrial bays in Spain and other countries belonging to various subsidiaries which are classified as investment property. 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.

During the year, an industrial bay belonging to the Group company Acerinox Italia, with a carrying amount of Euros 11.3 million, was transferred to this category. In 2015, an industrial bay belonging to the Group company Acerinox UK and amounting to Euros 4,024 thousand was reclassified to this category.

Income from the lease of industrial bays amounted to Euros 378 thousand in 2016 (Euros 150 thousand in 2015). The associated operating expenses, including maintenance and repairs, amount to Euros 94 thousand (Euros 53 thousand in 2015). The increase on the prior year is because the Group has leased its industrial bays in the UK and Italy.

During the year the Group disposed of two of its industrial bays classified as investment property, generating a profit of Euros 2.9 million. The carrying amount of these bays totalled Euros 2,382 thousand. In 2015, two industrial bays classified in this category with a net carrying amount of Euros 130 thousand were also sold. Proceeds from the sale totalled Euros 545 thousand, on which the Group recognised a capital gain of Euros 411 thousand under other operating income in the income statement.

At 31 December 2016 investment property has a total market value of Euros 23,329 thousand (Euros 20,055 thousand in 2015) and a carrying amount of Euros 18,236 thousand (Euros 10,661 thousand in 2015).

One of the Group's industrial bays showed indications of impairment, so the Group requested an independent expert appraisal. Based on the appraisal, the Group has recognised impairment of Euros 570 thousand under other operating expenses in the income statement In 2015, it was not necessary to recognise any impairment for the Group's investment property.

8.1 Impairment

As established in IAS 36, and as mentioned in the accounting policies (note 2.8), 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 that indications of impairment exist when, among other things, a company has incurred repeated losses. During the year there have been indications of impairment in the companies Bahru Stainless Sdn. Bhd., Roldan, S.A., Inoxfil S.A. and Acerinox S.C. Malaysia Sdn. Bhd.

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 48% 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	8.81%
ROLDAN, S.A.	0.88%
INOXFIL, S.A.	0.17%
NORTH AMERICAN STAINLESS INC.	41.69%
COLOMBUS STAINLESS PTY Ltd	6.98%
BAHRU STAINLESS	35.25%
Rest of subsidiaries	6.22%
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 considered 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 of Bahru Stainless Sdn. Bhd., Roldan, S.A., Inoxfil S.A. and Acerinox S.C. Malaysia Sdn. Bhd 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 5%.

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. 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 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% in the case of Bahru Stainless Sdn. Bhd and 2% for Roldán, S.A., Inoxfil, S.A. and Acerinox S.C. Malaysia Sdn. Bhd. It should be noted that in 2016 the global stainless steel market continued to consolidate the historical market growth rate of 5.9% for the 1950-2016 period.

No impairment has been recognised on property, plant and equipment during the year (with the exception of that mentioned in the note on investment property), as the enterprise value, calculated applying the discounted free cash flow method, exceeds the carrying amount of the Group's operating assets.

Bahru Stainless Sdn. Bhd

The impairment test performed at 31 December 2016 reveals that its recoverable amount exceeds its carrying amount (Euros 498.1 million) by Euros 124.2 million (Euros 175 million in 2015). The discount rate (WACC), 8.75% (8.81% in 2015) the growth rate (g), 2.5% (2.5% in 2015) and the average budgeted EBIT margin, 3.0% (3.4% in 2015) 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 17.1% (24.5% in 2015). In the case of the growth rate (g), the growth rate would have to fall by 83% (reducing the investment in the company to zero, with the WACC at 4.3% in 2015) for the carrying amount to begin to show impairment.

The average budgeted EBIT margin would have to fall by 22.9% (30.5% in 2015) to 2.3%(2.4% in 2015), with the other two assumptions remaining constant, for impairment to occur.

Roldán, S.A.

The impairment test performed at 31 December 2016 reveals that its recoverable amount exceeds its carrying amount (Euros 42.1 million) by Euros 102.7 million (Euros 147 million in 2015). The discount rate (WACC), 7.31% (7.12% in 2015) the growth rate (g), 2% (2% in 2015) and the average budgeted EBIT margin, 3.9% (4.5% in 2015) 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 2.1 times (2.7 times in 2015), while simultaneously bringing the growth rate (g) down to zero.

The average budgeted EBIT margin would have to fall by 62.4% (72.4% in 2015) to 1.4% (1.2% in 2015), with the other two assumptions remaining constant, for impairment to occur.

Inoxfil, S.A.

The impairment test performed at 31 December 2016 reveals that its recoverable amount exceeds its carrying amount (Euros 9.2 million) by Euros 6 million (Euros 7 million in 2015). The discount rate (WACC), 7.31% (7.12% in 2015) the growth rate (g), 2% (2% in 2015) and the average budgeted EBIT margin, 2.4% (2.7% in 2015) were considered key assumptions in the impairment test.

The sensitivity analysis performed indicates that impairment of the carrying amount would only occur by increasing the discount rate (WACC) by 54% (51.4% in 2015). In the case of the growth rate (g), even with a growth rate of 0%, the discount rate (WACC) would have to increase by 45.3% (43.9% in 2015) for the carrying amount to begin to show impairment.

The average budgeted EBIT margin would have to fall by 38.0% (38.9% in 2015) to 1.5% (1.6% in 2015), with the other two assumptions remaining constant, for impairment to occur.

Acerinox S.C. Malaysia Sdn. Bhd.

The impairment test performed at 31 December 2016 reveals that its recoverable amount exceeds its carrying amount (Euros 11.2 million) by Euros 32 million. The discount rate (WACC), 8.68%, the growth rate (g), 2%, and the average budgeted EBIT margin, 6.0%, 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 2.5 times, while simultaneously bringing the growth rate (g) down to zero.

The average budgeted EBIT margin would have to fall 68.1% to 1.9%, with the other two assumptions remaining constant, for impairment to occur.

NOTE 9 INVENTORIES

Details at 31 December are as follows:

(In thousands of Euros)

	2016	2015
Raw materials and other supplies	298,383	229,937
Work in progress	170,323	185,405
Finished goods	385,081	390,565
By-products, waste and recoverable materials	33,444	18,774
Advances	190	248
TOTAL	887,421	824,929

Raw materials and other suppliers include Euros 8,357 thousand reflecting the valuation of the emission allowances held by the Group at the end of the year. In 2015 emission allowances were included in intangible assets.

The cost of goods sold is Euros 3,600 million in 2016 (Euros 3,894 million in 2015).

In 2016 the Group wrote inventories down to net realisable value where this was lower than cost, with a total adjustment of Euros 1,188 thousand. The adjustment for 2015 amounted to Euros 14,248 thousand.

At 31 December 2016, the Group company Columbus Stainless has pledged inventories as collateral for the financing obtained through the Borrowing Base Facility described in **note 10.2.3**.

Commitments

At 31 December 2016 the consolidated Group has commitments to purchase raw materials for Euros 243,080 thousand (Euros 129,143 thousand in 2015). 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.

9.1 Emission allowances

Pursuant to the additional provision of Royal Decree 602/2016 of 2 December 2016, on 1 January 2016 the Group reclassified emission allowances to 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, which are distributed by year as follows:

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 2016 and 2015 is as follows:

	Number of allowances	Value (in thousands of Euros)
Balance at 31/12/2014	**875,211**	**7,022**
Allocation for the year	266,158	1,860
Acquisition of emission allowances through swaps	153,284	1,142
Disposal of emission allowances	-249	-2
Disposals	-231,405	-1,824
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**

In 2016, CO2 emissions were made requiring 258,406 allowances, which will be surrendered in 2017 (254,349 in 2015, surrendered in 2016). The Group has not sold its surplus allowances.

The expense for the year in respect of CO2 emissions totals Euros 2,010 thousand in 2016 (Euros 1,937 thousand in 2015) 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 CO2 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.

At 31 December 2016 the emission allowances held have a fair value of Euros 6,997 thousand (Euros 8,748 thousand at 31 December 2015).

The Group company Acerinox Europa carried out a swap of emission allowances whereby Acerinox sold 249 emission allowances for Euros 2 thousand and simultaneously acquired 153,284 emission reduction units (ERUs) for that same amount. It then exchanged the 153,284 ERUs for the same number of emission allowances (EUAs), recognising the new allowances at their fair value at the date of the swap (Euros 1,142 thousand).

No significant contingency exists in respect of fines over emissions.

NOTE 10 FINANCIAL INSTRUMENTS

10.1 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.

10.2 Categories of financial assets and financial liabilities

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

(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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Loans and receivables					5,317	2,436					572,818	469,893
Held-to-maturity investments												
Assets available for sale												
- At fair value	12,330	10,382										
- At cost	288	285										
Assets at fair value through profit or loss												
- Held for trading											21,532	633
- Other												
Hedging derivat					2,529	9,375					5,019	15,338
TOTAL	12,618	10,667	0	0	7,846	11,811	0	0	0	0	599,369	485,864

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

(Datos en miles de 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Debts and payables	812,699	617,230	124,106	123,931	2,339	2,062	279,961	447,887	1,653	1,653	803,953	641,726
Liabilities at fair value through profit or loss												
- Held for trading											4,805	14,072
- Other												
Hedging derivatives					481	3,992					1,406	345
TOTAL	812,699	617,230	124,106	123,931	2,820	6,054	279,961	447,887	1,653	1,653	810,164	656,143

10.2.1 Trade and other receivables

Details at 31 December are as follows:

(In thousands of Euros)

	2016	2015
Trade receivables	527,788	439,537
Personnel	394	369
Public entities	35,478	23,356
Other receivables	6,858	8,011
Prepayments	8,988	8,909
Impairment of bad debts	-7,260	-9,815
TOTAL	572,246	470,367

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

(In thousands of Euros)

	2016	2015
Initial balance	9,815	10,847
Charge	522	648
Application	-2,869	-1,150
Reversal	-263	-489
Translation differences	55	-41
Balance at 31 December	7,260	9,815

Impairment losses due to bad debts have been included under other operating expenses in the income statement.

No interest was accrued on impaired financial assets in 2016 or 2015.

No allowances have been made for bad debts with related parties in 2016 or 2015.

At 31 December 2016 certain Group companies had receivables factored without recourse totalling Euros 134,734 thousand 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 (Euros 99,912 thousand in 2015). These amounts have been derecognised as they meet the conditions specified in IAS 39 regarding the transfer of risks and rewards.

At 31 December 2016, the Group company Columbus Stainless has pledged receivables as collateral for the financing obtained through the Borrowing Base Facility described in **note 10.2.3**.

10.2.2 Trade and other payables

Details at 31 December 2016 and 2015 are as follows:

(In thousands of Euros)

	2016	2015
Suppliers and trade payables	715,670	568,929
Personnel	27,912	24,712
Suppliers of fixed assets	29,137	21,174
Tax and Social Security	23,204	21,482
Other payables	937	708
Current provisions	7,093	4,721
TOTAL	803,953	641,726

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 eliminated the payments made to Group companies, is as follows:

(Datos en miles de euros)

	2016	2015
Average payment period for suppliers	73 days	79 days
Transactions paid ratio	77 days	82 days
Transactions payable ratio	49 days	45 days

(Expressed in thousands of Euros)	Amount	Amount
Total payments made	1,227,213	1,607,137
Total payments outstanding	226,805	176,420

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

Payments to domestic suppliers, excluding Group companies, are as follows:

	2016	2015
Average payment period to suppliers	66 days	68 days
Payments made ratio	69 days	70 days
Outstanding payments ratio	51 days	54 days

(Datos en miles de euros)	Amount	Amount
Total payments made	631,091	735,109
Total outstanding payments	104,260	82,688

10.2.3 Loans and borrowings and bond issues

Details of financial debt at 31 December 2016 and 2015, including loans and borrowings and bonds issued by the Group during the year, are as follows:

(In thousands of Euros)

	Non - Current		Current	
	2016	2015	2016	2015
Bonds issued	124,106	123,931	1,653	1,653
Loans and borrowings	812,699	617,230	279,961	447,887
Total financial debt	936,805	741,161	281,614	449,540

Details of the maturity of outstanding debt at 31 December 2016 are as follows:

(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

2015 figures are as follows:

(In thousands of Euros)

	2016	2017	2018	2019	2020 and subsequent years	TOTAL
Financial debt	449,540	250,964	401,762	8,957	79,478	1,190,701
Total financial debt	449,540	250,964	401,762	8,957	79,478	1,190,701

Debt by currency is as follows:

(In thousands of Euros)

	Non-current loans		Current loans	
	2016	2015	2016	2015
EUR	878,073	609,006	185,116	206,684
USD	58,732	132,155	54,095	173,820
ZAR			42,403	69,022
MYR				14
TOTAL	936,805	741,161	281,614	449,540

Details of debt by interest rate are as follows:

(In thousands of Euros)

	Non-current loans		Current loans	
	2016	2015	2016	2015
Fixed	230,000	213,200		18,200
Variable	706,805	527,961	281,614	431,340
TOTAL	936,805	741,161	281,614	449,540

Borrowings at fixed interest rates reflect only loans originally arranged at fixed rates with credit institutions, and do not include borrowings for which interest rates have been fixed by contracting derivatives.

As the majority of bank debt was extended at variable interest rates, its fair value is the same as its amortised cost. Nevertheless, the fair value of fixed-rate loans and borrowings and private placements is Euros 240,910 thousand at 31 December 2016. The fair value of these borrowings at 31 December 2015 was Euros 235,885 thousand.

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

At 2016 year end the Group's Euro-denominated financing instruments, Euros 982 million in total, have a weighted average cost, before hedging, of 1.90%, while the average pre-hedging cost of borrowings in US Dollars, amounting to US Dollars 94 million, is 2.43%. In 2015, the Group's Euro-denominated borrowings, Euros 814 million in total, bore an average cost of 2.11%, before hedging, while the average cost of borrowings in US Dollars, amounting to US Dollars 334 million, was 2.33%.

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 10.2.6**.

At 31 December 2016 accrued interest payable in respect of loans and borrowings totals Euros 2,415 thousand (Euros 2,266 thousand in 2015). In addition, accrued interest payable on bonds issued totals Euros 1,653 thousand at the 2016 and 2015 reporting dates.

Total borrowing costs calculated using the effective interest rate on loans at amortised cost amount to Euros 2,253 thousand (Euros 2,243 thousand in 2015).

At 31 December 2016 the Group has credit facilities with financial institutions with a maximum available limit of Euros 1,819 million, of which Euros 1,218 million was drawn down. In 2015 the maximum available limit was Euros 1,788 million, of which Euros 1,191 million had been drawn down.

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.

The most notable financing operation during 2016 has been the restructuring of the maturities of the majority of Acerinox, S.A.'s bilateral loans. In April and May 2016 the Parent signed 12 bilateral loan contracts for terms of four and five years, thus extending the due date for repayment and lowering margins. 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 the new loans.

Moreover, 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 US Dollars 134.96 million. This loan originally fell due on 17 February 2017.

In April 2015, Columbus Stainless Ltd signed a financing agreement (a Borrowing Base Facility) for ZAR 3,500 million with ten financial institutions. Through this transaction, some inventories (raw materials, work in progress and finished products) and some trade receivables are pledged as collateral for this financing. The amount of financing available through this contract primarily depends on Columbus's current assets at any given time. Inventories and receivables extended as collateral at 31 December 2016, which determine total financing available at that date, amount to ZAR 2,596 million (ZAR 1,674 million in receivables and ZAR 922 million in inventories). The amount drawn down at 31 December 2016 amounted to ZAR 613 million, equivalent to Euros 42 million (ZAR 1,170 million at 31 December 2015, equivalent to Euros 69 million). This contract provides Columbus with financing of its working capital for a three-year period. Deutsche Bank AG, Amsterdam Branch, acted as the Co-ordinating Mandated Lead Arranger for this transaction, whilst Deutsche Bank AG, Johannesburg Branch, Bankinter, Banco Bilbao Vizcaya Argentaria, S.A., and FirstRand Bank Limited were the Mandated Lead Arrangers. Other participating banks included Banco Santander S.A., Banco de Sabadell S.A., London Branch, Nedbank Limited, CaixaBank, S.A., HSBC Bank Plc, Johannesburg Branch and Investec Bank Limited.

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 Euros 500 million at the Spanish National Securities Market Commission. Since then, Acerinox S.A. has carried out two issues through this prospectus: the first issue of Euros 75 million 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 Euros 50 million in December 2014 with a term of four years and variable interest of 3-month Euribor + 1.75%.

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

Non-current borrowings subject to covenants

At the 2016 reporting date there are three financing contracts subject to covenants: the two loan contracts signed with the ICO (Spain's Official Credit Institute) in 2007 and 2008 and the Borrowing Base Facility arranged by Columbus in 2015. None of the 12 loan contracts signed in the first half of 2016, mentioned earlier, are subject to covenants.

The most significant of the financial ratios stipulated in these loan agreements refer to maintenance of minimum equity levels in the case of Columbus, and to "net financial debt/EBITDA", and "net financial debt/equity" ratios in the case of the ICO.

At year end, the outstanding amount repayable on the two ICO loans was Euros 32 million and USD 32.65 million. Final maturity on the first loan is May 2017, and on the second, July 2018. In the case of the Columbus Borrowing Base Facility, the amount repayable at year end is ZAR 613 million.

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 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 covenants attached was thus eliminated. This loan originally fell due in July 2017.

At the 2016 year end (as in 2015) Acerinox, S.A. and Columbus Stainless Ltd comply with the ratios required under the three contracts mentioned above.

10.2.4 Determination 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

Details at 31 December 2016 and 2015 are as follows:

(In thousands of Euros)

	2.016			2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets	12,330			10,382		
Financial derivatives (assets)		29,080			25,346	
TOTAL	12,330	29,080	0	10,382	25,346	0

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial derivatives (liabilities)		6,692			18,409	
TOTAL	0	6,692	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.

10.2.5 Available-for-sale financial assets

Available-for-sale financial assets total Euros 12,618 thousand at year end, of which Euros 12,330 thousand reflects Acerinox's investment in the Japanese Nisshin Steel Holding Co. Limited., which is listed on the Tokyo Stock Exchange.

The quotation value was JPY 1,441 per share at 31 December 2016 (JPY 1,289 per share at 2015 year end). Acerinox holds 1,052,600 shares in this company, representing a percentage ownership of 0.96% (0.96% in 2015). As Nisshin Steel holds a 15.49% interest in Acerinox, this is a strategic investment that Acerinox has no intention of selling. Nisshin Steel 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 has not purchased or sold any shares in Nisshin Steel Holding Co. Limited in 2016 or 2015.

In 2016 and 2015 the Group recognised the variation in the fair value of assets classified in this category in reserves. The revaluation amounted to Euros 1,948 thousand in 2016 (Euros 1,991 thousand in 2015).

Also in 2015, the Group company Acerinox Europa acquired a non-controlling interest of 7.36% in Fortia Energía, S.L., whose statutory activity is the acquisition of electricity on behalf of its shareholders, for Euros 275 thousand. The Group's Spanish factories can obtain more competitive electricity prices as a result of this investment.

10.2.6 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 financial instruments at fair value through profit or loss. Those that qualify as hedging instruments are classified as hedging derivatives and are recognised applying the measurement criteria defined in **note 2.9.5**.

Derivative financial instruments classified by category are as follows:

(In thousands of Euros)

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives	7,548	1,887	24,713	4,337
Derivatives at fair value through profit or loss	21,532	4,805	633	14,072
TOTAL	29,080	6,692	25,346	18,409

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

(In thousands of Euros)

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Exchange rate insurance	23,853	4,819	657	14,170
Interest rate swaps	26	1,873	37	4,239
Cross-currency swaps	5,201	0	24,652	
TOTAL	29,080	6,692	25,346	18,409

The reduction in cross currency swaps is mainly due to the early cancellation of the derivative financial instrument associated with the syndicated loan, as mentioned in note 10.2.3. 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. The cancellation cost recognised in profit and loss was Euros 957 thousand. This amount is shown 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 related to the settlement of balances in foreign currencies. The contracted operations mainly comprise forward sales and purchases in foreign currencies.

Derivatives of this nature do not always qualify for consideration as cash flow hedging financial instruments in accordance with IAS 39. At 31 December 2016 the effect of measuring these derivatives at market value was a positive Euros 29,988 thousand, which is recognised under remeasurement of financial instruments to fair value in the income statement (Euros -59,509 thousand in 2015).

At 31 December 2016 all exchange rate insurance contracts basically cover both receivables (assets) and payables (liabilities) and include both trade and financing transactions between Group companies. At 31 December 2016 the Group has exchange rate insurance totalling Euros 19,034 thousand (Euros -13,513 thousand in 2015), of which Euros 23,853 thousand is recognised under assets and Euros 4,819 thousand under liabilities. Only Euros 2,307 thousand of this amount qualifies for recognition as hedging instruments. In 2016 an amount of Euros -167 thousand was transferred from the consolidated statement of comprehensive income to profit and loss for the year (Euros -161 thousand in 2015).

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

At 31 December 2016 the Group has used contracts for foreign currency operations amounting to Euros 326 million for currency sales and Euros 426 million for currency purchases. The comparative figures at 31 December 2015 were Euros 252 thousand for sales and Euros 666 million for purchases. Details of these contracts by currency are as follows:

(In thousands of Euros)

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
USD	185,655	460,360	144,778	715,950
EUR	56,092	5,067	47,882	8,327
GBP	23,884	2	16,508	
SEK	27,587	1	30,450	
PLZ	1,052	0	1,459	
AUD	6,779	8	4,775	
NZD	274	0	594	
MYR	248,704	0	251,011	
JPY	0	241		4,187

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 2016 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
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

In 2016 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 is 3.55% (3.05% in 2015), while the average rate for Euro-denominated financing with an associated interest rate hedge is 3.83% (3.39% in 2015). The credit spread has been included in both cases.

Details at 31 December 2015 were as follows:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	EUR 30 million	EUR 30 million	2016
Variable to fixed rate	EUR 15 million	EUR 5 million	2016
Variable to fixed rate	EUR 10 million	EUR 3.33 million	2016
USD variable to EUR fixed rate	USD 385.6 million	USD 154.24 million	2017
Variable to fixed rate	EUR 400 million	EUR 96 million	2017
USD variable to USD fixed rate	USD 63 million	USD 29.64 million	2017
USD variable to EUR fixed rate	USD 160 million	USD 48.98 million	2018
Variable to fixed rate	EUR 76.13 million	EUR 40.31 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 Euros 3,354 thousand (Euros 20,450 thousand at 31 December 2015), which is recognised as follows:

	2016		2015	
	Current	Non-current	Current	Non-current
Other financial assets	2,697	2,529	15,314	9,375
Other financial liabilities	1,391	481	247	3,992
Net amount	**1,306**	**2,048**	**15,067**	**5,383**

At 31 December 2016 and 2015 the derivatives contracted qualify as cash flow hedges and therefore the unrealised gain of Euros -7,193 thousand on their measurement at fair value has been recorded in the consolidated statement of comprehensive income (Euros 15,323 thousand in 2015).

In 2016 an amount of Euros 12,656 thousand was transferred from the consolidated statement of comprehensive income to profit and loss for the year (Euros 8,251 thousand in 2015).

The Group has documented the effectiveness of the derivatives contracted for the purpose of applying hedge accounting, as detailed in **note 2.9.5**. Hedging transactions have been contracted for periods and amounts equivalent to the cash flows deriving from the associated loans. The financial instruments that are considered hedges were not ineffective at any point in 2015 or 2016.

NOTE 11 CASH AND CASH EQUIVALENTS

Details at 31 December are as follows:

(In thousands of Euros)

	2016	2015
Cash in hand and at banks	156,497	213,388
Current bank deposits	441,973	266,567
TOTAL	**598,470**	**479,955**

During the year the Group made term deposits in both Euros and US Dollars. The effective interest rate on current bank deposits is 0.80% for the Euro and 0.94% for the US Dollar (0.51% for the US Dollar and 0.30% for the Euro in 2015). At the reporting date 100% of all deposits have been made by the Group company North American Stainless (72% by North American Stainless and 27% by the Parent in 2015). Deposits are placed for an average term of between 90 days and one week with banks of recognised solvency In 2015 the Group companies generally invested their cash surpluses in deposits with an average term of between 45 days and one week.

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

Note 12 EQUITY

12.1 Subscribed capital and share premium

Movement of issued and outstanding shares in 2016 and 2015 is as follows:

(Expressed in thousands of Euros)

	Number of shares (thousand)	Ordinary shares (thousand)	Own shares (thousand)	Share capital (thousands of Euros)	Share premium (thousands of Euros)
Balance at 1 January 2015	261,702	261,702	0	65,426	81,403
Capital increase (scrip dividend)	5,005	5,005		1,251	
Acquisition of own shares			-1		
Disposal of own shares					
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

The Parent'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 2016 share capital is represented by 276,067,543 ordinary shares (266,707,393 in 2015) with a par value of Euros 0.25 each, subscribed and fully paid.

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

At 31 December 2016 the only holders of 10% or more of the share capital of Acerinox, S.A. are Alba Participaciones, S.A. with 18.96% in 2016 (19.62% in 2015) and Nisshin Steel Holding, Co. Ltd. with 15.49% (15.34% in 2015).

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. Following the shareholders' meeting, on 9 June the board of directors agreed to implement the capital increase by means of a flexible dividend, 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 (5,005,253 shares in 2015, also derived from the scrip dividend). These new shares were admitted to trading on 22 July 2016.

On 15 June 2015 the Parent 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 2016.

There has been no distribution of the share premium in 2016 or 2015.

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

12.2 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 approved a scrip dividend, for which a 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 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 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 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 capital increase.

On 6 July 2016 Acerinox, S.A. paid out Euros 26,744,990.8 to those shareholders who sold their rights to the Company.

The 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 2016. These new shares were admitted to trading on 22 July 2016.

For 2015, based on the agreements reached by the shareholders and the board of directors on 3 June 2015, those parties who were shareholders of Acerinox from 16 June to 23:59 hours on 25 June 2015 were to be allocated one right for each share held in the capital increase. The rights were traded on the stock exchange from 17 June to 1 July 2015 and entitled the shareholders to choose between the following options:

- Sell the rights to the Company for Euros 0.449 per right between 17 June and 25 June inclusive.

- Sell the rights on the stock exchange at the listed market price from 17 June to 1 July 2015 inclusive.

- Subscribe shares in Acerinox on the basis of one (1) new share for every thirty-one (31) rights allocated to them on 16 June 2015.

On 27 June 2015 the definitive amount of the dividend payable and the details of the capital increase were established, as follows:

- 106,539,278 rights were sold to Acerinox for Euros 0.449 per right, with the Company therefore paying out Euros 47,836,135.82 to its shareholders on 6 July 2015.

- 5,005,253 new shares were issued in the capital increase.

12.3 Reserves

a) Retained earnings

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

Details of reserves by company are included in **note 12.5**.

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 2016 Euros 23,569 thousand of the Group's reserves and retained earnings are subject to restrictions (Euros 21,460 thousand at 31 December 2015).

The 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 2016 the Company has appropriated Euros 12,465 thousand, an amount equivalent to 18.06% of its share capital, to this reserve (Euros 12,465 thousand and 18.69% of share capital in 2015).

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that 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 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.

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. **Note 10.2.5** includes a detailed description of instruments classified as available for sale and their value.

e) Actuarial valuation reserve

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

12.4 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 2016 and 2015 reporting dates are as follows:

(Expressed in thousands of Euros)

GROUP COMPANIES	2016	2015
ACERINOX (SCHWEIZ) A.G.	1,377	1,370
ACERINOX ARGENTINA S.A.	-4,808	-3,470
ACERINOX AUSTRALASIA PTY.LTD.	70	62
ACX DO BRASIL REPRESENTAÇOES, LTDA	-149	-200
ACERINOX CHILE S.A	429	14
ACERINOX COLOMBIA S.A.S	-47	-59
ACERINOX INDIA PVT LTD	-19	-20
ACERINOX MALAYSIA SDN. BHD	592	592
ACERINOX METAL SANAYII VE TICARET L.S.	-210	-114
ACERINOX MIDDLE EAST DMCC (DUBAI)	54	45
ACERINOX NORWAY A.S	0	-161
ACERINOX PACIFIC LTD.	-4,781	-4,816
ACERINOX POLSKA,SP Z.O.O	-2,273	-1,467
ACERINOX RUSSIA LLC.	-33	-84
ACERINOX SCANDINAVIA AB	-3,283	-2,249
ACERINOX S.C. MALAYSIA SDN. BHD	-1,921	-1,985
ACERINOX (SEA), PTE LTD.	107	198
ACERINOX SHANGAI CO., LTD.	1,131	3,028
ACERINOX U.K., LTD.	-5,769	-1,641
BAHRU STAINLESS, SDN. BHD	47,040	45,419
COLUMBUS STAINLESS INC.	-125,254	-150,412
CORPORACIÓN ACERINOX PERU S.A.C	-28	-1
NORTH AMERICAN STAINLESS CANADA, INC	9,535	7,714
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	6,720	5,843
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD	5	4
NORTH AMERICAN STAINLESS INC.	383,300	315,318
SUBTOTAL	301,785	212,928
ASSOCIATES	**2016**	**2015**
BETINOKS PASLANMAZ ÇELIK A.S.	-49	-49
SUBTOTAL	-49	-49
TOTAL	301,736	212,879

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

At 31 December 2016 and 2015 details of the contribution of each of the consolidated companies to reserves and consolidated profit are as follows:

(Expressed in thousands of Euros)

	2016				2015			
	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	556,516	-7,898			580,678	-19,385		
ACERINOX (SCHWEIZ) A.G.	1,193	-257			2,495	-394		
ACERINOX ARGENTINA S.A.	5,083	105			5,810	579		
ACERINOX AUSTRALASIA PTY. LTD.	5	-74			228	-223		
ACERINOX BENELUX S.A. - N.V.	257	22			104	152		
ACX DO BRASIL REPRESENTAÇOES, LTDA	65	-74			34	31		
ACERINOX CHILE, S.A.	-3,447	510			-3,166	-281		
ACERINOX COLOMBIA S.A.S	186	46			187	-1		
ACERINOX DEUTSCHLAND GMBH	-16,775	1,197			-18,424	1,650		
ACERINOX EUROPA S.A.U	-74,037	20,425			-79,828	5,791		
ACERINOX FRANCE S.A.S	-9,662	488			-10,034	372		
ACERINOX ITALIA S.R.L.	-15,562	-1,020			-13,016	454		
ACERINOX INDIA PVT LTD	174	-31			115	59		
ACERINOX MALAYSIA SDN. BHN	-5,338	0			-17,866	-24		
ACERINOX METAL SANAYII VE TICARET L.S.	519	151			106	412		
ACERINOX MIDDLE EAST DMCC (DUBAI)	188	-52			223	-36		
ACERINOX NORWAY A.S	0	0			905	-142		
ACERINOX PACIFIC LTD.	-21,501	398			-18,529	-2,972		
ACERINOX POLSKA, SP Z.O.O	392	756			154	238		
ACERINOX RUSSIA LLC.	178	8			61	117		
ACERINOX SCANDINAVIA AB	-2,590	1,009			-3,263	673		
ACERINOX S.C. MALAYSIA SDN. BHD	-34,303	-709			-20,303	-1,449		
ACERINOX SHANGAI CO., LTD.	198	2,073			137	1,119		
ACERINOX (SEA), PTE LTD.	-503	309			-318	-185		
ACERINOX U.K., LTD.	1,629	1,592			839	790		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	-2,586	-1,314			-2,759	173		
BAHRU STAINLESS, BDN. BHD	-110,454	-39,763	-19,100	34,003	-68,537	-41,897	-20,927	52,316
COLUMBUS STAINLESS (PTY) LTD.	70,949	18,416	6,090	55,906	57,021	13,928	4,368	41,871
CORPORACIÓN ACERINOX PERU S.A.C	-89	-50			-40	-49		
INOX RE, S.A.	25,891	983			24,458	1,434		
INOXCENTER CANARIAS S.A.U	1,388	59			1,208	180		
INOXCENTER, S.L.U	-21,868	6,602			-24,781	3,913		
INOXFIL S.A.	-1,067	39		12	-841	-227	-1	12
INOXIDABLES DE EUSKADI S.A.U	1,708	1,816			519	1,059		
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	1,269	117			1,204	65		
METALINOX BILBAO S.A.U	15,904	1,826			14,507	1,397		
NORTH AMERICAN STAINLESS CANADA, INC	13,042	4,027			10,563	2,480		
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	2,536	-419			3,178	-642		
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	-9,054	9,051			-8,015	8,013		
NORTH AMERICAN STAINLESS INC.	1,161,050	63,363			1,090,305	70,850		
ROLDAN S.A.	14,995	-3,407	-7	68	20,123	-5,131	-13	78
SUBTOTAL	1,546,479	80,320	-13,017	89,989	1,525,442	42,891	-16,573	94,277
ASSOCIATES								
BETINOKS PASLANMAZ ÇELIK A.S.	-264				-264	0		
SUBTOTAL	-264	0	0	0	-264	0	0	0
TOTAL	1,546,215	80,320	-13,017	89,989	1,525,178	42,891	-16,573	94,277

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 Metal One Corporation, which holds a 3% interest. Details of the assets of these two Group companies are as follows: Columbus's total assets amount to Euros 476 million (Euros 383 million in 2015), of which Euros 147 million is non-current (Euros 133 million in 2015). The assets of Bahru Stainless, Sdn. Bhd. amount to Euros 940 million (Euros 890 million in 2015), of which Euros 736 million is non-current (Euros 734 million in 2015). Neither of these companies distributed dividends in 2015 or 2016.

12.6 Application of loss and shareholder remuneration

The application of the loss for 2016 of the Parent, Acerinox, S.A., 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)	2016
Basis of allocation:	
Profit for the year	1,336
Application:	
Legal reserves	134
Prior years' losses	1,202

As regards shareholder remuneration, at the board of directors' meeting held on 21 December it was resolved to make a single payment in July in the manner and for the amount determined by the shareholders at their annual general meeting.

The application of loss for the year ended 31 December 2015 was approved by the shareholders at their general meeting on 9 June 2016. The losses for 2015, amounting to Euros 20,531, were carried forward as prior years' losses.

12.7 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent 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)	2016	2015
Profit attributable to the Group	80,320	42,891
Weighted average number of ordinary shares outstanding	270,895,787	263,964,789
Earnings per share (in Euros)	0.30	0.16

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 13 DEFERRED INCOME

Movement in deferred income, comprising non-refundable government grants, which include emission allowances received free of charge (see **note 9.1**) and other capital grants, is as follows:

(Expressed in thousands of Euros)	2016	2015
Balance at 1 January	7,513	6,430
Grants awarded	3,815	4,352
Transfer to the income statement	-3,530	-3,269
Translation differences	0	0
Balance at 31 December	7,798	7,513

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 (see **note 9.1**).

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 14 PROVISIONS AND CONTINGENCIES

Details of non-current provisions included in the balance sheets for 2016 and 2015 are as follows:

(Expressed in thousands of Euros)

	2016	2015
Employee benefits	12,686	10,509
Other provisions	2,789	3,189
TOTAL	15,475	13,698

14.1 Employee benefits

14.1.1 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 Euros 8,047 thousand has been recognised for the year under personnel expenses in the consolidated income statement in respect of such plans (Euros 8,157 thousand in 2015).

14.1.2 Defined benefit plans

Details of provisions for employee benefits by type of commitment are as follows:

(Expressed in thousands of Euros)

	2016	2015
Pension plans	2,775	2,497
Early retirement benefits	361	344
Supplements	654	620
Post-employment benefits	8,896	7,048
TOTAL	12,686	10,509

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.

Post-employment obligations reflect post-retirement medical care plans provided by certain Group companies 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 in 2015. The assumptions made were as follows: discount rate of 9% (8.8% according to the previous valuation performed in 2013) and 7% inflation of medical services (6.9% in the prior valuation). The opening balance for the period reconciles with the closing balance as follows:

(Expressed in thousands of Euros)

	2016	2015
Balance at 1st January	7,048	8,084
Contributions paid	-298	-214
Service cost recognised in the income statement	199	168
Interest cost	730	589
Actuarial loss recognised in comprehensive income		-188
Translation differences	1,217	-1,391
Balance at 31 December	8,896	7,048

14.2 Other provisions

Movement in 2016 is as follows:

(Expressed in thousands of Euros)

	CO2	Litigation	Other provisions	Total
Balance at 31 December 2015	1,937	295	957	3,189
Charge to provision	2,009	212	0	2,221
Application	-1,942	0	0	-1,942
Reversal		-120	-549	-669
Translation differences			-10	-10
Balance at 31 December 2016	2,004	387	398	2,789

CO2

These are provisions for CO2 emissions during the year for which the emission allowances have not yet been surrendered (see **note 9.1**).

Applications for the year are mainly due to the derecognition of emission allowances for 2016 totalling Euros 1,943 thousand (Euros 1,824 thousand in 2015) (see **note 9.1**).

Litigation

Litigation includes legal actions for immaterial amounts with the Port Authority of Algeciras and Électricité de France.

In 2016 a balance of Euros 168 thousand was recognised due to a claim received from CDTI to repay a portion of the 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.

Additionally, Euros 120 thousand was released from a provision for the employee claims of one Group company, since an agreement was reached in the negotiations.

Other provisions

Other provisions reflect Inoxcenter, S.L.U.'s estimate of the probable obligations totalling Euros 386 thousand arising from the workforce restructuring plan implemented in 2013 pursuant to Royal Decree-Law 5/2013. There has been no movement in this provision during the year.

In 2015 a provision of Euros 545 thousand was made, since the validations of the environmental deductions applied to income tax from 2012 to 2014 were rejected by the Regional Government of Andalusia. The Company has already adjusted these deductions in the income tax return for 2015 filed this year and, accordingly, has released the provision.

14.3 Guarantees provided

At 31 December 2016 the Group has provided guarantees to third parties, mainly government bodies, totalling Euros 18 million (Euros 31 million in 2015). This amount includes the guarantee provided to the Italian taxation authorities as a result of the assessments arising from the inspection, as explained in note 17.5, which were reduced by Euros 6.5 million in 2016 as a result of the approval of the amicable settlement explained in that note. Group management does not expect any significant liabilities to arise from these guarantees.

14.4 Contingencies

In addition to the tax contingencies discussed in note 17.5, in 2016 Gas Natural Comercializadora, S.A requested 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 Euros 8.2 million. 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.

NOTE 15 INCOME AND EXPENSES

15.1 Revenue

Details of revenue in 2016 and 2015 are as follows:

(Expressed in thousands of Euros)

	2016	2015
Sale of goods	3,962,292	4,211,615
Services rendered	5,851	9,811
Self-constructed assets	6,927	18,888
Operating lease income	439	217
Gains on disposal of fixed assets	3,239	517
Income from grants and subsidies	504	302
Income from emission allowances	3,026	2,967
Other income	6,357	9,014
TOTAL	3,988,635	4,253,331

15.2 Personnel expenses

Details of personnel expenses in 2016 and 2015 are as follows:

(Expressed in thousands of Euros)

	2016	2015
Salaries and wages	284,892	281,304
Social Security	69,148	67,216
Contributions to employee benefit plans	8,047	8,157
Termination benefits	431	645
Change in the provision for employee benefits	909	932
Other personnel expenses	11,501	9,922
TOTAL	374,928	368,176

The average headcount in 2016 and 2015, distributed by category, is as follows:

	2016	2015
University graduates	801	789
Administrative staff	901	900
Manual workers	5,082	5,080
TOTAL	6,784	6,769

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

		2016	2015
Board members	Male	11	14
	Female	2	1
Senior management personnel	Male	4	4
	Female	0	0
University graduates	Male	575	572
	Female	221	216
Administrative staff	Male	499	495
	Female	404	396
Manual workers	Male	4,932	4,908
	Female	161	150
TOTAL		6,809	6,756

This figure includes 224 employees that have taken partial retirement (235 in 2015).

At 31 December 2016 the number of employees in Spain with a disability of at least 33% is 57 (53 male and 4 female) (52 in 2015; 48 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.

15.3 Other operating expenses

Details are as follows:

(Expressed in thousands of Euros)

	2016	2015
Rentals	8,388	9,324
Trading costs	172,831	162,356
Utilities	202,416	222,266
Maintenance	56,956	53,830
External services	75,352	72,807
Insurance	14,109	14,584
Other operating expenses	31,133	29,162
Taxes other than income tax	17,935	15,376
Losses on disposal of fixed assets	516	332
Impairment of fixed assets	570	200
Other extraordinary expenses	724	215
TOTAL	580,930	580,452

Other operating expenses include Euros 3,833 thousand in bank fees and securities depository fees (Euros 3,745 thousand in 2015).

NOTE 16 NET FINANCE COST

Details of the net finance cost are as follows:

(Datos en miles de euros)

	2016	2015
Interest and other finance income	6,017	3,869
Income from dividends	232	423
Gain on remeasurement of financial instruments to fair value (exchange rate insurance)	30,742	888
Reversal of impairment of investments	3	
Exchange gains	0	62,400
TOTAL FINANCE INCOME	**36,994**	**67,580**
Interest expense and other finance costs	-42,136	-51,175
Loss on remeasurement of financial instruments to fair value (exchange rate insurance)	-754	-60,397
Loss on hedging instruments	-957	
Loss on liquidation of investments in consolidated companies	-290	
Exchange losses	-22,424	0
TOTAL FINANCE COSTS	**-66,561**	**-111,572**
NET FINANCE COST	**-29,567**	**-43,992**

NOTE 17 TAXATION

17.1 Legislative amendments

Spain

On 2 December a new suite of tax measures aimed at shoring up public finances was approved in Spain. Among the tax measures approved, the measures that could 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 Euros 60 million, from the 60% in force for 2016 (70% from 2017 onwards) to 25% of the taxable income earned in the year. Since the Group has capitalised tax credits in Spain, this measure increases the periods in which they can be recovered. Note 17.3 analyses the recoverability of the Group's tax credits.

- Also, from 1 January 2016 onwards, the impairment of investments in Group companies recognised for tax purposes prior to 2013 and not yet offset at that date will be reversed in a maximum of five years. The amount to be reversed is the greater of the profit earned by these companies in the tax period and one fifth of the amount not yet reversed. Although the Group has deducted impairment for tax purposes, this impairment is not impairment for accounting purposes and, therefore, the related deferred tax liabilities have already been recognised. Impairment on investments accounted for by the Parent were not tax deductible. Impairment on investments pending reversal by the Group at 1 January 2016 amounted to Euros 64,634 thousand. During the year the Company has reversed an amount of Euros 13,977 thousand, and therefore the balance pending reversal at the reporting date is Euros 50,657 thousand, to be reversed within the next four years.

- A limit is 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 connection. 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 11 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 2016 and 2015 the following tax rates applicable to certain Group companies were amended pursuant to local legislation:

- In Malaysia the tax rate decreased from the 25% applicable in 2015 to 24% applicable for years beginning on or after 1 January 2016. This rate reduction did not have an impact on the financial statements of the Group companies in this country since they did not have any deferred tax assets recognised.

- In Italy the tax rate decreased from 27.5% to 24%, applicable from 2016 onwards. The Group reduced the tax credits recognised in this country, which entailed a higher tax expense of Euros 1,305 thousand.

- In the UK progressive modifications have been made to the income tax rate. The applicable rate will be 20% from 1 April 2016 onwards, 19% from 2017 and 17% in 2021. The Group has deferred tax assets and liabilities in this country, which it recognised at 17%. The impact on income for the year was Euros 54 thousand.

- In Chile a progressive increase in tax rates has been applied, from 17% in 2013 to 27% from 2018 onwards. The applicable rate in 2015 was 22.5% and in 2016 it will be 24%.

17.2 Income tax expense

Details of the tax expense are as follows:

(Expressed in thousands of Euros)

	2016	2015
Current tax	57,212	51,474
Deferred tax	-187	-5,885
Total income tax	**57,025**	**45,589**

In 2016 the Parent received dividends from some of its foreign subsidiaries amounting to Euros 15.3 million (Euros 13.8 million in 2015). Under the corresponding double taxation conventions, some of these dividends were subject to withholdings at source amounting to Euros 1,177 thousand (Euros 826 thousand in 2015), which have been recognised under other taxes in the income statement. This account also reflects other withholdings 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)

	2016		2015	
Net profit for the year		**80,320**		**42,891**
Non-controlling interests		-13,017		-16,573
Income tax		57,025		45,589
Other taxes		3,541		4,989
Profit before tax		**127,869**		**76,896**
Income tax at the local tax rate	25.00%	31,967	28.00%	21,531
Effects on tax payable:				
Effect of tax rates of foreign operations		9,592		7,081
Non-deductible expenses		7,548		7,279
Tax incentives not recognised in the income statement		-10,046		-12,190
Non-taxable income		-627		-359
Prior year adjustments		1,056		484
Adjustment of tax rates, deferred taxes		2,505		1,008
Unrecognised tax credits and impairment		14,723		18,865
Other		307		1,890
Total income tax		**57,025**		**45,589**

The tax rate resulting from the Group's consolidated income statement for 2016 was 47% (66% in 2015). This is explained by the combined effect of a higher contribution made to Group profits by the US company North American Stainless, which is taxed at a rate of 35%, and losses of Euros 59 million (Euros 77 million in 2015) at certain companies whose tax credits have not been capitalised. Additionally, tax credits amounting to Euros 1 million (Euros 2.8 million in 2015) have been derecognised in the year, either due to expiry before it was possible to offset them, or because there was no evidence that they could be recovered within a reasonable period, meaning that they should not be carried forward in the accounts. In addition, the lower tax rates in Italy and the UK also contributed to increasing the tax expense by Euros 1,360 thousand. On the contrary, the Group company North American Stainless saw the rates applied to its deferred tax liabilities rise, and recognised an expense of Euros 1,145 thousand.

17.3 Deferred tax

Movement in deferred tax assets and liabilities is as follows:

(Expressed in thousands of Euros)

	2016		2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Balance at 1 January	188,891	227,167	192,130	213,285
Expense/income for the period	-8,575	-8,762	-9,103	-14,988
Taxes recognised directly in equity	-1,312	487	-1,715	550
Exchange rate fluctuations	-228	8,952	260	20,791
Transfers	543	543	7,521	7,521
Other changes	-545	-112	-202	8
Balance at 31 December	178,774	228,275	188,891	227,167

Other changes reflect the reduction of the environmental deductions applied from 2012 to 2014 that were rejected by the Regional Government of Andalusia in 2015. The provision recognised by the Group in the previous year was applied this year due to the Company's adjustment of the available deductions in this regard in its income tax settlement, as explained in **note 14.2**.

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

(Expressed in thousands of Euros)

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Goodwill	0	0	-8,344	-7,731	-8,344	-7,731
Property, plant and equipment	5,225	5,880	-245,904	-254,055	-240,679	-248,175
Financial assets	1,574	1,574	-13,886	-16,886	-12,312	-15,312
Inventories	3,251	-525	-536	45	2,715	-480
Other assets	14	14	-291	-166	-277	-152
Provisions	8,039	6,262	-12,213	-11,673	-4,174	-5,411
Employee benefit plans	4,123	3,671	1,051	936	5,174	4,607
Financial liabilities	328	1,732	-2	12	326	1,744
Other liabilities	0	0	-35	11	-35	11
Non-deductible finance costs	29,300	29,922			29,300	29,922
Other tax deductions	29,280	29,856			29,280	29,856
Unused tax losses	149,525	172,845			149,525	172,845
Deferred tax assets/liabilities	230,659	251,231	-280,160	-289,507	-49,501	-38,276
Offsetting of deferred tax assets and liabilities	-51,885	-62,340	51,885	62,340		
Deferred tax assets/liabilities	178,774	188,891	-228,275	-227,167	-49,501	-38,276

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.

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

The Group has unrecognised assets of Euros 7.5 million arising from temporary differences relating to accounting impairment which is not tax-deductible.

At 31 December 2016 and 2015, the Group has tax credits available as follows:

(Expressed in thousands of Euros)

Availability limit	2016	2015
1 to 5 years	446	549
6 to 10 years	0	262
11 to 15 years	4,226	5,670
16 to 20 years	0	0
No prescription date	144,853	166,364
TOTAL	149,525	172,845

The Group also has uncapitalised tax credits in respect of certain Group companies' tax losses of Euros 274 million (uncapitalised tax credits of Euros 60,477 thousand in 2015), 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.

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 Malaysian Ringgit 1,811 million (Euros 383 million). 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 similar to those extended to Bahru Stainless, for investments in assets that contribute to recycling. These credits are deducted from the calculation of the Kentucky state tax and amount to Euros 539 million. The company used Euros 2,297 thousand in 2015 and expects to use Euros 2,284 thousand in the income tax return for 2016. The Group has capitalised tax credits in this connection amounting to Euros 15.1 million, which is the amount expected to be recovered within approximately five years.

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 that has capitalised tax assets in order to determine their recoverability. 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. Based on these criteria, the directors consider that, in spite of the new limits introduced in Spain, all capitalised tax credits are still likely to be recovered through future taxable income, in a reasonable period of approximately 10 years and in no case exceeding that permitted by the corresponding local authorities in each country. The tax credits capitalised were the result of the crisis years and the Group has been reducing these credits since 2013.

The estimates of results made by the Group reflect financial and macroeconomic circumstances as well as the stainless steel market. Key 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. These budgets are approved by Group management.

17.4 Current tax

At 31 December 2016 the Group has a current tax asset of Euros 12,254 thousand (Euros 17,394 thousand in 2015) and a current tax liability of Euros 3,418 thousand (Euros 1,092 thousand in 2015).

17.5 Tax inspections and years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or until the inspection period has elapsed.

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 2016 and 2015 Acerinox, S.A. and the companies in the consolidated tax group have open to inspection by the taxation authorities all the main applicable taxes for the following years:

Tipo de impuesto	2016	2015
Income tax	2008 to 2015	2008 to 2014
Value added tax	2013 to 2016	2012 to 2015
Customs duties	2013 and 2016	2012 and 2015
Personal income tax	2013 to 2016	2012 to 2015

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

The situation with regard to tax inspections underway or for which appeals are open at the end of 2016 is as follows:

Portugal

In 2011 a tax inspection of 2007 and 2008 took place at the Group company Acerol Ltda. in Portugal. This inspection gave rise to a transfer pricing adjustment for sale and purchase transactions between Acerol, Ltda and the Group's plants, primarily Acerinox, S.A. and Roldán, S.A. The adjustment to taxable income amounted to Euros 10 million. However, as the subsidiary had tax losses of Euros 6.7 million pending offset, the amount paid totalled Euros 708 thousand, including interest of Euros 32 thousand. 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, requesting the elimination of double taxation arising from the tax assessments issued in Portugal.

On 28 December, the affected Spanish companies received the notifications relating to the agreement reached between the Spanish and Portuguese authorities that ended the mutual agreement procedure. On 17 January 2017 the same agreement was received by the Portuguese company. This agreement entails the Spanish and Portuguese authorities accepting the complete elimination of the double taxation. This means that the adjustment made by the competent Portuguese authority to Acerol will be reduced to Euros 4 million for 2007 and Euros 720 thousand for 2008 and that the competent Spanish authorities will make a correlative adjustment of the same amount to the various Spanish Group companies affected. The Group recognised the refundable amounts in Spain and Portugal, which amount to Euros 1.3 million, in addition to an increase in tax credits amounting to Euros 179 thousand. The Group has already sent the letters stating its agreement and, therefore, it expects to be sent the related corrections in 2017.

South Africa

On 24 June 2014 notice was received of the initiation of a tax inspection of 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 Euros 32 million. These adjustments did not result in any payable amounts in South Africa, as the company has carried forward tax losses which exceed the amount of the assessment. The assessments did not impose any penalties. 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.

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 conflict 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 proceedings was highly satisfactory to the company, since on 7 February 2017 it received notification from the South African tax authorities that the elimination of all the adjustments proposed for 2010 had been accepted. In addition, the notification approves the transfer pricing policy followed by the Group. The company expects that these agreements reached for 2010 will also extend to 2011 and 2012.

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 sales and purchases with Group factories. The resulting payable tax assessment amounted to Euros 16 million, plus Euros 3.5 million in interest. No penalties were imposed. 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 of Euros 7.9 million. On 9 December 2013 the Group applied to the Spanish and Italian authorities for the elimination of double taxation pursuant to Convention 90/436/EEC of 23 July 1990. As most of these transactions are with companies resident in Spain (Acerinox, S.A. and Roldán, S.A.), any adjustment relating to transfer prices is protected by Convention 90/436/EEC on the elimination of double taxation in connection with the adjustment of profits of associated enterprises. 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 neutralised by a counter-adjustment in the other member state. Although the financial effect of the time that elapses until completion of the proceedings is not specifically covered by the Convention, when the Spanish authorities record an adjustment in favour of the taxpayer, this either includes accrued interest or another method is used to ensure that the financial effect does not entail a charge for the taxpayer. The Spanish Directorate-General for Taxation and the Italian authorities have confirmed their acceptance of the initiation of the procedure. This should therefore be concluded within approximately two years from the date of acceptance, although the period is often longer.

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. Initiation of the mutual agreement procedure allows the company to reduce the bank guarantees provided, which it did in 2016, as explained in note 14.3.

With regard to transfer pricing adjustments, the company considers it unlikely that the final amount of the obligation will be that shown in the assessments and it is difficult to calculate the definitive amount as the inspectors have failed to take into account numerous arguments based on both OECD transfer pricing regulations and Italian (and Spanish) law.

On 23 March 2014 the company was notified of the ruling in its favour, in relation to the assessment of transfer prices for 2004. The Spanish taxation authorities were also notified of the ruling and filed no submissions. The proceedings were therefore considered to be completed, with a ruling in favour of the company. The corrections required by this tax assessment include adjustments to the transfer prices applied in transactions between Acerinox Italia and the Spanish Group company Roldán, S.A. The amount recognised in income in 2014 totalled Euros 1 million. The company expects the same criteria and arguments that led the courts to find in its favour in those cases to be applicable to the assessments for 2007, 2008 and 2009.

Based on the information available to date, although this company could be required by the Italian taxation authorities to adjust certain amounts, it considers that it would be difficult to determine the amounts of these adjustments. At the reporting date and the date of presentation of these annual accounts, the adjustments derived from the inspection in Italy are therefore considered a contingent liability in that company, which in any case would be offset in the consolidated annual accounts.

In addition to the transfer pricing adjustments for 2007, 2008 and 2009, the assessment contained less significant adjustments for 2006 to 2009 reflecting the consideration of the interest on a loan received by the company from a Group company registered in Switzerland as non-deductible, as well as applying withholdings which the company had not applied, as permitted by the Double Tax Treaty between Italy and Switzerland. The company also filed submissions in relation to these matters. The Provincial Court of Milan rejected the company's claim in relation to interest for 2006 and 2008. The maximum risk of these adjustments amounted to Euros 1.6 million (including interest). The company eventually decided to settle with the Italian authorities for Euros 336 thousand, which was included as a tax expense in the income statement for the year. As a result of this agreement, all the lawsuits filed against the Italian taxation authorities were resolved, leaving only the transfer pricing adjustments, which will largely depend on any future agreements reached between Italy and Spain.

In respect of 2016, based on the request received in October from the Italian authorities, the company filed the transfer pricing documentation for 2011. On 28 December 2016, with no prior notification of the commencement of tax inspections, the company received an assessment of transfer prices giving rise to adjustments to the tax base of Euros 4.3 million and an amount payable of Euros 1.5 million, plus interest. No penalties were imposed. The company expects to follow the same procedure as with the assessments for prior years, within the periods established by law.

Germany

As regards the inspections of taxes for 2007, 2008, 2009 and 2010 initiated in 2011 at the Group subsidiary Acerinox Deutschland, GmbH, the assessments of the income tax, solidarity surcharge and VAT for 2007 to 2010 were received on 8 July 2014. The assessments mostly indicate transfer pricing adjustments to the tax base for sales and purchases between the subsidiary and the Group's factories. No penalties were imposed. The company filed the pertinent submissions on 8 August 2014.

The amount payable in Germany was Euros 384 thousand for the VAT assessments, Euros 2,804 thousand for income tax plus the solidarity surcharge and Euros 489 thousand in interest. These amounts were paid in 2014. In the event that the ruling on the objections submitted is in favour of the company, the German authorities will be required to repay these amounts, plus interest of 6%.

As is the case with Italy, as most of these transactions are with the companies resident in Spain, any adjustment relating to transfer prices is protected by Convention 90/436/EEC on the elimination of double taxation in connection with the adjustment of profits of associated enterprises. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union. Following negotiations between the Spanish and German taxation authorities, or an arbitrator's ruling if necessary, this initial adjustment, or whichever adjustment is agreed, will therefore be neutralised by a counter-adjustment in the other member state.

The company has submitted a request for elimination of double taxation in both Spain and Germany and has received confirmation from the taxation authorities of the both countries of their acceptance.

On 29 November 2016 it was notified of the commencement of inspections for 2011 to 2014. The inspections will begin in March 2017.

Malaysia

On 24 and 28 December 2014, notice was received of the start of an inspection of taxes for 2010 and 2011 of the Group company Bahru Stainless Sdn. Bhd. 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.

In addition, on 20 January 2015 notification was received of the commencement of an inspection of 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.

Spain

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. Agreements to enforce the rulings were received on 27 April 2016, for amounts of Euros 925 thousand in the case of antidumping (this amount was 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. Euros 61 thousand relating to guarantee expenses were also recovered.

On 15 April 2015 the Group was notified of the commencement of an inspection of its import duties and VAT for 2013. The inspection was completed on 27 October 2015. The Company did not accept the assessment with regard to the external tariff in an amount of Euros 24 thousand plus interest or that concerning VAT on imports amounting to Euros 182 thousand. Both amounts were paid. The tax payment arose from the inclusion by the Spanish taxation authorities of services relating to the installation and assembly of machinery imported from Japan as an increase in the value of the imported goods for customs purposes.

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. 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.

Poland

On 2 December 2016 notification was received of the commencement of tax inspections at the Group company Polska Sp. z o.o. for the income tax for 2015. The inspections are currently underway.

NOTE 18 RELATED PARTY BALANCES AND TRANSACTIONS

18.1 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 boards 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.

18.2 Related party balances and transactions

All transactions between related parties are carried out at arm's length, and are listed below.

a) Associates

No transactions were carried out with associates in 2016 or 2015.

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 Euros 1,531 thousand. Euros 977 thousand of this amount reflects salaries, Euros 84 thousand comprises allowances and Euros 470 thousand is variable remuneration relating to profit for 2015. In 2015, the four senior management personnel received Euros 2,054 thousand, of which Euros 1,055 thousand reflected salaries, Euros 102 thousand comprised allowances and Euros 897 thousand was variable remuneration relating to profit for 2015. The difference in salaries is due to the replacement of a member of senior management.

In 2016 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 Euros 2,080 thousand in fixed remuneration for attending board meetings and fixed and variable salaries (the latter based on the results from the prior year), of which Euros 1,309 thousand reflect salaries and fixed board member remuneration, Euros 383 thousand comprises allowances and Euros 388 thousand is variable remuneration relating to results from the prior year. In 2015 the remuneration received totalled Euros 2,387 thousand, of which Euros 1,356 thousand reflected salaries and fixed remuneration, Euros 381 thousand comprised allowances and Euros 650 thousand was variable remuneration relating to results from the prior year.

Commitments with all senior management, totalling Euros 1,040 thousand in 2016, have been accounted for correctly and are adequately covered through insurance contracts (Euros 1,555 thousand in 2015). No commitments have been contracted with directors representing shareholders or independent directors of Acerinox, S.A. At 31 December 2016 no advances or loans have been extended 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.

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 market conditions:

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

In 2015 the Group arranged the following financing transactions with Banca March, all of which were under market conditions:

- Credit facilities up to a limit of Euros 4 million, of which Euros 0 million had been drawn down.
- Guarantees up to a limit of Euros 0.06 million, of which Euros 0.06 million had been drawn down.
- Reverse factoring facilities for Euros 16 million, of which Euros 14.01 million had been drawn down.
- Non-current loan of Euros 30 million, which had been drawn down in full.
- Factoring facilities for Euros 70 million, of which Euros 15.99 million had been drawn down.

Details of the Group's transactions with Banca March in 2016 and 2015 are as follows:

(Expressed in thousands of Euros)

	2016	2015
Interest	420	863
Commissions	91	52
TOTAL	511	915

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

Insurance premiums and other transactions totalling Euros 11,564 thousand (Euros 8,967 thousand in 2015) have been brokered 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 or other companies belonging to its Group:

(Expressed in thousands of Euros)

	2016	2015
Dividends	228	422
Finance costs	20	33
Sales of goods	1,264	1,232
Trade and other receivables	440	347
Services rendered	1,244	731

NOTE 19 AUDIT FEES

Details of fees and expenses accrued by KPMG Auditores S.L. (principal auditor) and associate firms for services provided to the consolidated companies are as follows:

(Expressed in thousands of Euros)

2016	KPMG Auditores, S.L.	KPMG International	TOTAL
Audit services	344	465	809
Tax advisory services		636	636
Other services	67	45	112
TOTAL	411	1,146	1,557

2015	KPMG Auditores, S.L.	KPMG International	TOTAL
Audit services	335	464	799
Tax advisory services		581	581
Other services	60	79	139
TOTAL	395	1,124	1,519

The amounts detailed in the above table include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

Other audit firms invoiced the Group fees and expenses for audit services amounting to Euros 72 thousand in 2016 (Euros 88 thousand for audit services in 2015).

NOTE 20 EVENTS AFTER THE REPORTING PERIOD

The following significant events occurred between the reporting date and the date of authorisation for issue of these annual accounts:

- On 2 February the US government ratified the anti-dumping measures approved provisionally in 2016 against several stainless steel manufacturers from the People's Republic of China.

- NAS has begun to use its new machinery in its steel-rolling activity. In 2015 the board of directors of Acerinox S.A. authorised new investments to be made at the Group's factory in Ghent (Kentucky, USA) to increase NAS's production capacity in respect of 2B and BA cold-rolled coils. The first tests have been carried out in February and it is expected that the quantity and quality of production will normalise during the first half of the year.


BAHRU STAINLESS

ACERINOX

Sustainability Report

1. Salaries and Taxes paid in countries where the Group manufactures

Acerinox contributes to society in the best way a company can: by creating stable, well-paid jobs, generating profits for its shareholders and helping to uphold the Welfare State with our taxes.

The Group's companies and their governance bodies consider that contributions to the Public Treasury and to the different prevention and social protection systems are an important foundation of social development and progress.

Collaboration, through the payment of taxes, in the maintenance of public services in the countries where the company is located helps consolidate a basis of stability over which the proper development and growth capacity of the company may flourish.

Acerinox plants are often one of the main economic generators in the communities that welcome them and both the salaries earned by the employees and the income received by the government are essential for the area as a whole.

In 2016, Acerinox paid €284,891,999 in salary to its 6,573 employees around the world, a figure slightly higher than the previous year.

Its contributions to various social security regimes last year was €69,148,079.

Payment of salaries and Social Security contributions of the Acerinox Group

	Salaries / €	Social Security / €
Spain	128,295,265	38,233,678
Europe	10,054,498	2,411,416
Asia	8,074,070	751,051
Africa	41,737,753	3,270,742
America	96,569,421	24,491,192
Oceania	160,992	0
TOTAL / €	**284,891,999**	**69,148,079**

In the 2016 financial year, the Group paid a total of €143,488,873 in taxes in the five continents where it operates production facilities, as well as in Spain, where its tax base is located.

Tax payments by continent				
	Corporation Tax	Income Tax	Other	TOTAL
Spain	-2,553,995	28,270,841	6,486,573	**32,203,419**
Europe	607,936	1,860,687	1,502,319	**3,970,942**
Asia	270,775	787,130	1,131,851	**2,189,756**
Africa	0	10,974,373	1,193,735	**12,168,108**
America	53,331,404	26,030,928	13,543,578	**92,905,910**
Oceania	0	32,769	17,969	**50,738**
TOTAL / €	**51,656,120**	**67,956,728**	**23,876,025**	**143,488,873**

Acerinox adheres to the Code of Good Tax Practices and all of the Group's companies located in territories which are considered tax havens are exclusively devoted to the commercialisation of stainless steel.

As stated in its General Tax Policy, the Group is committed to complying with its tax and Social Security obligations without resorting to artifices which are not based on reasonable industrial, commercial and financial operations, collaborating actively with public authorities when so required.

Thus, the company's sales offices located in Dubai, Singapore, Hong Kong and Switzerland are strictly involved in the buying and selling of stainless steel, and do not carry out any financial activity whatsoever, deliberately avoiding structures of greater complexity.

Lorry with trailer made of stainless steel.

The Group operates according to the basic principles of creating value and distributing the wealth generated among our shareholders, clients, employees, suppliers and society at large.

In 2016, the Board of Directors approved the General Tax Policy, which provides the guidelines for the Group's tax practices, which are considered to be those expressed below and whose functioning will be adapted accordingly:

a) When a company has its headquarters in a country considered to be a tax haven, it will follow industrial or commercial strategies and there will not be an improper flow of capital towards these companies.

b) The operations performed by the Group and the structures it employs may seek out legal tax mitigation but may not entail artificial creations that tend towards modifying the place of performance of taxable transactions without a commercial or corporate reason that justifies this.

c) In the case of operations of particular complexity or those which could cast doubt, or simply when their relevance deems it necessary, expert legal advice shall be sought, and the tax authorities shall be consulted, where applicable and when possible.

d) If there were no opportunity to make such a consultation, or if it were impossible for any other reason, the Board of Directors may recommend paying the relevant tax in the most prudent manner possible, notwithstanding the possibility of challenging that payment at a later date.

e) The Group and its companies will draw the necessary conclusions from administrative proceedings to which they are party and from the experience of other companies in similar situations.

f) The conduct of the Group in the definition of conveyance pricing and the implementation of the system shall be guided by the support and advice of top level experts.

g) Payments made or received by the Group shall be duly documented and appear in banking records.

h) Acerinox and its companies will cooperate with the various tax authorities in the detection of illegal practices on the part of third parties and in the implementation of credit embargoes in favour of public authorities.

Ham stand made of stainless steel .

2. Environmental Indicators

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 the quality of the products it manufactures and the least variation possible in the environment after the manufacturing process. Sustainability is essential to provide the economic measures that can ensure the production process respects both the environment and society at large. The Group is globally involved in fundamental activities such as climate change projects and, at industry and European level, it collaborates in Environmental Product Declarations.

Zero Emissions Target

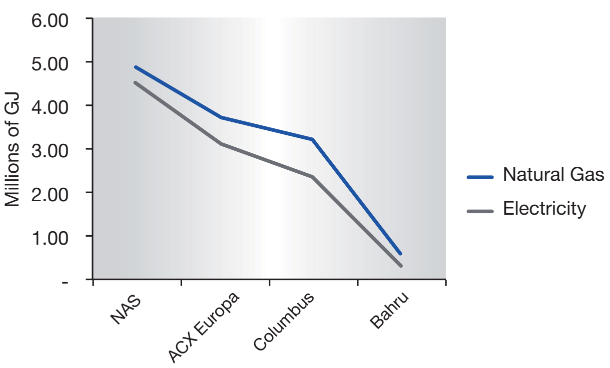
Although emissions are inevitably higher among industries than in other activity sectors, the European steel industry is the industrial sector which has, proportionately, reduced its emissions the most.

The company has long formulated its environmental policy around the ZET, or Zero Emissions Target, whose aim is to reduce all emissions as far as possible, both in absolute terms and in relative or specific terms. The ZET is a constant battle which stems from the Company's own initiative, not from a regulatory imperative.

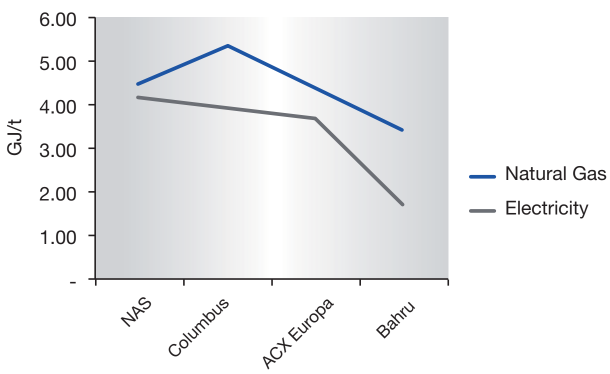
2.1 Energy

The stainless steel manufacturing process involves an intensive use of energy and so one of the main objectives of the Environmental Management System (EMS) is to monitor this resource. The EMS conducts environmental management programmes annually focused on energy efficiency activities, which result in lower energy consumption. The table below lists the internal energy consumption and energy intensity in 2016:

INTERNAL ENERGY CONSUPTIOM



ENERGY INTENSITY



Despite its efforts, this year energy consumption was higher than in 2015, due to more production.

The company's environmental policy is proactive, transparent and with a spirit of improvement. It shows its commitment to sustainability and, therefore, to the continual assessment of the environmental impact generated by its activities. Proof of this attitude is found in the balance it strikes between the quality of the products it manufactures and the minimal variation of the environment after the manufacturing process. The Group studies, among other areas, more efficient ways of managing energy and creates programmes aimed at reducing energy use.

2.2 Environmental expenses and investments

The fours mills makes significant investments of an environmental nature in order to reduce its risks in this area, leading the way in terms of its manufacturing facilities with minimal or zero environmental impact and complying rigorously with the regulations and guidelines in the fields in which it operates. Every year, in its industrial installations and manufacturing units, significant investments are made in environmental management in order to achieve all of the objectives set and to monitor all environmental management in an integrated way.

In 2016, the Acerinox Group invested € 47,994,226 in the environment, an increase in such investments compared with the previous year. These environmental investments include:

Acerinox:

- Improvements to the temporary waste storage area
- Noise protection screens
- Improvements to melting shop flue gas scrubbers
- Modification of the pickling systems in the cold rolling shop
- Assembly of a new AP-5 annealing and pickling line

NAS:

- Improvements in water treatment
- Improvements in the PLC
- Improvement in the lime depositary

Columbus:

- Improvement in the hazardous waste storage

Bahru:

- Design and delivery of the pipework of the holding pond
- New dam wall in the holding pond
- Design, delivery and control of the water pumping system

These investments are proof of the interest the Acerinox Group has tin bettering its environmental indicators and process performance. The assessment process in this effort falls within the internal management system forming part of Acerinox's EMS, which uses indicators to provide information that enables the comparison of past and present environmental conduct in accordance with the established criteria. The Group follows a 'Planning-Implementation-Monitoring-Action' management model which is a key tool for dealing with the environmental diagnostics of our activity. This model is based on the ISO 14031 standard on Environmental Performance Evaluation.

2.3 Eco-efficiency

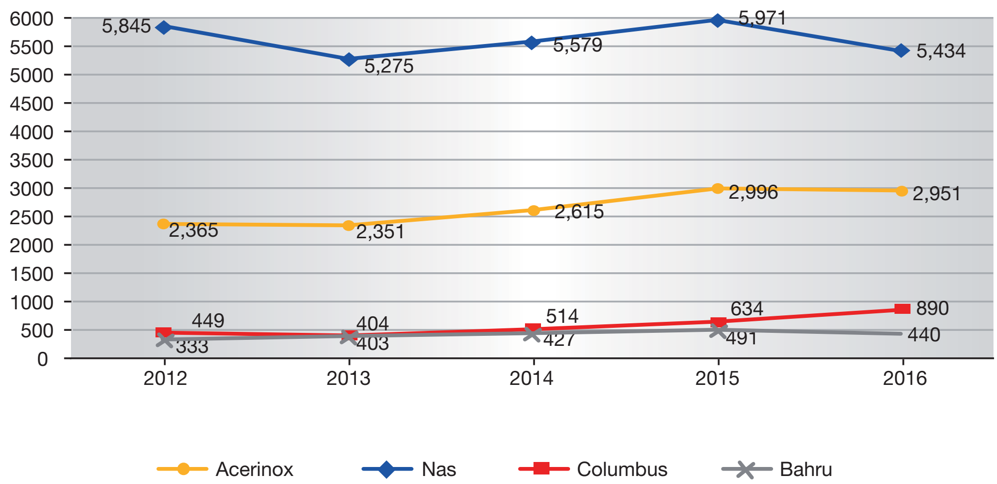
Water

The activities developed by Acerinox Group require a considerable amount of water. Thus, the battle takes place on two fronts: reducing water consumption and returning the water that is borrowed from the environment as if it had never been used by a steel mill. The company dedicates a great deal of time and effort to ensuring the water it uses undergoes several different treatments in its settling basins for subsequent purification. As well as restoring the quality of the water for its reuse, these practices enable us to recover substances used in the different processes.

Consumption varies among the Group's factories. The main factors which influence consumption are air temperature - and thus, evaporation temperature - and the different refrigeration requirements of the equipment and products which are manufactured.

ACERINOX GROUP WATER CONSUMTION

thousands of m³



The many measures aimed at reducing water consumption and promoting water reuse have allowed the Acerinox Europe factory in Campo de Gibraltar (Spain) to achieve low consumption levels. The facility's water intake comes from a nearby reservoir. The company makes every effort to reduce its water consumption, thus ensuring that the reservoir, its only source of water, is not significantly affected by its water intake. These measures resulted in a lower consumption level in 2016 with respect to the previous year, with a total water intake of 2,951,000 m³.

Sanitary piping.

As the graph shows, the Columbus plant (South Africa) consumes much less than the rest of the Group. A large portion of the water used in Columbus is rainfall captured during the wet season and stored in ponds located on site, so there is no effect on external sources. Low rainfall in Mpumalanga forced the factory's management to build reservoirs, so as not to allow the torrential rains occurring during the wet season to go to waste and avoid overusing the water circulating through a network with limited capacity.

In 2016 the total water catchment from the municipal supply was 414,000 m^3, while the amount from rainfall was 476,000 m^3.

In Bahru (Malaysia), water is captured in artificial ponds fed by rainfall, meaning the sole source of water is not significantly affected by the water catchment. These reservoirs and their corresponding pipelines were financed by the company, the government of the state of Johor and the federal government via a public-private partnership agreement. The graph reflects a clear downward trend in specific consumption, despite high temperatures in the region, thanks to environmental considerations and viewing water as a precious resource. In 2016 the total water catchment was 440,000 m^3.

NAS, in the United States, takes water from the Ohio River that flows by the factory, and returns it through a diffuser, thus preventing any possible environmental impact. In addition, NAS, like the factory in Campo de Gibraltar, ensures the quality of the water returned by monitoring, in real time, all releases into the river. In NAS, the water intake in 2016 totalled 5,434,000 m^3, much lower than the previous year.

2.4 Emission Control

Air

The Group has implemented a guiding principle concerning the protection of air quality, which entails minimising all types of atmospheric emissions and constantly monitoring factories' main emission sources. Air quality is an increasingly relevant asset.

Initiatives

Apart from the legal requirements, for yet another year the Group has strived to keep reducing gas emissions - CO_2 in particular - as much as possible by using regenerative natural gas lighters and improving its hot-rolling furnaces and heat-recovery boilers. According to data published by the International Stainless Steel Forum (ISSF), these initiatives have made it one of the world's most efficient companies in terms of reducing its emissions. Expressed in figures, its direct emission intensity is 20% lower than the average among global stainless steel manufacturers and 30% lower than the average of the global steelmaking.

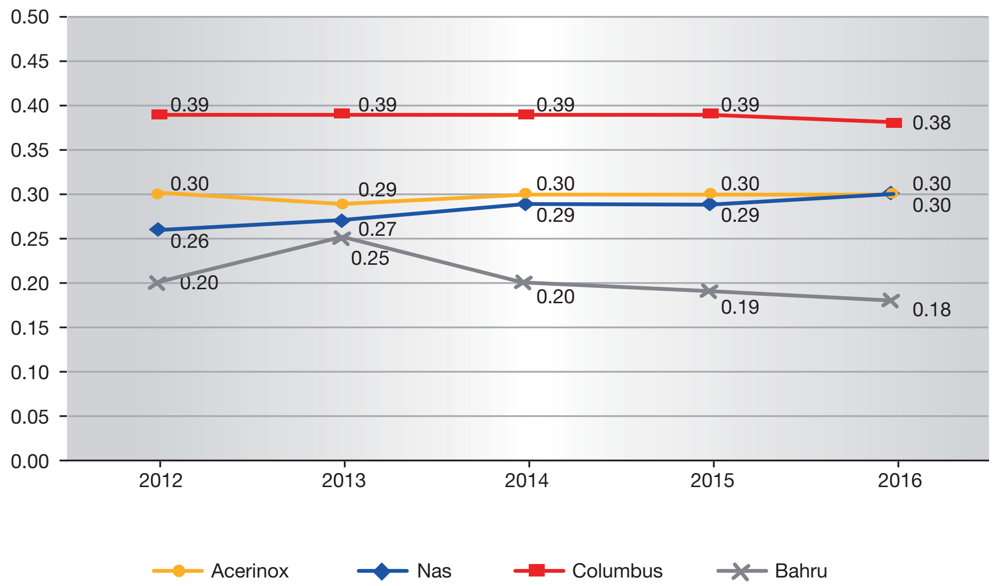
Recognition

Acerinox has long been part of 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. In 2016, it awarded Acerinox a high score thanks to its significant CO_2 emission control. Acerinox also collaborated with the *World Steel* Organisation and the UNESID (Spanish National Union of Iron and Steel Companies), maintaining its strategy of transparency in this matter.

CO_2

The graph below indicates the specific CO2 emissions from the 4 factories:

ACERINOX GROUP EMISSIONS CO_2



Mt CO_2 / Mt Steel

Thanks to its efforts since 2005, Acerinox Europe has achieved a gradual decrease in the use of emission rights and normally operates on a surplus of free CO2 assignment rights. Acerinox is also involved in preparing the inventory of CO2 emissions for the Spanish Ministry of the Environment and developing the Law on Environmental responsibility via the MIRAT Project.

Columbus employs the ISSF methodology to calculate its CO2 emissions, which are always well below the limits required by local legislation. Specific emissions fell very slightly in 2016, but higher due to a lower percentage of scrap metal used in the melting shop.

The Group has applied the same good practices in NAS as in Europe, with similar results, thus attaining specific emissions which are very comparable to our European mill figures.

The source of the relatively high specific emissions generated by Bahru is clear: the start-up of its equipment and the learning phase. As production increases, as it has gradually since 2013, specific emissions will continue to fall.

2.5 Waste management

Stainless steel is a product which is highly sustainable and can be recycled as many times as required without losing or diminishing any of its characteristics after each cycle, favouring a decrease in the exploitation of natural resources and a reduction in the quantity of waste that generates a negative environmental impact. With the aim of achieving greater efficiency, the company developed its smelting technology using a high percentage of recycled material, close to 70%, surpassing the global average for steel manufacturers according to the International Stainless Steel Forum (ISSF).

By using electric arc furnaces to smelt the raw material and using scrap metal in the process, the Group always recycles when it manufactures or, better said, it recycles to manufacture. If we recycle to produce, we also recycle after producing. Group management has decided to monitor the process of waste recycling on an ongoing basis and organise the subsequent treatment of waste.

In 2016, the percentage of recycled material used in stainless steel manufacturing rose by approximately 70% in all factories.

Following production some unavoidable waste products (non-hazardous) are generated, which are re-used due to environmental commitments and financial interests. The dust from the smoke contains metal particles which can be used in the production process. Likewise, the sludge which arises is compacted into ingots which allow its efficient use.

It is essential to assess the impact of the entire product life cycle, from the manufacturing process to the end of its service life. To do so, one of the Company's practices is to participate in the Life Cycle Inventory (LCI) promoted by EUROFER (the European Steel Association). Both the quantity of recycled material used and the possibility of recovering and reusing stainless steel products in the manufacturing process at the end of their service life leads to an extremely positive rating in the assessment of this life cycle.

Steel is found in countless applications across industry. It is interesting to see how other industries are also committed to the environment, especially the equipment used in renewable energies such as solar power, the construction of energy efficient buildings, water treatment plants, among many others.

Stainless steel inside a tuna fishing boat.

3. Health and Safety

Thanks to the strict application of the most stringent t work health and safety measures and the ongoing training of its employees to explain the latest advances in safety techniques and protocols, Acerinox's accident rate continued its downward trend over the past year, registering some of the lowest levels on record.

The group is especially strict in requiring the compliance of all safety measures so that each and every Acerinox worker can perform their tasks in the utmost safety. No attitude that may put people or equipment at risk nor failure of compliance is tolerated, and all employees have a duty to know and strictly meet the health and safety standards in the workplace, and thus ensure their own safety and that of those affected by their activities.

Acerinox considers that workplace risk prevention rules constitute a moral duty, not just a legal requirement, and all its factories employ preceptive safety requirements in this area that are stricter than those laid out in their corresponding national laws.

No fatalities occurred at any of the Group's plants in 2016, for another year running, and the number of accidents also fell thanks to the meticulous effort made in risk control. With senior management leading the way, the entire staff at Acerinox is fully aware of the need to reduce workplace safety risks.

Bahru Factory in Malaysia.

The Group offers first aid and workplace safety courses at its production centres, and has an ongoing programme that analyses possible workplace risks and studies existing factors that may cause them. All incidents are investigated and analysed, and the best solutions are sought in order to prevent them from reoccurring.

Likewise, with continuous benchmarking, the best practices in each area are detected, with the purpose of transferring the knowledge obtained from these results and applying it to the corresponding areas. All of this forms an entire section of the Excellence Plan that the Group has been successfully implementing for the last several years.

The Group collaborates with organisations such as UNESID (the Steel Companies Union) in order to improve and disseminate general safety systems for industry and those specific to the steel industry.

This culture, which forms such an integral part of the company, was given widespread recognition this past year when the International Stainless Steel Forum (ISSF) recognised North American Stainless (NAS) for its efforts in this area with the organisation's "2016 Safety Award", which recognised the incident detection systems and prevention process put into place by the factory in previous years.

The award was accepted by the CEO of Acerinox and President of NAS, Bernardo Velázquez, at the ISSF general meeting held in Helsinki in May 2016.

Last year, the US plant achieved a drastic reduction in its accident rate and exceeded a million working hours without accidents. This achievement came as a result of the measures taken at the factory, which include new control processes, briefings and sessions aimed at raising awareness of personal safety.

The safety programme of NAS is based on an accident reporting system and a programme to monitor workplace conduct and attitudes. This information mechanism compiles all incidents, damages (personnel injuries and material damage) and fires. Each one is examined in-depth and there is immediate implementation of the appropriate plans needed to correct it and prevent it from reoccurring.

In addition, the employees themselves are especially active in the Best Behaviour Observation programme (BBO), working with one another to detect any attitude or malpractice that may lead to a hazard during the activity.

As for Acerinox Europe, it has standard regulations applying to Health and Safety matters above and beyond those required by law.

In 2016, the plant reduced its accident rate by 20%, making it the third consecutive year a decrease was recorded.

In the case of Columbus Stainless, its Health and Safety Programme is based on the principles of OHSAS18001, as well as having its own protocol, the Health and Safety Management System and Workplace Health and Safety Regulations. All this includes a total of 63 training courses performed last year.

At Columbus, all employees receive general training in Health and Safety and a Healthy Working Environment every two years, as well as specific training on the factory each year.

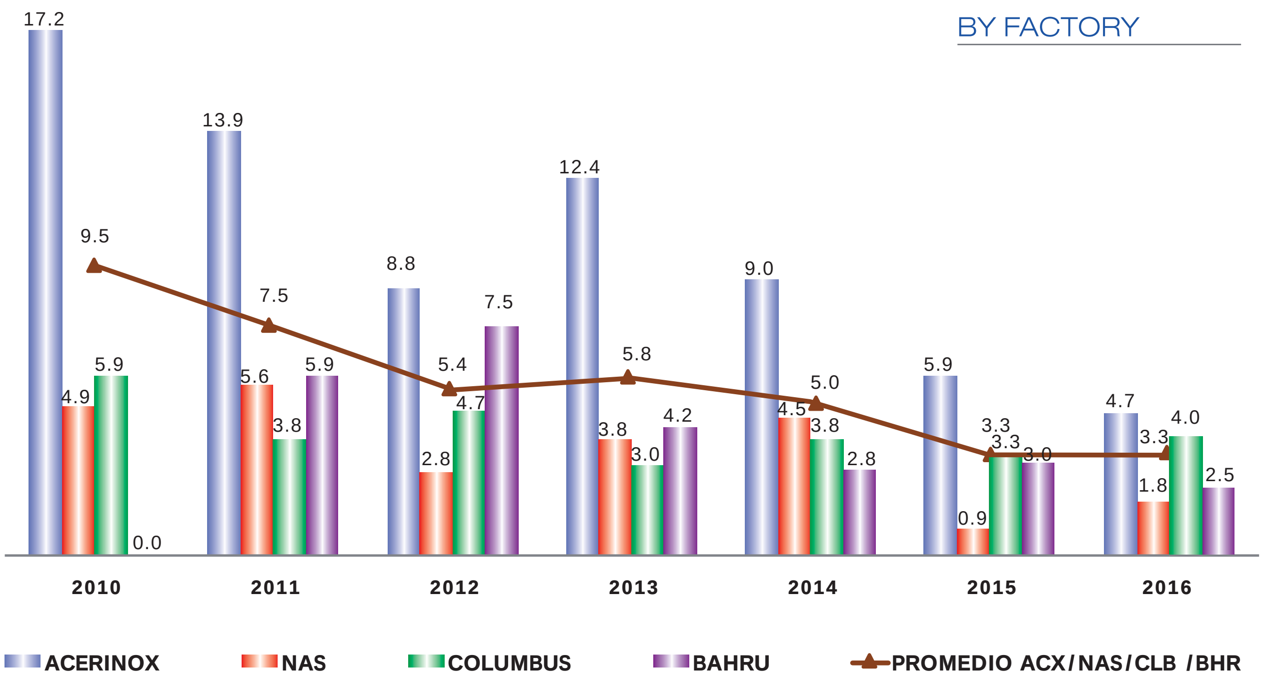
Thanks to this type of initiative, last year Columbus reduced the number of employee injuries resulting from an incident.

These same policies are put into effect at Bahru Stainless, where a General Safety Induction programme is also applied in which the plant's employees are trained on workplace safety measures and how best to react when faced with an incident. There is also a Health and Safety Committee that continuously audits possible risks and puts forth measures to be adopted in the event it detects an improvement or deficiency that needs addressing.

Acerinox took part in World Steel Safety Day, an event which used conferences and videos to provide orientation on precautions to adopt so as to combat workplace hazards and implement requirements.

The entire staff of Bahru, at every level, attended courses, held in each quarter of the year, aimed at the application of a surveillance system to monitor behaviours that may lead to workplace incidents.

ACCIDENT RATES BY FACTORY



Def. Recordable accident incident rate = Nº Recordable accidents * 200.000 / Nº Hours worked

4. Quality of employment offered

Acerinox offers stable, secure employment that provides promotion and training opportunities, good workplace conditions and an international outlook, where hard work and initiative are rewarded and any proposals that are put forth are given careful consideration.

Laboratory at the Acerinox Europa Factory.

The workers of Acerinox are its principal assets. Any person serving in the Group receives decent treatment and equal opportunities, and can aspire to job promotion.

Job impermanence and constant turnover are incompatible with the company's needs. That is why over 90% of Acerinox employees have a permanent contract with the company, which fosters a culture of belonging to a common future, generating a genuine sense of loyalty among its workers. Proof of this is the average length of employee service in Spain, which stands at 18 years.

The Group, found in over 80 countries and with large factories on four continents, also offers all manner of overseas programmes and opportunities for those wanting the experience of working abroad at some point in their careers.

This set of principles is highly valued and especially appreciated by young people, who find in Acerinox an opportunity to take their first steps professionally and hone their job skills in a company that rewards those who set themselves challenges and take on responsibilities from a standpoint of excellence and compromise and be willing to be integrated into the Group and its teamwork.

The Group's most important asset is found in the knowledge and experience of its employees. That is why Acerinox strives to create the most favourable environment for its employees, so they can in turn do their work in the best conditions and with great opportunities for growth and promotion.

At Acerinox, the difference in the salary of men and women is non-existent, and the starting pay is equal to or, more often than not, greater than the minimum wages established in the regions where each of its centres are located.

Non-discrimination on grounds of age, disability, sex, origin –including racial or ethnic origin–, marital status, social status, religion or beliefs, political views, sexual orientation or status, trade union affiliation, kinship, language or any other personal condition, as well as equal opportunities are fundamental values of the Group guaranteed for all and are protected under its Code of Conduct, a document that also reflects how Acerinox values the benefits that, for both worker and company, encapsulate the existence of a balance between the professional and personal responsibilities of its employees in accordance with the regulations in force in each country.

5. Diversity and Equality

At Acerinox, all the world's races, great religions, and most widely-spoken languages (plus others with fewer speakers) coexist, not to mention a plethora of different cultures. Diversity, in a company with factories on four continents and offices in 80 countries, forms part of its very nature.

Cultural diversity has been present in its shareholders and the Board of Directors since its foundation, while the exchange of knowledge and expertise is, and always has been, one of the keys to the growth of one of the most competitive companies in its industry.

The Group safeguards this precious asset by fostering the stewardship of its companies by local personnel, with the conviction that the comprehension and respect of regional particularities is essential to global success.

Bahru offices in Malaysia.

In defence of this value, the Company is committed to complying with the laws in force in the countries and regions where it operates, and voluntarily adopting complementary international commitments, regulations and directives where no adequate or sufficient legal standards are in place.

It is worth mentioning the diversity of the Board of Directors itself, which approved a commitment to appoint individuals from the least represented gender as its new members, until reaching at least 30% of the total.

The Regulations of the Board of Directors specify that candidates for director of the Company must be honourable, suitable and reputable professionals, whose competence, experience, qualification, training, availability and commitment to their role are widely recognised, seeking the diversity of expertise and gender.

Corporate regulations require following the Corporate Governance guidelines that have been set out by the Group, especially the Code of Good Practices, which demonstrates its commitment to the principles of business ethics and transparency in all areas of activity, as well as the regulation of the responsible behaviour of all the professionals of the Group.

5.1 Preventing corruption

Acerinox competes through the encouragement of free market practices and roots out any type of illegal or fraudulent practice, activities to which it dedicates effective mechanisms of prevention, vigilance and sanction.

Transfers of money made by the Company to its employees, contractors, suppliers, customers or any other related group are carried out by persons authorised to do so and within the limits of such authorisation, by means of registered certificates or bank transfer. Cash payments are strictly prohibited except for amounts below the limit established by regulation.

The Company agrees to prosecute and denounce any corruption practices that are evident in any of the countries in which it operates, a responsibility that Acerinox also demands from its contractors and suppliers, from whom it demands at least the same commitment, in order for it to do business together.

5.2 Human Rights

In 2016, Acerinox once again signed the United Nations Global Compact, obtaining an “advanced” rating. The company firmly believes in the 10 universal principles on which the agreement is founded, and is committed to adopting, supporting and disseminating them.

The protection of fundamental human rights and the denunciation of their violation; the elimination of all forms of forced or compulsory labour; the eradication of child labour; the promotion of initiatives that promote greater environmental responsibility or working against corruption in all its forms, including extortion and bribery, are among the principles that the Group requires on itself and its suppliers and customers.

The Company informs its interest groups of the actions it takes in implementing the ten principles as proof of its commitment and proactive attitude in the area of corporate social responsibility and sustainable development.

Acerinox fulfills the California Transparency in Supply Chains Act, a norm that obligates to report the specific actions they take in the fight to eradicate human slavery and trafficking, both within their main activity and supply chain.

Worker in the NAS factory.

5.3 Prevention of harassment in the workplace

In the exercise of its activity, Acerinox expressly prohibits in its Code of Conduct any behaviour, expression or purpose that directly or indirectly has the effect of personally or professionally denigrating any employee of the Group.

As a tool to combat and denounce any attitude that violates the standard, all workers have at their disposal, after having been fully informed, the possibility of denouncing any behaviour or attitude that they deem irregular, and may request the adoption of precautionary measures with the guarantee that they will be applied from the moment of the complaint and until a decision on the conflict is made.

6. Sustainability Certifications

In 2016 Acerinox took part in a wide range of projects involving sustainability, which include the following:

6.1 Carbon Disclosure Project (CDP):

Acerinox once again took part in the "*Carbon Disclosure Project*" (CDP), for the sixth consecutive year, receiving a 'B' grade (with F as the lowest and A the highest).

The CDP publishes the most reliable and accurate reports from the international community of experts and analysts. In 2016, the report highlighted companies that already had an internal mechanism for capping carbon prices as part of its business strategy. Of the 5,759 companies interviewed, Acerinox was one of 147 firms that had already incorporated this mechanism into both its operation and strategy (37 were Spanish companies)

The CDP is one of the most highly-valued studies by investors, as it evaluates adopted measures and detected risks with regard to climate change and company emissions.

On several occasions this study has considered Acerinox to be the world leader in stainless steel production in the fight against climate change.

The Group also voluntarily takes part in ISO 14064 certification, an international standard that voluntarily verifies greenhouse gas emissions.

Last year the Group reported Scope 1, Scope 2 and Scope 3 emissions, which is the highest level of documentation required since the study began in 2011.

6.2 Global Reporting Initiative (GRI)

For the fourth consecutive year, Acerinox submitted its annual reports to the Global Reporting Initiative (GRI) for evaluation according to the criteria of the study. In 2016 Acerinox obtained the GRI certificate in its G4 version.

6.3 Climate Action Programme – World Steel Association

The Group took part in the world climate action programme sponsored by the World Steel Association. This initiative monitors compliance with environmental regulations, encouraging best practices and developing new technologies to reduce source emissions. The association granted Acerinox an award in recognition of its actions taken in the fight against climate change

CLIMATE ACTION Member
worldsteel ASSOCIATION

6.4 Life Cycle Inventory (LCI)

For yet another year, Acerinox participated in the global method of assessing the environmental impact of the life cycle of stainless steel promoted by EUROFER: Life Cycle Assessment (LCA).

The LCA assesses stainless steel from the manufacturing process to the end of its service life, as well as the amount of recycled material. The purpose is to ascertain, using specially developed tools, the possible environmental impact that a process may cause within its supply chain.

From this analysis, the impact is minimised through more effective measures, thus obtaining more environmentally sustainable stainless steel.

Solar panels for obtaining thermal energy.

7. Social Action

In 2016 the Acerinox Group made tax-deductible donations worth €470,224, which includes Acerinox S.A., Acerinox Europe, North American Stainless, Columbus Stainless and Bahru Stainless.

The donations are broken down for each company as follows:

	2016 contributions / euros
Acerinox S.A.	165,000
Acerinox Europa	96,865
North American Stainless	116,539
Columbus Stainless	90,736
Bahru Stainless	1,104
TOTAL / €	**470,224**

7.1 Acerinox Europe

Social contributions in Acerinox Europe are managed and channelled through its Donation Committee. Every month the committee collects the money voluntarily donated by the factory's workers, the total of which is then matched by the company with its own funds.

Through this system, €33,600 was donated to charity in 2016. Each month this aid is given to the corresponding organisation, always according to the criteria set by the charities themselves. Those receiving contributions included the area's large charitable organisations that help the population at risk of social exclusion, such as the Catholic relief organisation of Cáritas, the Association of Families of Alzheimer's Victims of Línea de la Concepción, the FAEM Association (Families, Relatives and Persons with Mental Illness) or the Association of the Fight Against Parkinson's Disease.

In December, Acerinox Europe signed a partnership agreement with the Provincial Federation of Organisations for the Benefit of Persons with Intellectual Disabilities, Cerebral Paralysis and Autism of CADIZ (FEPROAMI) to foster the participation of the intellectually disabled in unpaid work experience. The one-year agreement can be extended and the first two employees began their work experience a few week afterwards, performing personnel and reception tasks.

7.1.1 Other aid provided in Campo de Gibraltar

Acerinox supports the development and promotion of sport, social and cultural activities in the county of Campo de Gibraltar.

Last year, the following organisations benefited from this aid: U.D. Los Barrios sports club; A.D.F Los Cortijillos football club; Juventud Palmones C.F. football club; C.D. “La Montera” basketball club, in different categories; C.B. Los Barrios handball club, C.G.R Los Barrios rhythmic gymnastics club.

Acerinox takes part in other sports events, such as its sponsorship of the Palmones Charity Run in benefit of Cáritas of Palmones, a popular race that is very well received throughout the county.

As for cultural events, the company lends a hand in the financing of events such as the Woman’s Day Photo Contest or the Cultural Week Conferences celebrated around the Andalusia Autonomous Community Day. What is more, Acerinox was involved in the upkeep of the surroundings and common areas with the installation of multiple services, such as the bathroom facilities on the Palmones municipal beach.

7.1.2 Personnel with reduced mobility

Acerinox Europe employs 40 staff members with permanent or various degrees of disability, as recognised by the relevant agencies.

Of the more than 2,600 people who work at the plant every day, 114 company employees had their functions adapted or positions changed due to health reasons in 2016, with 99 job positions being changed, applying the criteria of non-mobility to the positions of 12 employees, and adapting the job functions of 3 other individuals.

Stainless steel turnstile.

7.2 Columbus Stainless

The Columbus Stainless plant forms an integral part of the community of Middelburg, the South African town where it is located, and is one of the region's main employers. A wide variety of activities take place there, of a cultural, sport, health and social nature.

The engineers of Columbus shared their knowledge and expertise with more than 4,000 young people in 2016, through the Middelburg Chamber of Commerce and Industry. Each year, the employees of Columbus support International Nelson Mandela Day by financing and organising activities to help the less fortunate, as well as paying visits to help centres.

At local level, Columbus is one of the main sources of support for sports activities, such as races or marathons. In 2016, other charity sporting events were held, such as a golf tournament to aid 13 local colleges and also collaborate with organisations that fight drug abuse.

7.2.1 Broad-Based Black Empowerment

Acerinox has once again collaborated with the *Broad-Based Black Empowerment* (BBBEE) programme, reaching compliance level 8.

The BBBEE is a plan from the South African government to encourage access by the black community to management positions and help its members climb the social ladder. Acerinox has long taken part in the programme on a voluntary basis, not being obligated to do so as it has no public licences nor is it involved in banking, and collaborates as a way of supporting the black workers at the factory.

Columbus Stainless improved its rating in the main criteria evaluated by the report, such as management positions, skills development or socio-economic development.

7.2.2 Fight against AIDS

Columbus invests a great deal of effort in raising awareness in the fight against AIDS in South Africa. To do so, as part of the national programme to fight the virus, it participates in the campaign "Zero new HIV infections, zero discrimination and zero Aids-related deaths".

On 1 December, like every year, Columbus celebrated World AIDS Day with an event that commemorates and emphasises initiatives for raising awareness of the disease that the company has carried out. The act highlights and publicises actions that have taken place at the plant throughout the year. All are aimed at raising awareness that precaution is the essential means of preventing new infections.

Columbus organises and finances prevention clinics, free testing, information seminars, the distribution of free condoms, care and education programmes for the population on the prevention of AIDS, employee training programmes, volunteer screening for virus detection, information campaigns and blood testing. These volunteer controls are promoted by the company on an ongoing basis, providing staff with information on their results. Over the course of the year, 97 tests were carried, with three people testing positive for HIV and negative results for the remaining 94.

Columbus has its own test clinic, ensuring strict confidentiality and a volunteer basis, and whose care programme for those affected treats 105 people and their family members, providing them with guidance and treatment.

Columbus has reached an agreement with the Lulama Wellness Centre, which provides counselling to the ill or affected, treating over 130 people over this past year.

7.3 North American Stainless (NAS)

The North American Stainless plant is deeply committed to its community and collaborates in a variety of social, cultural, charitable and sporting events.

In 2016, NAS cooperated with the public library in its home delivery service to the housebound and with institutions such as *Carroll County Memorial Hospital*, *the Carroll County Head Start* programme or the *Carrollton Christian Academy*.

The NAS plant is located alongside the Ohio River and sponsors the annual River Sweep, an event which raises funds and awareness with the aim of keeping the river and its banks clean and safe.

In addition, the company has specific programmes for financing the studies of its employees as well as providing the first experience of work to those university students, the children of factory employees, who wish to develop their job skills during their holidays.

7.4 Bahru Stainless

For yet another year, Bahru has carried out charitable activities during the month of Ramadan with the aim of distributing food and consumer staples to the least fortunate of the Pasir Gudand region. In collaboration with the government and other companies, clothing, food and small toy drives were organised as part of an event called “Free Market”.

In addition, Bahru contributed 200 produce sets containing rice, oil, sugar and salt for these needy families.

On the other hand, Bahru Stainless took part in the 2016 Blood Drive held by local authorities in collaboration with the Sultanah Aminah State Hospital.

The plant also joined the Malaysian government in organising the ‘UEM-Sunrise’ charitable run in Nusajaya, which works towards instilling healthy lifestyles in the local population.

7.4.1 Cooperation through education and training

Bahru Stainless signed a memorandum of understanding with SEGi University and Colleges to offer work experience to students of the Engineering College. These training periods are set to begin in 2017 and will last between 12 and 24 weeks.

Door canopy of the Malaga Metro.

8. Alliances and External Initiatives

Acerinox is highly involved in associating with other organisations among civil society. It belongs to the following associations and organisations:

8.1 Acerinox S.A. and Acerinox Europe

ISSF (International Stainless Steel Forum)
EUROFER (European Steel Association)
Euro Inox
Spain-USA Council Foundation Chamber of Commerce of the United States in Spain
UNESID (National Union of Iron and Steel Companies)
The Association of Large Industries of Campo de Gibraltar
CEDINOX (The Association for Research and Development in Stainless Steel)
Real Instituto Elcano
AEGE (Association of Large Energy Consumption Companies)
Institute of Internal Auditors
Engineering Institute of Spain
Spanish Network of the United Nations Global Compact
IGREA (Risk Management Initiatives)
APD (Management Progress Association)

8.2 NAS

International Stainless Steel Forum (ISSF)
American Society of Testing and Materials (ASTM)
Stainless Fuel Tanks (SASFT)
Kentucky Automotive Industry Association (KAIA)
Concrete Reinforcing Institute (CRSI)
Speciality Steel Industry of North America (SSINA)
Metals Service Center Institute (MSCI)
American Iron and Steel Institute (AISI)
Carroll County Chamber of Commerce
Carroll County Training Consortium
Kentucky Chamber of Commerce
Kentucky Association of Manufacturers (KAM)
National Association of Manufacturers
Kentucky Excellence in Environmental leadership (Ky Excel)
Carroll County Local Emergency Planning Committee (LEPC)
US Chamber of Commerce
National Association of Corrosion Engineers (NACE)

8.3 Columbus

International Stainless Steel Forum (ISSF)
South African Stainless Steel Development Association (SASSDA)
South African Iron and Steel Institute (SAISI)
Manufacturing Circle
Steel and Engineering Industrial Federation of South Africa (SEIFSA)
Energy Intensive Users Group
Middelburg Chamber of Commerce (MCCI)
Spanish Chamber of Commerce

8.4 Bahru

Malaysian Employers Federation (MEF)
Federation of Malaysian Manufacturers (FMM)
Malaysian Iron and Steel Industry Federation (MISIF)
Malaysia Steel Institute (MSI)

Environmental reconditioning prize for the Bahru Factory (Malaysia).

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

**INDEPENDENT LIMITED ASSURANCE REPORT
ON THE CORPORATE SOCIAL RESPONSIBILITY INDICATORS**

To the Management of Acerinox S.A.:

We have carried out our work to provide limited assurance on the Corporate Social Responsibility indicators (hereinafter "CSR Indicators") that Acerinox S.A. and its corporate group (hereinafter "Acerinox") consider key to its stakeholders for the year ended 31 December 2016 and included in the Appendix 1 of the Annual Report 2016.

The CSR Indicators have been prepared in accordance with Acerinox's own reporting criteria detailed in the mentioned Appendix 1.

Responsibility of the Management of Acerinox

The Management of Acerinox is responsible for the preparation, content and presentation of the CSR Indicators in accordance with Acerinox's own reporting criteria. Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the CSR Indicators are free from any material misstatement due to fraud or error.

The Management of Acerinox is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CSR Indicators, is obtained.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised), "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with Acerinox's personnel from various units who have been involved in the preparation of the 2016 CSR Indicators.

- Analysis of the procedures used for obtaining and validating the data presented in the 2016 CSR Indicators.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

- Analysis of the Acerinox's CSR Indicators adaptation to the Acerinox's own reporting criteria described in the explanatory notes of Appendix 1 of the Annual Report 2016.
- Verification, through random sampling tests revisions and substantive tests on the quantitate and qualitative information used to determine Acerinox's CSR Indicators included in Appendix 1 of the Annual Report 2016. We have also verified whether they have been appropriately compiled from the data provided by Acerinox's sources of information.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standard Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control (ISQC 1) and thus employs and exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited Assurance Conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that Acerinox's CSR Indicators, for the financial year ending 31st December 2016, included in Appendix 1 of the Annual Report 2016, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the Acerinox's own reporting criteria described in the explanatory notes of the mentioned Appendix 1.

Use and Distribution

Our report is only issued to the Management of Acerinox, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Acerinox's Management.

PricewaterhouseCoopers Auditores S.L.

Mª Luz Castilla

12 May 2017

APPENDIX 1

Reporting criteria established by Acerinox for the CSR indicators reported in the chapter: "Sustainability Report".

Indicator	Scope	Definition	Units	Page
Profile				
Participation in external alliances and initiatives	Societies: Acerinox and Acerinox Europa, Bahru, Columbus, NAS	List of associations, organizations (e.g. industrial associations) and national or international promotion organizations to which Acerinox belongs.	N/A	196-197
Socioeconomic				
Salaries paid	Acerinox Group	Payments made as salaries by region (Spain, Europe, Asia, Africa, America and Oceania) according to those presented in Audited Annual Accounts.	Euros	172
Contributions to Social Security	Acerinox Group	Contributions to the different social security systems by region (Spain, Europe, Asia, Africa, America and Oceania) according to those presented in audited Annual Accounts.	Euros	172
Taxes paid	Acerinox Group	Taxes paid by region (Spain, Europe, Asia, Africa, America and Oceania) disaggregated in Corporate Taxes, Income Taxes on Individuals and other taxes, including taxes on contribution, other indirect taxes, property taxes, tax on economic activities, taxes paid abroad, withholdings, fiscal acts, etc.	Euros	173
Donations and investments in the community	ACERINOX S.A. and factories: Acerinox Europa, Bahru, Columbus, NAS	Donations and Investments in social action during the year, by each society of the Group.	Euros	191
Fight against corruption	Acerinox Group	Clauses related to the fight against corruption, fraudulent practices and activities to which the Group dedicates mechanisms of prevention, monitoring and sanction, contained in policies and internal documentation, such as the Code of Conduct of the Company.	Not Applicable	187
Laboral				
Percentage of employees on staff with indefinite contract	ACERINOX S.A. and factories: Acerinox Europa, Bahru, Columbus, NAS	Ratio of employees with an indefinite employment contract, with respect to the total number of employees. In the particular case of NAS-Kentucky and Bahru plants, all its workforce is considered as indefinite, since the applicable legislation does not incorporate this concept in its legal system and the typology of labor contract in these plants is comparable to an indefinite contract, under the standards of the Spanish legislation in this regard, during the reporting period.	In percentage terms (%)	185
Average length of service of the staff.	Acerinox Group's Societies in Spain	Average length of service of the employees that comprise the societies' workforce as of December 31 of the reporting period.	Years	185
Accident rate	Factories: Acerinox Europa, Bahru, Columbus, NAS	Total number of injuries and illnesses per 100 full-time employees (200,000 hours), according to the US Occupational Safety and Health Administration's (OSHA) calculation criteria, during the reporting period*.	Index: Injuries and illnesses per 100 full-time employees	184

Indicator	Scope	Definition	Units	Page
Salary differences between men and women	ACERINOX S.A. and factories: Acerinox Europa, Bahru, Columbus, NAS	Relationship between men's basic salary and that of women (in this relationship, variable remuneration and other supplements such as seniority, among others, are excluded).	N/A	185
Relationship between initial salary and legal minimum salary	ACERINOX S.A. and factories: Acerinox Europa, Bahru, Columbus, NAS	Relationship between the entry-level base salary with respect to the legal minimum salary established by local legislation.	N/A	185
Environmental				
Internal power consumption	Factories: Acerinox Europa, Bahru, Columbus, NAS	Total consumption of Natural Gas and Electricity per plant.	GJ	175
Energetic Intensity	Factories: Acerinox Europa, Bahru, Columbus, NAS	Ratio of Natural Gas and Electricity consumption in Gigajulios (numerator) and production of steel as-cast in tonnes (denominator) per plant.	GJ/Tn steel as-cast	175
Consumption of water, used for production purposes	Factories: Acerinox Europa, Bahru, Columbus, NAS	Consumption of water collected from the municipal water network, reservoirs, rivers, rainwater, etc. which is utilized for steel production, per plant and in the reporting year.	Cubic meters × 10^3	177-178
Intensity of greenhouse gas emissions	Factories: Acerinox Europa, Bahru, Columbus, NAS	Inventory of CO2e emissions per ton of steel as-cast produced. Quantification of CO2e emissions per ton of steel as-cast, including, without disaggregation, all Scope 1 emissions per plant.	Tn CO2/Tn steel as-cast	179
Environmental expenditures and investments	Factories: Acerinox Europa, Bahru, Columbus, NAS	Environmental investments and expenditures aimed at mitigating environmental risks in production facilities, as well as promoting compliance with the factory's regulations.	Euros	176

* The injuries or illnesses considered in the calculation of this indicator are those categorized as “recordable accidents”, according to OSHA criteria. A recordable accident is defined as an accident that has involved some type of medical care (minor or incapacitating) to the employee, excluding First Aid.

Note: the different societal scopes are defined as follows:

- Acerinox Group: INOXIDABLES DE EUSKADI, S.A.; ACERINOX, S.A.; ACERINOX INDIA PVT LTD; BAHRU STAINLESS SDN. BHD; ACERINOX METAL SANAYII VE TICARET LIMITED SIRKETI; ACERINOX COLOMBIA S.A.S; CORPORACIÓN CERINOX PERU S.A.C.; ACERINOX RUSSIA LLC.; ACERINOX MIDDLE EAST DMCC (DUBAI); ACERINOX EUROPA, S.A.U.; ROLDAN, S.A.; ACERINOX CHILE, S.A.; METALINOX BILBAO, S.A; INOXCENTER, S.L.; ACERINOX FRANCE, SAS; ACERINOX ARGENTINA, S.A.; ACERINOX DEUTSCHLAND MBH; INOXFIL, S.A.; ACERINOX SCHWEIZ, S.A.; ACERINOX MALAYSIA SC; ACERINOX PACIFIC LTD; ACERINOX ITALIA S.R.L.; INOXCENTER CANARIAS, S.A.U.; ACEROL PORTUGAL; NORTH AMERICAN STAINLESS, INC; ACERINOX (SEA) PTE LTD; ACERINOX U.K. LTD; ACERINOX BENELUX, N.V.; ACERINOX AUSTRALASIA PTY LTD; ACERINOX DO BRASIL REP. LTDA.; ACERINOX SCANDINAVIA AB; ACERINOX POLSKA, SP. Z.O.O.; COLUMBUS STAINLESS PTY. LTD.; NAS CANADA; NAS MEXICO S.A DE CV; ACERINOX SHANGHAI
- Acerinox Group's Societies in Spain: ACERINOX, S.A.; ACERINOX EUROPA, S.A.U.; INOXCENTER, S.L.; INOXCENTER CANARIAS, S.A.U; INOXFIL, S.A.; INOXIDABLES DE EUSKADI, S.A.; METALINOX BILBAO, S.A y ROLDAN, S.A.
- Factories:
  - **Acerinox Europa**: Acerinox Europa SAU. The factory, the service centers and Madrid are included.
  - **Bahru**: Bahru Stainless SDN BHD
  - **Columbus**: Columbus Stainless PTY LTD.
  - **NAS**: North American Stainless INC. Only the factory in Kentucky is included.

Governing Bodies

Board of Directors

Chairman

RAFAEL MIRANDA ROBREDO

Chief Executive Officer:

BERNARDO VELÁZQUEZ HERREROS

Members of the Board:

LAURA ABASOLO GARCÍA DE BAQUEDANO
PEDRO BALLESTEROS QUINTANA
MANUEL CONTHE GUTIÉRREZ
ROSA MARÍA GARCÍA GARCÍA
RYO HATTORI
TOMÁS HEVIA ARMENGOL
GEORGE DONALD JOHNSTON
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
BRAULIO MEDEL CÁMARA
YUKIO NARIYOSHI
MVULENI GEOFFREY QHENA

Secretary of the Board:

LUIS GIMENO VALLEDOR

Executive Committee

RAFAEL MIRANDA ROBREDO (Chairman)
BERNARDO VELÁZQUEZ HERREROS
RYO HATTORI
GEORGE DONALD JOHNSTON
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Secretary:

LUIS GIMENO VALLEDOR

Appointments, Remuneration and Corporate Governance Committee

MANUEL CONTHE GUTIÉRREZ (Chairman)
RAFAEL MIRANDA ROBREDO
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
BRAULIO MEDEL CÁMARA

Secretary:
LUIS GIMENO VALLEDOR

Audit Committee

LAURA ABASOLO GARCÍA DE BAQUEDANO (Chairwoman)
PEDRO BALLESTEROS QUINTANA
GEORGE DONALD JOHNSTON
ROSA GARCÍA GARCÍA

Secretary:
LUIS GIMENO VALLEDOR

Management Committee

BERNARDO VELÁZQUEZ HERREROS
Chief Executive Officer

DANIEL AZPITARTE ZEMP
Commercial Director

MIGUEL FERRANDIS TORRES
Chief Financial Director

ANTONIO MORENO ZORRILLA
Production Director

LUIS GIMENO VALLEDOR
General Secretary

Published by
ACERINOX S.A.

Designed by
Diálogo Digital, S.L.

Shareholders Office
Santiago de Compostela 100, 28035 Madrid
Tlf: +34 91 398 52 85/ 51 74 . Fax: +34 91 398 51 95
www.acerinox.com