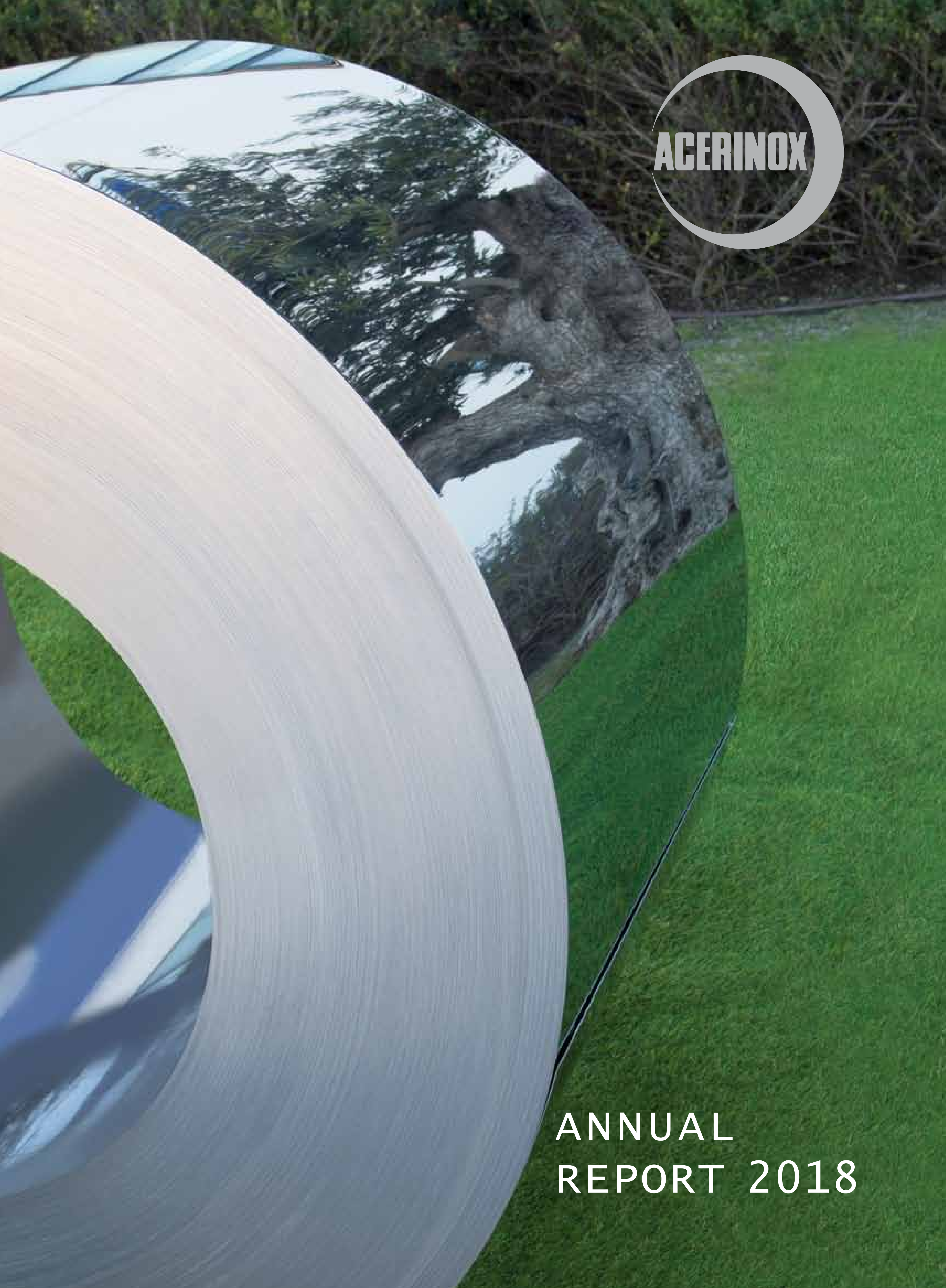
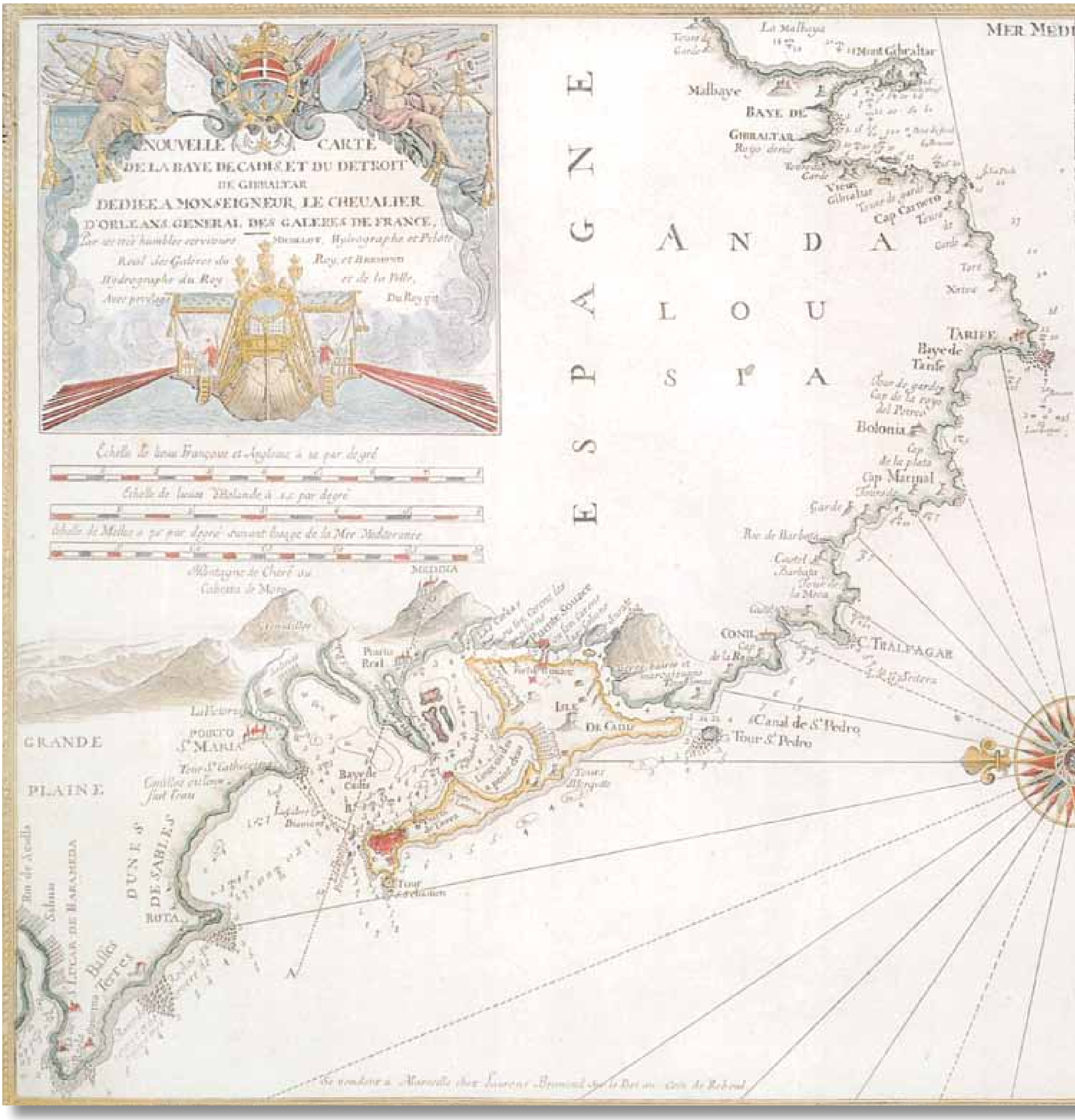


ANNUAL REPORT 2018

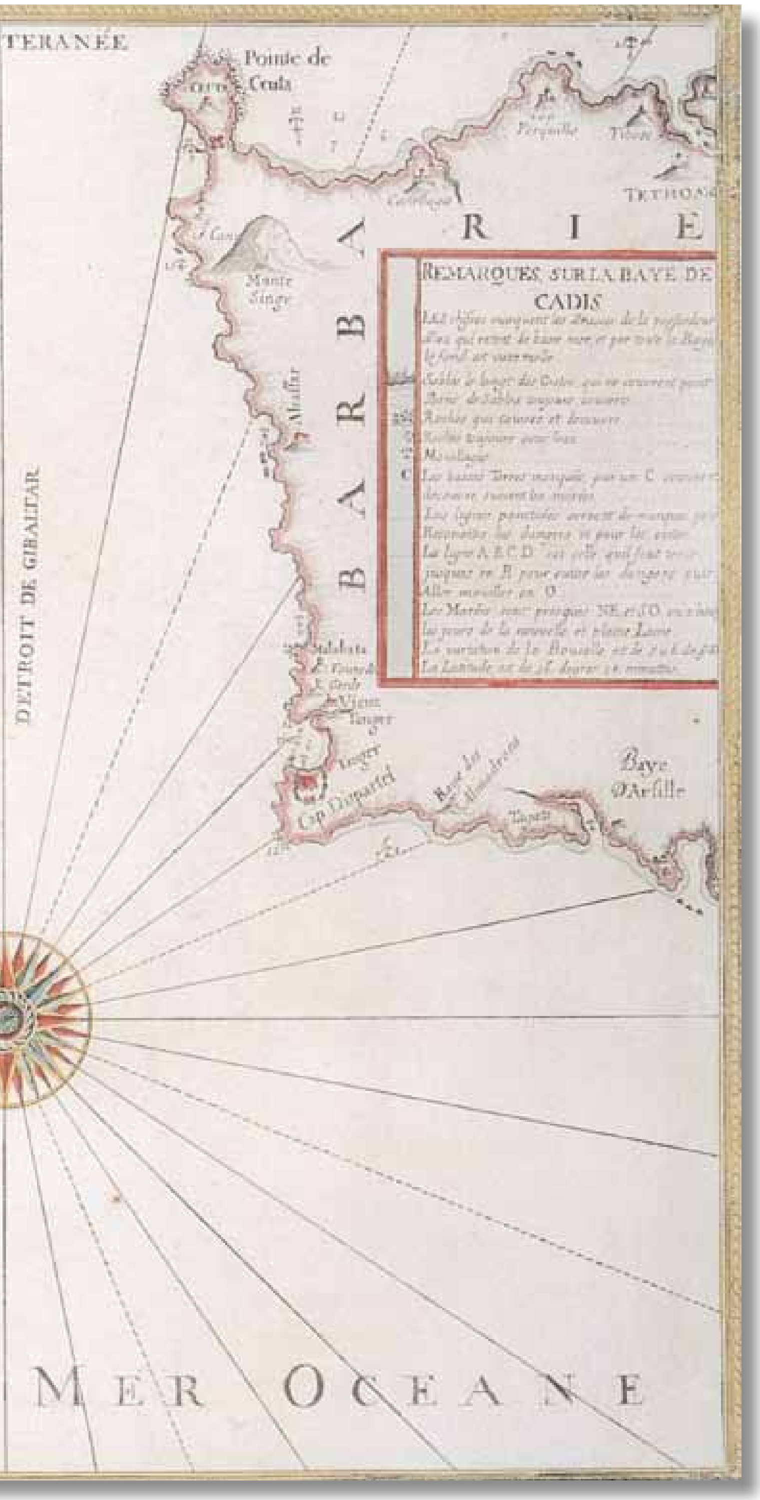
ACERINOX

annual

REPORT 2018

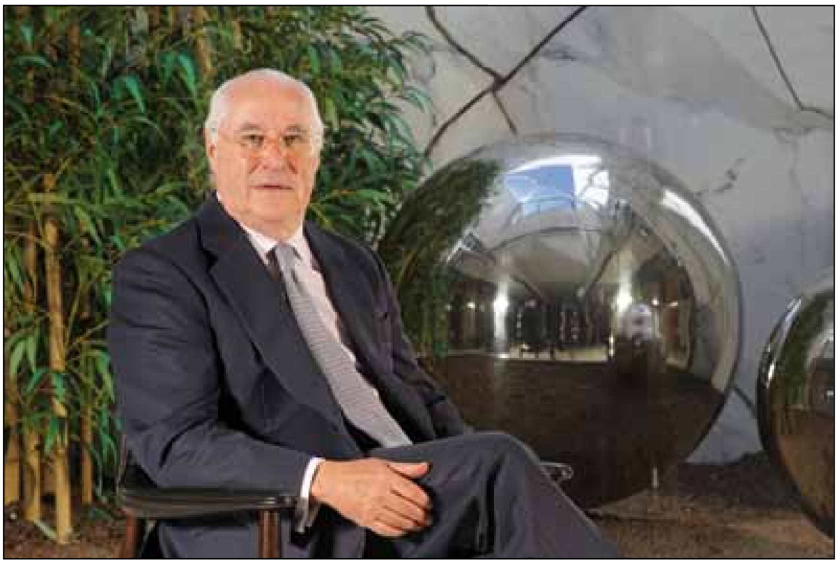


NOUVELLE CARTE
DE LA BAYE DE CADIS ET DU DETROIT
DE GIBRALTAR
DEDIEE A MONSEIGNEUR LE CHEUALIER
D'ORLEANS GENERAL DES GALERES DE FRANCE
Echelle de lieues Françoises et Angloises à 20 par degré
Echelle de Milles à 60 par degré suivant l'usage de la Mer Mediterranée
MER MEDI
ESPAGNE
ANDALOUSIA
Mont Gibraltar
Malbaye
BAYE DE GIBRALTAR
Cap Carnero
TARIFE
Baye de Tarife
Bolonia
Cap Marinal
MEDINA
CONIL
C. TRAFALGAR
Puerto Real
ISLE DE CADIS
Canal de St Pedro
Tour St Pedro
PORTO St MARIA
Baye de Cadis
GRANDE PLAINE
DUNES DE SABLES
ROTA


TERANÉE
Pointe de
Ceuta
R I E
B A R B A
REMARQUES SUR LA BAYE DE
CADIS
DETROIT DE GIBALTAR
Baye
d'Arsille
M E R O C E A N E

Index

Letter from the Chairman



Dear shareholders:

I undertake once more the pleasant task of addressing you through these lines to inform you about the results of the business year 2018 and to summarize you the most relevant events occurred during the year.

World economy kept growing during 2018, even though at a slightly lower grade as the previous year 3.7% despite of the weaker economies of Europe and Asia, all this having as background a quite generalized political instability.

It should be noted how the third and, more relevantly, the fourth quarter of the year have been disappointing in most economies. During the last quarter, industrial production has decelerated except for the United States, world trade has been reduced below 2017 average levels and metal prices have been decreasing since the month of August, partially due to the weakness of Chinese demand.

All these circumstances in addition to the reduction of optimism about business results, trade wars and the expectations of a future shrink in global growth, corrected the shares of the companies in the most advanced economies at a downward trend in almost every stock market during the last quarter.

The stainless steel sector wasn't exempt from the characteristics of the global economy during the year. Therefore, global production increased a 10% during the first nine months of the year but was later strongly corrected in the last part of the year finishing it according to our estimates at a 5.5%. China, as usual, was the main manufacturer holding a 52% of global production, while a new player appeared this year, Indonesia, with a strong increase in its production due to the new plant that the Chinese company Tsingshan has in the country, provoking a supply surplus in the Asian market with a very negative effect on prices that has ended up affecting all markets.

The performance of the most relevant markets for our company has been imbalanced. The American market and, more specifically, that of the United States, is the most relevant for us and had a good performance both in consumption and prices due to the good shape of its economy and the *efficient tariff measures enforced by the implementation of Section 232 of the Trade Expansion Act of 1962 which reduced the imports of flat product around a 16%, as well as the good performance of consumption sectors, mainly those of construction and household appliances.*

The fall of apparent consumption in the European market during last year was close to the 2% due to the strong correction of the fourth quarter. During the year and, more specifically, in the second half, a supply surplus has taken place as consequence of the increase in imports, which for flat products reached the 30% market share, provoking a downward pressure over prices. This relevant increase demonstrates the inefficiency of the safeguard measures adopted by the European Union during the year, what the sector already anticipated to the communitarian authorities with no success.

South African market had a great recovery in apparent consumption in line with last years' average thanks to the good performance of demand in sectors such as the automotive or the holding tanks industry, allowing Columbus to improve its sales in the domestic market, even if this positive aspect was neutralized by an increase in imports tensioning prices.

The Asian market has been characterized, as I previously indicated, by the supply surplus which has negatively affected prices. Demand in this market has had a very good performance with an apparent consumption in China of a 7%, pushed by the majority of sectors except for the automotive sector and despite of the perceived slowdown of Chinese economy. In ASEAN we have increased our volume of sales thanks to our plant Bahru Stainless, boosted as well by the good demand in the region even if affected by a very negative feature of prices due to the eruption of the Chinese manufacturer Tsingshan in Indonesia.

With such a complex and uncertain environment during the business year, the economic results obtained by our company could be considered as good. With 5,011 million euros in net sales, an 8% higher than 2017 and the highest in the last ten years, we have generated an EBITDA of 480 million euros, only a 1.8% lower than the year 2017, after carrying out an inventory adjustment to the net realizable value of 22 million euros and with an impact of dollar depreciation of 14 million euros, all this despite of the tensions and bad results in the fourth quarter. EBITDA margin 9.6% has decreased a percentage point below the 10.6% of last year, strongly sustained by the United States. The net results obtained have been of 237 million euros, the best ones in the last years.

We have already mentioned in other occasions the relevance that we give to cash generation. In 2018 operating cash flow has been of 326 million euros, which has enabled us to allocate 155 million euros to investments, pay the dividend and purchase Treasury Stock for 128 million euros.

Cash generation after taxes and dividends has been of 43 million euros, having reduced net debt by the end of the year to 552 million euros, 57 million euros less than the 609 million euros of the previous business year.

The company's consolidated balance shows a healthy financial situation which, in addition to the excellent financial ratios that we can present, grants us the capacity to confront the future both in the trend towards growth but also to handle potential future scenarios of market deceleration.

Notwithstanding the previous and with the aim of giving a faithful image of our investments and offering enough financial flexibility to our subsidiaries, the Board of Directors of the Company has taken two decisions in respect to our participation in Bahru Stainless:

- *The first one has been to carry out a value impairment of Acerinox S.A. investment in Bahru for 155 million euros, a decision thoroughly explained in the economic report and which has no impact on the consolidated results of the year.*

- *The second one has been to undertake a capital increase in Bahru, with no allocation in cash, capitalizing 335.5 million dollars of the loan granted by Acerinox S.A. to its subsidiary. This decision was made once Acerinox S.A. had acquired the 30% of Bahru's shares held by Nisshin Steel, having as a positive effect to give financial flexibility to our subsidiary reestablishing its balance in equity.*

As I have already mentioned, almost all the world stock markets had a relevant downward correction in the second half of the year; its causes are well known and its consequences have been the losing of value of companies, a greater volatility and a scenario in which it has been hard to manage market investments.

Ibex 35 index and our shares couldn't avoid the trend shown by all markets and Acerinox that had evolved in line with Ibex 35 during the first half, had a worse performance than the index in the fourth quarter as consequence of the complications surged at the European market for our products, the fall in petroleum prices, the news of a possible slowdown of the Asian market and the threat of a possible recession in the medium-term. Our shares fell a 27.3% during the year in comparison with Ibex 35 fall of a 15%; nevertheless we had a much better performance than our most direct competitors Aperam and Outokumpu.

We are convinced that markets are not reflecting correctly the intrinsic value of our asset and that our shares have a great potential of revaluation, what is supported by the analysts that evaluate them in their assessments and the recommendations they make.

Based upon the estimates that we manage, the Board of Directors decided last December to propose to the Shareholders' General Meeting an 11% increase of the dividend, from 0.45 to 0.50 euros per share.

It has also considered optimal to design a long-term program to reduce the number of shares and therefore compensate the shares issued in the four years during which the dividend was paid *through a flexible dividend and for this end it will propose to the Shareholders' General Meeting a first Share Buy-Back Programme of up to a 2% of the Share Capital for its later amortization, to which up to 66 million euros will be allocated.*

The Board of Directors has kept working on improving and optimizing our Corporate Governance with the goal of making it recognized and valued for its excellence by markets and the investors that operate in them. I would like to recall the most relevant developments that have taken place during this year.

The Executive Committee of the Board has consolidated itself as the organ to analyze and deepen the complex topics and everything related to the strategy of the Company, being its analysis of great use to facilitate the decision-making process of the Board of Directors; this new perspective has obliged to hold a higher number of sessions.

Once more, the Audit Committee has had a very intense activity in rigorous compliance with the technical guide 3/2017 of the CNMV (Spanish Stock Market Commission), enacting its own regulation in which it systematizes the relationship of this Committee with external and internal auditors, personnel in charge of compliance as well as with all the other organs of the Company.

The Appointments, Remuneration and Corporate Governance Committee has considerably increased the number of meetings held during the year, having devoted them to the wide range of activities it covers, from which are worth noting the approval of the new remuneration system for the company's senior management, the boosting of the elaboration of a new succession plan for the key posts in the Group, the design of the action plans deduced from the self-evaluation undertaken by the group or the researches carried out regarding composition, structure and remuneration of the Corporate Governance and Corporate Social Responsibility, which are included in the Non-Financial Information Record as part of the Annual Report, being in compliance with law 11/2018 on non-financial information and diversity.

I would like now to highlight the relevant events occurred after the closing of the business year and which I consider, for different reasons, important for the future of our Company.

The first one is related to the shareholder that has accompanied us since the very beginning of our Company, the company Nisshin Steel Co. Ltd. This society was acquired at the end of the year by the also Japanese company Nippon Steel & Sumitomo Metal Corporation who, from that moment on will hold the shares that Nisshin owned in our Company. I believe it corresponds to these lines the duty to thank Nisshin for the permanent support it has given to our Company all along our history and, at the same time, to welcome the new Company which will finally be our shareholder, as well as express our conviction that its philosophy and contribution to our development will be at the same level as the one we have had until now.

The second event has to do with the future development of our business in a market as important for us as it is the European. On 1 February 2019 the European Commission announced the definite safeguard measures with important changes in respect to the provisional measures of July 2018 and that, as we have been remarking, weren't very effective in reaching the intended goals. We believe that, with the new design of these measures they will be much more effective and will help to reach the goals, thus improving the future conditions of this market.

As we have mentioned many times before, predicting future is always one of the most risky exercises, even more in the uncertain and volatile times we have to live in, in which changes occur from one day to the other and at a speed never seen before. On one hand, international economic organisms make weaker projections of growth in global economy for the year 2019 and the next year 2020 than the ones reached in 2018 and with unbalanced growths by regions, what will probably be reflected on the different conditions and characteristics of the markets in which we operate. On the other hand, there are other analysts of economic reality sustaining that we could be approaching the end of a business cycle and that a new recession difficult to measure could occur in the upcoming years. And others are confident that, as long as the great difficulties we now confront are solved, a positive effect will enhance again a vigorous growth.

Regardless of the circumstance that finally arises, in Acerinox we want to have a strategy to confront any scenario, from the most optimistic to the most pessimistic one. We believe that we are ready for this challenge as we have attributes which differentiate us from our competitors and are key for success:

- *The better geographical diversification of the sector, with presence in different markets that has been so useful in this year 2018 to obtain our results and that could be determining when confronting performances differentiated by markets.*

- *Having a good product mix with new offers in certain markets.*

- *A good competitive position as a result of the investing effort during the years.*

- *A healthy financial structure.*

Being all this of great relevance when confronting that uncertain future, I believe our constant attitude of self-commitment is even more important and therefore we want to focus on optimizing and developing our position for the future with a permanent improvement of our competitive position. In order to do so, the "Excellence Plan 360°" has been designed and launched, focusing on those operations which are less efficient, correcting their deficiencies and making the right decisions to improve them, promoting initiatives that allow us to complement our range of products in areas that we don't cover yet, with a careful financial management and the permanent goal of generating value for our shareholders in accordance with the social responsibility that as a company corresponds to us.

I would like to finish as always by thanking all the persons being part of the human capital of our company for their work and effort, without them and their effort it would be impossible to reach the goals that we set. I would like to thank as well the permanent effort of an excellent management team, never sparing an effort and who are the evidence of the great talent that we have in Acerinox.

I also thank our Board of Directors for its efficient work in defending the social interests and, in this occasion and due to the changes in the Board that will take place in the next General Meeting, a special acknowledgement to the Directors who are leaving the Board for their loyalty and the good faith they have demonstrated in the time they have performed their functions.

And lastly, the most sincere thank you to all our shareholders for their trust and support.

Sincerely,
Rafael Miranda
Chairman of the Board of Directors

Letter from the Chief Executive Officer

Dear shareholders:

I'm honored to address you once again to inform you about the results of the business year 2018 and explain the context of the stainless steel sector in which we have developed our activity, as well as to inform you of other relevant aspects of our Company.

During the business year 2018 we have obtained similar results to those of 2017 even though in very different circumstances. Net sales, 5,011 million euros, were an 8.3% higher and the highest in the last ten years. EBITDA, of 480 million euros, was only a 1.8% lower, being the second highest in the last decade and the results after taxes and minority interests of 237 million exceeded in a 1.3% those of the previous business year being as well the best one of the already mentioned period.

We have reduced our debt in 9.4% to 552 million euros and debt/EBITDA ratio stood at 1.15 times, a ratio that we consider very adequate for such a volatile sector depending on economic cycles as it is the stainless steel sector. Financial expenses have been substantially reduced and stand at 2 million euros, an amount 89% lower than that of the previous year.

In order to obtain these results we have melted 2.44 million tons in our melt shops and we have processed 1.75 million tons of cold rolled materials , a new record in our history. Our sales in volume increased in a 2.2%.

We consider these results to be positive taking into account how complicated it is to control the business in a framework of such a high volatility, quickly reacting to changes in the market and assuring cash generation and debt level. If the high volatility in variable income markets is remarkable, physical markets of basic materials like ours are becoming every time more similar to them, reacting in the same way, quickly and sharply, to economic expectations.

In 2018 we have seen how the European economy slowed down with a weaker growth in each quarter. If during the first three months of the year the Gross Domestic Product growth was of 2.4% the evolution afterwards was of 2.2%, 1.8% and 1.4% in the last quarter. The Industrial Production Index started the year with a 3.1% in the first quarter and was losing ground, 2.5% in the second, 1.1% in the third and finished the year in negative, -1.1% in the last three months of the business year.

China had a similar performance; its Gross Domestic Product went through a growth of a 6.8% in the first quarter, a 6.7% in the second one, a 6.5% in the third one and a 6.4% in the fourth one. Its Industrial Production Index evolved negatively, 6.8%, 6.6%, 6.0% and 5.7%.

On the contrary, United States' Gross Domestic Product started began the year at a 2.6% and grew a 2.9% in the second quarter, 3.0% in the third one and 3.1% in the fourth one. The US economy surprised again for its strength, sustained by the protectionist measures, trade negotiations and fiscal policies. Therefore its Industrial Production Index had a solid performance; its evolution by quarters was of 3.4%, 3.4%, 5.1% and 4.3%. The geographical diversification of our Company allowed us to take advantage of the good progress of the North American market to which we supply from our Mill in Kentucky.

The perception of this data in the markets marked two clearly differentiated periods in the past business year: the first half, in which we enjoyed the synchronized global growth with optimism, and the second half, in which we suffered the threats of a synchronized global deceleration.

The Nickel price, so important in the formation of the stainless steel price, had a similar performance to that of economic expectations. Starting at a price of 12,690 $/ton on 2 January, it reached rock bottom price on 16 January with 12,415 $/ton and its value increased month by month reaching its annual maximum on 7 June with 15,755 $/ton. Since then it didn't stop decreasing until its annual minimum of 10,660 $/ton on 31 December. Two clearly differentiated periods, one lasting 156 days in which the price increased in 3,060 $/ton and a second one of 209 days in which it decreased 5,155 $/ton. From this point of view, the year 2018 had more bad than good, as the stainless steel price transparently reflects the price of nickel and this one sets the trend in the market.

Therefore, we were favored in a very positive first period with an upward trend in prices and inventories growth while we suffered in the second half, especially in the fourth quarter, in which a drastic reduction of inventories in all markets motivated by the fear of a new recession –more than of a deceleration- took place, what might have been an exaggerated reaction. Such is the bad remembrance we have from the last crisis.

Together with the economic situation that conditions real consumption of our products and raw materials that set the trend in prices and short-term activity, the other factors directly affecting our markets are stainless steel inventories all along the supply chain and trade flows, which are very interrelated.

In the last decade we have insisted year after year on the flood of new stainless steel factories and Steel Plants in general that were being constructed in China altering traditional trade flows, and making China monopolize more than 50% of Global Production.

We now start to experience as well the effects of new manufacturers that have cropped up from the so called Chinese strategy of the "Silk Road" or the "One belt one road initiative", intended to increase China's influence in the world, especially in those countries that own raw materials and that are located in maritime trade routes. Such is the case of Indonesia that has made the grand entrance to the stainless steel market, manufacturing 5% of global production in only two years thanks to the Chinese investments carried out in a country without a big consumption of stainless steel but with great reserves of nickel ore .

In the context of this new order, the pressure of surplus production in consuming markets came by the hand of disloyal competence practices which have prompted the proliferation of protectionist measures in the last years as those taken by Europe against China and Taiwan in 2015, by the United States against China in 2017, and by almost every country against the others in a complex process of globalization in which trade barriers have become a crucial factor in our sales strategy that as you may remember, places us in more than 80 countries of the 5 continents.

There are two decisive events worth the mention during 2018 that have been crucial or our results. On one hand, the imposition of tariffs of a 25% in the United States, and on the other, the decision to establish safeguard measures in Europe. Because of their importance for our business, I believe it is worth to detain ourselves to explain these events.

The American administration decided on 8 March 2018 to implement the mechanisms known as "Section 232 of the Trade Expansion Act of 1962" based on the negative effect that it considered aluminum and steel imports could have against its national security, considering both materials of a strategic importance for the country. As a result, tariffs for a 25% for almost all the countries were established except for those who agreed to reduce their exports a 30% such as South Korea, Australia, Argentina and Brazil.

Logically, the effect of these measures was the reduction of imports, what we estimate dropped around 16%. In light of this situation and the good shape of American economy, we could increase production in this country while stainless steel prices recovered more than reasonable price levels.

The European manufacturers, ourselves included, quickly asked the European Commission to establish safeguard measures in order to avoid the deviation to our market of those materials that were no longer exported to the United States and that would harm an already saturated market by Asian imports of the previous years. Even if on 18 July provisional safeguard measures were established, the period of time between the publication of American tariffs and that date and the way in which the provisional measures were applied prevented the well-functioning of this mechanism and didn't have the desired effect. Imports to Europe grew even a 7% more, doing so at a disordered pattern which provoked the increase of inventories in the market and the fall of prices.

Fortunately, the definitive measures adopted on 1 February 2019 corrected the great part of previous mistakes and it seems, even if only a few months later, that they will be able to stabilize our market.

At last, the Asian markets suffered and still suffer the trade barriers imposed in the United States and the European Union due to the excessive steel production overcapacity which had been installed, mainly in China and Indonesia, in the last decade and which has provoked that stainless steel prices fall to unsustainable levels for those who follow the criteria of profitability, transparency and free market.

In this context we have developed our activity, adapting the production of our new factories to the market reality. North American Stainless could benefit from the good shape of American market, while the rest of units had to adapt to a situation caused by the fierce competence and, especially, the great damage at the European market in the last quarter of the year. With high inventory levels and prices in continuous decrease we decided to reduce production and carry out an inventory adjustment in order to guarantee cash generation and debt reduction at the same time as we avoided transferring the bad situation to the 2019 business year.

Quarter by quarter we started the year obtaining an EBITDA of 118 million euros in the first quarter, a 39% lower than the same period of the previous year that as we recall was exceptionally good because of the increase in raw materials. During the business year we cut down distances and we were able to improve 151 million in the second quarter and 154 million in the third one. Unfortunately together with the publication of the good results of the third quarter that made the whole business year widely exceed a 14% those of the same period in the last year, we were obliged to anticipate the abrupt change of the market for the last part of the year. In the fourth quarter EBITDA decreased to 58 million euros after an inventory adjustment of 22 million euros with which the year totaled 480 million euros, only a 1.8% lower than that of 2017. So to say, we were close to make it.

Nevertheless, the measures adopted allowed cash flow generation to reach 171 million euros after carrying out investments for the amount of 155 million euros. After 124 million euros in dividends, the rest of the cash was allocated to debt reduction.

The control over working capital and cash generation are critical in a cyclical and volatile sector but our confidence have made us recommend an 11% increase of the shareholder remuneration to 0.50 euros per share which will be accompanied by a share buy-back program which, at a first phase of 2%, will be submitted to the Shareholders' General Meeting.

It is worth noting how the new investments in Acerinox Europa factory, the new ZM-7 cold rolled sendzimir Mill, the new AP-5 annealing and pickling line and the total remodeling of one of its old lines AP-3 began to be operative during 2018 and are running as expected. These new investments, like others before, will contribute to improve our quality and costs and keep our equipment updated. The investment rose to 144 million euros in the business year from which a 61 % was allocated to Spanish installations.

Stainless steel is a great product that is in continuous growth, according to our estimates around 5.5% in 2018. It is an extraordinary material that keeps contributing to the economic development and is still finding new areas of application thanks to its resistance to corrosion, its mechanical properties and its appearance, the durability of the products manufactured with this material and its *capacity to be recycled again and again, makes it suitable for sustainable development and circular economy. We expect that this growth will quickly absorb the installed overcapacity and will soon enable to reestablish loyal competence at the international markets.*

Meanwhile, we continue to working to improve our competitiveness. The past business year was the last year of our V Excellence Plan, plan with which we have had ten years of continuous improvements in efficiency and productivity. In this edition we achieved the 55% of the goals, that is to say, we had annual savings of 27 million euros.

During the business year we developed what will be the basis for our competitiveness and that we refer to as "Excellence 360°", a new 5 year plan with which we expect to make annual savings of 125 million euros at the end of it. In it we have integrated the improvements that we had been achieving thanks to the traditional techniques with those that we now have in our hands thanks to digital transformation. The capacity to install sensors in our equipment, connectivity, the speed of information processing, advanced data analysis, vision and artificial intelligence among other technologies will bring us very relevant improvements in the control of processes and the optimization of our production and sales capacity. They will enable us to advance towards a new productivity and efficiency standard, anticipating ourselves to problems, improving qualities and Customer Service. We are very excited with this project that we announced in February 2019 because it is going to allow us to simplify the transformation process, granting it of a clear economic meaning from the beginning.

When we talk about competitiveness, I must once again make reference to the high costs of electricity in Spain that are putting at risk the viability of Spanish industry. For industries like ours that compete at an international market, both raw materials and most consumables we use, are acquired in global markets with international prices. At the same time, our selling prices aren't different to those of our competitors. Only two assets of our costs have an exclusively national component, electric energy and workforce. Spain can't compensate the prices of electricity with cheap workforce. The other factor of processes efficiency is handled by those companies –like ours- that have to compete with great efforts against the traditional disadvantage that we have suffered but that now has become an excessive charge.

In this Annual Report 2018 we have tried to explain in detail all the most relevant aspects for our activity, the situation in the main markets, our sales and productions, the financial situation and our income statement that illustrate with absolute fidelity the situation of Acerinox. You will also find the non-financial information record that we already audited last year anticipating ourselves to the new legislation. I hope you enjoy the reading.

It is worth noting the great advances we are achieving in accidents reduction, having reached last year the lowest rate of accidents in our history. The goal in this field can be no other than zero. Security is the most important aspect of excellence in operations.

We are working to be more sustainable and a good example of it is the fact that the CO2 that Acerinox emits in its production process is 30% lower than the sector's average. We want to keep *progressing in recycling and we are firmly compromised with circular economy. Not in vane we are one of the biggest Spanish recyclers thanks to the scrap we process in our installations and that we transform into stainless steel of quality.*

We are also committed with equal rights and policies, both of race and gender, as it couldn't be any other way in a Company that operates in very diverse Countries across the five continents.

We are increasing year after year the training opportunities of our workforce and we keep incentivizing the Company's collaborations with Universities, Technological hubs and Educational Centers, convinced of the great need we have of attracting and developing talent.

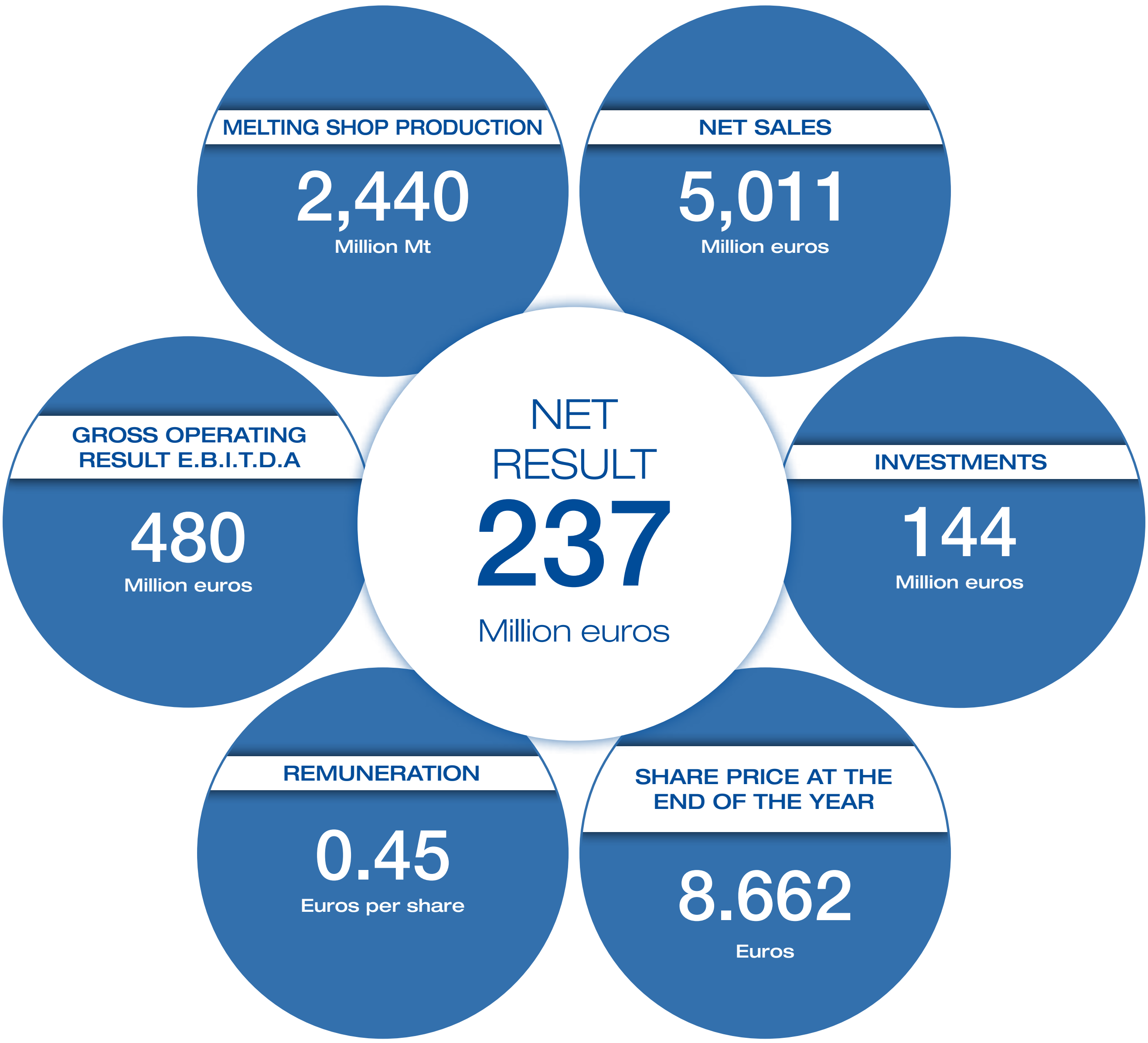
I would like to finish by acknowledging the confidence given year after year to our Company by all of you, shareholders, suppliers, customers and friends. We trust in responding with the effort and dedication of all those who take part of Acerinox' human capital. We have important challenges ahead and I am in no doubt that we will overcome them thanks to the great commitment of all of us and the great motivation we have to keep learning and improving so that Acerinox continues to be the international reference in the stainless steel sector.

Sincerely,
Bernardo Velázquez
Chief Executive Officer


ACERINOX

Management Report

Our Numbers


MELTING SHOP PRODUCTION
2,440
Million Mt
NET SALES
5,011
Million euros
GROSS OPERATING RESULT E.B.I.T.D.A
480
Million euros
NET RESULT
237
Million euros
INVESTMENTS
144
Million euros
REMUNERATION
0.45
Euros per share
SHARE PRICE AT THE END OF THE YEAR
8.662
Euros

Milestones 2018

09 January
The Chief Executive Officer, Bernardo Velázquez, grants the II Acerinox Prize to the student from the Unv. Politécnica of Madrid Almudena Fernández

February 28
Acerinox reports its best results in a decade with 234 million euros in profits

22 March
The new Acerinox Europa lines are launched with the hightest technological and competitive levels in the world

April 27
Acerinox ends the first half with 58 million euros in profits

10 May
Acerinox holds its Shareholders' General Meeting in wich, among others, it approves a new dividend and it proceeds to reelect and ratify several Members of the Board

June 08
Acerinox provides the stainless steel for the construction of the spires of *La Sagrada Familia* in Barcelona

27 July
Acerinox improves its quarter results with profits of 80 million euros

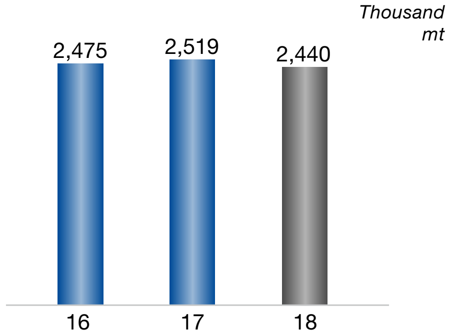
August 15
Acerinox is distinguished by the renowned sustainability indexes: FTSE, GRI

1-30 September
Acerinox Europa modernizes its AP-3 line to expand its range of products with new gauges

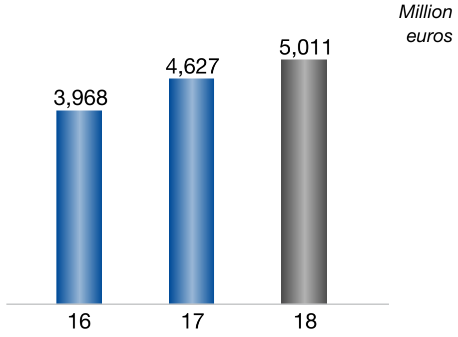
October 26
Acerinox ends the first three quarters with its best results in the last decade: 221 million euros

20 December
Acerinox, S.A. acquires the total of Nisshin Steel chares in Bahru Stainless (a 30% of its share capital)

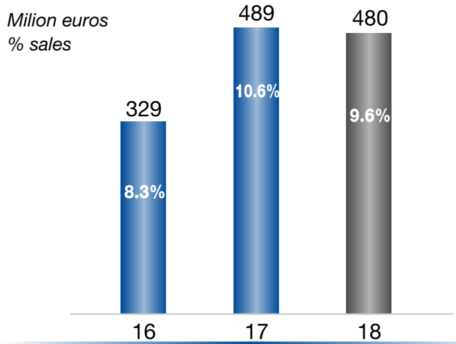
Melting Shop Production



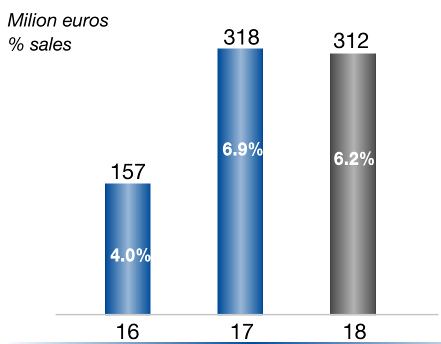
Net Sales



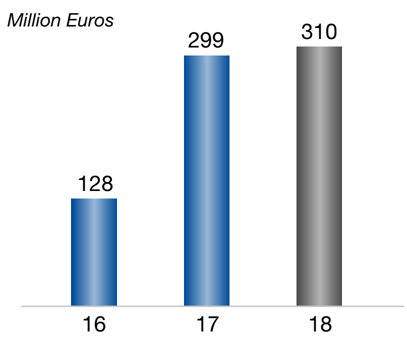
Gross operating result E.B.I.T.D.A.



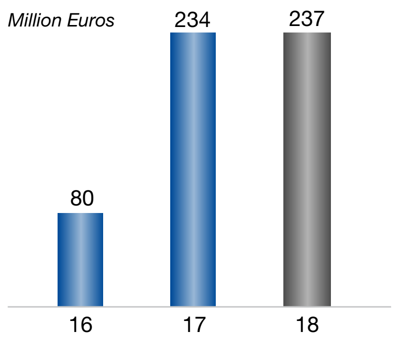
Net operating result E.B.I.T.



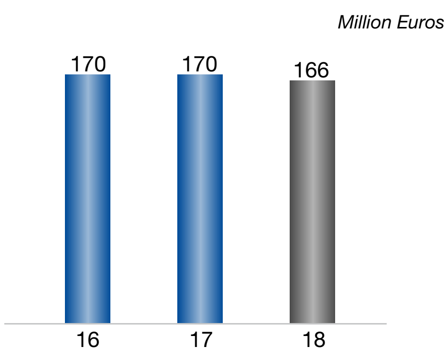
Result before taxes



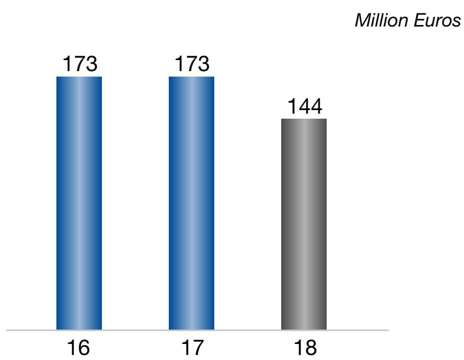
Net result



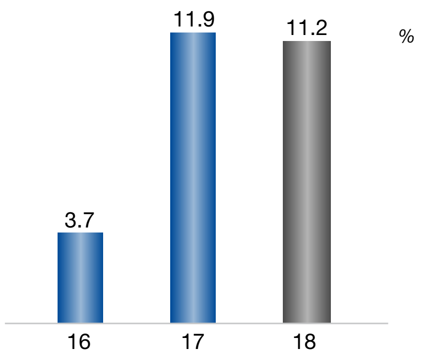
Amortization



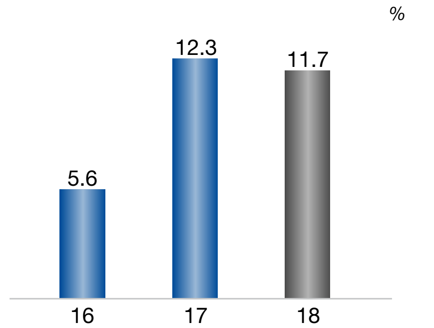
Investments



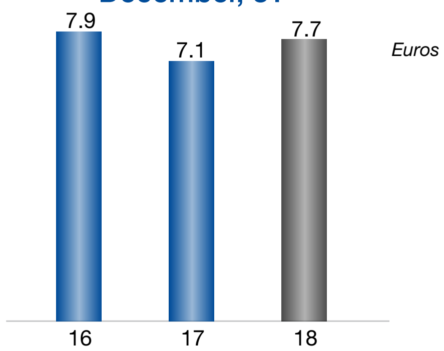
R.O.E.



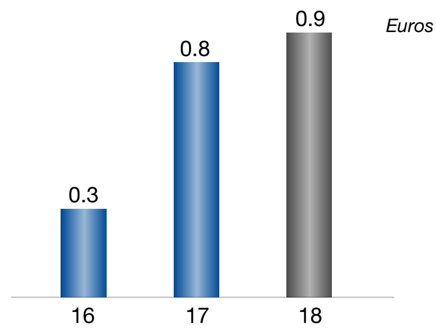
R.O.C.E.



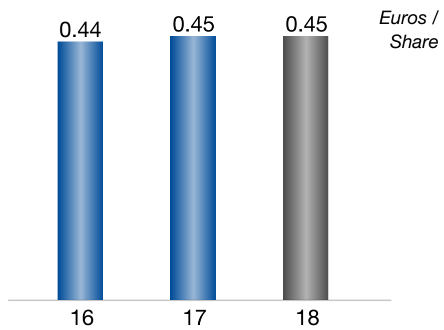
Book value per share December, 31



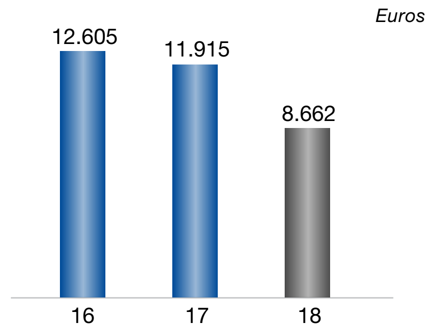
Earnings per share



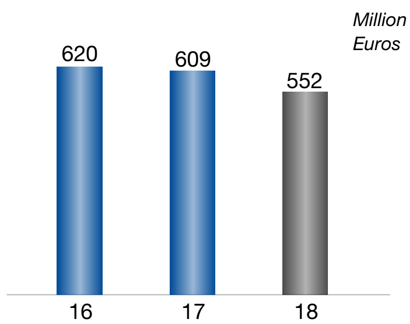
Return to shareholders Dividend



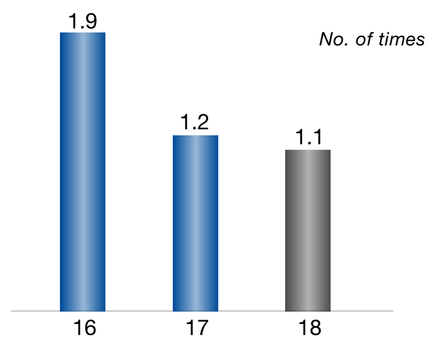
Share value Official close of business year



Net financial debt

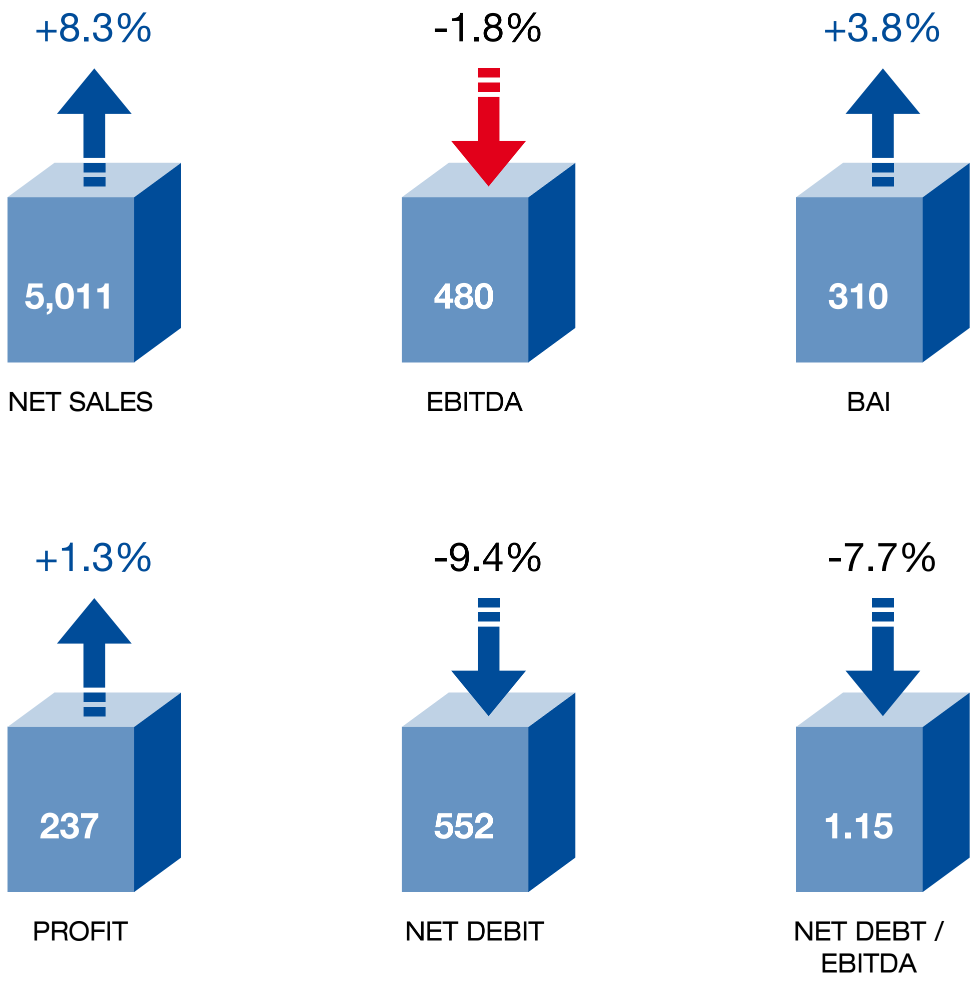


Net financial debt / E.B.I.T.D.A.



Year Results

Million Euros



THE 2018 BUSINESS YEAR ACERINOX OBTAINED PROFITS OF 237 MILLION EUROS, WITH A NET SALES VALUE OF 5,011 MILLION EUROS AND AN EBITDA OF 480 MILLION EUROS, AFTER UNDERTAKING AN INVENTORY ADJUSTMENT FOR 22 MILLION EUROS

ACERINOX PRODUCTION RATES REGISTERED DURING THE LAST BUSINESS YEAR A DECREASE IN MELT SHOP AND HOT ROLLING WHILE COLD ROLLING LEVELS EXPERIENCED A SLIGHT INCREASE WITH A NEW RECORD IN PRODUCTION

THE STAINLESS STEEL WORLD PRODUCTION GREW (A 5.5%) FOR ANOTHER BUSINESS YEAR DUE TO THE POSITIVE EVOLUTION OF DEMAND

THE COMPANY'S GLOBAL POSITIONING HAS ENABLED ACERINOX TO MANAGE THE SITUATION PROMPTED BY THE PROTECTIONIST MEASURES IN SOME COUNTRIES

1. About us

The Acerinox Group is the most global stainless steel manufacturer. Its productive network is made up of six factories, three of which are integrated, distributed along four continents: Europe, America, Africa and Asia.

The selling of its products is carried out by a wide commercial network present in 56 countries and having sales in 86.

Acerinox Group's products are commercialized in five continents through a sales network consisting of service centers, warehouses, offices and commercial agents. Acerinox has permanent presence in 14 countries of Europe, 9 of America, 11 of Asia and 2 of Africa, in addition to Australia, in Oceania.

The Group manufactures flat product in its plants of Acerinox Europa (Spain); North American Stainless (USA); Columbus Stainless (South Africa) and Bahru Stainless (Malaysia).

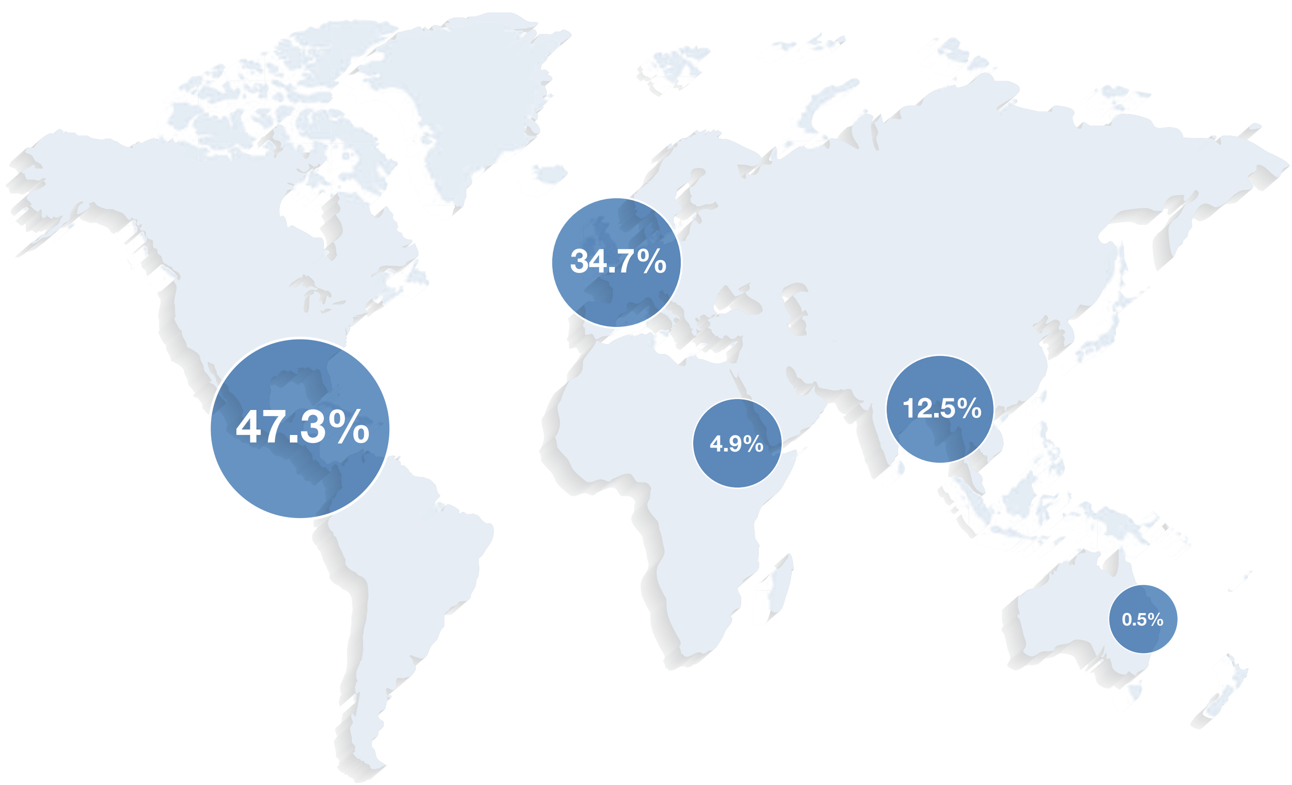
The manufacturing of long product is carried out in the plants of Roldán and Inoxfil (Spain), which mainly supply to the European market; as well as in the North American Stainless plant, whose material is provided mainly to the American market.

Each one of the plants enjoys of a strategic geographical location which offers relevant competitive advantages due to the ease of distribution it offers or rather because of its proximity to raw material supplying sources.

Acerinox Group's main shareholders are Corporación Financiera Alba (18.96%), Nisshin Steel Co. Ltd (15.49%), Omega Capital (5.0%) and IDC (Industrial Development Corporation) (3.19%). Acerinox is listed on the Spanish continuous market and the IBEX 35 index and around 36,300 physical and juridical persons hold shares from the company.

Madrid Head Office

The Group’s Net Sales distribution



We sell in **86** countries

6,709 employees

2.44 Million Mt per year

12,000 customers all over the world

124 Million € shareholders remuneration

5,000 Million € accumulated investment since 1990

1.1 Acerinox S.A. and the Production Companies

Acerinox S.A.

Acerinox SA is the parent company of the Group. The Company gives juridical, accounting, assessment and financing services to all the Group companies. Acerinox SA concentrates the Group's debt.

All of its shares are listed on Madrid and Barcelona Stock Exchanges. As of 31 December 2018 the share capital was made up of 276,067,543 ordinary shares with a nominal value of 0.25 euros each, which were all subscribed and fully paid.

The 10 May 2018, the General Shareholders' Meeting approved the distribution of the dividend in cash charged against unrestricted reserves for a net benefit of 0.45 euros per share. The dividend's payment was made effective the 5 July 2018 and totaled 124,188,003 million euros.

Campo de Gibraltar Mill Auditorium

Acerinox Europa, SAU

Turnovers in million euros

2018	1,482 €
2017	1,483 €
2016	1,267 €
2015	1,397 €
2014	1,432 €

EMPLOYEES AS OF 31 DECEMBER 2018	2,298
MELT SHOP PRODUCTION	781,543 Mt/year
SHARES PROPERTY OF ACERINOX	100%

Acerinox Europa (Campo de Gibraltar, Spain), first Group factory, was inaugurated in 1970 becoming 15 years later the first stainless steel integrated factory in the world (it has melt shop production, hot and cold rolling) and it was the first plant in the world to surpass the million tons manufactured in 2001. The plant enjoys of its own port and a privileged geographical location in the Strait of Gibraltar, with access to the Atlantic Ocean and the Mediterranean Sea.

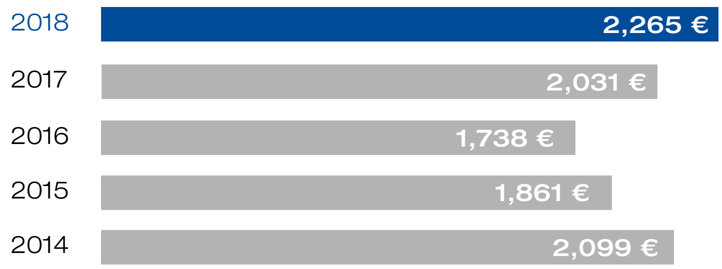
Acerinox Europa provides of flat product to the European market and of long product to the other Group factories.

The plant's production lines are equipped with the most advanced technological systems. Acerinox Europa has very high competitive levels and manufactures stainless steel of the finest quality standards. The equipment installed under the last Investments Plan increased the plant's range of products while reducing both production costs and environmental impact.

Campo de Gibraltar Mill Sendzimir ZM-7

North American Stainless, Inc

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2018	1,506
MELT SHOP PRODUCTION	1,108,672 Mt/year
SHARES PROPERTY OF ACERINOX	100%

In 1990 the Acerinox Group started building an integrated plant, North American Stainless (NAS) in Ghent, Kentucky (the United States).

NAS is considered to be the most competitive stainless steel factory in the world and is the leader of the whole North American continent with a relevant market share.

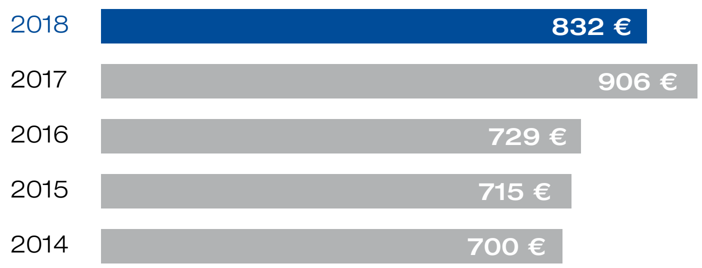
The plant is located a few hours away by road from the main stainless steel consumption areas in the country and it enjoys of its own port at the Ohio River, tributary of the Mississippi River, with access by boat to the Atlantic from the center of the United States.

NAS capacity has been recently extended with new bright annealing and cold rolling equipment to satisfy a strategic demand in several industrial sectors.

Kentucky Factory (USA)

Columbus Stainless, Pty Ltd

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2018	1,297
MELT SHOP PRODUCTION	550,217 Mt/year
SHARES PROPERTY OF ACERINOX	76%

The South African plant of Columbus Stainless (Middleburg; South Africa) joined Acerinox Group in 2002 after the acquisition of a 64% of its shares. It currently holds a 76%.

Columbus is the only integrated stainless steel factory in the whole African continent, where it is a consolidated leader holding very high market shares in all the consuming countries, mainly South Africa.

The plant's location offers relevant competitive advantages due to its proximity to fundamental raw material sources (in this case, ferrochrome).

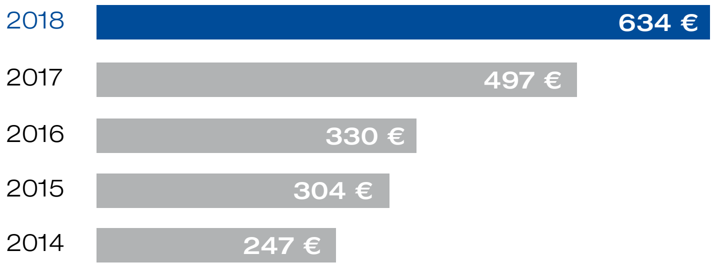
Columbus Stainless manufactures long product which it provides to the South African market and exports to different continents, providing of semi-products to other Group plants as well.

Under the last Investments Plan Columbus installed a new slitting line which improves customer service with cut to size products and enables the plant to increase its exports and sales and to shorten the delivery time.

Middelburg Factory (South Africa)

Bahru Stainless, Sdn Bhd

Facturación en millones de Euros



EMPLOYEES AS OF 31 DECEMBER 2018	574
COLD ROLLED PRODUCTION	276,118 Mt/year
SHARES PROPERTY OF ACERINOX	97%

The last plant to join Acerinox production network was Bahru Stainless in 2009 (Johor Bahru, Malaysia) which stands at one of the most important world trade axis, the Malacca Strait, in which it enjoys of its own port giving it direct access to the most important maritime communication channel in the Indian and Pacific Oceans, with the resulting advantages it implies.

Bahru Stainless has cold rolling equipment and, besides of being the Group's center of reference in the ASEAN area; it receives hot rolled steel coils from other Acerinox plants, thus contributing to optimize the productive capacity of the Group.

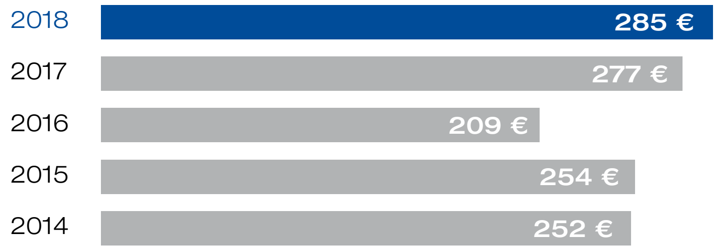
The plant enjoys of the most advanced production lines and ultimate technological systems enabling it to roll stainless steel of the finest quality which it later distributes all over the world, preferably to the southeast of Asia.

In the meeting of the Board of Directors of Acerinox S.A. held the 20 December 2018 and in accordance with the sale option agreed in the Joint Venture Agreement of 15 January 2009 subscribed between Nisshin Steel Co. Ltd. and Acerinox S.A., it was approved the acquisition by Acerinox S.A. of the total of shares from Nisshin Steel Co. Ltd. in Bahru Stainless Sdn. Bhd. (a 30% of its share capital) for the amount of 11.9 million dollars. This acquisition rises Acerinox S.A. participation in Bahru Stainless to a 97%.

Johor Bahru Factory (Malaysia)

Roldán, S.A. e Inoxfil, S.A.

Turnovers in million euros



EMPLOYEES AS OF 31 DECEMBER 2018	513
SHARES PROPERTY OF ACERINOX	100%

Roldán and Inoxfil plants, located in the Spanish towns of Ponferrada (León) and Igualada (Barcelona) respectively, take part of the Group's manufacturing network of long product.

Both factories manufacture their material departing from Acerinox Europa's billet in order to satisfy the needs of their customers, mainly European. Their long product has been essential for the building of some of the most emblematic constructions in the last years.

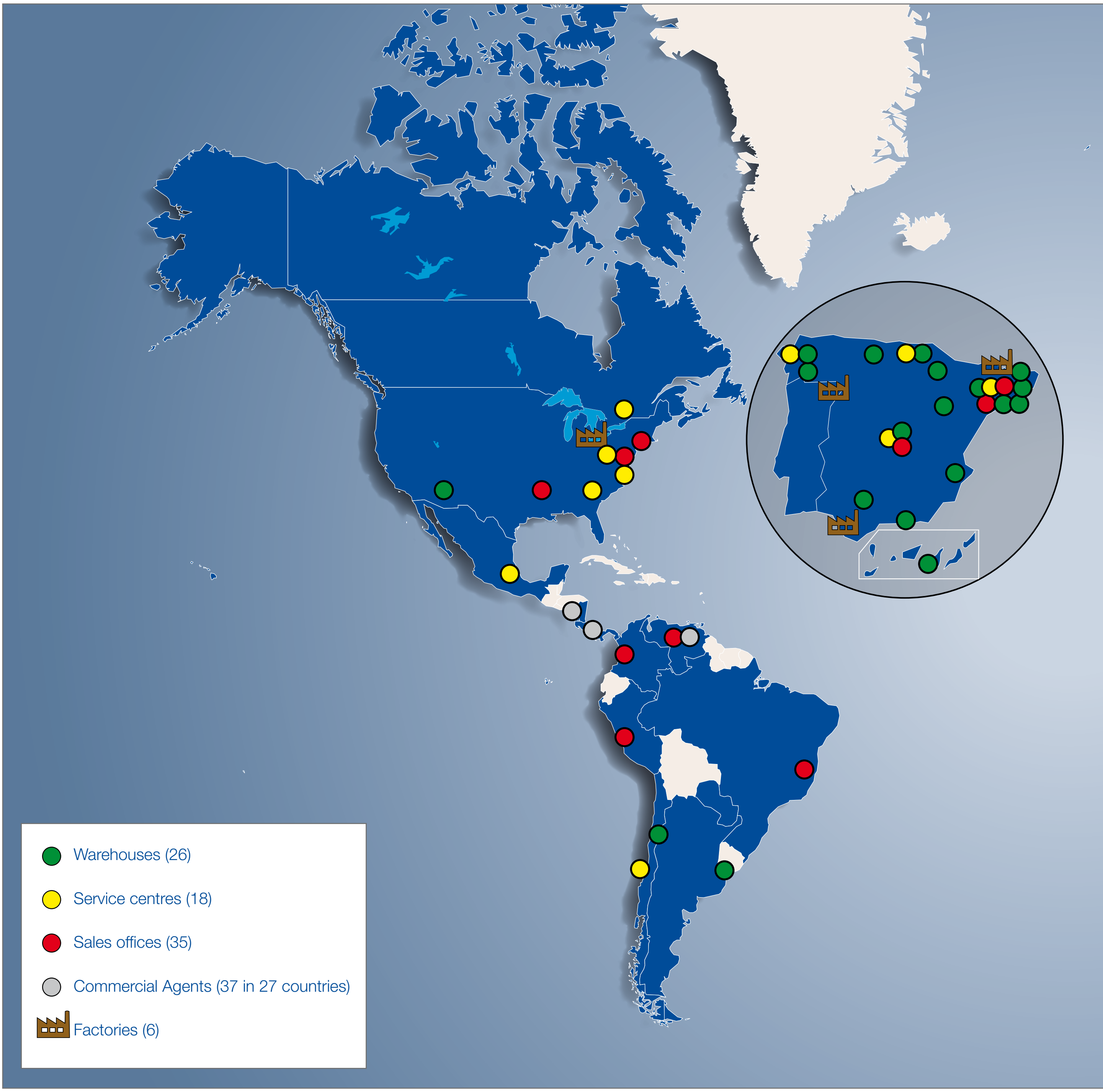
Roldán receives billet from Acerinox Europa with which it manufactures angles and bars and, at the same time, it produces wire rod that it sends to Inoxfil for the manufacturing of wire.

In the last years, several investment plans have been carried out with the purpose of adapting their installations to the current market demands.

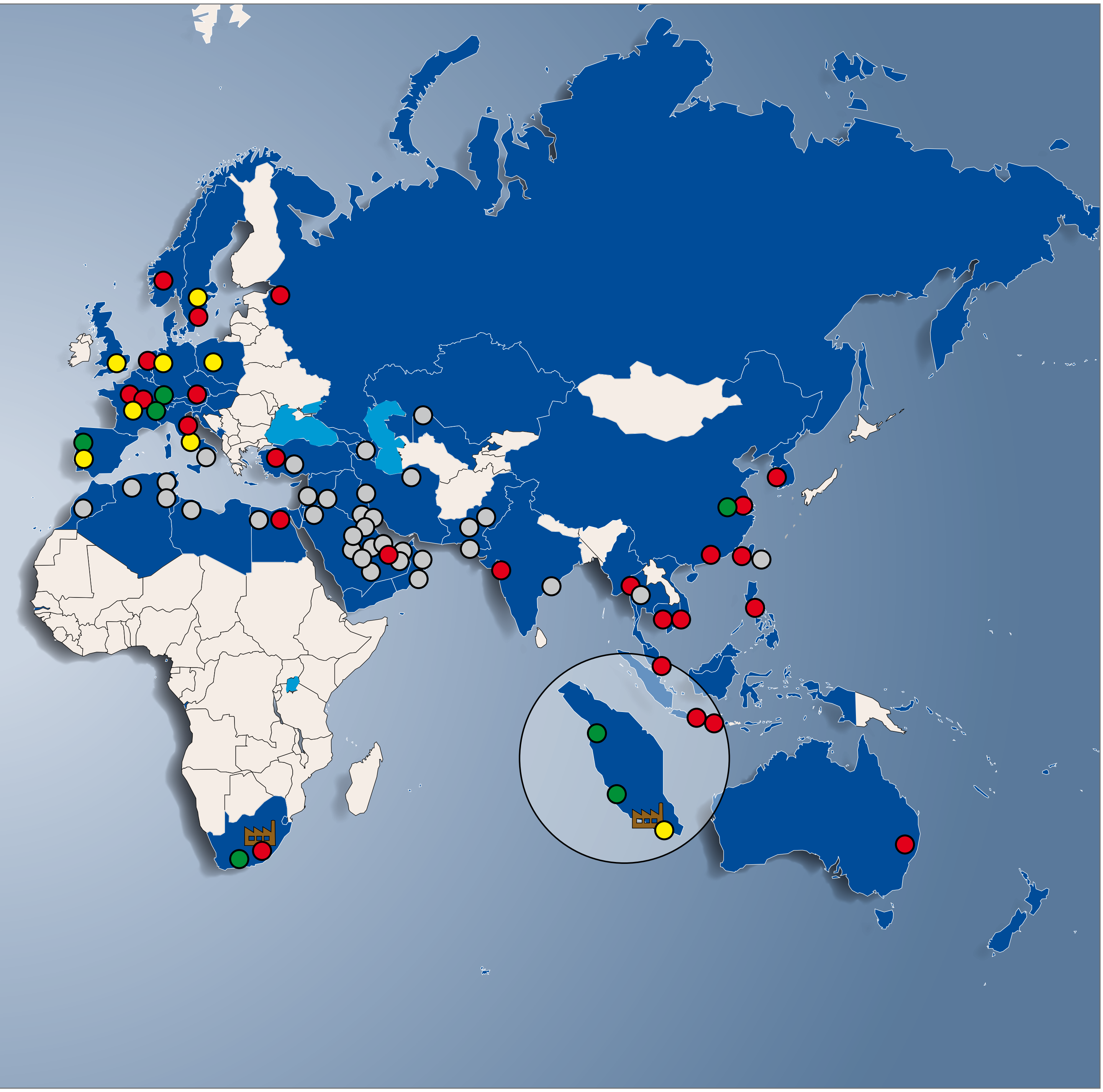
Roldan Factory in Ponferrada (Spain)

1.2 Marketing Companies

The Acerinox Group enjoys of a network made up of 18 service centers, 26 warehouses and 35 commercial offices, in addition to the commercial agents distributed in several countries where there is no permanent office.



This sales structure, as of 31 December 2018, meant that the Group has presence in 56 countries from which it distributes stainless steel to a total of 86 countries in the 5 continents.



2. Acerinox's sector in 2018

During 2018, the world economy kept growing with increases in the most important markets, even if it was also characterized by a deceleration of growth:

G.D.P. Growth (IMF WEO) January 19

	2017	2018e
China	6.9	6.6
Germany	2.5	1.5
India	6.7	7.3
ASEAN 5	5.3	5.2
South Africa	1.3	0.8
Spain	3.0	2.5
USA	2.2	2.9
Eurozone	2.4	1.8

Campo de Gibraltar new AP-5 Line

2.1 The stainless steel market

During the first months of 2018 the final demand of steel had a good performance in all markets, in line with the good evolution of world economy.

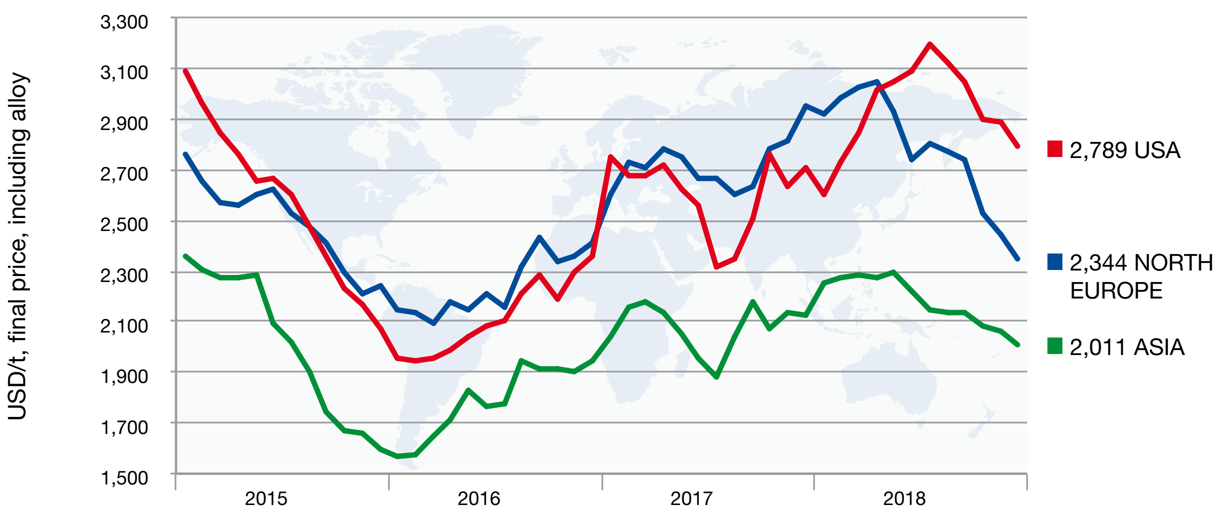
The global production of stainless steel increased a 10% in the first nine months of 2018 in comparison with the same period of 2017, according to the last available figures from ISSF (International Stainless Steel Forum).

The growth in the first three months was concentrated again in Asia, standing out once more China but also Indonesia due to the strong increase in production from the new plant in the country belonging to the Chinese manufacturer Tsingshan, resulting in an oversupply in the Asian market with very negative effects in prices that ended up affecting all markets.

It was also characterized by the uncertainty generated by the great trade tensions which, together with the measures adopted by different countries, affected stainless steel trade flows.

All this created an advantaged situation in the United States; contrary to that of Europe and Asia where prices were pressed downwards from the second quarter of the year on.

Stainless Steel sheet prices I AISI 304 cold rolled 2.0mm 2015 - 12/2018



Source : CRU

2.1.1 Europe

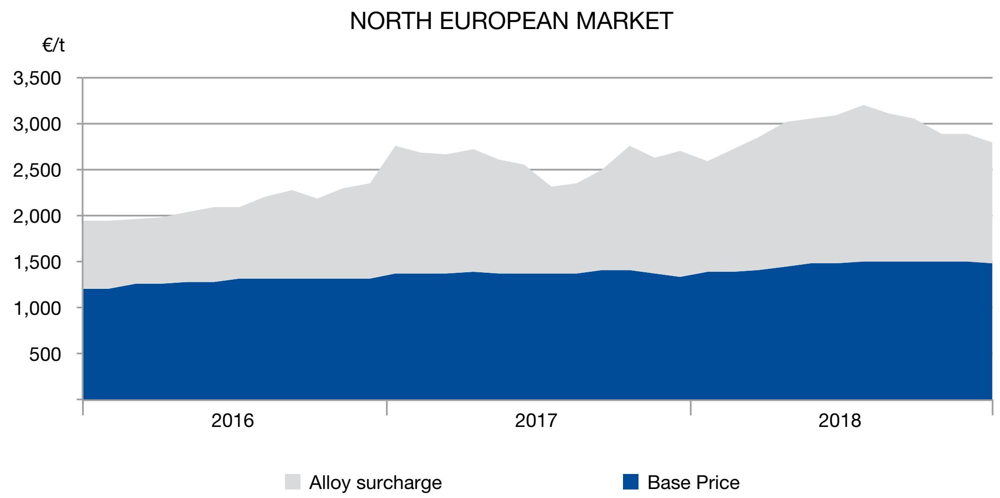
The final demand in the European market evolved satisfactorily during the first half of the year. However, the price differential with Asia, the strength of the Euro and the establishment of protectionist measures in the United States made of the European market a very attractive market for imports, which reached a penetration for long product around 30%.

This increase in supply was translated into pressure on prices. As a safeguard, the European Union approved on 18 July (in force for 200 days) provisional measures with the goal of assuring supply to the European consumers but, at the same time, protecting the European market from the materials deviation, thus maintaining the traditional trade flows.

Despite of these measures, the increase of imports in the previous months as well as in the period immediately after their entry into force exerted a great pressure over prices since July.

These circumstances together with the quick decrease in apparent consumption in the last part of the year due to the high inventory levels provoked a strong correction in the market during the fourth quarter, what we estimate made annual apparent consumption decrease nearly in a -2%.

Stainless Steel sheet prices | AISI 304 cold rolled 2.0mm 2016 - 12/2018



Source : CRU

The same phenomenon was also reflected on inventory levels, which reached their maximum in the third quarter and were corrected in the last quarter.

The Russian and East European markets remained stable with a growth in imports from Asia (especially by the end of the year) coming from China and Taiwan.

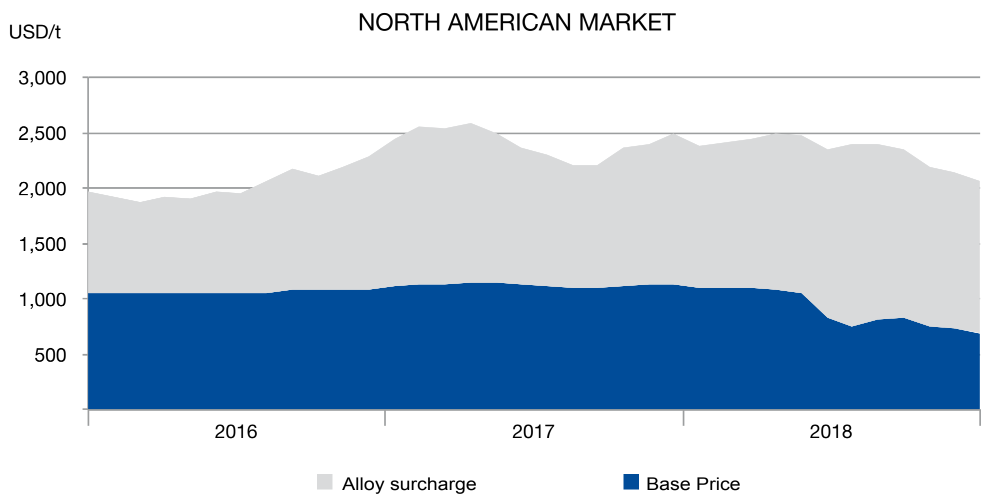
2.1.2 America

The American market had a good performance, both in consumption and prices, due to the good shape of its economy. Nevertheless, a correction of inventory levels provoked a -1% decrease in apparent consumption.

According to the available data by October, flat product imports decreased a -16% due to Section 232 tariff measures.

Regarding consumption sectors, the United States experienced a general growth in construction and household appliances and a correction in the automotive sector, as it occurred in other regions, despite of its relevant growth in previous years.

Stainless Steel sheet prices ($) | AISI 304 cold rolled 2.0mm 2016- 12/2018



Source : CRU

On the other hand, Mexico was affected by three fundamental factors such as the presidential elections, the trade barriers from the USA and the uncertainty concerning the new NAFTA agreements.

Regarding to South America, apparent consumption in Brazil remained constant at high levels, still representing a 70% of South American consumption.

2.1.3 Africa, Middle East and Turkey

The South African economy grew once more in 2018, even if at a slower pace as expected.

South African apparent consumption recovered itself going back to last years' average levels, helped by demand's rebound in key sectors such as the automotive sector or the holding tanks industry, improving Columbus' sales in the domestic market even if imports also increased.

From the rest of the continent it stands out Egypt, where Acerinox opened an office by the beginning of the year and which experienced a market recovery both in public and private investment. Acerinox provided of material to some of the most important constructions in the country such as the Grand Egyptian Museum or the Suez Canal tunnels.

Demand in the most important market in the region, Turkey, suffered a fall in several key sectors such as white line influenced by the Turkish lira crisis and the rise of interest rates, what paralyzed new investment projects.

2.1.4 Asia

The Asian market evolution was characterized by the supply surplus in the region and the strong increase of production in Indonesia. These two circumstances kept prices in Asia way below the rest of markets during the whole year.

Still, from the point of view of demand, Asian markets had a good performance in general, standing out China where apparent consumption kept growing over production, a 7% and 3% respectively, reducing the Asian Giant's surplus as it is drawn by the available statistics on a downward trend in exports for the first time in many years. Nevertheless, it has to be considered the strong increase in exports of the Chinese manufacturer Tsingshan from its new plant in Indonesia.

By sectors, in China it is worth noting the good performance of the majority of sectors along the year with the solely exception of the automotive sector, which according to data from CAAM (China Association of Automobile Manufacturers) registered its first decline in terms of vehicles production since the 90´s, of a -4.2%, and a -2.8% decrease in sales, according to the last available data.

In the ASEAN region Acerinox sales increased once more thanks to Bahru Stainless mill supported by a healthy demand. Still, the pressure on prices because of the irruption of the Chinese manufacturer Tsingshan in Indonesia was felt in the region.

Hong Kong to Makao Bridge built with stainless Steel Reinforced bars.

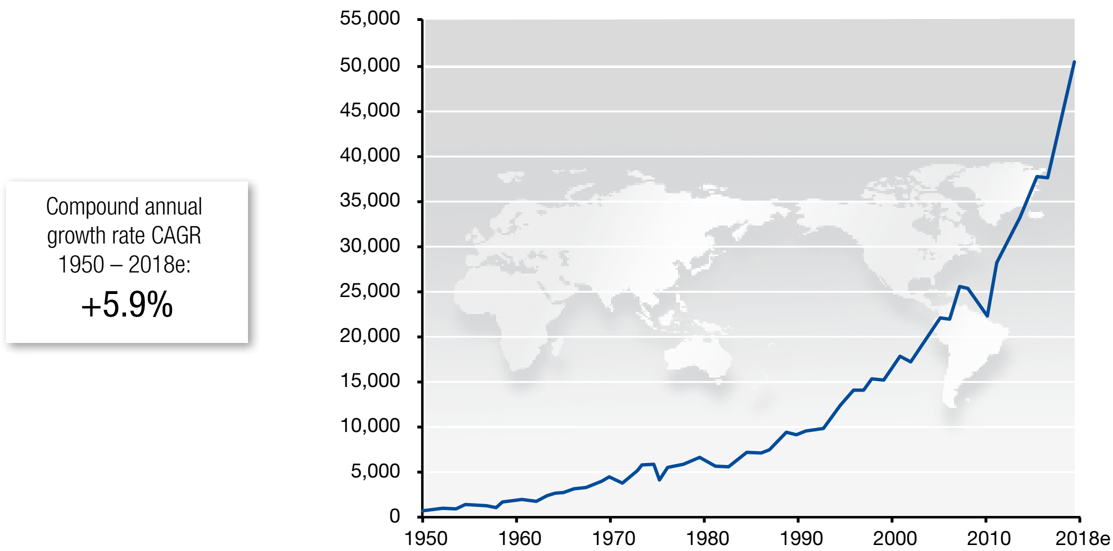
2.2 Global production of Stainless Steel

According to available data from ISSF by September, production in the first nine months of 2018 rose by a 10.0% in comparison with the same period of 2017.

Pending on the last definitive figures for the fourth quarter, Acerinox estimates a yearly growth around 5.5% in 2018 after the strong correction experienced in the fourth quarter.

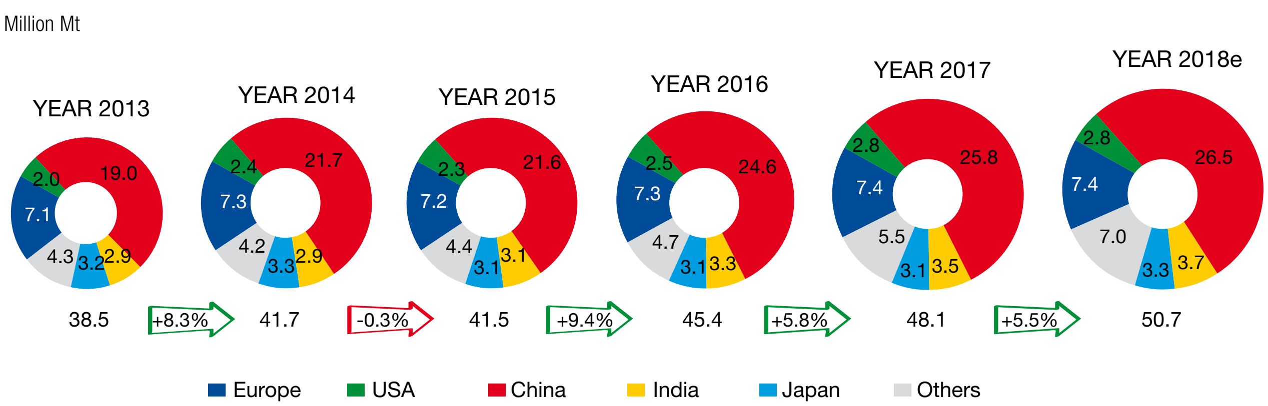
According to the estimates, the global steel production in 2018 has been of 50.7 million tons.

Global production of stainless steel 1950 – 2018 (e) million tons.



The main manufacturer was again China with a 52% of global production.

World melt shop production evolution



Evolution of world melt shop production

		1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Year 2017	Thousand Mt.	11,664	11,335	12,536	12,545	48,081
Year 2018		12,774	13,146	13,184	11,636	50,740

Melt shop production by country/region

		2017	2018e	Variation
Europe	Thousand Mt.	7,377	7,377	0.0%
USA		2,754	2,836	3.0%
China		25,774	26,546	3.0%
India		3,486	3,710	6.4%
Japan		3,168	3,283	3.7%
Others		5,522	6,987	26.5%
TOTAL		48,081	50,740	5.5%

Source: ISSF, Acerinox

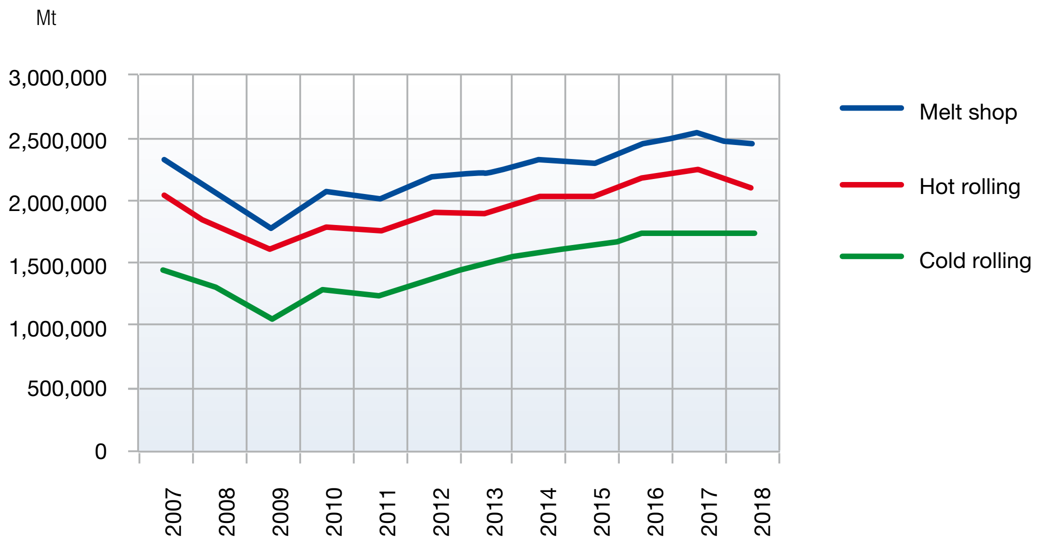
Campo de Gibraltar Hot Rolling Mill

2.3 Acerinox Group production

Acerinox productions during 2018 business year registered a decrease both in melt shop (-3.1%) and hot rolling (-4.9%) which remained stable, with a slight increase in cold rolling (+0.8%).

The Group's melt shops manufactured 2.44 million tons of stainless steel, while 2.12 million tons were hot rolled and 1.75 million tons were cold rolled, being this last figure a historical record for the company.

Total official production of Acerinox factories evolution

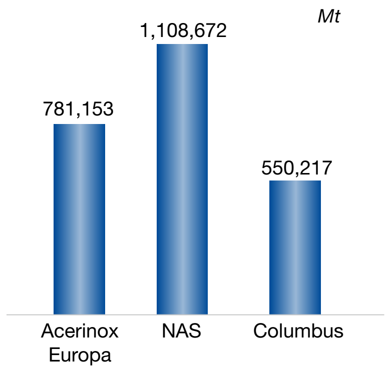


The factories manufactured an 8.9% more of long product than the previous year, totaling 233,900 tons.

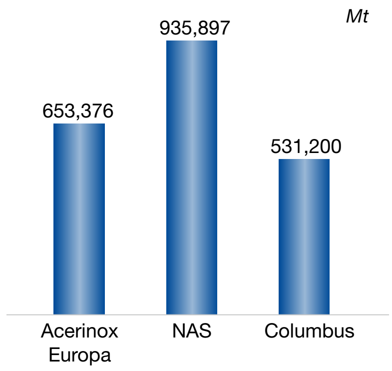
Quarterly evolution of the Group's production

Thousand Mt.	Year 2018					Year 2017	2018 / 2017 Variation
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Accumulated	Ene-Dic	
Melt shop	668,071	639,232	616,669	516,641	**2,440,432**	2,518,919	**-3.1%**
Hot rolled	577,470	560,799	524,466	457,738	**2,120,473**	2,230,678	**-4.9%**
Cold rolled	461,565	470,557	442,737	377,470	**1,752,239**	1,738,240	**0.8%**
Long Product (Hot rolled)	64,602	69,665	60,682	59,679	**254,629**	233,900	**8.9%**

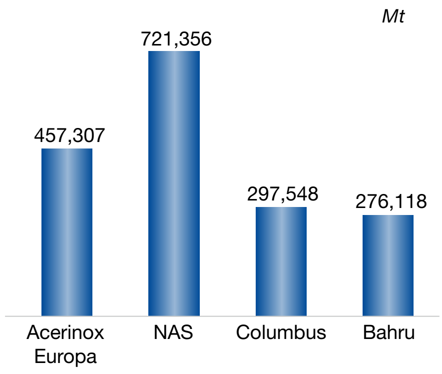
Melt shop production

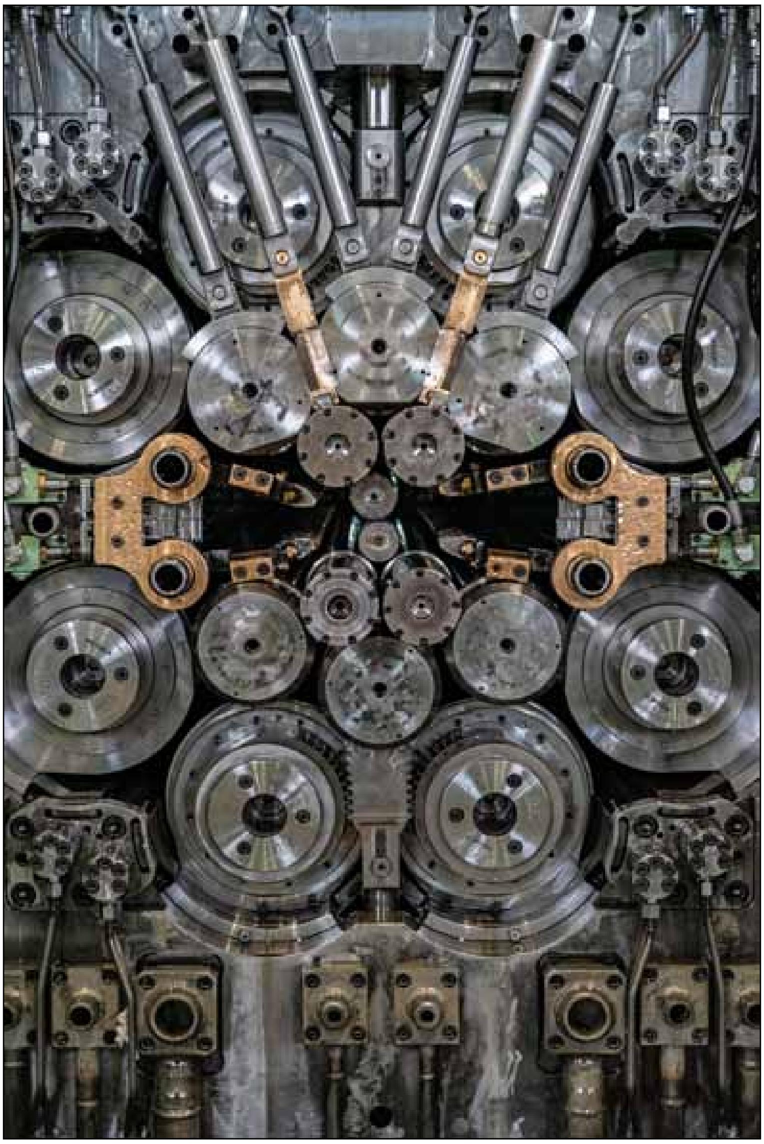


Hot rolled production



Cold rolled production





Campo de Gibraltar Mill Sendzimir ZM-7

3 Raw Materials

The improvement in consumption enabled an increase in prices during the first half of the year. However, the uncertainty generated by trade tensions as well as the doubts upon the global economic growth entailed a setback in prices during the last half of the year.

Nickel

Nickel prices started the year 2018 with an upward trend motivated by the improvement of consumption both in the stainless sector and in other applications, mainly electric batteries. However, it demonstrated a great volatility as it proves the rise in one day, 19 April, over 15,700 USD/Mt due to the fear of sanctions to Russian manufacturers by the United States.

Prices reached their maximum at 15,755USD/Mt by the beginning of June, a level not seen since 2014. The second half of the year was marked by a continuous decrease in prices motivated by lower consumption as well as the worsening of economic expectations, finishing the year at 10,660 USD/Mt.

The continuous decrease of nickel stocks couldn't stop the downward trend in prices. The London Metal Exchange reduced its inventory levels in 160,212 Mt finishing the year with 206,400 Mt and the Shanghai Metal Exchange reduced it in 28,957 Mt finishing the year with 15,259 Mt.

It is worth noting how, even if the inventories decrease is partly related to physical consumption, it has also been relevant the use of nickel in financing agreements as well as the distributors' positioning in light of the expected future consumption increase in the electric car batteries sector.

2018 has been the third consecutive year with a negative supply-demand balance, with an estimated surplus of 125,000 Mt.

Indonesia keeps gaining relevance in nickel's sector with an estimated production of 250,000 Mt in 2018. China has also increased its production to 470,000 Mt despite of the uncertainty generated by the environmental protection measures announced in the country.

Official nickel price in the L.M.E – year 2017 – 2018

Average spot price / three months in USD/Mt.

Ferrochrome

As it has been usual, China's role as main producing and consuming country is the key factor in ferrochrome market evolution.

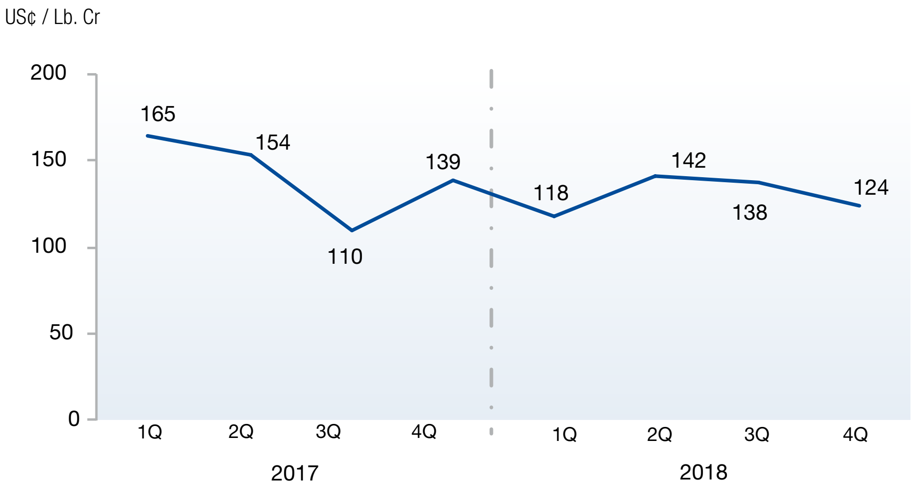
The equilibrium in chrome mineral prices, mainly in South Africa where they are needed for local ferrochrome production, and the import prices of these ferroalloys in China are determining international prices.

Prices started the year with a 21 US¢/Lb decrease in light of the fall in prices by the end of the previous year and the beginning of 2018, finishing the first quarter at 118 US¢/Lb.

The growth in global demand as well as the announcement of the possible closing of several manufacturing plants in China for environmental reasons enabled a price recovery in the second quarter reaching the 142 US¢/Lb.

Nevertheless, a lower demand in the second half and the supply surplus in China prompted the fall in prices in the third quarter to 138 US¢/Lb and a new fall in the fourth quarter, finishing at 124 US¢/Lb.

Average quarterly prices of ferrochrome



Molybdenum

The supply-demand balance of molybdenum has suffered a slight deficit during 2018.

The growth in world demand levels, mainly in the energy sector, together with the stock replenishment process provoked by the initial uncertainty concerning lack of supply, enabled an increase in prices during the first months of the year reaching its annual maximum at 13 US¢/Lb by the beginning of March, levels not seen since 2014.

Once the doubts about supply were dissipated, prices decreased to their annual minimum of 10.6 US¢/Lb by the end of June. A new stock replenishment period mainly leaded by the Asian market provoked an increase in prices during July, standing at 12.6 US¢/Lb by the beginning of August.

Despite of the economic uncertainty, the good performance of molybdenum steel demand together with the good shape of the chemical sector kept price levels quite stable around 12 US¢/Lb until the end of the year.

Molybdenum price

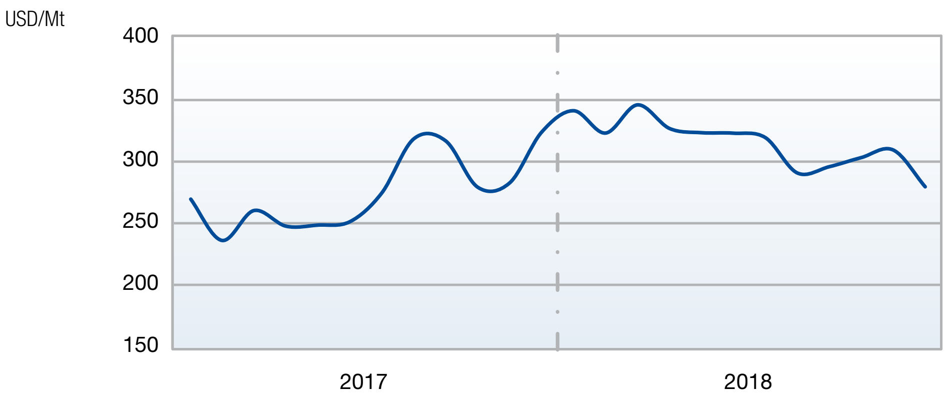
Ferric scrap

A healthy demand enabled an increase in prices, reaching its annual maximum of 346 USD/Mt by March. As it is the case with other raw materials previously mentioned, these prices were not reached since 2014.

The uncertainty generated by the announcement of trade actions by the United States and their possible consequences provoked a correction of prices in the following months, which was stressed in August by the Turkish lira crisis. Turkey is the world's major ferric scrap importer and the possible impact in its demand entailed a strong decrease in prices down to 290 USD/Mt.

Despite of prices' gradual recovery partially due to the import activity in other countries such as South Korea or India, a weaker global demand and the macroeconomic uncertainty provoked a new fall in prices, shrinking back to annual minimum levels with 280 USD/Mt by December.

Prices of Ferric Scrap HMS 1&2 FOB Rotterdam



4 Human Capital

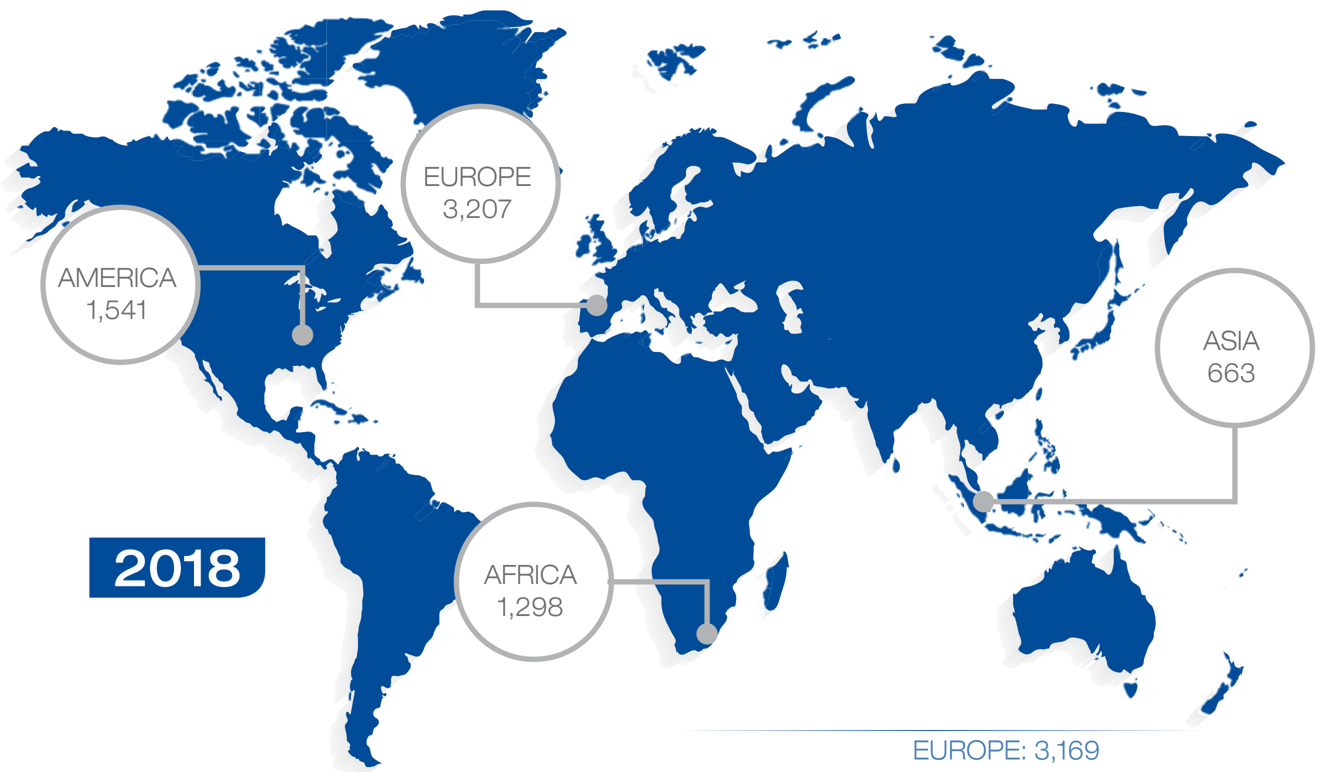
Acerinox is a global company, what can be clearly observed in the geographical distribution of the 6,709 employees forming part of the Acerinox Group as of 31 December 2018.

Total employees of the Group

2016	2017	2018
6,573	6,742	6,709

More than a 65% of the Group's workforce works outside Spain, where the Group has its headquarters. Almost a 55% works outside Europe.

Number of employees as of 31 December 2018 by geographical location:



2017
EUROPE: 3,169
AFRICA: 1,435
ASIA: 657
AMERICA: 1,481

During the last business year, NAS and Acerinox Europa staff grew as consequence of the new investments, even if the total number of employees decreased from 6,742 to 6,709.

Acerinox staff is characterized by its low turnover and its sense of pride and belonging to the company which, together with good working conditions, training, international projection, the perspective of a stable job and the preference for internal promotion are the guidelines followed by the Group's Human Resources policy.

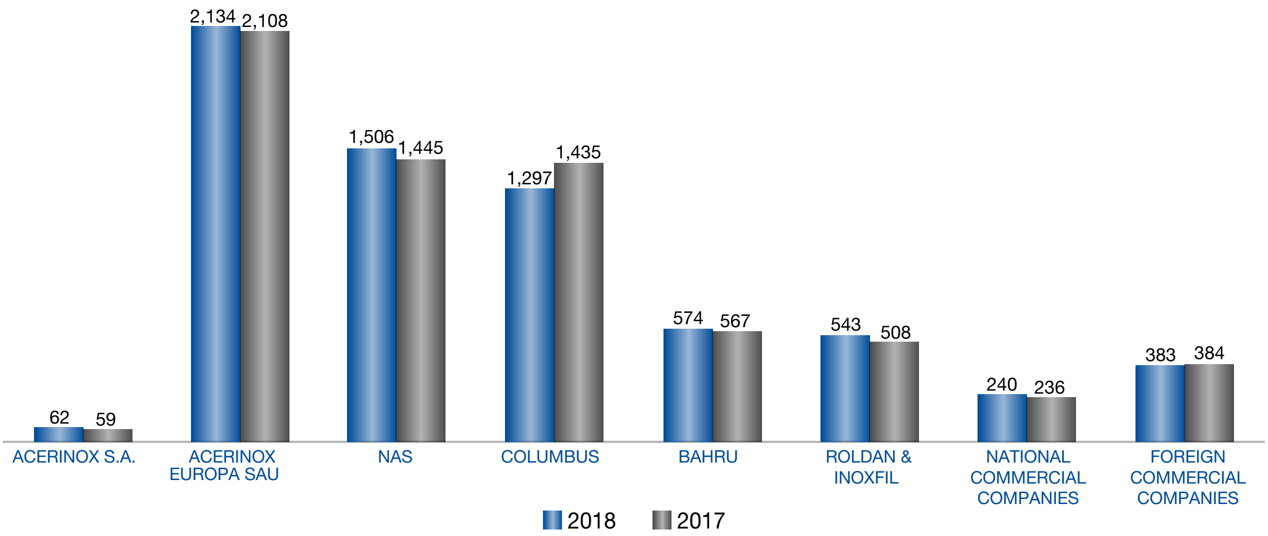
Acerinox and all its companies bet for the indefinite contract as the contractual relation with its employees and 90% of its workforce enjoys of such a relationship with the company.

Acerinox Management and employees enjoy as well of wage development according to production and results, having suppressed the automatic appliance concepts from the collective agreement.

Acerinox keeps a close relation with university institutions worldwide in order to capture and attract talent and to offer interesting working opportunities to recently graduated students.

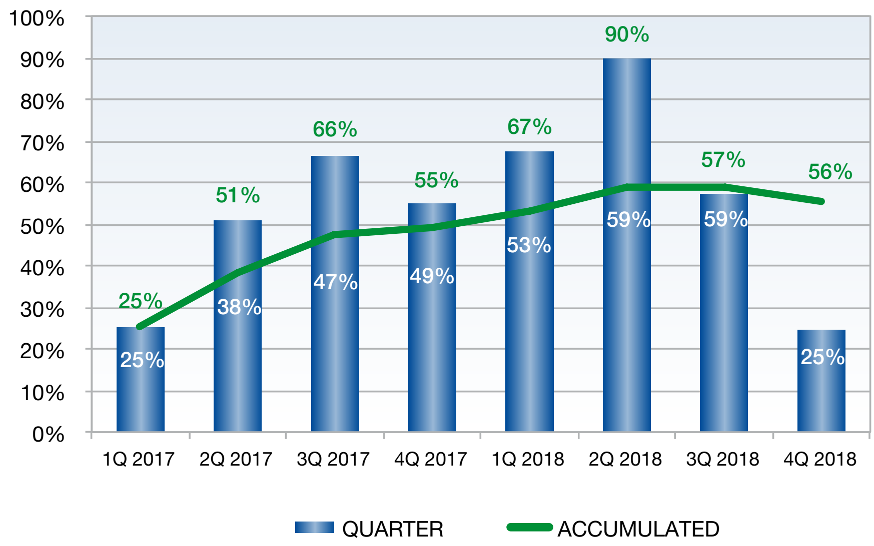
New ideas and constant updating with the ultimate innovations are assets managed by the Group through the more than 30 university and training centers in Europe, the United States, South Africa and Malaysia with which it has a collaboration agreement.

WORKFORCE: 6,709 PEOPLE (6,742 IN 2017)



5 Excellence Plan

V Excellence Plan results



The Acerinox Group finished its V Excellence Plan (2017-2018) which, as in previous occasions, had very positive results in productivity improvements and savings.

Under the recently finished V Plan, Acerinox made more than 27 million euros in estimated total savings while compliance rates reached 90% and finished over a yearly 56%. This Plan consisted of 20 chapters in which new concepts of analysis and improvement were included in order to keep increasing profitability in each process.

The Board of Directors of Acerinox approved the VI Excellence plan for 2019-2020 with an annual saving goal of 45 million euros.

Stainless Steel Reinforced Bar

6 Digital Transformation

Digital Transformation is a key chapter of Acerinox Operative Plan 2016-2020.

In Acerinox digital transformation is understood as a technological enabling element to transform and develop processes as well as a mechanism to boost the business model.

In this new technological ecosystem, Acerinox bets for a strategy oriented towards giving value to data and using them for a more efficient decision-making. This is achieved by putting data in the center of digitalization, therefore incorporating knowledge to the value chain.

The Group's goals are the operative excellence and customer service, the promotion of a new working method and the boosting of our brand. In order to achieve these goals, in 2018 the following projects have been put into place.

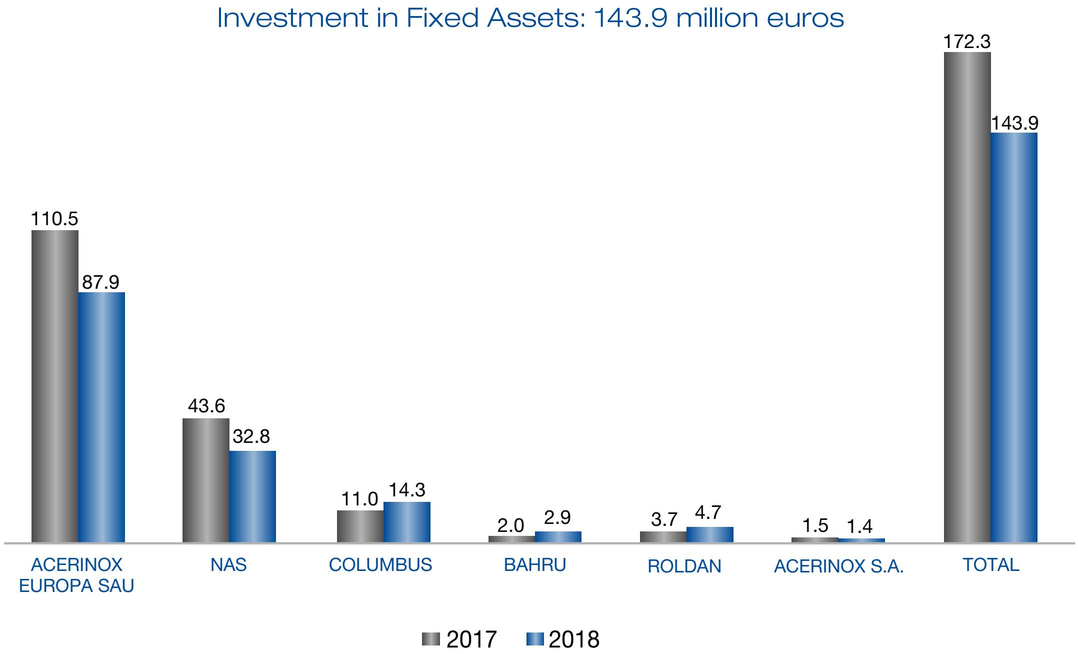
Operative Excellence and Customer Service	A new working method	Brand boosting
• Data governance: Historian Server in all factories • Predictive Maintenance: - Management of assets´ life through *Condition Monitoring* in hot rolling, rollers and pickling and annealing lines. - Portable devices to manage tasks on the move: Working orders and incidences. - Prevention of defects. - Planning oriented towards customers.	• Group Collaborative Tool: - Collaborative work and knowledge management. - Processes efficiency. - Unlimited space in e-mail. - Improve communications inside and outside the Group. - Cultural change. • Product: G Suite / Google	• R+D+i activities: - Develop new steel grades and improve the existing ones. - Optimize production processes. - Develop new applications. - Waste recovery. • Keep collaborating with different groups of interest: Companies, universities, technological centers.

The design of an innovative planning model that integrates all the business areas and incorporates all the advantages that new technologies can offer is being carried out with the aim of improving quality and productivity and giving customers a better service.

In 2018 it was organized the first Connected Industry 4.0 Conference, held in Campo de Gibraltar plant with the collaboration of the Industrial Engineers Association of Andalucía. This event received more than 150 persons coming from industrial and technological companies which participated in a forum to share ideas oriented towards innovation and efficiency improvements of industrial production.

Lastly, 2018 has been the second year of the Chair in Smart Industry of which Acerinox, together with other relevant industrial and technological companies, is sponsor. The Chair is a privileged forum to generate opinion in every topic concerning Connected industry. During this year it has been studied how to integrate robotics in the industry, the Artificial Intelligence's potential, the impact of traceability in the supply chain and finally, the analysis of the digital agenda in the Spanish industry.

7 Investments in Fixed Assets



During 2018 Acerinox continued with its investment policy for new equipment and the improvement and maintenance of the existing one. In order to do so, it allocated 143.9 million euros in 2018 to this concept.

Acerinox Europa plant has the most technologically and competitively advanced equipment since the installation of its new annealing and pickling line (AP-5) that manufactures material of a maximum quality standard and which reduces costs and environmental impact while extending the range of products. As it was specified in the Group's Investments Plan, Acerinox spent 140 million euros in its acquisition and launching.

Furthermore, the plant in Campo de Gibraltar carried out a profound updating of its AP-3 line in order to specialize it in thick gauges and thus complement the products manufactured by the previously mentioned line, providing it with ultimate generation annealing similar to that of the new line in order to equate their qualities.

In addition, new investments of 14.5 million euros were approved for the acquisition of a ladle furnace and a refrigerated vault, for the electric furnace number 2, which will enable a better optimization of melt shop productive processes and improvements in costs and energy efficiency thanks to reducing the consumption of refractory material and electrodes, reducing emissions and increasing furnace availability.

The investments in both of them totaled 87.9 million euros during 2018 business year.

In the North American Stainless plant 32.8 million euros were invested for the purchasing of new equipment.

In addition to the investments required to complete the total investments of 116 million euros with which the company developed a new bright annealing (BA) line and a cold rolling mill in 2017, NAS is constructing a new coil splicing line and new finishing equipment for the amount of 10 million euros.

Columbus Stainless allocated more than 5.4 million euros to the installation of a new slitting line to offer cut to size materials to customers and to increase exports and direct sales to customers from the factory, thus improving the service and shortening the delivery time. A new ladle furnace to which 11.8 million euros were allocated, improved the melt shop productivity while reducing energy consumption and CO2 emissions.

In Roldán factory, the new investments for the installation of new production and control equipment rose to 5 million euros.

Campo de Gibraltar new AP-5 Line

8 R+D+i

In a world such as the Steel industry every small difference matters. Therefore, the Group had clear since its origins the four fundamental axes around which its activity should turn: the product had to be better than that of competitors, the manufacturing process had to be the most efficient, it was precise to constantly find new applications and it all should be combined with a smart managing of generated waste –not only environmental but also economic-.

Each one of the plants has its own research laboratory and all of them maintain cooperation relationships with the universities in their surroundings. Cedinox Association carries out the additional tasks of searching, assisting and supporting those who select –or could select- stainless steel as the material for their projects and orienting them in its applications. The research laboratories search for better and more profitable alloys, explore new product applications and properties and contribute to product standardization and homologation. Many new steel grades are the result of this researching effort.

The Group companies also collaborate with public institutions in joint research programs, sometimes together with companies that could end up becoming future users of the new alloys or to benefit from the new applications discovered. A special mention in this field deserve the projects sponsored by the Ministry of Industry of Spain through CDTI (Center for the Technological Industrial Development) and CSIC (the Superior Council for Scientific Research) or the creation of the Chair in Smart Industry. In the USA we have deepened once more our relationship with the Engineering School of Louisville (Kentucky) and in South Africa with the University of Pretoria.

The R+D+i laboratories work in close association with the several workshops. Out of this coordination many improvements in the production process, time reduction and increase of the average quality have arisen.

A special chapter in which the Group companies have increased their researching efforts in the last years has been that of waste recycling. Recycling is not only inherent to Acerinox factories manufacturing –factories that mainly use ferric scrap as raw material- but there is also an additional effort to take care of the environment while obtaining profits from it. Melt shop wastes could be an additional source of metal; the household application batteries, once being eliminated their contaminating elements by authorized companies, are a cheap source of nickel; steel lags could be a good source for the construction of roads and there are even being studied the properties of some wastes to –in some occasions- absorb part of the atmospheric CO2. The Group laboratories are making efforts to recycle lags, paper, plastic, acids and any kind of scrap generated by our processes. Not taking these into account, 59,000 Mt of waste have been recovered as can be observed in the GRI Report 2018.

Many of the world best experts in stainless steel production are employed by the Group. The Company, being conscious of the potential in knowledge of its workforce, rewards every year the research on new productive processes, security management and environmental impact improvements with the annual "Rafael Naranjo" Awards.

The jury for this 2018 Edition was composed of professionals with a renowned prestige in the steel and business worlds. Several prizes were awarded totaling 45,000 euros. The first prize, the Quality and Progress Award, rewarded with 15,000 euros was granted to the project ‘Anti-tipper mechanism for the steel mill electric furnace 2’, presented by the Mechanical maintenance group of Acerinox.

In addition, in the Environment and Security categories three more prizes were granted to the projects: ‘Raising the temperature of the material at the entrance of the finisher due to the reduction of the time between passes in the hot rolling blooming mill’; ‘Argon consumption reduction in AISI 304 L steel grade’; and ‘Protection curtain and structural modifications to improve security in the opening of the casting ladle’.

Lastly, it is worth noting how innovation is being an important leverage to develop Acerinox Digitalization process. The industrial processes are very complex and waiting for the market to come up with a solution that implies a differential impact can take too much time. Therefore, Acerinox bets for open innovation together with companies, universities and technological centers in which technology is the main enabler.

This new Innovation model will enable to accelerate the implementation of projects and, above all, it will boost new cooperation methods inside the organization.

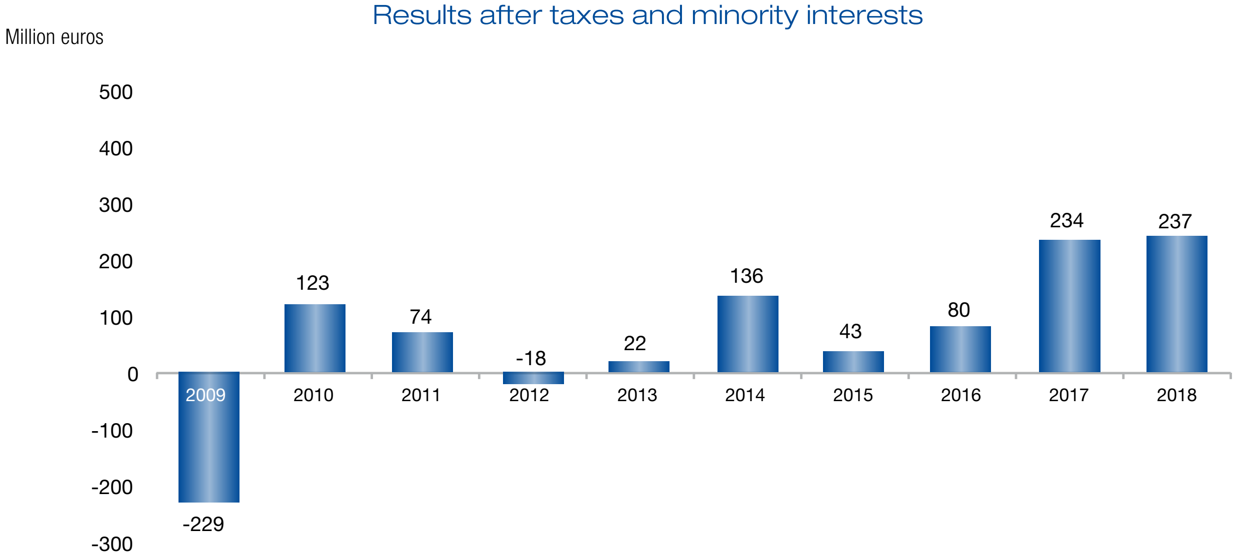
Presentation of Acerinox III Prizes in the University of Cadiz

9 Financial Report

9.1 Results

Acerinox results, 237 million euros, were slightly higher than last year results, being the best results in the last 10 years.

Results after taxes and minority interests



The most significant figures of the year and the variation with respect to the previous year are summarized in the following chart:

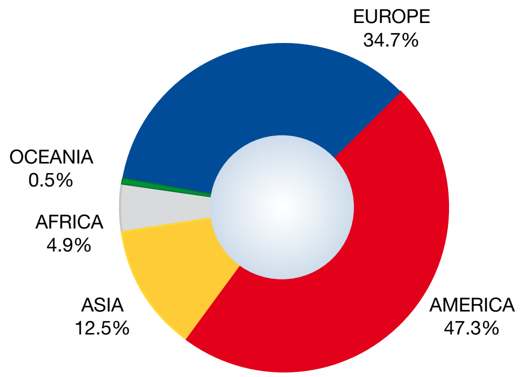
Most significant figures of Acerinox

Million euros

	2018	2017	Variation
Net sales	5,011	4,627	8.3%
EBITDA	480	489	-1.8%
EBIT	312	318	-1.8%
Gross results (before taxes and minority interests)	310	299	3.8%
Net result (attributable)	237	234	1.3%

The net sales, 5,011 million euros, were the highest in the last decade and an 8% higher than those of 2017 due to an increase in the sale of physical units (+2%) and higher selling prices.

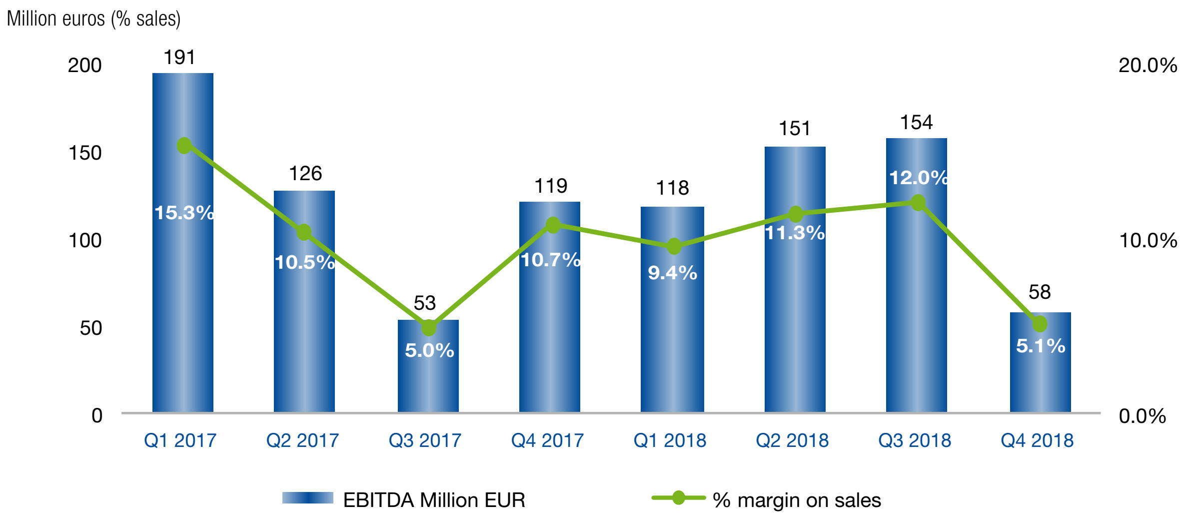
Geographical Distribution of Turnovers



Results evolution was very positive except for the fourth quarter in which many negative factors coalesced at the European market: the flood of imports as consequence of the call effect provoked by the European Union provisional safeguard measures, aggravated by the context of raw materials decreasing prices and, as consequence, of alloy surcharges, all this in addition to the generalized economic uncertainty. In the United States, where the market has had a much healthier performance, the correction was limited to the seasonal factor which is usual in the fourth quarter.

It all significantly affected volumes, prices and margins, as it can be observed in the following chart on EBITDA evolution:

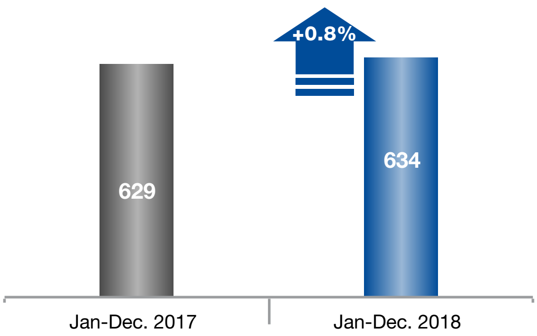
Quarterly EBITDA



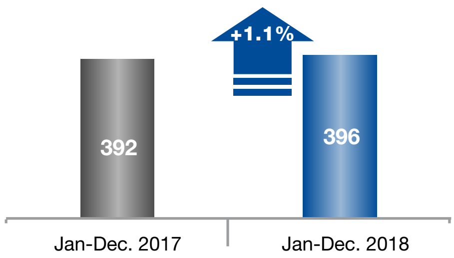
Accumulated EBITDA rose to 480 million euros, after making an inventory adjustment to the net realizable value for the amount of 22 million euros. After this adjustment the resulting amount was a 2% lower than the one registered the previous business year, 489 million euros, even if the fall in prices experienced by the dollar in comparison with the previous year has affected EBITDA in 14 million euros.

It is worth noting how the Group's control over operating and personnel costs has allowed compensating the rises in the main assets affecting production: electricity, gases, electrodes and refractory material which all together entailed an estimated overall increase in price of 64 million euros.

OPERATING COSTS

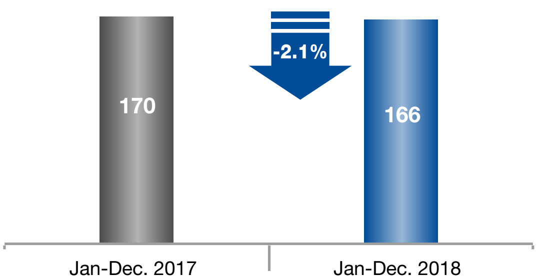


PERSONNEL COSTS

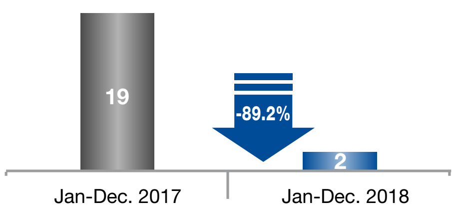


Amortization, 166 million euros, decreased a 2% with respect to last year. Operating income (EBIT), 312 million euros, was a 2% lower than that of 2017, 318 million euros. Net financial expenses, 2 million euros, were an 89% lower than the previous year.

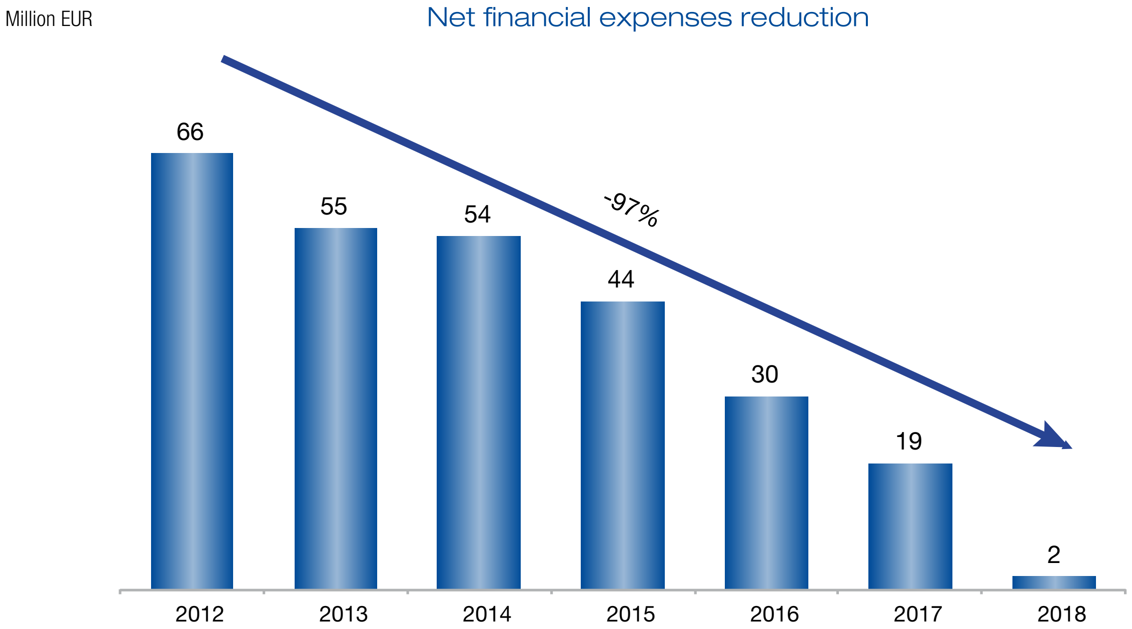
AMORTIZATION



NET FINANCIAL EXPENSES



It is the sixth consecutive year with a reduction in net financial expenses, having been reduced a 97% since 2012.



The result before taxes, 310 million euros, was a 4% higher than that of the last business year.

Presentation of Results for the Year 2018

9.2 Cash generation

Despite of the reduction in physical units of inventories, the increase of working capital obeys to the higher average prices experienced during the business year, as well as those of the main raw materials.

Cash Flow (Million euros)

	Jan- Dec 2018	Jan- Dec 2017
EBITDA	**480**	**489**
Changes in working capital	-87	1
Operating cash flow variation	-74	16
- Inventories	-28	-103
- Customers	27	-24
- Providers	-73	144
Others	-14	-16
Tax on profits	-81	-82
Financial charges	-15	-28
Others	30	-13
OPERATING CASH FLOW	**326**	**366**
Payments for investments	-155	-185
FREE CASH FLOW	**171**	**181**
Dividends and treasury stock	-128	-124
CASH FLOW AFTER DIVIDENDS	**43**	**57**
Differences in conversion	14	-46
Net financial debt variation	**57** ↓	**11** ↓

Operating cash flow rose to 326 million euros, enabling to maintain the investments pace, 155 million euros, and the payment of dividend and the purchasing of treasury stock, 128 million euros.

The cash generation after the payment of investments and dividends totaled 43 million euros and net financial debt reduction totaled 57 million euros.

9.3 Balance sheet

The operating working capital, 760 million euros, has increased in 74 million euros with respect to 31 December 2017, mainly due to the reduction in the providers' asset.

Million euros

Operating working capital

	December 2018	December 2017
Inventories	1,019	990
Customers	525	552
Providers	784	857
Working capital	760	686

Net financial debt, as of 31 December 2018, 552 million euros, was reduced in 57 million euros (609 million euros as of 31 December 2017).

Million euros

Balance sheet

ASSETS	2018	2017	Variation
NON-CURRENT ASSETS	2,133.77	2,147.62	-0.6%
CURRENT ASSETS	2,473.82	2,256.39	9.6%
Inventories	1,018.74	990.48	2.9%
Debtors	589.78	613.20	-3.8%
- Customers	524.69	552.06	-5.0%
- Other debtors	65.09	61.14	6.5%
Cash	850.11	620.54	37.0%
Other current financial assets	15.18	32.17	-52.8%
TOTAL ASSETS	4,607.59	4,404.01	4.6%
LIABILITIES	2018	2017	Variation
EQUITY	2,119.30	1,970.30	7.6%
NON-CURRENT LIABILITIES	1,226.22	1,149.38	6.7%
Interest-bearing loans and borrowings	1,026.29	936.68	9.6%
Other non-current liabilities	202.60	212.70	-6.0%
CURRENT LIABILITIES	1,262.07	1,284.34	-1.7%
Interest-bearing loans and borrowings	375.89	293.08	28.3%
Trade creditors	783.86	856.71	-8.5%
Other current liabilities	102.32	134.55	-24.0%
TOTAL EQUITY AND LIABILITIES	4,607.59	4,404.01	4.6%

As of 31 December, Acerinox had 1,903 million euros in lines of credit, of which a 26% was available.

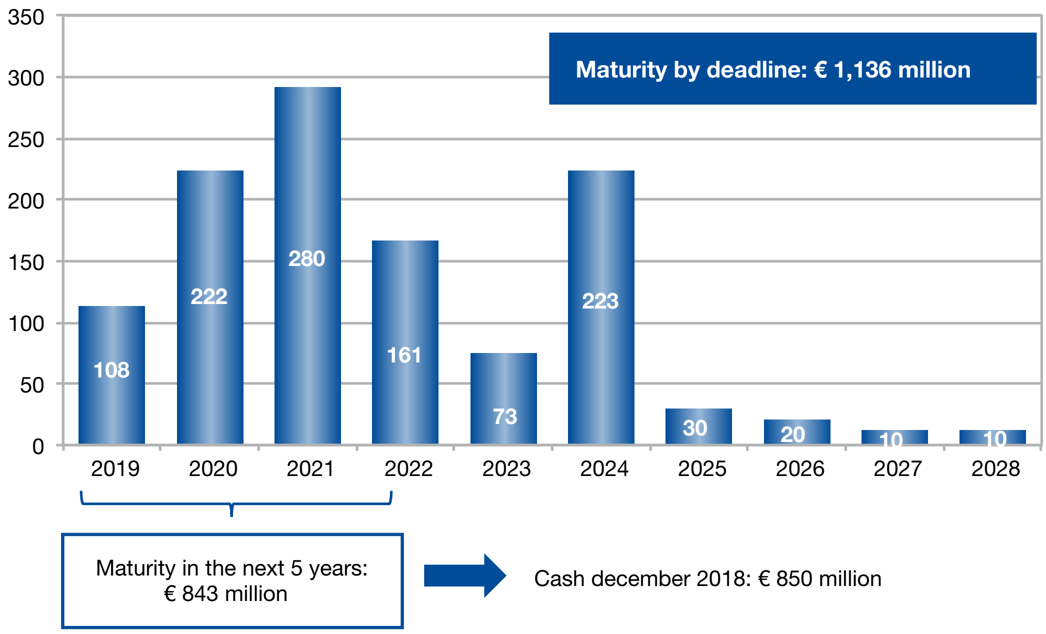
9.4 Financing

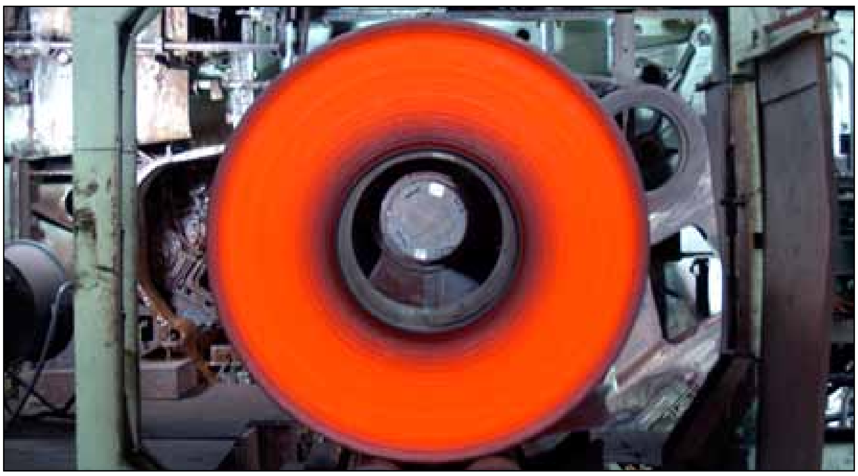
The strategy followed during the business year was focused in optimizing the financing costs taking advantage of the existing liquidity in the markets, extending maturity dates and increasing the fixed interest rate debt in light of the estimated rises.

As of 31 December, a 90.48% of the Group's loans were long-term and a 70.73% had fixed interest rate.

Million euros

Debt maturity by deadline





Hot Rolling De-Coiler

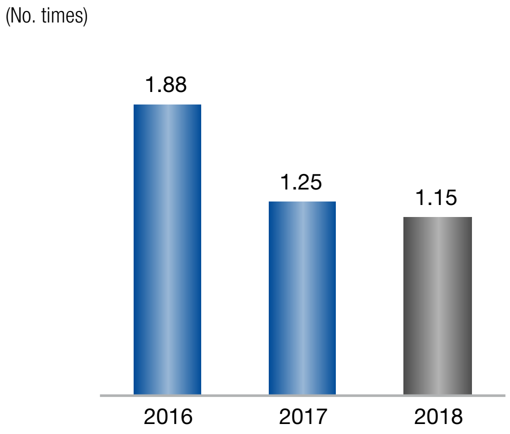
9.5 Financing ratios

The financial debt / EBITDA ratio, 1.15 times, keeps improving and has been reduced in a 39% since 2016.

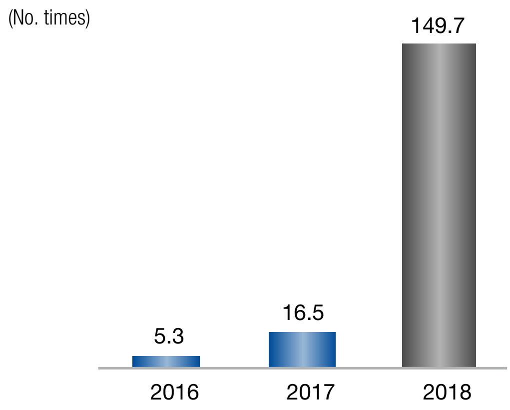
The ICR (interest coverage ratio) reflects the great reduction of net financial expenses, standing at 149.7 times, compared with the 5.3 times in 2016.

Both ROE and ROCE have consolidated last year's increases, standing at 11.2% and 11.7% respectively.

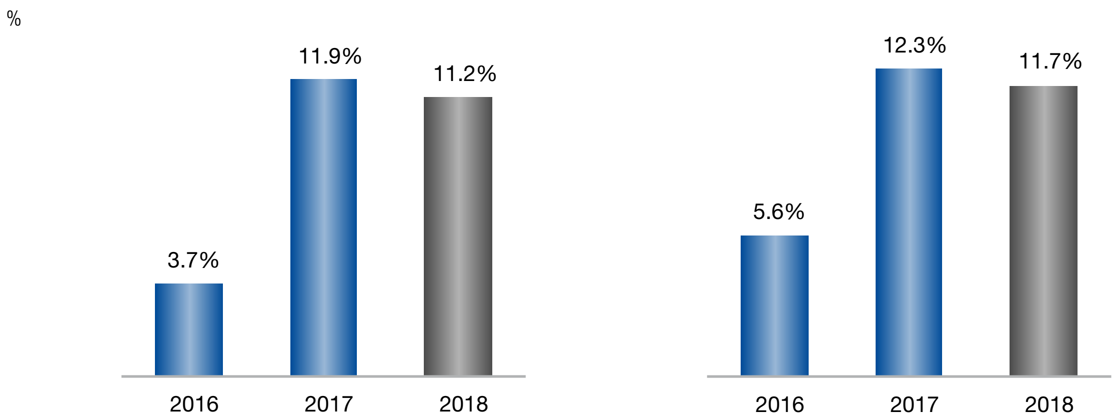
Net financial debt / EBITDA



Interest coverage:
EBIT / Net financial expenses



ROE & ROCE



9.6 Average payment period to suppliers

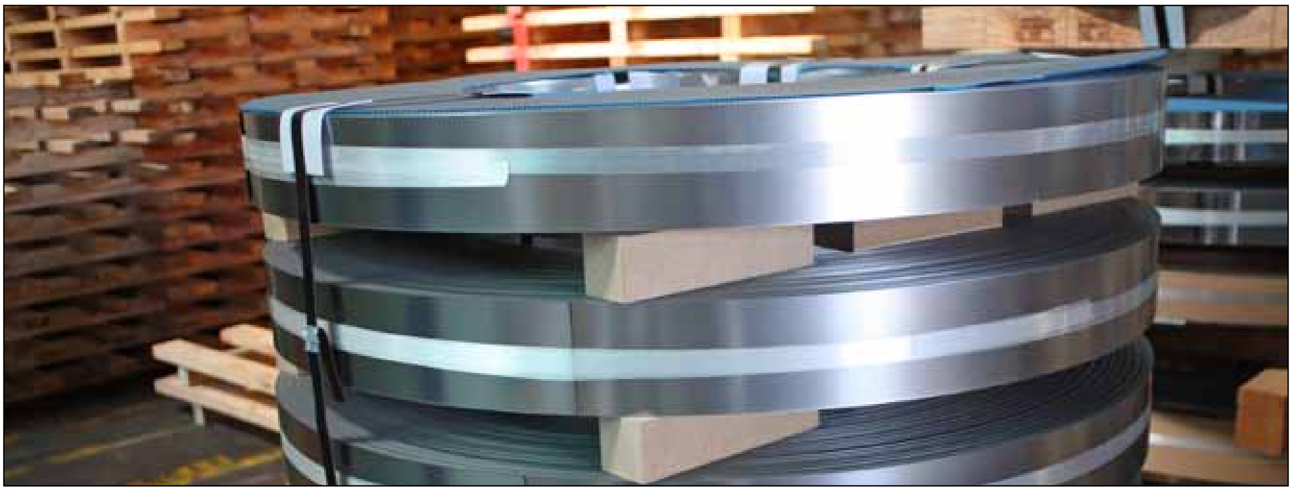
Operating working capital

(Expressed in thousands of Euros)

	2018	2017
	Days	Days
Average payment period to suppliers	69 days	70 days
Payments made ratio	70 days	72 days
Outstanding payments ratio	65 days	60 days
	Amount	Amount
Total payments made	1,697,685	752,101
Total outstanding payments	234,552	126,485

Alternative Performance Measures (definitions):

- **Saving relating to the Excellence Plans:** estimated savings on efficiency on the basis defined in each Plan
- **Operating working capital:** Inventories + Customers – Commercial creditors
- **Net Cash Flow:** Results after taxes and minority interests + amortization
- **Net Financial Debt:** Debt with credit institutions + bond issuance - cash
- **Net Financial Debt / EBITDA:** Net Financial Debt / annual EBITDA
- **EBIT:** Operating income
- **EBITDA:** Operating income + amortization + current provisions variation
- **Indebtedness ratio:** Net Financial Debt / Equity
- **Net financial result:** Financial earnings – financial costs ± exchange rates variations
- **ROCE:** Operating result / (Equity + Net financial debt)
- **ROE:** Results after taxes and minority interests / Equity
- **ICR (interests coverage ratio):** EBIT / Net financial result



Stainless Steel Strips

9.7 Evolution of shares

The Ibex 35 index ended the year with a 15% fall, the sharpest since 2010. The annual contract volume was below 587,479 million euros, the lowest since 2003.

The Ibex registered its annual maximum on 23 January (10,609.50) and the minimum on 27 December (8,363.90), what supposes a clear example of the downward trend during the whole year.

Market evolution of IBEX 35

Daily percentage data, year 2018

2018 was a very volatile year in all markets and very difficult to manage. The main causes which have more significantly affected quotation were: the rise of interest rates by FED, the trade war between the United States and China, the concerns about a possible deceleration of world's economy, the uncertainty generated by Brexit, the political instability in several countries (including Spain) and the Turkish lira crisis.

A special mention deserves the month of October, one of the worst months for variable income since the financial crisis.

The worst performance in the year was mainly that of the banking sector with generalized falls; Banco Sabadell (-40%), Bankia (-36%) or BBVA (-35%), in addition to assets such as Mediaset (-41%), ArcelorMittal (-33%), Indra (-28%) or Inditex (-23%). On the positive side, the exceptions have been the energy companies with increases of a 16%, 13%, and 9% of Naturgy, Endesa and Iberdrola respectively.

The main stock indexes worldwide weren't either excluded from the tensions suffered during the year. The German DAX index suffered a worse fall, of an 18%, mainly due to the strong exposition it has to the automobile and industrial sectors which have strongly suffered the trade war between the United States and China.

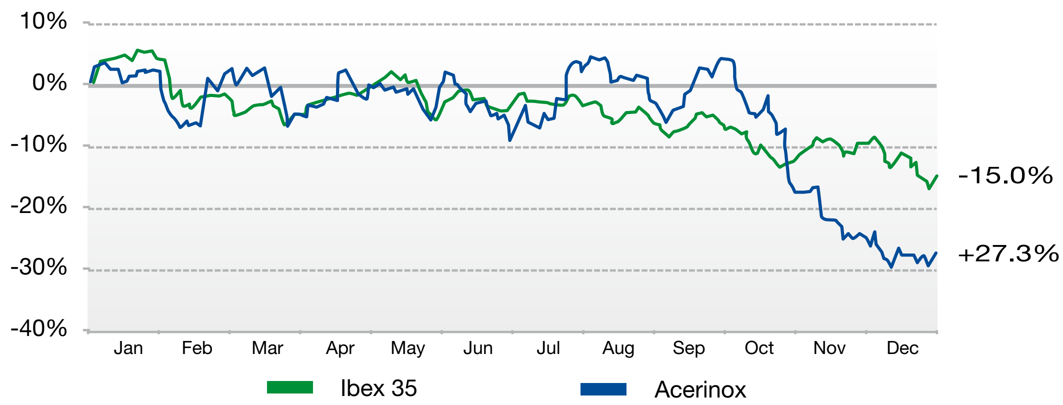
Main global indexes evolution:

Main global indexes evolution:	%
Germany DAX (TR)	-18%
Ftse MIB	-16%
IBEX 35	-15%
Euro STOXX 50	-14%
FTSE 100	-12%
France CAC 40	-11%
S&P 500	-6%
DJ Industrial	-6%
NASDAQ-100 Index	-1%

Acerinox shares' evolution has been in line with that of Ibex 35 during the first half of the year. In the last part of the year the decrease in petroleum prices (-40%) in addition to the uncertainties concerning a possible recession and the possibility of a slowdown of the Asian market affected industry as a whole and, as part of it, the stainless steel sector, reason why our asset had a worse performance than the index.

Market evolution of Acerinox and IBEX 35

Daily percentage data, year 2018



First Half of the year

The 16 February, the Commercial Department of the United States published the reports on the impact of steel and aluminum imports on national security. These reports were carried out under Section 232 of the Trade Expansion Act of 1962 and had a positive impact on Acerinox quotation.

The United States' trade sanctions to the major aluminum manufacturer of Russia propitiated the price increase of this raw material which pushed nickel prices upwards as well in light of the possibility of similar sanctions against Russian nickel manufacturers.

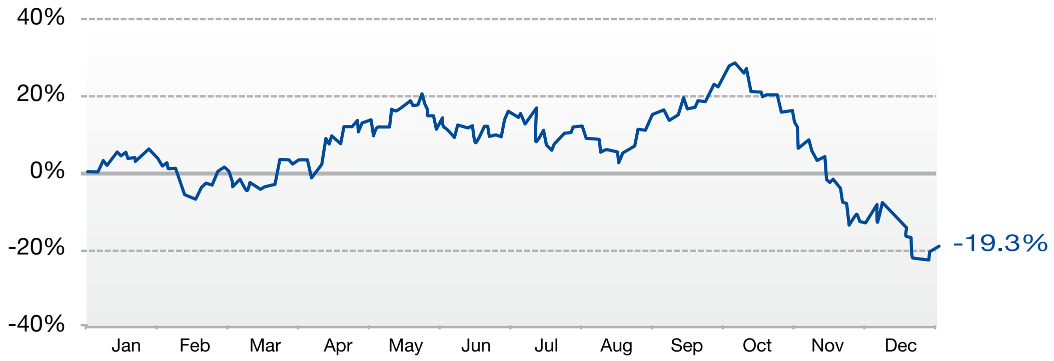
Second Half of the year

The uncertainty generated by the insufficient safeguards of the European Union, the trade war between the United States and China and the fear of a world economy slowdown were the main factors affecting shares' volatility during the second half.

On another note, the Brent barrel reached the 4 October its maximum since 2014 with 86 USD, while by the end of December it felt down to 51 USD. This 40% fall did not only affect petroleum but also other cyclical industries.

Petroleum Price evolution

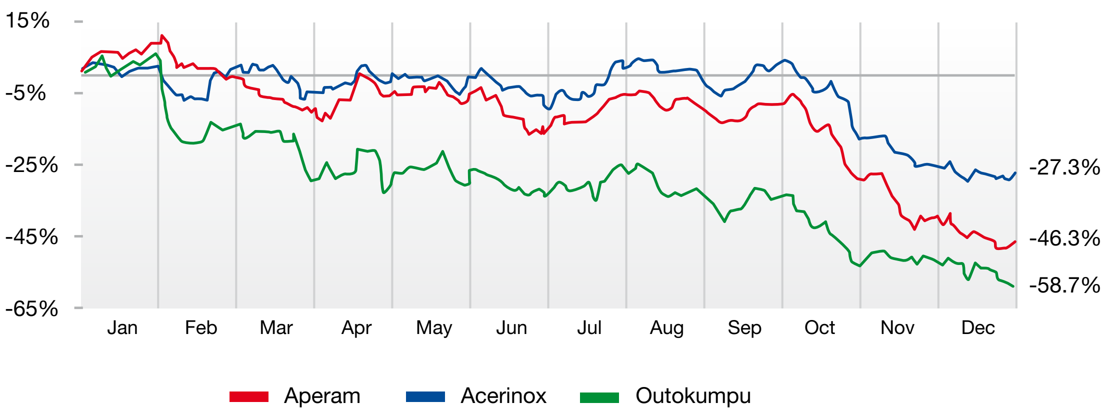
Daily percentage data, year 2018



All this in addition to worse perspectives for the stainless steel sector in the fourth quarter made Acerinox, Aperam and Outokumpu shares loose value in the last part of the year.

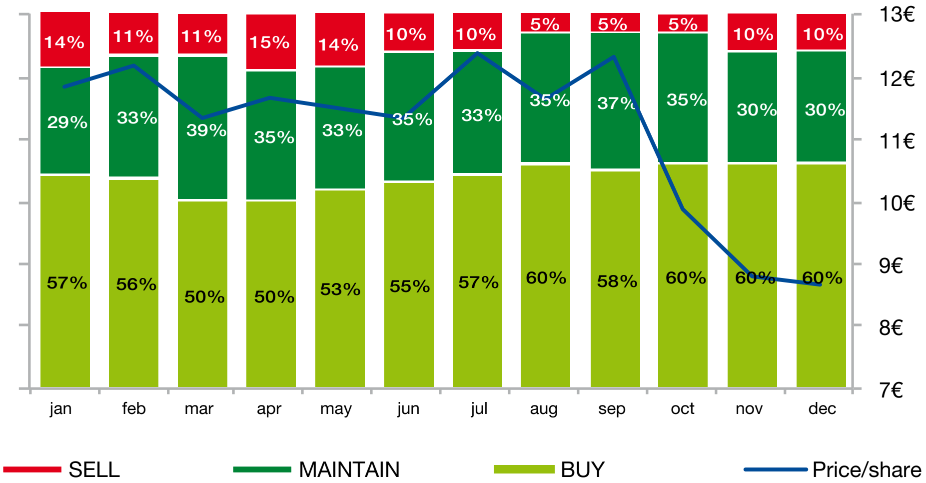
Market evolution of Acerinox, Aperam and Outokumpu

Daily percentage data, year 2018



Still, Acerinox had once more a better performance than its European competitors. Acerinox lost a 27% during the year while Aperam decreased a 46% and Outokumpu a 59%.

By the end of the year, 60% of the analysts recommended "Buying" instead of a 10% who recommended "Selling". In the following chart it can be appreciated the evolution of recommendations during the year:

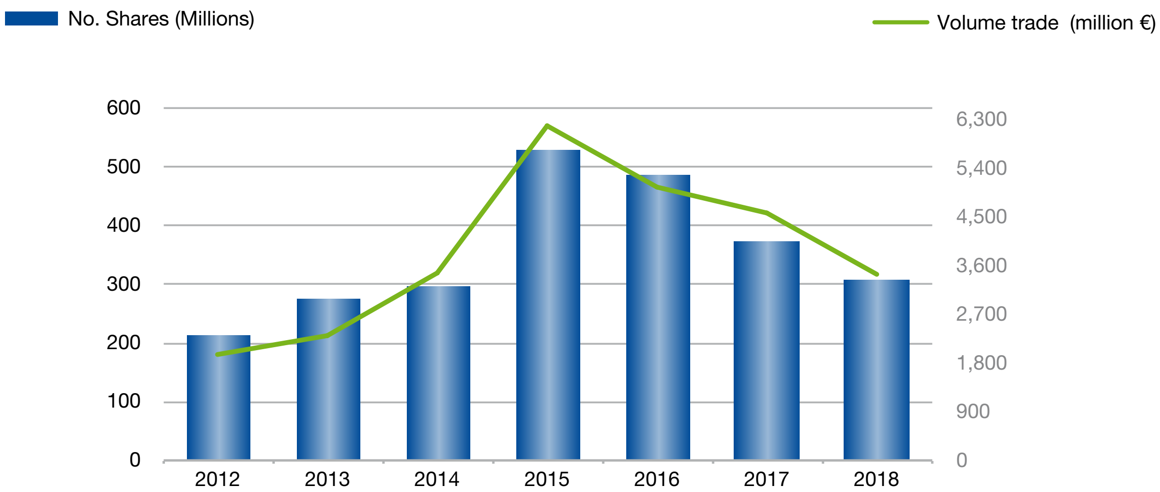


Source: Factset

During 2018, Acerinox shares were traded the 255 days the Continuous Market was open for business. The total number of shares traded totaled 308,481,142, equivalent to 1.12 times the number of shares which make up its share capital, with an average daily trading of 1,209,730 shares.

The volume traded in 2018 totaled 3,448,070,838.23 euros, which represents a daily average of 13,521,846.42 euros.

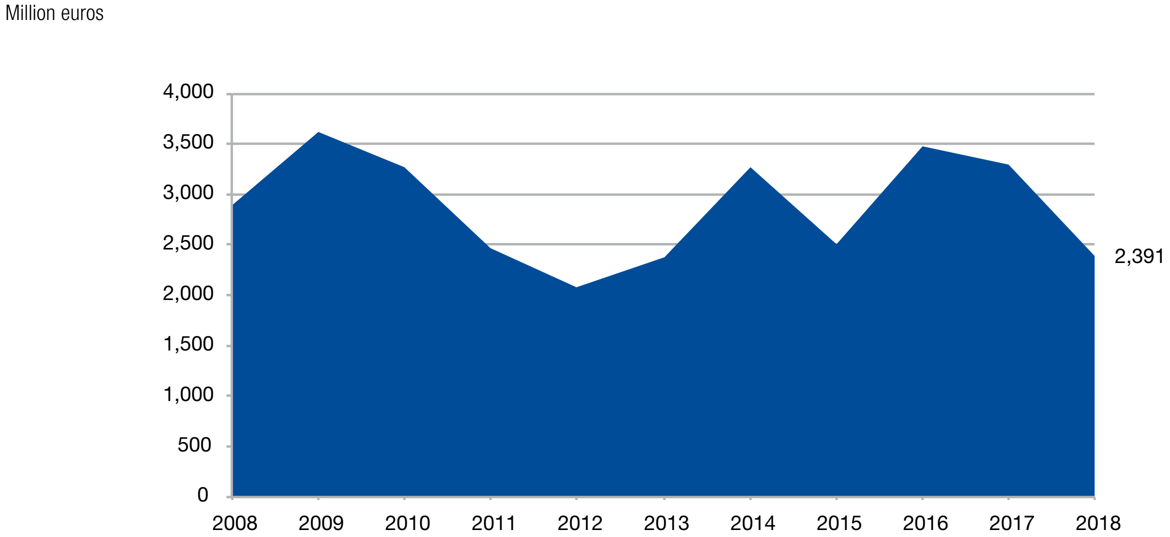
Shares and volume traded



9.8 Capitalization

At the end of 2018, Acerinox market capitalization stood at 2,391 million euros (a 27% lower than 2017).

Acerinox, S.A. market capitalization



Madrid Stock Exchange

9.9 Shareholders remuneration

The Ordinary Shareholders' General Meeting held on 10 May 2018 approved to distribute a dividend of 0.45 euros per share in cash which was paid to shareholders on 5 July.

Since 2006 and despite of the complexity of the period, Acerinox has uninterruptedly remunerated its shareholders with an annual sum of 0.45 euros per share whether through a cash dividend or flexible dividend.

Acerinox S.A. Board of Directors held on 19 December 2018 decided to propose to the next General Shareholders' Meeting an 11% increase of the dividend, from 0.45 to 0.50 euros per share.

It will also propose reducing the number of shares in order to compensate the shares issued in the last four years (2013-2016) in which the dividend was paid through flexible dividend or scrip dividend. In order to do so it also approved a First Share Buy-Back Program for its further amortization.

The number of shares to be bought in this First Program will be up to a 2% of the share capital and to this end the company will allocate up to 66 million euros.

Campo de Gibraltar new AP-5 Line

9.10 Treasury Stock and purchase of shares

During the business year, 93,320 shares were acquired and devoted to the payment of the first cycle (2018-2020) of the multiannual remuneration plan or long term incentive (ILP for its acronym in Spanish) established in favor of Executive Directors and the rest of the Group's Senior Management, approved by the Shareholders' General Meeting the year 2018.

These 93,320 shares had a nominal value of 23,330 euros. The amount of its acquisition was of 1,070,726.16 euros, commissions and expenses included.

415,000 shares were acquired corresponding to the first buy-back program approved by the Board of Directors on 20 December 2018 with a nominal value of 103.750 euros. The total amount of the acquisition was 3,544,390.76 euros, commissions and expenses included.

The number and nominal value of the total of shares acquired and kept at the Company's portfolio was of 508,420 shares with a nominal value of 127,105 euros, equivalent to a 0.18% of the share capital.

Entrance to Acerinox Building in Madrid

9.11 Capital Markets Day

Acerinox received in its Campo de Gibraltar plant, Acerinox Europa, the visit of 65 representatives of investment, analysis and banking firms on the occasion of the celebration of its Capital Markets Day 2018.

During the event the members of the finance community were informed about the latest news of the Company and its sector through several presentations carried out by part of the Management Board and those responsible for the main strategic areas of the Group.

The participants to this seventh edition of the Capital Markets Day visited the plant's different areas, especially the new production lines installed under the last Investments Plan to which the Group has allocated 140 million euros for the improvement of competitiveness, quality and sustainability. These installations are currently the most advanced stainless steel manufacturing lines in the world.

Capital Markets Day, October 2018

10 Corporate Governance

The Acerinox Annual Corporate Governance Report corresponding to 2018 forms part of the Management Report which includes a section on non-financial information in accordance with the Royal-Decree-Law 11/2018 on non-financial information. The Management Report is available on the web page of the National Stock Market Commission (“Comisión Nacional de Mercado de Valores” in Spanish) and on the Acerinox web page since the date of publication of the annual accounts.

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

These modifications have meant an improvement in corporate governance, through the strengthening of the role of the Board’s committees, with more clearly defined competences, a greater number of independent board members and a greater presence of women on the Board of Directors.

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

In 2018 the General Meeting of 10 May approved a new Board Members Remuneration Policy for the period 2018-2020. This policy can be consulted in the company’s webpage.

The most relevant actions taken in 2018 are listed below:

1. Compliance with the Good Governance Code and Capital Companies Law

The Company made a great effort to comply with the greatest possible number of recommendations, following the entry into force of the new Unified Code of Good Governance, and for that reason it adopted a series of highly significant decisions. The first one was to make a commitment to ensure that, by 2020, at least 30% of the members of the board would belong to the less represented gender. As of 31 December 2018, there were three independent members at the Board representing a 20% of the members and a 37.5% of the independent members.

2. Changes in the Board of Directors

The 2018 General Shareholders' Meeting ratified and adopted the following agreements with reference to Board members:

- Appoint Mr. Rafael Miranda Robredo as Independent Director.
- Appoint Mr. Bernardo Velázquez Herreros as Executive Director. Afterwards, Mr. Velázquez was appointed Chief Executive Officer by the Board of Directors.
- Appoint Mr. Santos Martínez-Conde Gutiérrez-Barquín as Proprietary Director representing Corporación Financiera Alba, S.A.
- Appoint Mr. Mvuleni Geoffrey Qhena as Proprietary Director representing Industrial Development Corporation (IDC).
- Appoint Mr. Katsuhisa Miyakusu as Proprietary Director representing Nisshin Steel Co, Ltd
- The Board of Directors held on 24 October 2018 appointed through co-option Mr. Ignacio Martín San Vicente as Independent Director. This appointment will be presented for ratification to the next General Shareholders' Meeting.

Board of Directors in the General Shareholders Meeting on May 2018

10.1 Share capital

As of 31 December 2018, Acerinox share capital totaled 69,016,885.75 euros, divided into 276,067,543 shares, each with a nominal value of 0.25 euros.

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 2018, Acerinox had a total of 36,300 shareholders.

10.2 The Board of Directors and its committees

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.

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 Of¬ficer, the organization's top executive.

The Board of Directors, as of 31 December 2018, has 15 members in accordance with the recommendations of the Good Governance Code and being the maximum allowed by the Articles of Association. The Secretary does not qualify as a Member of the Board.

Acerinox Board of Directors is a faithful reflection of the Company's international character and the success of the Appointments, Remuneration and Corporate Governance Committee when applying the diversity clauses that the Directors Selection Policy auspices.

Starting by gender diversity, currently three of its fifteen Members are women. This number would be higher if not for the recent resignation of two Directors who had to stand by the compatibility rules of their new companies or to whom a higher implication for corporative reasons has been required. It is worth noting how in the past two other women had to resign before their mandate had finished because of such circumstances. The Board of Directors decided to adopt a policy to guarantee that by 2020 at least a 30% of its members will be women.

But diversity goes beyond gender regardless of how important it is. Other manifestations of diversity shall also contribute to the generation of value and the decision making processes in the core of the organism, making of it a forum to share experiences, abilities and wide and diverse knowledge.

The Board of Directors represents four different continents thanks to the diverse nationalities of its members. Europe is, logically, the most represented one, but the Board is also formed by one North American member, two Asians and one African, all belonging to the continents in which Acerinox has its production plants.

Three of its members, plus the Secretary Non-Director, initiated their professional careers in the Public Administration or in the University before joining the private sector. Seven of them have a strong industrial character and have held several positions in the steel industry but also in the chemical, pharmaceutical, food, automotive, paper, new technologies and energy industries; some of them having worked in more than one of these sectors. Five of its members come from the financial world, including investment banking, saving banks and the loan sector.

Since 2016 the most important group of directors has been that of Independent Directors, with eight people, followed by the Proprietary Directors, made up of six people plus an executive director. It has been procured to repeat this proportion in the Executive Commission: four Independent, one Executive and four Proprietary Directors. In the Appointments, Remuneration and Corporate Governance Committee as well as in the Audit Commission the proportion is of three Independent and one Proprietary. Both the Board and all the other commissions are chaired by an Independent Director.

The Board of Directors approved on December 2018 a modification of its Regulation in order to, on one hand adapt it to the modification in Article 25 of its Articles of Association and on the other translate to the text the suggestions of the CNMV Technical Guide 3/17 on Audit Commissions.

Pursuant to the Capital Companies Law, the General Shareholders' Meeting held on 10 May 2018 approved the Remuneration Policy for Acerinox Directors for 2018, 2019 and 2020, with the favorable vote of 97.39% of the shareholders who attended or were represented in the Meeting.

This policy, monitored by an external consultant in what concerns to executive directors, is in full compliance with the Good Governance Code recommendations.

In line with this transparency policy, the Group made public that, in 2018, all the remunerations arising from the Board Members belonging to and attending the Board of Directors and its committees totaled 1,399 thousands of euros (excluding the amounts paid to the CEO as a salary for his managerial position). For more information on this subject, you may review the Annual Corporate Governance Report and the Report on the Remunerations received by Board Members (www.acerinox.com).

In total, the Board of Directors held nine plenary sessions during 2018.

Board of Directors visit to the Campo de Gibraltar Mill

The Executive Committee

The Board of Directors appointed an Executive Committee in 2008 to attend to the normal course of business and facilitate its regular monitoring. This body is presided over by the Chairman of the Board. The Chief Executive Offi¬cer is a necessary member of the Executive Committee.

In order to facilitate transparency and communication among the governing bodies, the Company's rules empower the Chairman to propose to the full Board the rati¬fication or further deliberation of any matter discussed or decided on by the Executive Committee.

For further information regarding its activities you can ¬find on the web page www.acerinox.com the section on the General Shareholders' Meeting 2019.

The Audit Committee

As was the case in previous years, the Audit Committee was the most active body in 2018 in terms of the number of meetings held, a total of ten, which enabled it to develop its envisaged work plan by devoting itself to its core responsibilities, which are:

- Reporting on the annual, biannual and quarterly accounts
- Supervising internal audit services and the effectiveness of the company's internal monitoring and risk management systems.
- Supervising the process of preparing and presenting the regulated financial information.
- Preparing the Report covering activities carried out during the period, which will be published alongside the call to the General Shareholders' Meeting.

The Audit Committee will apply the principles, recommendations and criteria for good operations outlined in the 3/2017 Technical Guide on audit committees in companies of public interest, which was approved by the CNMV on 27 June 2017.

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

For further information regarding its activities you can ¬find on the web page www.acerinox.com the section on the General Shareholders' Meeting 2019.

The Appointments, Remuneration and Corporate Governance Committee

It held nine meetings during 2018, it proposed to the Board of Directors a Multiannual Remuneration Plan or Long Term Incentive (ILP for its acronym in Spanish) corresponding to the First Cycle of the Plan (2018-2020), applied to Executive Directors and Senior Management personnel of the Group consisting of the payment of part of their variable retribution in shares, as well as it proposed the Shareholders' General Meeting the ratification, appointment and re-appointment of five Members of the Board of Directors.

It has also intervened in the determination of the other retributions of the senior management.

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.

For further information regarding its activities you can ¬find on the web page www.acerinox.com the section on the General Shareholders' Meeting 2019.

Composition of the Board of Directors

RAFAEL MIRANDA ROBREDO

Chairman
External Independent

Mr. Rafael Miranda Robredo, of Spanish nationality, is member of the Board of Directors and President of Acerinox since April 2014. Industrial Engineer from ICAI, President of the Management Progress Association, President of Hispania Activos Inmobiliarios, Honorary President of Eurelectric, member of several Boards of Directors and advisor to numerous foundations and institutions. He is also Director of Brookfield Asset Management, Nicolás Correa and SAICA.

During his professional career, Rafael Miranda has occupied many prestigious positions such as those of CEO of Endesa or Vice-President of the Industrial Division of Campofrío. His professional record has made him a reference in the business community both for his role in the modernization of the electric system as for his efficient managing of major companies. He has been decorated with the Grand Cross of the Civil Merit, the Grand Cross of Isabel la Católica as well as being named Commander of the Order Bernardo O´Higgins (Chile).

BERNARDO VELÁZQUEZ HERREROS

Chief Executive Officer
Executive

Mr. Bernardo Velázquez Herreros, of Spanish nationality, is Industrial Engineer from ICAI and Chief Executive Officer of Acerinox. Since he joined the Marketing Department of Acerinox in 1990, Bernardo Velázquez has assumed successive positions of responsibility in the company, gathering more than 28 years of experience in the international stainless steel trade. On his return to Spain in 2005, following his experiences in Mexico and Australia, he took up the positions of Assistant Managing Director, Chief Information Officer and Corporate Planning Director. In 2007 he was named Managing Director, a position he held until his appointment as CEO in July 2010.

He is currently also President of Acerinox Europa and North American Stainless, as well as President of UNESID (Spanish Association of Iron and Steel Companies) and Inoxcenter. He makes these positions compatible with those of Vice-President of ISSF and Director of World Steel (International Association of Steel Manufacturers).

PEDRO BALLESTEROS QUINTANA

Director External Proprietary representing Corporación Financiera Alba

Mr. Pedro Ballesteros Quintana, of Spanish nationality, is proprietary director representing Corporación Financiera Alba and member of the Audit Committee since 2011. He has been Non-Executive President of March JLT, Correduría de Seguros y Reaseguros of March Group, company in which he previously held the position of Chief Executive Officer until May 2011.

Mr. Ballesteros has held different positions of responsibility during his professional career, being President of Aserplan (consultant in the Area of Social Welfare) and Chief Executive Officer of Urquijo Correduría de Seguros as well as Board Member of Insurance Brokers such as: Carrefour and GDS (Caixa Group). He was also Executive President of March Unipsa Correduría de Seguros JLT. He has also been Director at the Boards of Proleasing and Media Planning (now Grupo Havas) finance companies respectively.

MANUEL CONTHE GUTIÉRREZ

Director
External Independent

Manuel Conthe Gutiérrez, of Spanish nationality, has a graduate in Law from the Autonomous University of Madrid and joined the Body of Commercial Experts and State Economists in 1978.

Conthe is a columnist for the Expansión newspaper and President of its Advisory Board. He has been President of the Spanish Stock Market Commission (CNMV), Vice-President for the Financial Sector of the World Bank, Secretary of State for Economy, Director General of the Treasury and Financial Policy and Director General of Foreign Transactions.

He has also been a partner of the Analistas Financieros Internacionales (AFI) consultancy company and Economic Advisor of the Spanish Representation in the European Union.

ROSA MARÍA GARCÍA PIÑEIRO

Director
External Independent

Ms. Rosa Mª García Piñeiro, of Spanish nationality, is independent director since 2017 and member of the Executive Committee since March 2018. She is Industrial Engineer and holds a Master in Industrial Organization and Management from the University of Vigo and the National University of Ireland, as well as a Master in Environmental Engineering from the Environmental Organization School of Madrid and an Executive MBA from Haute École de Commerce, among others.

Ms. García Piñeiro is Vice-President of Global Sustainability of Alcoa and President of Alcoa Foundation. She was also President of Alcoa Spain. She is Member of the Board of Directors of ENCE Energía y Celulosa.

LAURA G. MOLERO

Director
External Independent

Ms. Laura González Molero, of Spanish nationality, is independent director since 2017, member of the Audit Committee since 2017 and Chairwoman of the Appointments, Remuneration and Corporate Governance Committee since the second half of 2018. She holds a graduate in Pharmacy from the University Complutense of Madrid and an Executive MBA from IE Business School.

She has developed her professional career in chemical-pharmaceutical international companies, being Chief Executive Officer and President of Merck España, President of Bayer Latin America and Independent Director of Calidad Pascual. She is currently Independent Director of Adecco Foundation (NGO), Bankia, Ezentis Group and Viscofan.

RYO HATTORI

Director
External Proprietary representing Nisshin Steel Co Ltd.

Mr. Ryo Hattori, of Japanese nationality, holds a graduate in Law from the University of Meiji.

Hattori is Director General of Special Tasks in the Stainless Sales Department and the Foreign Projects Department of Nisshin Steel. He is member of the Board as Proprietary Director representing Nisshin Steel since May 2009 as well as being member of the Executive Committee.

TOMÁS HEVIA ARMENGOL

Director
External Proprietary representing Corporación Financiera Alba

Mr. Tomás Hevía Armengol, of Spanish nationality, was appointed Proprietary Director representing Corporación Financiera Alba in December 2016 and is member of the Executive Committee. He has a graduate in Business Administration and Law from Universidad Pontificia de Comillas of Madrid and an MBA from IESE Business School of the University of Navarra. Mr. Tomás Hevía is currently a member of the Investments Department of Corporación Financiera Alba.

He previously developed his professional career in the Mergers and Acquisitions Department and the Equity Capital Markets Department of the Royal Bank of Scotland and ABN AMRO in Madrid and London. He has been member of the Board of Administration of Clínica Baviera, ACS Servicios y concesiones, Dragados and Antevenio..

DONALD JOHNSTON

Director
External Independent

Mr. Donald Johnson, of North American and British nationality, is Independent Director since 2014 and Member of the Audit Commission since 2014. He has a Bachelor of Arts in Political Sciences from the Middleburg College and a Master of Arts in International Economy and Latin American Studies from the Johns Hopkins University. Mr. Johnston is currently Independent Director of Merlin Properties Socimi and Independent Director of Sabadell Bank.

All along his career he has held positions such as those of European President of the M&A Group of Deutsche Bank, Director of the Bankers Trust International Fund and Member of the Board of its Global Executive Committee. He has also worked as Managing director in Salomon Brothers offices in New York and London. Mr. Johnson has more than 35 years of experience in investment banking in the United States, Europe and Latin America.

IGNACIO MARTÍN SAN VICENTE

Director
External Independent

Mr. Ignacio San Vicente, of Spanish nationality, is Independent Director and member of the Executive Committee since October 2018. He is Industrial Engineer from the Superior Technical School of Industrial Engineers of San Sebastián.

He has developed his professional career in the industrial sector, in which he has worked in positions of responsibility such as being Executive President of Gamesa and Chief Executive Officer of CIE Automotive. He previously held managing positions at companies such as GSB Group, GKN Driveline and Alcatel. He is currently Director of Repsol, Bankoa and Indra.

MARTA MARTÍNEZ ALONSO

Director
External Independent

Ms. Marta Martínez Alonso, of Spanish nationality, is independent director since 2017 and member of the Audit Committee since the second half of 2018. Marta Martínez Alonso holds a graduate in Mathematical Sciences from the University Complutense of Madrid and studied a PADE course (Senior Management Programme) at IESE.

Martínez Alonso is President of IBM Spain, Portugal, Greece and Israel since 2013. In this same company she previously held the Global Technology Services Managing Direction and was executive in the telecommunications sector for Spain and Portugal since her incorporation in 2003.

SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN

Director
External Proprietary representing Corporación Financiera Alba

Mr. Santos Martínez-Conde Gutiérrez-Barquín, of Spanish nationality, is member of the Board since 2002 as external proprietary representing Corporación Financiera Alba. He is Civil Engineer, has a Master in Business Administration from ICADE and a Diploma in Nuclear Technology from ICAI. Mr. Martínez-Conde is the Chief Executive Officer of Corporación Financiera Alba and Director of Banca March, Indra Sistemas, Bolsas y Mercados Españoles, CIE Automotive, and Artá Capital SGECR. He is President of Deyá Capital SCR, Artá Partners, and Deyá Capital IV SCR. He has developed the rest of his professional career in Sener Técnica Naval e Industrial, Técnicas Reunidas, Bestinver, Corporación Borealis, and Banco Urquijo.

BRAULIO MEDEL CÁMARA

Director
External Independent

Mr. Braulio Médel Cámara, of Spanish nationality, is Member of the Board since 2008. He holds a graduate in Business and Economic Sciences from the University Complutense of Madrid, a PhD in Business and Economic Sciences from the University of Málaga and is Professor of Public Finance in the University of Málaga. Mr. Medel, Chairman of Banco Unicaja between 1991 and 2016; is currently President of Fundación Bancaria Unicaja and the Andalusian Federation of Saving Banks, besides of being Vice-President of the Spanish Conference of Saving Banks of which he was its maximum manager between 1991 and 1998.

He has also been Vice-Counselor of Economy and Public Treasury for the Junta de Andalucía and President of the Andalusian Counsel of the College of Economists.

KATSUHISA MIYAKUSU

Director
External Proprietary representing Nisshin Steel Co. Ltd.

Mr. Katsuhisa Miyakusu, of Japanese nationality, joined the company Nisshin Steel after carrying out his studies in the specialty of Metallurgy at the University of Osaka.

Mr. Miyakusu currently holds the positions of Director, Vice-President and Executive Director of Nisshin Steel, company which he represents as Proprietary Director in Acerinox Board of Directors.

He has previously held the positions of Executive Director General and Marketing and product development Director General.

MVULENI GEOFFREY QHENA

Director
External Proprietary representing Industrial Development Corporation (IDC) Ltd.

Mvuleni Geoffrey Qhena, of South African nationality, has an honorous degree in Accounting Sciences and is fiscal expert by the University of South Africa. Mr. Qhena has been CEO of Industrial Development Corporation of South Africa Limited IDC.

He was Financial Director of Industrial Development Corporation of South Africa Limited (IDC) from September 2003 to February 2005. Immediately after, he held the position of Executive Vice-President of Professional Services as well as of Chief Executive Officer.

He has also held management positions in other companies such as Trust Ventures, Risk Management or Steinmüller.

LUIS GIMENO VALLEDOR

Secretary to the Board

Mr. Luis Gimeno Valledor, of Spanish nationality, holds a graduate in Law from the Autonomous University of Madrid. He is member of the Government Legal Service since 1986, from which he is currently on voluntary leave of absence.

Mr. Gimeno was appointed Director General of Public service in 1996 and Director General of Taxation of the Community of Madrid in 1998, where he stayed until year 2000. From then until 2008 he worked as lawyer for Cuatrecasas, firm in which he was Equity Partner.

In 2008 he joined the Acerinox Group as Secretary General, acting as Board Secretary since 2016.

Between 1996 and 2008 he was lecturer at the University San Pablo/CEU and Instituto de Empresa consecutively.

Executive Committee

RAFAEL MIRANDA ROBREDO (Chairman)
BERNARDO VELÁZQUEZ HERREROS
SANTOS MARTÍNEZ- CONDE GUTIÉRREZ- BARQUÍN
TOMÁS HEVIA ARMENGOL
RYO HATTORI
DONALD JOHNSTON
ROSA MARÍA GARCÍA PIÑEIRO
IGNACIO MARTÍN SAN VICENTE
LUIS GIMENO VALLEDOR (Secretary)

Appointments, Remunerations and Corporate Governance Committee

LAURA G. MOLERO (Chairwoman)
RAFAEL MIRANDA ROBREDO
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN
BRAULIO MEDEL CÁMARA
LUIS GIMENO VALLEDOR (Secretary)

Audit Committee

DONALD JOHNSTON (Chairman)
PEDRO BALLESTEROS QUINTANA
LAURA G. MOLERO
MARTA MARTÍNEZ ALONSO
LUIS GIMENO VALLEDOR (Secretary)

Senior Management

The Management Committee of Acerinox is made up of eight people: the Chief Executive Officer, the Financial Director, the Commercial Director, the Production Director and the General Secretary. The Senior Management is completed by the executives of the producing companies.

BERNARDO VELÁZQUEZ HERREROS
Chief Executive Officer

DANIEL AZPITARTE ZEMP
Commercial Director

MIGUEL FERRANDIS TORRES
Financial Director

ANTONIO MORENO ZORRILLA
Production Director

LUIS GIMENO VALLEDOR
General Secretary

CRISTÓBAL FUENTES
(NAS CEO)

OSWALD WOLFE GÓMEZ
(Bahru Stainless CEO)

LUCIEN MATTHEWS
(Columbus Stainless CEO)

10.3 Shareholders’ General Meeting

The Shareholders’ General Meeting was held in Madrid on 9 May 2018 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 1,814 shareholders owners of 191,384,244 shares, representing the 69.33% of the company’s share capital with right to vote.

The resolutions on the Agenda were approved in their entirety, by the following margins:

	Votes in favor %	Votes against %
1. Approval of annual accounts	99.99	0.00
2. Application of the results	99.99	0.00
3. Approval of the Board of Directors’ management	99.71	0.00
4. Approval of the dividend distribution	99.99	0.00
5. Modification of Article 25 from the Articles of Association	99.67	0.11
6 Approval of the Board Members Remuneration Policy for the years 2018-2020	97.39	2.39
7.1. Reappointment of Mr. Rafael Miranda as Independent Director	98.43	0.12
7.2. Reappointment of Mr. Bernardo Velázquez as Chief Executive Officer	99.88	0.08
7.3. Reappointment of Mr. Santos Martínez-Conde Gutiérrez-Barquín as Proprietary Director	96.53	3.29
7.4. Reappointment of Mr. Mvuleni Geoffrey Qhena as Proprietary Director	99.80	0.19
7.5. Reappointment of Mr. Katsuhisa Miyakusu as Proprietary Director	99.57	0.25
8. Authorize the Board of Directors to increase the Share Capital	73.69	25.79
9. Approval of the Executive Directives and Senior Management remuneration plan	99.53	0.43
10. Delegation of the execution, remedy and formalization of agreements adopted by the General Shareholders’ Meeting	99.99	0.00
11. Put to vote the Annual Report on the Acerinox S.A Directors’ Remuneration	98.84	1.10
12. President’s report on the most relevant aspects of the Company’s Corporate Governance		
13. Appointment of controllers to approve the General Shareholders’ Meeting Minute	99.97	0.02

10.4 Main Executives of the Group Companies

First Executives of the 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

First executives of the 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):
ANEL VILJOEN

Acerinox France (France):
JAAN ROXAN

Acerinox Italia (Italy):
GIOVANNI DE CARLI

Acerinox Polska (Poland):
PILAR SENISE GARCIA

Acerinox Scandinavia (Sweden):
JAN GJERLAUG

Acerinox Schweiz (Switzerland):
IVANA HORAKOVA

Acerinox UK (United Kingdom):
PABLO CANTLE CORNEJO

Acerinox Russia (Russia):
ROMAN BUTYRIN

Acerinox Metal Sanayi (Turkey):
SANTIAGO MUÑOZ MARTI

Acerol (Portugal):
DANIEL SILLERO

3. AMERICA

Acerinox Argentina (Argentina):
JOSÉ CARLOS RODRÍGUEZ ARANDA

Acerinox Brasil (Brazil):
ÍÑIGO PRADO LINARES

Acerinox Chile (Chile):
JAIME DEL DIEGO SANZ

Acerinox Colombia (Colombia):
GONZALO DEL CAMPO BARCÓN

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

Acerinox Perú (Peru):
MARÍA CECILIA NÚÑEZ DE TOLEDO

4. AFRICA

Acerinox Egipto (Egypt):
NARIMANE MOHYELDINE

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):
TRAN THI THANH HANG

Acerinox SEA (Thailand):
PRAWIT LERTWIMONRAT

Acerinox SEA (Philippines):
ENRIQUE DAVID B. SANTIAGO

Acerinox Pacific (korea):
JUNGHO CHOI

Acerinox Pacific (Hong Kong):
JACKY LAW

Acerinox Pacific (Taiwan):
SAMUEL TAM

Acerinox Middle East (United Arab Emirates):
FERNANDO GÓMEZ AIELLO

5. OCEANIA

Acerinox Australasia (Australia):
CLAUDIO LEÓN DE LA BARRA

11 Risks and their management

Acerinox has a Risk Management Model for identifying, classifying, and evaluating any possible event that could affect all the units and significant functions of the organization as well as establishing the control and responsibility mechanisms derived from each one of them. The Model has the ultimate goal of providing reasonable security for attaining its objectives, whether strategic, operational, compliance, or reporting.

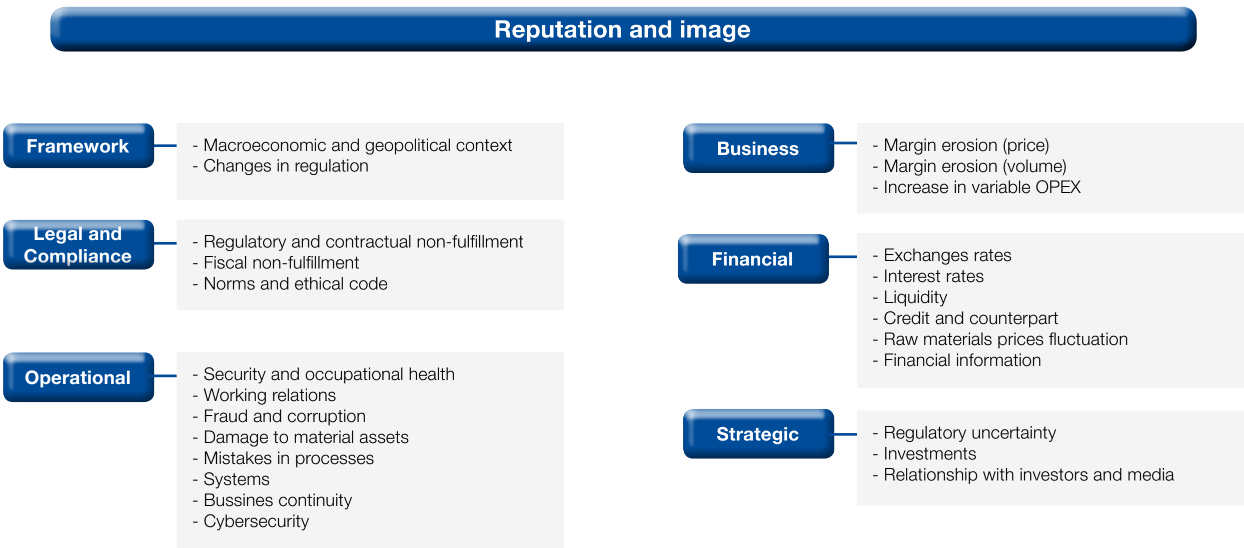
For the correct implementation of the measures and the strict monitoring of its fulfillment for each one of the possible contingencies, in 2015 the Group approved the Risk Management Control Policy of Acerinox, S.A. and its Group of Companies.

Through the Policy, the mechanisms and basic principles for the management of opportunities and risks are established, allowing to:

- Achieve the strategic objectives determined by the Group.
- Provide full guarantees to the shareholders.
- Protect the Group’s results and reputation.
- Defend the interests of the key Groups of Interest of the Company.
- Ensure business stability and financial solidity in a sustained manner over time.

Any business activity generally has a series of risks associated to it and, in the case of steel manufacturing, Acerinox recognizes and classifies the uncertainties characteristic of the industry in which it operates.

Moreover, the substantial risks that the Company faces on a daily basis and which require of continuous management and special surveillance are interrelated and can be summarized in the following diagram:



The main risks are the following:

- Competence: Business risks related to competence and trade barriers in the different international markets of stainless steel.
- Overcapacity: Business risks related to the overcapacity mainly installed in China and its effects on price reduction.
- Raw Material prices: Great variations of their value, especially in short periods of time.
- Economic cycles: Products demand according to market evolution.
- Financial: Lack of liquidity, restriction of financing sources, increase of financing costs, exchange rates volatility, interest rates volatility, credit risk.
- Regulatory: Presence at the international arena with activities in numerous countries, regulatory frameworks and business areas.

11.1 Financial Risks

The Group activities are exposed to several financial risks: market risk (exchange rate risks, interest rate risk and price risk), credit risk and liquidity risk. The Group tries to minimize the potential adverse effects upon the Group's financial profitability through the use of derivative financial instruments, in no case with speculative intentions, in those risks in which they were applicable, as well as when contracting loans. The management of financial risks can be consulted in detail in Note 4 of the attached Consolidated Group Report.

Shopping Mall with Column and handrails made of Stainless Steel

Relevant events after the close of business year

European Union safeguard measures

On 1 February, the European Commission announced the definitive safeguard measures, with some relevant changes with respect to the provisional measures which entered into force on July 2018 and that all together should have an impact on the European market.

These measures include more types of products, which referring to stainless steel entails the inclusion of plates, being thus included in the measures all the finished products, both flat and long.

Imports quotas are not global but rather tax quotas by country for the main origins have been applied, what supposes a relevant limitation of Asian imports which are the ones having a worse effect on prices. It should be as well considered the possibility of some countries not covering their quotas, such as it is the case of the USA, affected by the reprisal measures of the EU.

Considering the established quotas, which depart from the imports average for 2015-2017, we estimate an imports correction around 15% with which we would retrieve back to 2016 levels, what in addition to a sustained growth of European demand would help European manufacturers recovering part of their market share, reducing the imports quota in a 25% for flat product in comparison with the nearly 30% reached in 2018.

Regarding Acerinox Group it is worth noting how in November 2018 the Commission announced the no application of South Africa from the measures, reason why Columbus Stainless won't be affected by them.

Nisshin Steel Co, Ltd exchange of shares

Since 26 December 2018, the Company Nisshin Steel Co, Ltd. is no longer listed on the Tokyo Stock Exchange after its acquisition by Nippon Steel & Sumitomo Metal Corporation. Acerinox shares in Nisshin Steel Co, Ltd. (1%) will be exchanged for shares of the acquiring company effectively applying from 1 January 2019 with an exchange rate of 0.71 Nippon Steel & Sumitomo Metal Corporation shares per each Nisshin Steel Co, Ltd. share, meaning that Acerinox S.A. will receive 747,346 shares of the acquiring company.

Purchasing of own shares

As it was explained in the note 13.1, the Board of Directors of Acerinox, S.A. held on 19 December 2018, making use of the authorization granted for a 5 years period by the Shareholders' General Meeting of the Company held on June 2014 and covered by article 17 of the Regulation (EU) n. 596/2014 on Market Abuse, has approved a First Share Buy-Back Program with the aim of reducing Acerinox S.A. share capital through the amortization of its own shares –as long as the Shareholders' General Meeting so approves it- with the goal of improving the earnings per share.

By the closing of these Financial Statements, the Company has acquired in the framework of the Share Buy-Back Program the amount of 3,979,471 shares for the total amount of 36.7 million euros.

Bahru Stainless's capital increase.

The Board of Directors, at its session held on 26 February, has resolved to increase Bahru Stainless Sdn, Bhd capital, without cash injection, through the capitalization of 335.5 million USD from the loan granted by Acerinox, S.A to its subsidiary. This solution has been adopted after Acerinox, S.A. acquired, last December 30% of shareholding held by Nisshin Steel in Bahru. Acerinox currently holds a 97% of Bahru Stainless shares.

Bharu Stainless Factory


ACERINOX

Consolidated Annual Accounts

ACERINOX, S.A.
and Subsidiaries

Annual Accounts of the Consolidated Group
31 December 2018

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

Free translation of the independent auditor´s report on the consolidated annual accounts originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails

Independent Auditor's report on the consolidated annual accounts

To the shareholders of Acerinox, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Acerinox, S.A. (the Parent company) and its subsidiaries (the Group) at 31 December 2018, which comprise the balance sheet as at December 31, 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis of the opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.
We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key Audit Matters (KAM)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters (KAM)	How the matters were handled during the course of the audit
Recovery of goodwill	
The Group's goodwill totalling €69,124 thousand at 31 December 2018 is associated with the 2002 acquisition of a controlling interest in the company Columbus Stainless, Ltd. At least at the year-end, the Group estimates the recoverable value of this asset, as is indicated in Notes 2.8, 2.11 and 7.1 of the accompanying notes to the consolidated financial statements. The Group uses cash flow projections based on financial budgets approved by management to calculate the recoverable value, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Group are summarized in Note 7.1 to the accompanying notes to the consolidated financial statements. Changes in these variables and estimates made by management may give rise to significant variations in the calculations performed and, therefore, in the analysis of the recovery of goodwill. This, together with the relevance of this heading, imply that this matter was one of significant attention during our audit.	We first gained an understanding of the relevant processes and controls associated with the evaluation of the impairment of goodwill by Group management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by Group management. We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by Group management, against those actually attained in 2018. We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rate for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group. As a result of our tests and analyses, we consider that Group management's conclusions regarding the absence of impairment and the disclosures in the accompanying consolidated financial statements are adequately supported and consistent with the information currently available.
Recovery of property, plant and equipment	
The Group's total property, plant and equipment amounts to €1.890.907 thousand (Note 8 of the accompanying notes to the consolidated financial statements), which at the year-end makes up 41% of the Group's total consolidated assets at 31 December 2018. As is explained in Notes 2.11 and 8.1 of the accompanying notes to the consolidated financial statements, the carrying amount of these assets is reviewed at the end of each year in order to assess whether or not there is any indication of their impairment. If there are any such indications, the Group estimates the recoverable value of the asset concerned. Note 8.1 provides details of the Cash Generating Units (CGUs) that present indications of impairment. No impairment was recognized in 2018.	The starting point of our procedures consisted of gaining an understanding of the relevant processes and controls associated with the evaluation of the impairment of property, plant and equipment by Group management, including those relating to the preparation of budgets and the analysis and monitoring of projections, which constitute the basis for the primary judgments and estimates made by Group management. We have verified the calculations of cash flows and we have compared the projected annual flows, which are based on the plans and budgets approved by Group management, against those actually attained in 2018. These projections are based in plans and budgets approved by management which have been contrasted with management experts for certain CGUs, as explained in Note 8.1.

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
The Group uses cash flow projections based on financial budgets approved by management to calculate the recoverable value assigning different probabilities of occurrence to the margins projected in cases that cash flows are subject to high uncertainty, which requires relevant judgments and estimates. These estimates include, among other things, operating profits on sales, discount rates and long-term growth. The most significant assumptions used by the Group are summarized in Note 8.1 to the accompanying notes to the consolidated financial statements. Changes in these variables and estimates made by management may give rise to significant variations in the conclusions reached and, therefore, in the analysis of the recovery of the indicated property, plant and equipment. This, together with the relevance of this heading, imply that this matter was one of significant attention during our audit.	We have also analysed the key assumptions applied, comparing them against past results and other available industry information. To do so, we have obtained the support of valuation experts at our firm who have assessed the model used, the discount rate for calculating the present value of the flows (WACC) and the long-term growth figures applied by the Group. In addition, we have assessed the sensitivity of key assumptions against changes that would imply an impairment, considering the probabilities assigned to the occurrence to the margins projected by management. As a result of our tests and analyses, we consider that Group management's conclusions regarding the absence of impairment and the disclosures in the accompanying consolidated financial statements are adequately supported and consistent with the information currently available.
Recovery of deferred tax assets	
The Group recognized €141,946 thousand in deferred tax assets, net of €32,478 thousand in deferred tax liabilities, whose recovery depends on the generation of taxable income in future years (Notes 2.19, 3.h and 18.3.3 of the accompanying notes to the consolidated annual accounts). The recovery of these deferred tax assets is analysed by the Group through an estimation of taxable income over 10 years based on the business plans prepared by the various Group companies and the planning possibilities allowed by the tax legislation applicable to each company and tax group. As a result, the conclusion regarding the recovery of the deferred tax assets that are presented in the consolidated balance sheet is subject to significant judgment and estimations by Group management with respect to both future taxable income and the tax legislation in force in the various jurisdictions in which the Group operates. This, together with the relevance of this heading, imply that this matter is one of significant attention during our audit.	We first gained an understanding and assessed the criteria used by the Group to estimate the possibility that the deferred tax assets may be applied and recovered in subsequent years, in accordance with the business plans. Based on the business plans prepared by Group management, we have analysed the key assumptions, estimates and calculations used, comparing them against past results and other available comparables. Our analysis also included a review of the tax adjustments taken into consideration for the estimate of tax-loss carry forwards, applicable tax legislation as well as decisions regarding the possibility of using the taxable profits obtained by the various Group companies. The analyses carried out have allowed for the verification that the calculations and estimates made by the Group, as well as the conclusions reached, with respect to the recognition and recovery of deferred tax assets are consistent with current circumstances, in light of the expectations of the Group obtaining profits in the future and the possibilities arising from tax planning available under current legislation.

Key Audit Matters (KAM)	How the matters were handled during the course of the audit
Assessment of deferred tax liabilities in relation to non distributed profits	
Certain subsidiaries of Acerinox Group have available reserves that are subject to tax payments in case they are distributed. The Group recognise the tax effect in relation to this concept whenever it considers that this distribution will be probable, and, therefore, consider that the reversal of the associated temporary difference will take place in the foreseeable future (note 2.19). As explained in Note 18.3.1., as of December 2017 the Group recognized a deferred tax liability amounting €25,000 thousand after reaching a conclusion regarding the probability of repatriating reserved amounting €250 million from the subsidiary North American Stainless Inc., to ensure that the parent company can maintain the dividend per share during the following 5 years, being such dividends subject to a 10% retention in origin. After the revaluation performed as of December 31, 2018, management has maintained this estimation. The assessment of the amount of the reserves to be repatriated and, as a result, the recognition of the relevant deferred tax liability requires significant estimates and judgments on the part of Group management. This, together with the relevance of this heading, imply that this matter is one of significant attention during our audit.	We analysed the criteria applied by Group management regarding the estimates made of the probability of repatriating the reserves held by subsidiaries and their amount including, among other things, the capacity to generate future profits included in the business plans approved by group management and, consequently, the recognition of deferred tax liabilities due to the retained earnings of subsidiaries. Our analyses allowed us to verify the consistency of the estimates and calculations made by Group management, as well as the conclusions reached with respect to the treatment of the impact of the deferred tax liabilities, and that they are adequately supported and consistent with the information that is currently available.

Other information: Consolidated management report

Other information includes only the consolidated management report for 2018, the preparation of which is the responsibility of the Parent company's directors and it does not form an integral part of the consolidated financial statements.

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

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above is included in the consolidated directors' report and that the rest of the information in the consolidated directors' report is consistent with that of the consolidated financial statements for 2018 and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

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

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the statements made in our additional report for the parent company's audit committee dated 25 February 2019.

Appointment period

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

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mar Gallardo (18003)

27 February 2019

CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEETS

(In thousands of euros at 31 December 2018 and 2017)

ASSETS	Note	2018	2017
Non-current assets			
Goodwill	7	69,124	69,124
Other intangible assets	7	2,249	2,510
Property, plant and equipment	8	1,890,907	1,868,408
Investment property	9	16,535	17,720
Financial assets at fair value with changes through other comprehensive income	11	11,514	14,763
Deferred tax assets	18	141,946	170,602
Other non-current financial assets	11	1,498	4,491
TOTAL NON-CURRENT ASSETS		2,133,773	2,147,618
Current assets			
Inventories	10	1,018,738	990,484
Trade and other receivables	11	578,126	601,617
Other current financial assets	11	7,747	23,040
Current tax assets	18	19,093	20,717
Cash and cash equivalents	12	850,113	620,536
TOTAL CURRENT ASSETS		2,473,817	2,256,394
TOTAL ASSETS		4,607,590	4,404,012

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

(In thousands of euros at 31 December 2018 and 2017)

EQUITY AND LIABILITIES	Note	2018	2017
Equity			
Subscribed capital	13	69,017	69,017
Share premium	13	81,403	81,403
Reserves	13	1,563,921	1,499,499
Profit for the year	13	237,086	234,144
Translation differences	13	113,991	13,073
Other equity instruments	13	601	
Shares of the Parent	13	-3,417	-1
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		2,062,602	1,897,135
Non-controlling interests	13	56,697	73,161
TOTAL EQUITY		2,119,299	1,970,296
Non-current liabilities			
Deferred income	14	6,876	6,947
Issue of bonds and other marketable securities	11	74,450	74,350
Bank borrowings	11	951,842	862,328
Non-current provisions	15	19,805	28,402
Deferred tax liabilities	18	164,877	174,401
Other non-current financial liabilities	11	8,373	2,949
TOTAL NON-CURRENT LIABILITIES		1,226,223	1,149,377
Current liabilities			
Issue of bonds and other marketable securities	11	1,635	51,592
Bank borrowings	11	374,254	241,488
Trade and other payables	11	860,370	941,476
Current tax liabilities	18	23,576	21,212
Other current financial liabilities	11	2,233	28,571
TOTAL CURRENT LIABILITIES		1,262,068	1,284,339
TOTAL EQUITY AND LIABILITIES		4,607,590	4,404,012

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

2. CONSOLIDATED INCOME STATEMENTS

(Expressed in thousands of euros)

	Note	2018	2017
Revenue	16	5,010,777	4,626,855
Other operating income	16	12,608	14,433
Self-constructed non-current assets	16	18,293	16,829
Changes in inventories of finished goods and work in progress		-4,353	105,130
Supplies		-3,524,212	-3,249,188
Personnel expenses	16	-395,928	-391,703
Amortisation and depreciation	7.8.9	-166,153	-169,705
Other operating expenses	16	-638,937	-634,699
RESULTS FROM OPERATING ACTIVITIES		312,095	317,952
Finance income	17	18,259	8,876
Finance costs	17	-33,677	-38,415
Translation differences	17	455	40,054
Fair value measurement of financial instruments	17	12,878	-29,836
PROFIT FROM ORDINARY ACTIVITIES		310,010	298,631
Income tax	18	-89,709	-72,132
Other taxes	18	-5,059	-5,180
PROFIT FOR THE YEAR		215,242	221,319
Attributable to:			
NON-CONTROLLING INTERESTS		-21,844	-12,825
NET PROFIT ATTRIBUTABLE TO THE PARENT COMPANY		237,086	234,144
Basic and diluted earnings per share (in Euros)	13,9	0.86	0.85

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

3. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of euros)

	Note	2018	2017
A) PROFIT FOR THE YEAR		215,242	221,319
B) OTHER COMPREHENSIVE INCOME - ITEMS NOT RECYCLED TO PROFIT OR LOSS FOR THE PERIOD		-2,436	2,232
1. From recognition of equity instruments at fair value through other comprehensive income	11,2,5	-3,248	2,145
2. Actuarial gains and losses and other adjustments			865
3. Tax effect		812	-778
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECYCLED TO PROFIT OR LOSS FOR THE PERIOD		73,039	-291,719
1. Cash flow hedges			
- Valuation gains/(losses)	11,2,6	-6,243	-4,528
- Amounts transferred to the income statement		1,919	5,991
2. Translation differences			
- Valuation gains/(losses)		76,284	-292,222
- Amounts transferred to the income statement			-592
3. Tax effect		1,079	-368
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		285,845	-68,168
a) Attributable to the Parent		314,248	-51,340
b) Attributable to non-controlling interests		-28,403	-16,828

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

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of euros)

		Equity attributable to shareholders of the parent												
	Note	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	Other equity instruments	Treasury shares	TOTAL	Non-controlling interests	TOTAL EQUITY
Equity at 31/12/2016		69,017	81,403	1,627,094	5,242	-1,305	-4,196	-300	301,736		-1	2,078,690	89,989	2,168,679
Profit for 2017				234,144								234,144	-12,825	221,319
Measurement of available-for-sale assets (net of tax)	11,2,5						1,609					1,609		1,609
Cash flow hedges (net of tax)	11,2,6					1,097						1,097	-2	1,095
Actuarial valuation of commitments	15,1							473				473	150	623
Translation differences	13,4								-288,663			-288,663	-4,151	-292,814
Income and expense recognised in equity		0	0	0	0	1,097	1,609	473	-288,663	0	0	-285,484	-4,003	-289,487
Total comprehensive income		0	0	234,144	0	1,097	1,609	473	-288,663	0	0	-51,340	-16,828	-68,168
Distribution of dividends	13,2			-124,230								-124,230		-124,230
Transactions with shareholders		0	0	-124,230	0	0	0	0	0	0	0	-124,230	0	-124,230
Acquisition of non-controlling interests	5,2											0		0
Other changes	18,3,1			-5,985								-5,985		-5,985
Equity at 31/12/2017		69,017	81,403	1,731,023	5,242	-208	-2,587	173	13,073	0	-1	1,897,135	73,161	1,970,296
Profit for 2018				237,086								237,086	-21,844	215,242
Valuation of financial assets at fair value through profit or loss (net of tax)	11,2,5						-2,436					-2,436		-2,436
Cash flow hedges (net of tax)	11,2,6					-3,245						-3,245		-3,245
Translation differences	13,4								82,843			82,843	-6,559	76,284
Income and expense recognised in equity		0	0	0	0	-3,245	-2,436	0	82,843	0	0	77,162	-6,559	70,603
Total comprehensive income		0	0	237,086	0	-3,245	-2,436	0	82,843	0	0	314,248	-28,403	285,845
Distribution of dividends	13,2			-124,230								-124,230		-124,230
Transactions with shareholders		0	0	-124,230	0	0	0	0	0	0	0	-124,230	0	-124,230
Acquisition of own shares	12,1										-3,416	-3,416		-3,416
Acquisition of non-controlling interests	5,2			-40,646					18,180			-22,466	11,927	-10,539
Long-term incentive plan for senior managers	15,1,3									601		601	12	613
Adjustment for hyperinflation	13,6			351								351		351
Transfers				105					-105			0		0
Other changes	18,3,1			379								379		379
Equity at 31/12/2018		69,017	81,403	1,804,068	5,242	-3,453	-5,023	173	113,991	601	-3,417	2,062,602	56,697	2,119,299

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

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of euros)

	Note	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		310,010	298,631
Adjustments for:			
Depreciation	7,8,9	166,153	169,705
Impairment losses		18,286	-761
Change in provisions		-1,461	2,427
Grants recognised in the income statement	14	-1,035	-2,620
Gains/(losses) on disposal of fixed assets	8.9	1,690	-301
Change in fair value of financial instruments		-11,633	26,881
Finance income	17	-18,259	-8,283
Finance costs	17	33,677	38,415
Other income and expense		12,755	-48,593
Changes in working capital:			
(Increase)/decrease in trade and other receivables		37,824	-59,886
(Increase)/decrease in inventories		-48,059	-149,141
(Increase)/decrease in trade and other payables		-77,019	209,629
Other cash flows from operating activities			
Interest paid		-32,090	-36,746
Interest received		16,625	8,495
Income tax paid		-81,067	-81,999
NET CASH FROM OPERATING ACTIVITIES		**326,397**	**365,853**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-145,243	-184,806
Acquisition of intangible assets		-903	-777
Acquisition of non-controlling interests	5	-10,539	
Acquisition of other financial assets		-203	-286
Proceeds from sale of property, plant and equipment		1,433	1,021
Proceeds from sale of other financial assets		3	116
Dividends received		118	160
Other amounts received/paid for investments			
NET CASH FROM INVESTING ACTIVITIES		**-155,334**	**-184,572**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of own shares	13	-3,416	
External financing received	11,2,3	645,172	695,133
Repayment of interest-bearing liabilities	11,2,3	-475,842	-668,096
Dividends paid	13	-124,230	-124,230
Contribution from non-controlling shareholders			
NET CASH FROM FINANCING ACTIVITIES		**41,684**	**-97,193**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**212,747**	**84,088**
Cash and cash equivalents at beginning of year	12	620,536	598,470
Effect of exchange rate fluctuations		16,830	-62,022
CASH AND CASH EQUIVALENTS AT YEAR END	**12**	**850,113**	**620,536**

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

CONTENS NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

6. NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTE 1 GENERAL INFORMATION

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

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

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

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

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

Annual accounts: these consolidated annual accounts were prepared by the board of directors of Acerinox, S.A., on 26 February 2019.

NOTE 2 ACCOUNTING POLICIES

2.1 Statement of compliance

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

The annual accounts for 2018 have been produced using the same accounting principles (IFRS-EU) as for 2017, except for the standards and amendments adopted by the European Union which are obligatory as of 1 January 2018, such as, IFRS 9 — Financial Instruments and IFRS 15 — Revenue from Contracts with Customers. As predicted in the financial statements for 2017, these changes have had no significant impact at the Group. The Group has applied both standards with retroactive effect. In **note 2.2** a description of the analysis made with respect to the new standards IFRS 9 and IFRS 15 is included, as well as the impacts of their application.

The Group has also applied a new policy not included in the 2017 financial statements, relating to share-based payments to employees. Application of this policy is pursuant to the approval at the Annual General Meeting of a multi-year remuneration or long-term incentive plan (LIP) for certain employees via the delivery of shares in Acerinox, S.A.

The most significant standards for the Group taking effect from 1 January 2019 are as follows:

- IFRS 16 — Leases. Effective for annual periods beginning on or after 1 January 2019. This standard replaces IAS 17. It requires companies to recognise lease assets and liabilities in the consolidated balance sheet (except for short-term leases and leases of low-value assets). In **note 2.3** there is a detailed analysis of the assessment made by the Group on the expected impacts of applying this standard.

- IFRIC Interpretation 23 — Uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019. It provides the requirements on how to reflect the effects of uncertainty when accounting for income tax. It is not expected to have a significant impact at the Group.

- Amendment to IFRS 9 — Classification of certain prepayable assets. Effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted. This amendment proposes a narrow exception to IFRS 9 for particular financial assets which, despite having contractual cash flows that are solely payments of principal and interest, do not meet this condition as a result of a prepayment feature. No impact on the Group as it does not hold this type of instrument.

The Group will include the new disclosures required under these standards in its financial statements for 2019.

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

- Annual Improvements to the IFRS. 2015-2017 cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods beginning on or after 1 January 2019. The Group does not expect the application of these amendments to have any impact.

- Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and their associates or joint ventures: these amendments clarify the accounting treatment of sales or contributions of assets between an investor and its associate/joint venture. The Group has no significant investments in associated companies or joint ventures.

- Amendment to IAS 19 - Amendment, reduction or liquidation of the plan: specifies how companies should determine the expenses for pensions when changes occur in a defined benefit plan. The Group does not expect the application of this standard to have any impact, since benefit plans are suitably outsourced.

- Amendment to IFRS 3 - Definition of a business: this amendment will affect the business combinations whose acquisition date is on or after 1 January 2020. Early application is allowed.

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

2.2 Assessment of the impact of the new standards adopted by the Group in 2018 (IFRS 9 and IFRS 15)

The Group has started applying these new International Financial Reporting Standards on the mandatory date of application, i.e. 1 January 2018. In any case, the changes were not significant. The Group has applied these standards retrospectively, without restating the comparative figures.

IFRS 9 — Financial Instruments

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

- Classification, measurement and recognition of financial assets and liabilities. The new standard maintains, but simplifies, the mixed measurement model and establishes three main measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The basis for classification depends on the entity's business model and the characteristics of the financial asset's contractual cash flows. Meanwhile, the standard requires investments in equity instruments to be measured at fair value through profit or loss, with the irrevocable election at initial recognition, to present the changes at fair value through other comprehensive income, not reclassified to income for the year, provided the instrument is not held for trading. If the equity instrument is held for trading, the changes in the fair value are presented in profit or loss.

  In relation to financial liabilities there have been no changes in classification and measurement, except for financial liabilities designated at fair value through profit or loss because changes in the fair value of the financial liability that are attributable to changes in the credit risk of that liability must be presented through other comprehensive income. The remaining amount of the change in the fair value of the liability is presented through profit or loss for the period, unless this treatment would create an accounting asymmetry in profit or loss for the period, in which case all changes in fair value are recognised through profit or loss. In the Acerinox Group the only liabilities designated in this category are derivatives used to hedge fluctuations in the exchange rate. These are short-term financial instruments in which the variation attributed to credit risk is not significant.

  In addition, IFRS 9 establishes that exchanges of debt instruments with substantially different terms will be recognised as an extinguishment of the original liability and the recognition of a new financial liability. The Group has assessed the debt renegotiations that it conducted in the years 2016 and 2017, to determine whether they could result in a difference in accounting treatment. However, the Group's approach to accounting for debt renegotiations is the same as that which would have resulted from the application of this standard, so no adjustments are to be made as a result of applying the new IFRS.

The application of this standard has therefore had no impact at the Group. The Group's financial assets consist of:

- Accounts receivable: are measured at amortised cost, and the Group maintains its measurement criteria under the new standard. The Group policy is detailed in **note 2.12.2** section b).

- Equity instruments: equity instruments the Group does not hold for trading and which, therefore, were recognised as available-for-sale up until the end of last year. Under the new standard, they will continue to be measured at fair value through other comprehensive income. The only difference following the adoption of this new standard is that until now changes in the fair value had been reported through other comprehensive income, unless objective evidence exists that impairment has occurred, in which case the accumulated loss is taken from equity to profit or loss. Following the adoption of the new IFRS 9, impairment is to remain under equity. The Group does not intend to dispose of these investments, though if it did, the gains or losses on the sale would also be recognised in other comprehensive income, as stipulated in the new standard.

- Derivative financial instruments: the Group measures these instruments according to hedge accounting criteria or at fair value through profit or loss. Since the measurement methods reflect the Group's business model, no change has been made to either the classification or measurement method following the adoption of the new standard

Changes in the classification of financial assets at the Group following the entry into force of IFRS 9 are as follows. Under no circumstances have these changes entailed a change in their measurement.

	Classification		Value at 1 January 2018	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Loans and receivables	Loans and receivables	Financial assets at amortised cost	611,185	611,185
Equity instruments	Assets available for sale	Financial assets at fair value with changes through other comprehensive income	14,763	14,763
Derivatives not reported under hedge accounting	Derivatives at fair value through profit or loss	Financial assets at fair value through profit or loss	17,007	17,007
Hedging derivatives	Hedging instruments	Hedging instruments	956	956

- New impairment loss model based on expected credit losses and replacing the incurred impairment loss model of IAS 39. As explained in the Group's financial statements for 2017, it is the Group's policy to hedge its commercial and political risks for all sales made in any country of the world, with the exception of those made in the United States. It hedges its credit risks either through credit insurance companies, or through letters of credit and bank guarantees extended by banks of recognised solvency. The amount of the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated future cash flows. The Group considers risk hedging to be an integral part of the insured credit, so when calculating expected credit losses, it takes account not only of the cash flows expected from collection of the receivable, but also those under the credit insurance. Meanwhile, the Group also arranges non-recourse factoring transactions whereby the risks and rewards of those assets are substantially transferred, thus leading to the derecognition of the receivables from the balance sheet, allowing it to reduce insolvency risk. Additionally, in some countries the due dates are within 30 days, allowing deliveries to be controlled and reducing any impairment losses. For all these reasons, the Group's history of losses from bad debt is very low and therefore no significant impact has arisen from this change in policy.

  The Group has defined a new impairment loss model based on an historical analysis of the average bad debts at each of the subsidiaries and on the claims made under the arranged credit insurance policies, including any non-recoverable amount (maximum coverage of 85%-90% and deductibles), and any amounts subsequently recovered after the claim, whether from the insurance company or the customers themselves. The model indicates an estimated percentage of expected credit loss of 0.03% (as in 2017) on all sales made in each year. These estimates are revised through our credit risk control system (commercial and financial risk departments, risk committee and the corporate risk management department), which continuously monitors the specific markets of each subsidiary, receives input from insurance company experts and reviews the future estimates from international bodies of recognised prestige (IMF, OECD, etc.). The macroeconomic outlook for each country is also factored in. Once these parameters have been considered, the bad debt provision is calculated taking into account the likelihood of future loss, which is determined based on the composition of the trade receivables balance: whether it has coverage from insurance firms, letters of credit or where there are duly approved guarantees, and the time delay over the established due date (a delayed debt of less than 30 days does not generate the same future default risk ratio as another with a delay of 120 days, etc.).

- Changes in the accounting of hedges: IFRS 9 relaxes the requirements for hedge effectiveness. Under the previous IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 replaces this by requiring an economic relationship between the hedged item and the hedging instrument and for the hedge ratio to be the same as that used for risk management purposes. Contemporaneous documentation is still required, but is different to that which was prepared under IAS 39. The standard seeks to align hedge accounting more closely with risk management, with a target-based approach and seeking to eliminate inconsistencies and weaknesses in the current model.

  The Group covers the risk of fluctuations in the exchange rate of its currency positions with forward exchange contracts only, while also covering the risk of interest rate fluctuations through financial swap instruments. Accounting of hedges is aligned with the Group's risk management model. Hence, no changes are expected in the accounting of hedges. The Group currently uses hedge accounting for instruments that are designated to hedge interest rate risks and does not typically use it for instruments designated to hedge changes in exchange rates. Under its policy for hedging exchange rate risk, the Group covers net positions in foreign currency and balances between Group companies, meaning it is difficult to distinguish between the part of the instrument used to cover transactions with third parties and that used for Group companies. In any event, the Group only hedges cash flow risks for transactions made in foreign currencies that are recognised in the balance sheet, so any change to the derivative is recognised in profit or loss, and is offset by any changes that may occur at each balance sheet reporting date in the monetary items recorded in foreign currencies, pursuant to IAS 21. Since the designation of these instruments as hedging instruments has not led to any accounting difference in the income statement, the Group has decided to keep the same classification as that used at the close of the 2017 period.

IFRS 15 — Revenue from Contracts with Customers

Under this standard, revenues are recognised when a customer obtains control of the good or service that has been sold, i.e. when they have the ability to direct the use of and obtain all of the benefits from the good or service. The standard defines a five-step model for recognising revenue under a contract:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the price to the performance obligations
5. Recognise the revenue when (or as) the entity satisfies a performance obligation

The new standard on revenue under contracts with customers defines a contract as an agreement between two or more parties that creates enforceable rights or obligations. A contract does not exist if each party to the contract has the unilateral right to terminate a wholly unperformed contract without compensating the other party. The standard requires a contract with a customer to be recognised when it meets all the following conditions:

a) The contract has been approved by the parties to the contract, who undertake to perform their respective obligations
b) Each party's rights can be identified
c) The payment terms for the goods or services to be transferred can be identified
d) The contract has commercial substance
e) It is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected

The process of selling stainless steel is carried out through purchase orders.

The Group has evaluated the time all these conditions are met in order to determine the time at which a contract comes into existence. This analysis has revealed that orders arranged with customers do not give rise to an enforceable right or obligation, since the parties are entitled to unilaterally terminate an unperformed contract without compensating the other party up until the time the goods are delivered. Accordingly, no obligation comes into existence until the goods are delivered.

Depending on the commercial terms of sale, the risk of the goods may be transferred when the materials are shipped from the Group's facilities or when they are delivered to the customer. The Group takes these terms of sale into account when determining the timing of revenue recognition. Revenue from the sale of goods is recognised in the income statement when control of the goods passes to the buyer.

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

When determining the price, sale prices in the stainless steel market typically comprise a base price plus a variable component known as an "alloy surcharge". The alloy surcharge is calculated monthly by each of the market's stainless steel producers on the basis of a formula that takes into account the variation in the price of certain raw materials (particularly nickel, chromium and molybdenum) and fluctuations in the EUR-USD exchange rate. The alloy surcharge applied is calculated at the time the goods are delivered and is agreed upon with the customer. In other words, the amount of the consideration is highly sensitive to factors beyond the entity's control.

The Group is mainly engaged in the manufacture and sale of stainless steel and there are hardly any service contracts in effect with third parties operating outside the Group.

Therefore, the Group's policy when it comes to recognising revenue is compliant with the revenue recognition criteria set out in the new IFRS 15. The Group continues to recognise revenue at the time control of the goods passes to the customer, which is effectively on delivery in accordance with its terms of sale.

Accordingly, the figures for 2017 presented in these interim financial statements are included for comparative purposes only.

2.3 Evaluation of the main standards and interpretations that will be mandatory in 2019 (IFRS 16)

Valuation rule and exceptions to be applied in transition

The Group will start applying the new IFRS 16 standard for leases on the mandatory application date, i.e. 1 January 2019.

This standard replaces IAS 17 and requires that entities recognise lease assets and liabilities in the consolidated balance sheet (except for short-term leases and leases of low-value assets).

With respect to transition, the Group, as permitted by the standard, has decided to apply it retroactively, recognising the cumulative effect of the initial application of the standard on the date of initial application. Therefore, it will not restate the comparative information. Instead, it recognises the cumulative effect of the initial application of this standard, if any, as an adjustment to the opening balance of retained earnings at the date of initial application. That is to say,

- It recognises a lease liability on the initial date of application for leases previously classified as operating leases in accordance with IAS 17 (except for a short-term lease agreement or a low-value asset). The lessee shall measure the lease liability at the present value of the remaining lease payments discounted using the interest rate inherent in the lease, if that rate can be readily determined. If this cannot be easily determined, the lessee shall use the incremental interest rate of the lessee's borrowing.

- It shall recognise an asset by right of use on the date of initial application and measure that asset by right of use for an amount equal to the amount of the lease liability.

For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the asset and lease liability.

On the other hand, the Acerinox Group has decided to avail itself of the practical solution that allows the rule in transition whereby it will not re-evaluate whether a contract is, or contains, a lease on the date of initial application. Instead, it allows the entity to

a) Apply this standard to contracts that have previously been identified as leases in accordance with IAS 17 - Leases and IFRIC 4 - Determining whether an arrangement contains a lease.

b) Not apply this standard to contracts not previously determined to contain a lease in accordance with IAS 17 and IFRIC 4.

Consequently, the Group will only apply the requirements with respect to the identification of a lease to contracts entered into (or modified) from the initial application date, 1 January 2019.

It also does not recognise the lease liability and the right-of-use asset for leases whose term expires within twelve months of the date of initial application. It shall account for such leases as short-term leases, i.e. as an expense on a straight-line basis over the lease term.

From 1 January 2019, the Group will identify the existence of a lease in the contracts and lease term and will measure it in accordance with IFRS 16.

In determining the lease term, the Group will consider the non-revocable term of the lease, to which the following will be added:

- the periods covered by the option to extend the lease, if the lessee is reasonably certain that it will exercise that option; and

- the periods covered by the option to terminate the lease, if the lessee is reasonably certain that it will not exercise that option.

A tenancy ceases to be enforceable when both the lessee and the lessor have the right to terminate the tenancy without the permission of the other party, subjecting themselves only to a negligible penalty.

For the determination of lease payments, it will take into account:

a) fixed payments, minus the lease incentives to be collected.

b) variable lease payments that are dependent on an index or rate, initially valued according to the index or rate on the starting date.

c) the amounts expected to be paid by the lessee as residual value guarantees;

d) the exercise price of a purchase option, if the lessee is reasonably certain that it will exercise that option;

e) lease termination penalty payments, if the term of the lease reflects the lessee's exercise of the option to terminate the lease.

The Group will include the new disclosures required under these standards in its financial statements for 2019.

Evaluation of the application of IFRS 16 in the Acerinox Group

The detail of the lease expenses at 31 December 2017 and 2018, which amounted to 11,237 thousands of euros and 9,816 thousands of euros, respectively, is as follows:

(Expressed in thousands of euros)

	2018		2017	
	Short-term contracts	Long-term contracts	Short-term contracts	Long-term contracts
Offices	205	285	302	216
Warehouse	100	218	104	207
Stock warehousing (Deposits)		10		23
Machinery	4,977	282	4,748	299
Forklifts	1,041	1,416	951	1,090
Vehicles	361	470	692	328
Other tools	1,528	114	604	50
Photocopiers	2	144	6	135
Other	81	3	31	30
TOTAL	**8,295**	**2,942**	**7,438**	**2,378**

Most of the Group's contracts are short-term.

Following the evaluation of the Group's long-term lease contracts and once the remaining payments have been valued up to maturity, the Group will recognise a lease liability and assets for right of use in its 2019 financial statements for an amount of 7,372 thousands of euros. The interest rate used is the interest rate implicit in the lease, or the incremental interest rate of the lessee's indebtedness, when that rate is not readily determinable.

The term of the Group's lease agreements and the amount of the payments remaining from 1 January 2019 are as follows:

(Expressed in thousands of euros)	2018
	Amount of future payments
2 years	1,811
between 2-5 years	3,821
between 5-10 years	
More than 10 years	1,740
TOTAL	**7,372**

The amount of the contracts for more than 10 years relates mainly to a plot of land that the company Inoxcenter Group, S.L.U, has leased to the consortium of the Barcelona free trade zone, on which the Group has built an industrial warehouse owned by it.

2.4 Basis of presentation of the consolidated annual accounts

The accompanying consolidated annual accounts have been prepared by the Directors of the Parent Company to give a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2018 and 2017, as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the years then ended.

For the purpose of comparison with each of the items in the financial statement, the annual accounts for 2018 also include the figures for the previous year.

These consolidated annual accounts are presented in euros, rounded off to the nearest thousand. They have been prepared on a historical cost basis, except for the following assets and liabilities, which have been measured at fair value: derivative financial instruments and financial assets at fair value through profit or loss (up to 2017 called available-for-sale assets). Inventories have been measured at the lower of cost or net realisable value.

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

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

The consolidated annual accounts for 2017 were approved by the shareholders at their Annual General Meeting held on 10 May 2018. The Group's consolidated annual accounts for 2018 are currently pending approval by the shareholders. The Directors of the Company believe that these consolidated annual accounts will be approved with no changes by the shareholders at their Annual General Meeting.

2.5 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.

2.6 Consolidation principles

a) Subsidiaries

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

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

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

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

The Acerinox Group's consolidated subsidiaries that are included in the consolidated group as of 31 December 2018 and 2017 are listed in **note 5**.

b) Non-controlling interests

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

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

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

When the percentage of equity held by minority interests changes, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect changes in its relative interests in the subsidiary. The Group recognises directly in equity the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributes this difference to the owners of the parent. The results attributed to the minority shareholder up to the acquisition date are recognised as results attributable to minority interests.

The Group evaluates if, in the contracts with non-controlling interests, there are clauses or financial instruments that may obligate the entity to deliver cash or another financial asset, or to settle it as a financial liability, in order to determine its classification and valuation.

When a financial instrument is classified in the consolidated financial statements, the entity takes into account all the terms and conditions agreed upon between the members of the Group and the holders of the instrument, in order to determine if the Group has an obligation to deliver cash or another financial asset in virtue of the instrument in question, or to settle it in such a way that entails classifying it as a liability. If there is an obligation or a settlement clause, the instrument is classified as a liability in the consolidated financial statements.

Sometimes these options depend on the occurrence of some future uncertain event that is outside the control of both the issuer and the holder of the instrument. If the issuer of this instrument also does not have the unconditional right to prevent the delivery of cash or another financial asset, it will be considered a financial liability for the issuer, unless the part of the clause regarding the contingent settlement that may require the settlement in cash or another financial asset is not feasible, i.e. it is extremely extraordinary, highly unusual and very improbable.

c) Business combinations

The Group applies the acquisition method for business combinations.

No business combinations took place in 2018 or 2017.

d) Associates

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

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

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

The Group has no significant investments in associates.

e) Balances and transactions eliminated on consolidation

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

2.7 Translation differences

a) Functional and presentation currency

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

b) Foreign currency transactions, balances and cash flows

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

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

Non-monetary assets and liabilities denominated in foreign currencies and recorded at historical cost are translated to the functional currency using the exchange rate prevailing at the date of the transaction. In the case of non-monetary assets belonging to countries considered hyperinflationary, at the end of each period the historical cost is revalued, applying a price index to express them in terms of the current unit of measurement at the end of the period. A detailed description of the valuation of items in hyperinflationary economies is included in section (c) below.

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.

d) Conversion of financial reporting in hyperinflationary economies

Since 1 July 2018, Argentina has been declared a hyperinflationary economy due to meeting the qualification requirements established in IAS 29. The Acerinox Group has an entity in Argentina, as detailed in **note 5**.

The financial statements of an entity whose functional currency is that of a hyperinflationary economy are expressed in terms of the current unit of measurement at the end of the reporting period. Both the comparative figures for the previous period and the information relating to previous periods are restated only to the extent that they are significant for the Group, in terms of the current unit of measurement at the end of the reporting period. Since most non-monetary items are carried at historical cost, the restated cost of each item is determined by applying to said historical cost and accumulated depreciation the change in a general price index from the acquisition date to the end of the reporting period.

At the beginning of the first period of application of this Standard, the components of owners' equity, except retained earnings and revaluation surpluses, shall be restated by applying a general price index to the various items from the dates on which they were contributed or from the date they arose otherwise. The restated retained earnings shall be derived from the remaining amounts in the consolidated balance sheet. At the end of the first period and in subsequent periods, all components of equity shall be restated by applying a general price index from the beginning of the period, or from the date of contribution if later.

All items in the statement of comprehensive income are expressed in the current currency unit at the end of the reporting period. To this end, all amounts shall be restated for the change in the general price index from the date on which income and expenses were recorded in the financial statements.

The gain or loss on the net monetary position will be included in profit or loss of the period.

In **note 13.6** the impacts of the valuation according to this standard of the Financial Statements of Acerinox Argentina are included, after Argentina had been declared a hyperinflationary economy.

2.8 Intangible assets

a) Goodwill

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment (or more frequently where there are indications of possible impairment) in accordance with IAS 36, if it has experienced impairment losses in its value. To this end, goodwill is allocated to the cash-generating units (CGUs) of the company that is expected to benefit from the synergies of the business combination. (See **note 2.11**). 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 2.11**)

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

Internally generated goodwill is not recognised as an asset.

b) Internally generated intangible assets

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

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

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

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

c) Computer software

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

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

d) Amortisation

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

Estimated useful lives are as follows:

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

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

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

2.9 Property, plant and equipment

a) Owned assets

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

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

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

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

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

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

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

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

b) Amortisation

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

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

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

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

- Buildings: 14-50
- Technical installations and machinery: 3-30
- Other property, plant and equipment: 2-10

2.10 Investment property

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

The Group only makes transfers to or from property, plant and equipment to investment property when there is a change in the use of the property.

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

Lease income is recognised using the criteria described in **note 2.20 b**).

2.11 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.

At the end of each period, the Group assesses whether there is any indication of impairment. The Group considers that indications of impairment exist when there is a significant decrease in the value of the asset, significant changes in the legal, economic or technological environment that could affect the valuation of assets, obsolescence or physical impairment, idle assets, low returns on assets, discontinuation or restructuring plans, repeated losses in the entity or substantial deviation from the estimates made. This means to that evaluate the existence of signs of impairment, both external sources of information (technological changes, significant variations in market interest rates, market values of assets, etc.) and internal sources (evidence of obsolescence, etc.) are considered.

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.

2.12 Financial instruments

2.12.1 Classification

The Group began applying the new IFRS 9 on 1 January 2018.

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

In accordance with the new standard, financial assets have been classified in one of the three main measurement categories: amortised cost at fair value through profit or loss and at fair value through profit or loss, based on the business model and the contractual cash flow characteristics of the financial asset.

In relation to financial liabilities there have been no changes with respect to the classification

2.12.2 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 2018 and 2017 are detailed below.

a) Financial assets at fair value through profit or loss

In both 2018 and 2017, derivative financial instruments, except those that are designated as hedges and qualify for recognition as such, are included in this category.

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

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

b) Financial assets at amortised cost

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

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

Trade receivables are included in this category, recognised at their nominal value, which is the same as their fair value, as generally they do not have a contractual rate of interest, are expected to be received in the short term and the effect of not discounting future receipts is not material. The amount of customers is reduced by the amounts not collected when due, calculated on the basis of the expected loss model, which takes into account the historical loss incurred and other external factors. Impairment losses are recognised as an expense in the income statement and are reversed when the factors leading to the allowance have ceased to exist. The reversal amount is credited to the income statement.

The Group has defined a new impairment loss model based on an historical analysis of the average bad debts at each of the subsidiaries and on the claims made under the arranged credit insurance policies, including any non-recoverable amount (maximum coverage of 85%-90% and deductibles), and any amounts subsequently recovered after the claim, whether from the insurance company or the customers themselves. These estimates are reviewed within our credit risk control system (Commercial, Financial and Commercial Risk departments, Risk Committee as well as the Corporate Risk Management Department), which constantly monitors the particular markets of each subsidiary, receives the inputs of specialised experts from insurance companies, and reviews future estimates from international organisations of recognised prestige (IMF, OECD, etc.), also taking into account the macroeconomic estimates of each country. The Group takes into account and monitors the significant variations in credit risk that may occur during the term of the loans.

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

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

The Group considers that it has transferred a financial asset when it has transferred the right to receive the cash flows derived from the asset; or it has retained those rights, but has assumed the contractual obligation to pay those assets to another entity. In this case, the Group also considers the different additional conditions established in the standard (it has no obligation to pay any amount to another entity, unless it receives the cash flows derived from the financial asset; it cannot sell or offer the transferred financial assets as collateral; and it has an obligation to pay the cash flows received without significant delay). If, in addition, the Group does not retain the risks and rewards of these assets, it will remove them from the balance sheet.

Most of the assignment contracts signed by the Group comply with this definition and are therefore removed from the balance sheet.

c) Financial assets at fair value with changes through other comprehensive income

This classification includes those assets that under IAS 39 were called available-for-sale financial assets.

In accordance with the new valuation standard for financial instruments, investments in equity instruments to be measured at fair value through profit or loss, with the irrevocable election at initial recognition to present the changes at fair value through other non-recyclable comprehensive income, provided the instrument is not held for trading.

The Group has decided to include in this category, the investments in the capital of other companies over which the Group has no control or significant influence and which it is not holding for trading. 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, less any impairment losses.

In the event of a sale of available-for-sale financial assets, the difference between the amount of the sale and its fair value is recognised in other comprehensive income.

2.12.3 Financial liabilities

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

a) Financial liabilities at amortised cost
This category includes the debits and items to be paid as well as the bonds issued by the Group.

It includes 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.

The Group derecognises a financial liability when the obligation specified in the corresponding contract has been honoured or cancelled, or has expired.

When debt is refinanced, the Group assesses the significance of the modifications made to determine whether they are materially different and, therefore, the effects of the new agreement should be recorded as if it were a cancellation and, simultaneously, a new loan. The terms will be substantially different if the present value of the cash flows discounted under the new terms, including any net fees paid of any fees received, and using the original effective interest rate to calculate the discount, differs by at least 10 per cent from the discounted present value of the cash flows still remaining from the original financial liability. If an exchange of debt instruments or a modification of conditions is accounted for as a cancellation, the costs or commissions incurred will be recognised as part of the cancellation cost. If the aforementioned exchange or modification is not accounted for as a cancellation, the costs and commissions will adjust the carrying amount of the liability, and will be amortised over the remaining life of the modified liability.

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.

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 accounting hedging instruments.

These are recognised at fair value. The amount of the change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The remaining amount of the change in the fair value of the liability is presented through profit or loss for the period, unless this treatment would create an accounting asymmetry in profit or loss for the period, in which case all changes in fair value are recognised through profit or loss. In the Acerinox Group the only liabilities designated in this category are derivatives used to hedge fluctuations in the exchange rate. These are short-term financial instruments in which the variation attributed to credit risk is not significant.

2.12.4 Hedge accounting

The objective of hedge accounting is to represent, in the financial statements, the effect of the Group's risk management activities in which financial instruments are used to cover exposures from derivative financial instruments that may affect the income statement for the year.

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 takes into account the requirements established in the new standard (IFRS 9) to determine whether the hedging relationship meets the requirements to be designated as hedge accounting. In this regard, it takes into account whether the following conditions are met:

a) The hedging relationship consists only of hedging instruments and eligible hedged items.

b) At the inception of the hedging relationship, there is a formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for performing the hedge.

c) The hedging relationship meets all of the following hedging effectiveness requirements:

i) There is an economic relationship between the hedged item and the hedging instrument.

ii) Credit risk does not have a dominant effect on changes in value resulting from that economic relationship.

iii) The hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the entity actually hedges and the amount of the hedging instrument that the entity actually uses to hedge that amount of the hedged item.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges.

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.

The Group only undertakes cash flow hedges.

2.12.5 Measurement of fair value

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

LEVEL 1: includes financial instruments for which the fair value is determined by reference to quoted prices on active markets.

LEVEL 2: includes financial instruments for which the fair value is determined based on observable market inputs, other than quoted prices.

LEVEL 3: includes financial instruments for which the fair value is determined based on unobservable inputs.

2.13 Inventories

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

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

Finished goods and work in progress are measured at the weighted average cost of raw and other materials consumed, incorporating applicable direct and indirect labour costs and general manufacturing costs based on the higher of normal operating capacity or actual production. The cost of underutilisation of operating capacity is not included in the value of finished goods and work in progress.

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.

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.

2.13.1 Emission allowances

Pursuant to Royal Decree 602/2016 of 2 December 2016, the Group recognises CO2 emission allowances as inventories. As International Financial Reporting Standards do not specify how to classify emission allowances, the Group opted to harmonise the two policies by adopting similar classification criteria in both the individual and consolidated accounts.

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. These provisions are released when the factors leading to the valuation adjustment have ceased to exist.

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

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

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

In **note 10**, detailed information on emission allowances received and consumed in 2018 and 2017 is included.

2.14 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.

2.15 Grants

2.15.1 Capital grants

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

2.15.2 Operating grants

Operating grants are those received to finance specific expenses. They are recognised as income as the expenses are incurred. Grants relating to CO2 emission allowances that are free of charge, are taken to income in line with the recognition of the corresponding greenhouse gas emission expense.

2.16 Employee benefits

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

a) Defined contribution plans

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

Certain Group companies pay contributions to pension and life insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an employee benefit expense when they are accrued. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Provisions are not made for defined contribution plans as they do not generate future obligations for the Group.

b) Defined benefit plans

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

Existing obligations may be classified as:

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

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

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

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

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

c) Share-based payment transactions

The Group applies standard IFRS 2, relating to share-based payments, to transactions settled with equity instruments, in which the company receives goods or services in exchange for shares in the parent company.

The Board of Directors of Acerinox, S.A. held on 22 March 2018 approved a multi-year remuneration plan or long-term incentive (LTIP) plan that allows the Executive Director and Senior Executives of the Acerinox Group to receive part of their variable remuneration through the delivery of Acerinox, S.A.'s own shares. In **note 15.1.3** detailed information on the characteristics of the approved plan is included.

Since this is an equity-settled share-based payment transaction in which the equity instruments granted are not immediately irrevocable and become irrevocable when the other party completes a specified period of service, the Group recognises the services received on a straight-line basis over the period in which the rights to receive such shares become irrevocable, while recognising the corresponding increase in equity.

The Group recognises the assets or services received, and the corresponding increase in equity, at fair value, on the date of the concession agreement for the equity instruments to be awarded. Fair value is determined by the market price of the entity's shares adjusted to take into account the terms and conditions under which those shares were granted (except for conditions for irrevocability or consolidation, other than market conditions, which are excluded from the determination of fair value,). For this, the Group uses the valuation of an independent expert.

When the parent has an obligation to settle the transaction with the subsidiary's employees by providing the parent's own equity instruments, the parent shall measure its obligation as a contribution to its subsidiary. Therefore the parent will recognise an increase in the subsidiary's shareholding and the correspondent increase in equity, measured at the fair value on the date of the concession agreement.

At the time the shares are delivered, the accounting difference between the equity item cancelled and the shares delivered is recognised against the reserves of the Parent Company.

2.17 Provisions

The Group recognises provisions when:

(i) It has a present obligation (legal or constructive) as a result of past events;

(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and

(iii) A reliable estimate can be made of the amount of the obligation.

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

2.18 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.

2.19 Income tax

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

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

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

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

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

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

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

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

When inspecting procedures result in an assessment to be paid, the group generally recognises such amounts as a current expense for the amount payable, and a deferred tax expense for the change in assets or temporary difference liabilities arising from the assessments. In those cases in which there is no conformity with the amounts payable and the Group decides to lodge an appeal against the proceedings, considering furthermore that their result is highly probable to be favourable for the Group, the Group would recognise an asset for the amounts previously paid and which it estimates to be recovered.

Certain companies in the Consolidated Group have reserves that could be subject to tax if distributed, since there are withholdings at source in certain legislation affecting the payment of dividends. The Group recognises any tax effect in this respect provided that it is not deemed likely that the reserves will have to be distributed in the foreseeable future, which will mean the reversal of the temporary difference. That is, when the parent entity has estimated that such gains will not be distributed in the foreseeable future, it does not recognise a deferred tax liability.

The Parent Company has filed consolidated tax returns since 1998. As agreed by the shareholders at an Annual General Meeting held on 28 May 2003, Acerinox, S.A. and some of the Spanish-domiciled subsidiaries form part of a consolidated tax group on an indefinite basis, with the exception of Metalinox Bilbao, S.A.U. and Inoxidables de Euskadi, S.A.U., which file tax returns separately. At 31 December 2018 and 2017, the consolidated tax group comprised: Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U., and Inoxcenter Canarias, S.A.U.

2.20 Income

Revenue is an increase in economic benefits during the period in the form of additions or increases in the value of assets or decreases in liabilities that result in an increase in equity and are not related to owners' contributions.

Revenue represents the transfer of goods or services promised to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues are recognised when the customer obtains control of the good or service that has been sold, i.e. when they have the ability to direct the use of and obtain all of the benefits from the good or service.

The Group takes the five-step model into account to determine when revenue should be recognised and the amount.

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the price to the performance obligations
5. Recognise the revenue when (or as) the entity satisfies a performance obligation.

A contract is an agreement between two or more parties that creates enforceable rights and obligations. There is no contract when each of the parties has the unilateral and enforceable right to terminate a completely non-executed contract without compensating the other party.

The Group's recurring or ordinary revenues relate mainly to:

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. Sales proceeds are recognised at the transaction price, which is the amount of consideration to which the entity expects to be entitled in exchange for transferring the goods or services promised to a customer, excluding amounts collected on behalf of third parties.

A contract is an agreement between two or more parties that creates enforceable rights and obligations. There is no contract when each of the parties has the unilateral and enforceable right to terminate a contract without compensating the other party. From this point of view, this analysis has revealed that orders arranged by the Group with customers do not give rise to an enforceable right or obligation, since the parties are entitled to unilaterally terminate a non-executed contract without compensating the other party up until the time the goods are delivered. Accordingly, no obligation comes into existence until the goods are delivered.

The Group takes the commercial terms of sale (INCOTERM) into account when determining the timing of revenue recognition. Revenue from the sale of goods is recognised in the income statement when control of the goods passes to the buyer.

In determining the transaction price, the Group considers all of the following aspects:

(a) variable consideration;

(b) limitations on estimates of variable consideration;

(c) existence of a significant financing component in the contract;

(d) non-cash consideration; and

(e) consideration for payments to be made to the customer.

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.

2.21 Environment

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

Expenses derived from environmental activities are recognised as expenses in the period in which they are incurred. However, where necessary, the Group recognises environmental allowances by applying the general criteria outlined in **note 2.17**.

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 2.9**.

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

The Group applies IAS 8 to recognise changes in accounting estimates and accounting policies and to correct errors. The Group recognises changes in accounting estimates in the period in which they occur. Accounting errors are corrected in the year in which they occurred, restating the comparative information presented in the financial statements whenever these errors are material. Policy changes are recognised retrospectively, adjusting the opening balances of the affected net equity items from the previous reporting year, unless there is a specific transitional provision for the initial application of a Standard or an Interpretation.

NOTE 3 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

The Group's main estimates are as follows:

a) Impairment of goodwill and other non-financial assets
The Group tests goodwill annually for impairment, in accordance with the accounting policy described in **note 2.11**.

The Group reviews property, plant and equipment at each reporting date to ascertain whether there is any indication of impairment, taking into account the criteria set out in the policy. If any such indication exists, the Group estimates the recoverable amount of the asset.

The recoverable amounts of the cash-generating units are determined based on their value in use. These calculations are made using reasonable assumptions based on past returns and future production and market development expectations. Some of these assumptions relate to sales, margins, discount rates and growth rates to perpetuity, which involve a high degree of judgement. Details of the analyses conducted by the Group in 2018 and 2017 are included in **notes 7.1** and **8.1**.

b) Useful lives of plant and equipment

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

During the year, as in 2017, there has been a recalculation of useful lives in the Group company Columbus Stainless (Pty), Ltd as explained in **note 8**.

c) Fair value of derivatives or other financial instruments

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

d) Provisions

As mentioned in **note 2.17**, the provisions recognised in the consolidated balance sheet reflect the best estimate at the reporting date of the amount expected to be required to settle a liability, provided that the materialisation of this outflow of resources is considered probable. Changes in foreseen circumstances could affect these estimates, which would be revised if necessary.

In the case of provisions arising from litigation in which legal proceedings are pending, it is the lawyers or independent experts who determine the likelihood of occurrence of the events giving rise to the need to enter a provision. In those cases in which it is considered possible, although it is not probable that an outflow of resources will take place or it is difficult to determine reliably the amount of the provision, the Group will consider this to be a contingent liability and will disclose the information in the notes. (**Note 15**)

e) Net realisable value

As mentioned in **note 2.13**, 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) Determination of loan impairment based on expected loss criteria

As mentioned in **note 2.12.2**, the Group has defined a new impairment loss model based on an historical analysis of the average bad debts at each of the subsidiaries and on the claims made under the contracted credit insurance policies, including any non-recoverable amount (maximum coverage of 85%-90% and deductibles), and any amounts subsequently recovered after the claim, whether from the insurance company or the customers themselves. These estimates are reviewed within our credit risk control system (Commercial, Financial and Commercial Risk departments, Risk Committee as well as the Corporate Risk Management Department), which constantly monitors the particular markets of each subsidiary, receives the inputs of specialised experts from insurance companies, and reviews future estimates from international organisations of recognised prestige (IMF, OECD, etc.), also taking into account the macroeconomic estimates of each country. The Group takes into account and monitors the significant variations in credit risk that may occur during the term of the loans.

g) Adjustment for hyperinflation

Since July 1, 2018, Argentina has been declared a hyperinflationary economy by complying with the qualification requirements established in IAS 29. The Acerinox Group has an entity in Argentina, as detailed in **note 5**.

The financial statements of Acerinox Argentina have been expressed in terms of the current unit of measurement at the end of the reporting period. The restated cost of each item in the financial statements is determined by applying to its historical cost of said items and accumulated depreciation the change in a general price index from the acquisition date to the end of the reporting period.

In this year, which is first period of application of this Standard, the components of owners' equity, except retained earnings and revaluation surpluses, have been restated by applying a general price index to the various items from the dates on which they were contributed or from the date they arose otherwise. The restated retained earnings are the result of applying these indices to the remaining amounts in the consolidated balance sheet.

All items in the statement of comprehensive income have also been expressed in the current currency unit at the end of the reporting period. To this end, all amounts have been restated by applying an index calculated on the basis the change in the general price index from the date on which income and expenses were recorded in the financial statements.

The gain or loss on the net monetary position has been included in profit or loss.

In **note 13.6** includes the impacts of the valuation according to this standard, which in any case have been immaterial to the Group.

h) Recoverability of available tax loss carryforwards and deductions
The Group regularly evaluates the recoverability of available tax credits through projections of profit and loss approved by management, to conclude as to whether they will be recoverable in the future.

The Group takes into account the limitations to offsetting tax loss carryforwards as stipulated in certain legislation. In **note 18.3** details of the Group's existing tax credits and the bases used to determine the recoverability of capitalised tax credits are provided.

Based on the estimates made, the Group considers that the tax credits recognised are still recoverable within a reasonable time frame.

i) Recognition of deferred tax liability for investments in subsidiaries.
As indicated in **note 2.19**, some companies in the consolidated Group have reserves that could be subject to taxation if they were distributed. The Group recognises the tax effect of this item whenever it considers that it will be probable that it will be distributed and, therefore, considers that the associated temporary difference will be reversed in the foreseeable future. Accordingly, the Group regularly evaluates the reserve repatriation needs of its subsidiaries. Based on the analysis made in 2017, and which is explained in **note 18.3.1**, the Group considered a repatriation of reserves by its subsidiaries in the amount of Euros 250 million. Hence, it has recognised the pertinent deferred tax liability. Following the revaluation carried out in this year, the Group and since the reserves for which the corresponding deferred tax liability was recognised have not yet been distributed, the Group considered it necessary to maintain the same amount. The Group does not consider it necessary to increase this amount since it does not consider it probable that any additional reserves will be distributed in the foreseeable future.

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

NOTE 4 FINANCIAL RISK MANAGEMENT

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

The Group does not acquire financial instruments for speculative purposes.

4.1 Market risk

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

4.1.1 Currency risk

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

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

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

The derivative financial instruments used by the Group to hedge this risk consists on forward exchange rate of either sales or purchases, negotiated by the Group's Treasury Department in accordance with policies approved by the Management.

The Group also uses, if necessary, other types of derivatives such as cross-currency swaps to control currency risk in financing operations. At year-end there were no derivatives contracts of this type, since there was no debt in a currency other than the functional currency.

The majority of the forward exchange rate derivatives negotiated by the Group do not meet the requirements to be considered cash flow hedging instruments and, therefore, to be recognised in accordance with the policy established in **note 2.12.4**. Financial instruments that do not comply with these policies 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, if they were to be, they would be those intended to hedge financing operations with credit institutions.

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

In **note 11.2.6**, there is a detailed analysis of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2018 and 2017.

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 2017 year end was 1.1993, while at 2018 year end it stood at 1.1450 (USD appreciation of 4.5% for the year). The exchange rate of the South African Rand to the Euro at 2017 year end was 14.8054, while at the end of this year it was 16.4594 (Rand depreciation of 11.2%).

The Group does not use financial instruments to hedge foreign investments in currencies other than the euro, since these are strategic long-term investments that the Group does not intend to sell or liquidate. In **note 13.4** a breakdown of the changes in translation differences during the year is included.

Based on the conversion exchange rates of these currencies against the euro at the end of 2018 and 2017 respectively, 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 2018				
USD	18,844	-15,418	226,702	-185,483
ZAR	687	-562	26,739	-21,877
31 December 2017				
USD	18,456	-15,101	201,129	-164,560
ZAR	2,560	-2,095	28,770	-23,539

4.1.2 Interest rate risk

The Group's financing comes from various countries and in different currencies (mainly in euro, US dollar and 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 rate risk, 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.

As in 2017, during 2018 the Group has continued to reduce the cost of its long-term loans by renegotiating their reference interest rate. This is in addition to the fact that the Group has also extended the maturity of a substantial portion of its long-term loans by increasing the notional amounts and also reducing the costs thereof.

In 2018, in order to reduce the risk of changes in the variable interest rate, the Group arranged interest rate derivatives amounting to 250 million euros, equivalent to the amount of the new loans arranged with Banca March, Caixabank, ICO and BEI. In addition, a new fixed-rate loan contract was signed for 125 million euros.

With regard to 2017, the Group increased the amount of financing with a fixed interest rate, mainly as a result of signing three long-term, fixed-rate financing contracts: a loan of 50 million euros with Banca March transferred to a securitisation fund upon signing, another for 50 million euros with BBVA and a final loan of 120 million euros with Banco Popular. In turn, the volume of interest rate derivatives has reduced, however, as no interest rate hedging instrument was arranged in 2017 and some of the existing ones matured partially during the year.

In **note 11.2.6** there is a detailed analysis of the financial instruments arranged by the Group to hedge this type of risk at 31 December 2018 and 2017.

Regarding the Group's interest rate sensitivity, had interest rates on the outstanding debt from financing at year end been 100 basis points higher, with all other variables remaining constant, the Group's consolidated profit after tax would have been 7.23 million euros lower due to a higher finance cost on variable-rate debt (6.87 million euros lower in 2017). The effect on the Group's equity of higher interest rates across the entire curve would have been an increase of 5.29 million euros (whereas there would have been a decrease of 6.46 million euros in 2017), as the higher borrowing costs would have been completely offset by positive variations in the values of its interest rate hedging derivatives held at the reporting date.

4.1.3 Price risk

The Group is exposed to two types of price risk:

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

The risk of price fluctuations in listed securities relates to the shares held by the Group in Nisshin Steel Holding Co. Limited. The Group has not hedged this risk with derivative financial instruments. In this first year of application of the new IFRS 9, the Group has designated these instruments at fair value through other comprehensive income. The impact of the fluctuations in listed securities during the year is explained in **note 11.2.5**.

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. Due to fluctuations in the prices of raw materials used in the manufacturing process, as both Nickel and Molybdenum are listed on the London Metal Exchange, stainless steel prices can be very volatile, as these fluctuations are passed on to the customer in the selling price.

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 a mathematical formula, calculated monthly by each of the market's stainless steel producers, that takes into account the variation in the price of certain raw materials (particularly nickel, chromium and molybdenum) and fluctuations in the EUR-USD exchange rate. The application of this alloy surcharge means that the change in nickel prices on the London Metal Exchange during production of the order, as well as fluctuations in the price of other raw materials and the EUR-USD exchange rate, can be passed on to customers. This natural hedge is applied to 90% of the Group's sales (Europe, America and South Africa).

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

The stainless steel market is characterised by healthy demand, which has grown at an annual rate of approximately 6% for over 50 years. Exceptionally, the market shrank by 11.8% in 2007-2009 because of the worldwide economic recession, but recovered with growth of 26.4% in 2010. The aforementioned annual growth rate is therefore expected to prevail in the medium term. Stainless steel is required for all industrial applications and used in all sectors, which guarantees that this growth will be sustained in the coming years. Although end consumption continues to grow steadily, the fact that this market is largely controlled by independent wholesalers leads to volatility in apparent consumption, reflecting their expectations regarding nickel price trends in the London Metal Exchange (LME) and their ensuing strategies to stockpile or realise inventories.

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

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

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

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

In 2018 the factors that have influenced sales prices has not come marked by raw materials fluctuations and its resulting cyclical effect in apparent consumption, but because of tariff barriers in different markets, which have affected import flows in different markets, mainly in Europe.

On 18 July the European Commission announced provisional safeguard measures on imports of a number of steel products, including stainless steel. These measures were intended to protect the European Union market from the diversion of steel from other countries as a result of recently imposed US tariffs (Section 232), by imposing tariffs of 25%. These provisional measures entered into force on 19 July and generated the opposite effect to that intended, provoking a call effect and acceleration of imports, which in 2018 reached 30%, the highest ever market share. This excess of available material has triggered a fall in prices in European markets. We expect a balance standardization between supply and demand due to the reaction adopted by the European Union.

On 2 February 2019 the definitive measures came into force, which, fortunately correct the previous ones, establishing quotas per country for the main importers, and quarterly quotas for the rest, which will be in force until 30 June 2021. These quotas are based on the average of imports for the period 2015-2017, and represent, from the beginning, a correction of several percentage points over the level of imports reached in 2018.

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, the Group's credit risk is not concentrated in any individual customer, sector or geographical region.

The Group's policy is to hedge 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 A2 credit rating from Moody's and an "A excellent" rating from A.M. Best.

In 2018 payouts of 1.837 thousand euros have been collected under the credit insurance policy (462 thousand euros in 2017).

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 the valuation adjustments to the trade receivables deemed necessary based on an expected impairment loss model based on an analysis of the average insolvencies in each of the subsidiaries and on the claims incurred on the credit insurance policies taken out, as detailed in **note 2.2**.

In **note 11.2.1** there is a detailed analysis of movement in impairment of trade receivables are provided.

At 31 December 2018, consolidated trade receivables amount to 524,695 thousand euros (552,058 thousand euros in 2017). Revenues for 2018 total 5,010,777 thousand euros (4,626,855 thousand euros in 2017).

Credit risk insurance has been contracted for 52% of consolidated net sales (55% in 2017). Cash conditions exist for 1% (2% in 2017). Confirmed letters of credit or guarantees are used to hedge credit risk in 3% of consolidated net sales (3% in 2017). Domestic sales by North American Stainless Inc., which entail a very low risk due to the collection period of under 30 days, account for 39% of consolidated net sales (37% in 2017), allowing deliveries to be controlled and reducing any impairment losses.

The ageing analysis of receivables is as follows:

(Expressed in thousands of euros)

	2018	% of payables	2017	% of payables
Outstanding	433,655	83%	470,805	85%
Less than 30 days	70,462	13%	68,854	12%
30-60 days	13,284	2%	6,081	2%
60-90 days	2,904	1%	1,111	0%
Over 90 days	4,390	1%	5,207	1%
TOTAL	524,695	100%	552,058	100%

The Group has made provisions for 4,487 thousand euros (4,831 thousand euros in 2017). A provision was made for an amount of 620 thousand euros during the year (698 thousand euros in 2017) accounting for 0.01% of sales in 2018 (0.02% in 2017).

Most of the Group's past-due receivables are insured and generally reflect customary delays in trading activity (the 77%of past-due receivables are aged less than 30 days). At 18 February 2019, over 88% of the above past-due debt has been collected (85% in 2017).

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

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

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

4.3 Liquidity risk

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

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

The Group's cash is centrally managed to optimise resources. The Group's net debt is primarily concentrated within the Parent Company (more than 95% 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 2018 and 2017 no payment defaults occurred on the principal of loans or loan interest on the Group's financing.

At year end the Group has been granted current and non-current financing totalling 1,903 million euros and non-recourse factoring facilities of 420 million euros. 1,402 million euros has been drawn down from financing facilities at 31 December 2018 and 152 million euros from factoring facilities. In 2017, the Group had current and non-current financing facilities of 1,964 million euros and non-recourse factoring facilities of 420 million euros. Drawdowns from financing facilities amounted to 1,230 million euros and drawdowns from factoring facilities amounted to 150 million euros. At 31 December 2018 cash and cash equivalents amount to 850 million euros (621 million euros in 2017).

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

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

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

The most significant financing operations during 2018, were the renegotiation of much of the existing debt and the arrangement of new loans, for the purpose of debt rescheduling and to reduce costs. The total volume of these operations was 405 million euros, and they include operations relating to existing and new loans. The existing ones include improvements in the economic conditions of Banca March, Abanca, Caixabank, Kutxabank and Banco Sabadell. As for the new ones, a 100 million euro loan contract has been signed with the Spanish Official Credit Institute ("ICO"). Details of these financing operations are provided in **note 11.2.3**.

During 2017, a renegotiation of a large part of the existing debt was also carried out, as well as the signing of new loans, with the same objective as that established for 2018. The total volume of these operations was 725 million euros, which included operations relating to existing loans as well as new ones. Among the existing loans were those with Banco de Sabadell, Banco Santander, Bankia, Banco Popular and Bankinter. In terms of new loans, loan agreements were signed with Banca March, Banco Social de Crédito Cooperativo, Banco Bilbao Vizcaya Argentaria and the European Investment Bank. The aggregate amount of these latter four loans totalled 210 million euros.

An analysis of the Group's payment obligations at the 2018 close is as follows:

(Expressed in thousands of euros)

	Amount at 31/12/2018	Future cash flow maturities	Less than 6 months	6 to 12 months	1-2 years	2-5 years	More than 5 years	Indeterminate maturity
Non-current payables	1,026,292	-1,099,163	-6,128	-9,956	-234,472	-545,782	-302,825	
Current payables	375,889	-377,818	-305,528	-72,290				
Suppliers and other payables	833,815	-833,815	-833,815					
Other non-current financial liabilities	3,556							-3,556
FINANCIAL DERIVATIVES								
Hedged using interest rate swaps and cross-currency swaps	-5,484	-5,442	-1,066	-1,320	-1,965	-1,909	817	
Export exchange rate insurance	-1,181	-1,181	-1,181					
Import exchange rate insurance	2,178	2,178	2,178					
TOTAL	2,235,065	-2,315,241	-1,145,540	-83,566	-236,437	-547,691	-302,008	-3,556

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

The item "other current financial liabilities" mainly relates to advances on grants, deposits and guarantees, whose maturity is indeterminate.

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

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

4.4 Brexit

Regarding the United Kingdom leaving the European Union, the Acerinox Group does not believe that this will have any impact on its financial statements, as the Group only has one distribution subsidiary there and it has no productive assets in that country. The subsidiary imports the material that is manufactured in any of the Group's manufacturing plants and sells it in the country. The total amount of fixed assets that the Group has in that country is 7.3 million euros (with the Group's total fixed assets being 2,136 million euros). Furthermore, the sales made in that country only represent 2% of the Group's total sales. Any flight of customers that may occur as a result of Brexit should not lead to a decrease in the Group's sales, as they can be offset in any other country, given that it is a global market.

4.5 Capital management

The aims of the capital management policy are:

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

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

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

Net financial debt is taken to be the sum of current and non-current loans and borrowings, plus notes issued, less cash and cash equivalents. EBITDA reflects operating profit or loss before amortisation, depreciation and changes in trade provisions which comprise a decrease of 1.573 thousand euros.

The ratio of net financial debt to EBITDA is 1.15x (1.25x in 2017), which continues to improve and has fallen by 39% since 2016. This is the best figure achieved since 2004.

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

During the year, after the investments paid for 155.3 million euros (184.6 million euros in 2017), which are detailed in the statement of cash flows as cash flows from investment activities, a cash flow of 171.1 million euros was generated, lower than the 181.3 million euros obtained in 2017. Despite the improvement in pre-tax results of 310.0 million euros (298.6 million euros in 2017), working capital increased by 87.7 million euros (decrease of 0.6 million euros in 2017), mainly due to the higher prices experienced in the year (inventories were reduced in physical units), as well as raw materials. Net financial debt, which amounts to 552.1 million euros, is down by 9.4% with respect to the prior year (609.2 million euros).

The gearing ratio of 26.0% is the lowest since 2002 (22.2%).

The strategy followed during the year focused on optimising the cost of financing, taking advantage of existing liquidity in the markets, extending maturities and increasing debt at a fixed rate in the face of expected increases. Net financial expenses were reduced during the year, 2.1 million, 89% compared to 2017 (19.3 million euros).

As remarked in **note 11.2.3.**, the most significant financing transaction in 2018 was the signing with the Spanish Official Credit Institute ("ICO") of an eight-year 100 million euro loan with a two-year grace period. The loan was awarded to Acerinox S.A. and the Group has undertaken to maintain, over the life of the loan, an annual financial compliance ratio between its consolidated net financial debt and its equity.

Meanwhile, the loan of 70 million euros that Acerinox S.A. signed with the European Investment Bank ("EIB") in December 2017 was delivered in June.

Lastly, and taking advantage of good market conditions, Acerinox S.A. has renegotiated five existing loan contracts with Abanca, Banca March, Caixabank, Kutxabank and Banco Sabadell, for a total amount of 305 million euros, improving costs and margins and extending terms.

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, if its financial position permits this, the Group can keep to this plan even when the economic climate is unfavourable.

The Ordinary General Meeting of Shareholders held on 10 May 2018 approved the distribution of a dividend of 0.45 euros/share in cash, which was paid on 5 July. This amount means maintaining the same remuneration since 2006, either as a cash dividend or a flexible dividend (2013 to 2016 period). The share capital of Acerinox, S.A. remains at 276,067,543 shares.

4.6 Insurance

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

Sufficient coverage has been contracted for the Group's factories through material damage and loss-of-profit insurance policies, which account for over 57.6% of the Acerinox Group's insurance expenditure. All assets under construction are covered by both the insurance policies taken out by the respective suppliers in addition to a global building and assembly policy.

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

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

NOTE 5 - CONSOLIDATED GROUP

5.1 Subsidiaries and associates

At 31 December 2018 and 2017, in addition to Acerinox, S.A., the Acerinox consolidated group includes 38 fully consolidated subsidiaries. The Group decided in 2017 to consolidate the associate Betinoks Paslanmaz Çelik, A.S., as this company has been inactive since 2012. The financial statements of the associate were accounted for in the consolidated annual accounts with the equity method.

Investments in subsidiaries and associates in 2018 are as follows:

FULLY CONSOLIDATED COMPANIES	2018				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands of Euros)	% OWNERSHIP		
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	327	100%	ACERINOX S.A	PWC
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	598	90%	ACERINOX S.A	Chinen, Morbelli and associates
		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	PWC
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	PWC
ACERINOX COLOMBIA S.A.S	Bogota , Colombia	68	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	45,496	100%	ACERINOX S.A	PWC
ACERINOX EUROPA, S.A.U	Algeciras, Spain	341,381	100%	ACERINOX S.A	PWC
ACERINOX FRANCE S.A.S	Paris, France	18,060	99.98%	ACERINOX S.A	PWC
		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 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	PWC
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	25,174	99.98%	ACERINOX S.A	PWC
		4	0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg, Russia	100	100.00%	ACERINOX S.A	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	31,909	100%	ACERINOX S.A	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor, Malaysia	19,476	100%	ACERINOX S.A	PWC
ACERINOX SHANGAI CO., LTD.	Shanghai, China	1,620	100%	ACERINOX S.A	Shanghai Shenzhou DaTong
ACERINOX (SEA), PTE LTD.	Singapore, Singapore	193	100%	ACERINOX S.A	PWC
ACERINOX U.K, LTD.	Birmingham, United Kingdom	28,444	100%	ACERINOX S.A	PWC

FULLY CONSOLIDATED COMPANIES	2018				
	COUNTRY	INTEREST		COMPANY HOLDING INVESTMENT	AUDITORS
		COST (in thousands of Euros)	% OWNERSHIP		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Trofa - Portugal	15,828	100%	ACERINOX S.A	PWC
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	26,917	97%	ACERINOX S.A	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	279,655	76%	ACERINOX S.A	PWC
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	314	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	1,225	100%	ACERINOX S.A	PWC
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain	270	100%	INOXCENTER	PWC
INOXCENTER, S.L.U	Barcelona, Spain	17,758	100%	ACERINOX S.A	PWC
INOXFIL S.A.	Igualada (Barcelona), Spain	6,247	100%	ROLDAN S.A	PWC
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain	2,705	100%	ACERINOX EUROPA, S.A.U	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Trofa- Portugal	11,843	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	3,718	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	545,183	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS CANADA, INC	Canada	28,800	100%	NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico	18,948	100%	NORTH AMERICAN STAINLESS INC.	Deloitte
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky, U.S.A.	15	100%	ACERINOX S.A	
ROLDAN S.A.	Ponferrada, Spain	17,405	99.77%	ACERINOX S.A	PWC

	2018		
PARTER COMPANIES	COUNTRY	% INTEREST	HOLIDING COMPANY
BETINOKS PASLANMAZ ÇELIK A.S.	TURKEY	25%	ACERINOX S.A

The activities of the Group companies are as follows:

- Acerinox, S.A.: holding company of the Acerinox Group. The Company renders legal, accounting and advisory services to all the Group companies and carries out financing activities within the Group.
- Acerinox Europa, S.A.U.: manufacture and sale of flat stainless steel products.
- North American Stainless, Inc.: manufacture and sale of flat and long stainless steel products.
- Columbus Stainless (PTY), Ltd.: manufacture and sale of flat stainless steel products.
- Bahru Stainless, Sdn, Bhd: cold rolling and sale of flat stainless steel products.
- Roldán, S.A.: manufacture and sale of long stainless steel products.
- Inoxfil, S.A.: manufacture and sale of stainless steel wire.
- Inox Re, S.A.: reinsurance company.
- Inoxplate, Comercio de productos de Aço Inoxidávei, Unipessoal Lda: is the owner of the industrial building in which the Group company in Portugal, Acerol, Comércio e indústria de Aços inoxidáveis, carries out its operating activity and receives income from its lease.
- 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 2017 are as follows:

FULLY CONSOLIDATED COMPANIES	2017			
	COUNTRY	% Interest	COMPANY HOLDING INVESTMENT	AUDITORS
ACERINOX (SCHWEIZ) A.G.	Mellingen, Switzerland	100%	ACERINOX S.A	PWC
ACERINOX ARGENTINA S.A.	Buenos Aires, Argentina	90%	ACERINOX S.A	Chinen, Morbelli and associates
		10%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX AUSTRALASIA PTY. LTD.	Sydney, Australia	100%	ACERINOX S.A	
ACERINOX BENELUX S.A. - N.V.	Brussels, Belgium	100%	ACERINOX S.A	PWC
ACX DO BRASIL REPRESENTAÇOES, LTDA	Sao Paulo, Brazil	100%	ACERINOX S.A	
		0.001%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX CHILE, S.A.	Santiago de Chile, Chile	100%	ACERINOX S.A	PWC
ACERINOX COLOMBIA S.A.S	Bogota , Colombia	100%	ACERINOX S.A	
ACERINOX DEUTSCHLAND GMBH	Langenfeld, Germany	100%	ACERINOX S.A	PWC
ACERINOX EUROPA, S.A.U	Algeciras, Spain	100%	ACERINOX S.A	PWC
ACERINOX FRANCE S.A.S	Paris, France	99.98%	ACERINOX S.A	PWC
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX INDIA PVT LTD	Mumbai, India	100%	ACERINOX S.A	Mehta Chokshi & Shah
ACERINOX ITALIA S.R.L.	Milan, Italy	100%	ACERINOX S.A	Collegio Sindicale - Studio Revisori Associatti
ACERINOX METAL SANAYII VE TICARET L.S.	Gumussuyu/Beyoglu, Turkey	99.73%	ACERINOX S.A	
		0.27%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX MIDDLE EAST DMCC (DUBAI)	Dubai, United Arab Emirates	100%	ACERINOX S.A	Al Sharid Auditing and Management Consultancy
ACERINOX PACIFIC LTD.	Wanchai, Hong Kong	100%	ACERINOX S.A	PWC
ACERINOX POLSKA, SP Z.O.O	Warsaw, Poland	99.98%	ACERINOX S.A	PWC
		0.02%	INOXIDABLES DE EUSKADI S.A.U	
ACERINOX RUSSIA LLC	Saint Petersburg, Russia	100.00%	ACERINOX S.A	
ACERINOX SCANDINAVIA AB	Malmo, Sweden	100%	ACERINOX S.A	PWC
ACERINOX S.C. MALAYSIA SDN. BHD	Johor, Malaysia	100%	ACERINOX S.A	PWC
ACERINOX SHANGAI CO., LTD.	Shanghai, China	100%	ACERINOX S.A	Shanghai Shenzhou Dalong
ACERINOX (SEA), PTE LTD.	Singapore, Singapore	100%	ACERINOX S.A	PWC
ACERINOX U.K, LTD.	Birmingham, United Kingdom	100%	ACERINOX S.A	PWC
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	Maia, Portugal	100%	ACERINOX S.A	PWC
BAHRU STAINLESS, SDN. BHD	Johor, Malaysia	67%	ACERINOX S.A	PWC
COLUMBUS STAINLESS (PTY) LTD.	Middelburg, South Africa	76%	ACERINOX S.A	PWC
CORPORACIÓN ACERINOX PERU S.A.C	Lima, Peru	100%	ACERINOX S.A	
INOX RE, S.A.	Luxembourg	100%	ACERINOX S.A	PWC
INOXCENTER CANARIAS, S.A.U	Telde (Gran Canaria), Spain	100%	INOXCENTER	PWC
INOXCENTER, S.L.U	Barcelona, Spain	100%	ACERINOX S.A	PWC

FULLY CONSOLIDATED COMPANIES	2017			
	COUNTRY	% Interest	COMPANY HOLDING INVESTMENT	AUDITORS
INOXFIL S.A.	Igualada (Barcelona), Spain	100%	ROLDAN S.A	PWC
INOXIDABLES DE EUSKADI S.A.U	Vitoria, Spain	100%	ACERINOX EUROPA, S.A.U	PWC
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	Maia, Portugal	100%	ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	PWC
METALINOX BILBAO, S.A.U	Galdácano (Vizcaya), Spain	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS INC.	Kentucky, U.S.A.	100%	ACERINOX S.A	PWC
NORTH AMERICAN STAINLESS CANADA, INC	Canada	100%	NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	Apodaca (N.L.), Mexico	100%	NORTH AMERICAN STAINLESS INC.	PWC
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	Kentucky, U.S.A.	100%	ACERINOX S.A	
ROLDAN S.A.	Ponferrada, Spain	99.77%	ACERINOX S.A	PWC

	2017		
PARTER COMPANIES	COUNTRY	% INTEREST	HOLIDING COMPANY
BETINOKS PASLANMAZ ÇELIK A.S.	Turkey	25%	ACERINOX S.A

5.2 Changes in the consolidated group

On December 2018 the Group acquired an additional 30% interest in the Group Company Bahru Stainless Sdn. Bhd, of its shareholder Nisshin Steel Co, Ltd, to date also a minority shareholder of the Company.

As a result of the acquisition of Nisshin Steel Co, Ltd by Nippon Steel & Sumitomo Metal Corporation and the restructuring of the Japanese Group, and according to an option under the Joint Venture Agreement dated 15th January 2009, between Nisshin Steel Co.Ltd and Acerinox, S.A., the latter has acquired 30% shareholding of Bahru Stainless Sdn. Bhd previously held by Nisshin Steel Co. Ltd. for a total amount of 11.9 million dollars. (10.5 million euros), equivalent to the carrying amount of the shareholding, on the latest audited accounts. This acquisition increases Acerinox, S.A.'s stake in Bahru Stainless Sdn. Bhd. to 97%.

The Group has derecognised the 30% non-controlling interest in this Company. The difference between the amount recognised under non-controlling interests and the acquisition value paid was recognised against consolidated reserves amounting to -40,646 thousand euros.

There were no other changes in the scope of consolidation during the year.

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

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

5.3 Capital increases and reductions

The following capital increases or reductions took place during the year:

Peru

During the year a capital increase of 256 thousand euros was carried out in the Group company Corporación Acerinox Perú, S.A.C. This company was incorporated in 2012 with a share capital composed of 120,001 shares of 1 Peruvian sol with a nominal value each (58 thousand euros). The accumulated losses of 111 thousand euros and the increase in activity have made the capital increase necessary.

Inoxplate

The Group company Inoxplate, Lda with headquarters in Portugal, a wholly owned investee of the Portuguese company Acerol, Ltda has reimbursed the supplementary contributions to its parent for the amount of 1 million euros.

There were no capital increases or reductions in any of the Group's companies during 2017.

5.4 Impairment of investments

At 31 December 2018 and 2017 the Parent Company has analysed the recoverability of its investments in Group companies with indications of impairment to determine whether their carrying amount exceeds their recoverable amount. Following the analyses carried out this year, the Parent has only recognised impairment on its investment in the company Bahru Stainless, Sdn. Bhd.

During the year, the Parent Company has recognised impairment of 155,454 thousand euros on its investment in the company Bahru Stainless Sdn. Bhd., because its recoverable amount, calculated on the basis of discounted expected cash flows, is lower than its carrying amount. At 31 December 2018, this investment has been recorded in the individual annual accounts of Acerinox, S.A. at 26,917 thousand euros, which is equal to its recoverable amount.

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

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

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

NOTE 6 SEGMENT REPORTING

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

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

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

The "unallocated" segment reflects the activities of the holding company and activities that cannot be allocated to specific operating segments. As described in **note 1**, the main activity of the holding company, parent company of the Acerinox Group, is the provision of legal, accounting and advisory services to all Group companies, as well as the performance of financing activities within the Group, as it is through Acerinox, S.A where all the Group's financing is centralised.

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.

With regard to the so-called "unallocated" segment, which relates mainly to the holding company's own activities, the result reflects only the expenses corresponding to its activities, since revenues, as they are always with Group companies, have been eliminated in consolidation. Costs are mainly financial since the holding company centralises most of the Group's financing, as can be seen from the amount of the liabilities in the "unallocated" segment.

Revenue and all items reflected in the income statement by segments are presented on a consolidated basis, i.e. after eliminating income and expenses from Group companies, except for sales between segments, which are reflected separately.

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 gross operating profit and net profit before tax. 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 2018 are as follows:

(Figures in thousands of euros)

	2018					
	Flat products	Long products	Other	Unallocated	Adjustments	Total
Income statement						
Revenue	4,512,180	714,726	40,238	2,812	-228,278	5,041,678
Inter-segment sales	-215,845	-12,433			228,278	0
Total revenues	4,296,335	702,293	40,238	2,812		5,041,678
Gross operating profit/loss	373,856	119,159	2,878	-17,645		478,248
Amortisation	-151,794	-12,954	-162	-1,243		-166,153
Finance income	16,674	114	17	1,454		18,259
Finance costs	-12,374	-9	-177	-21,117		-33,677
Translation differences	6,154	-117		7,296		13,333
Profit (loss)before tax	232,516	106,193	2,556	-31,255		310,010
Income tax	-88,345	-22,658	-861	17,096		-94,768
Consolidated profit/loss for the period	144,171	83,535	1,695	-14,159		215,242
Attributable to:						
Non-controlling interests	-21,873	29				-21,844
Net profit/loss attributable to the Group	166,044	83,506	1,695	-14,159		237,086
Balance sheet						
Segment assets	4,092,722	381,248	20,763	112,857		4,607,590
Total consolidated assets	4,092,722	381,248	20,763	112,857		4,607,590
Segment liabilities	1,197,714	39,719	14,477	1,236,381		2,488,291
Unallocated liabilities						0
Total consolidated liabilities (excluding equity)	1,197,714	39,719	14,477	1,236,381		2,488,291
Property, plant and equipment	1,792,240	100,270	4,583	10,349		1,907,442
Investments in property, plant and equipment and intangible assets	136,735	6,632	77	452		143,896

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

2017 figures are as follows:
(Expressed in thousands of euros)

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

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 2018 is presented below:

(Figures in thousands of euros)

	2018						
	Spain	Rest of Europe	Americas	Africa	Asia	Oceania	Total
Revenue by destination of goods	463,056	1,278,093	2,369,934	245,059	627,247	27,388	**5,010,777**
Segment assets	1,053,775	309,442	1,940,077	435,710	868,377	209	**4,607,590**
Property, plant and equipment	381,833	45,929	724,124	118,637	620,384		**1,890,907**
Investment property	3,167	13,368					**16,535**
Investments in property, plant and equipment and intangible assets	93,367	399	32,806	14,313	3,011		**143,896**

2017 figures are as follows:

(Figures in thousands of euros)

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

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 2018 and 2017: United States; 39.72% (37.4% in 2017), Spain; 9.41% (10.3% in 2017) and Germany; 6.53% (7.8% in 2017).

No single transaction with an external customer exceeded 10% of the Group's consolidated revenues for 2018 or 2017.

NOTE 7 INTANGIBLE ASSETS

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

(Expressed in thousands of euros)

COST	Industrial property	Computer software and other	SUBTOTAL	Goodwill
Balance at 1 January 2017	24,312	25,195	49,507	69,124
Acquisitions		654	654	
Transfers		389	389	
Disposals		-97	-97	
Translation differences		-212	-212	
Balance at 31 December 2017	24,312	25,929	50,241	69,124
Acquisitions		901	901	
Transfers		151	151	
Disposals		-748	-748	
Translation differences		-188	-188	
Balance at 31 December 2018	24,312	26,045	50,357	69,124
ACCUMULATED AMORTISATION AND IMPAIRMENT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Balance at 1 January 2017	24,310	22,428	46,738	0
Changes		1,276	1,276	
Transfers	2	-2		
Disposals		-97	-97	
Translation differences		-186	-186	
Balance at 31 December 2017	24,312	23,419	47,731	0
Charge		1,299	1,299	
Transfers		-36	-36	
Disposals		-745	-745	
Translation differences		-141	-141	
Balance at 31 December 2018	24,312	23,796	48,108	0
CARRYING AMOUNT	**Industrial property**	**Computer software and other**	**SUBTOTAL**	**Goodwill**
Cost at 31 December 2016	24,312	25,195	49,507	69,124
Accumulated amortisation and impairment	-24,310	-22,428	-46,738	
Carrying amount at 31 December 2016	2	2,767	2,769	69,124
Cost at 31 December 2017	24,312	25,929	50,241	69,124
Accumulated amortisation and impairment	-24,312	-23,419	-47,731	
Carrying amount at 31 December 2017	0	2,510	2,510	69,124
Cost at 31 December 2018	24,312	26,045	50,357	69,124
Accumulated amortisation and impairment	-24,312	-23,796	-48,108	
Carrying amount at 31 December 2018	0	2,249	2,249	69,124

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

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 9,547 thousand euros (13,597 thousand euros in 2017).

At 31 December 2018, the Group has enter into contracts for the acquisition of intangible assets amounting to 970 thousand euros, (0 in 2017).

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 2018, goodwill totals 69 million euros and mainly relates to the acquisition of a controlling interest in Columbus Stainless, Ltd. in 2002. This goodwill has been allocated to the Columbus cash-generating unit (CGU), which manufactures and sells flat products only.

The recoverable amount of a CGU is determined based on its value in use. These calculations are based on cash flow projections from the financial budgets approved by management over a period of ten years. Cash flows beyond this ten-year period are extrapolated using the estimated growth rates indicated below. A period of ten years is considered to try to reflect the fluctuations of the stainless steel market, replicating upward and downward cycles based on the observation of past price fluctuations, eliminating the effect of raw material price volatility. The terminal value is calculated considering the average of the budgeted period eliminating the maximum and minimum estimated values. This reduces the weighting of the terminal value in the overall calculation of the value in use and normalises the probability of occurrence of the hypotheses used in preparing the budgets.

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

In 2018 Columbus Stainless, Ltd recorded a pre-tax profit of ZAR 165.39 million compared to ZAR 624.95 million in 2017. These figures reflect the negative progress in the markets, especially in the last quarter of the year. During the first months of 2018, the final demand for steel performed well in all markets, in line with the good progress of the world economy. It was also characterised by the uncertainties generated by trade tensions which, together with the measures adopted by the different countries, affected the trade flows of stainless steel.

The South African economy grew again in 2018, albeit at a slower pace than expected. Apparent consumption of stainless steel in South Africa recovered to average levels in recent years, helped by the upturn in demand in key sectors such as the automotive and tank container industry and improving Columbus sales in the domestic market although there was also an increase in imports.

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:

	2018	2017
Budgeted EBIT margin (*)	4.5%	5.8%
Weighted average growth rate (**)	2.5%	2.5%
Discount rate applied (***)	13.1%	12.5%

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

The discount rate applied (weighted average cost of capital or WACC) is 13.1%. It is calculated taking as reference the interest rates on South African sovereign debt (ten-year swap on the South African rand), market risk premiums and coefficients of similar companies.

Regarding the calculation of the terminal value, as commented previously, it is calculated considering the average of the budgeted period eliminating the maximum and minimum estimated values, the amortisations are equal to the investments and the variation of the working capital is also calculated on the normalised average, understood as consistent in the long term, increased by the growth rate (g).

The growth rate (g) remains constant at 2.5%. In 2018 the global stainless steel market continued to consolidate the historical market growth rate of 5.5% for the 1950-2018 period.

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

Other assumptions are the euro-rand exchange rate (16.459) and the price of raw materials (11,200 USD/MT), which are established when drawing up the budget. Both assumptions are extrapolated applying very conservative criteria and are held constant over the period analysed. The variables used in 2017 were a euro-rand exchange rate of 14.805 and a raw materials price of 11,200 USD/MT.

The impairment test performed at 31 December 2018 reveals an excess of recoverable value over the carrying amount of 76.1 thousand euros (168.8 million in 2017, considering 100% of the assets, not only the part corresponding to Acerinox's stake in Columbus). 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 28.8% (42% in 2017). In the case of the growth rate (g), even with a growth rate of 0%, the discount rate (WACC) would have to increase by 25.8% (35.1% in 2017) for the carrying amount to show impairment.

The average budgeted EBIT margin would have to fall by 40,7% (34.3% in 2017) to 2.7% (3.8% in 2017), with the other two assumptions remaining constant, for impairment to occur.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment and movement in 2017 and 2016 are shown in the following table:

(Expressed in thousands of euros)

COST	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Advances and property, plant and equipment under construction	TOTAL
Balance at 1 January 2017	831,028	3,882,624	88,535	159,152	4,961,339
Additions	800	37,433	2,545	131,900	172,678
Transfers	22,743	125,023	1,854	-150,009	-389
Disposals	-5,706	-44,429	-2,924	-7	-53,066
Translation differences	-58,641	-291,382	-3,723	-14,170	-367,916
Balance at 31 December 2017	790,224	3,709,269	86,287	126,866	4,712,646
Adjustment for hyperinnflation	449	77	168		694
Additions	1,017	33,263	3,500	105,215	142,995
Transfers	6,289	31,449	1,984	-39,873	-151
Disposals	-157	-22,817	-3,620		-26,594
Translation differences	18,340	67,536	631	413	86,920
Balance at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510

ACCUMULATED AMORTISATION AND IMPAIRMENT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Advances and property, plant and equipment under construction	TOTAL
Balance at 1 January 2017	332,598	2,475,879	84,695	0	2,893,172
Charges	16,787	146,924	4,350		168,061
Transfers	270	149	-419		
Disposals	-3,224	-36,441	-2,850		-42,515
Translation differences	-18,469	-152,237	-3,774		-174,480
Balance at 31 December 2017	327,962	2,434,274	82,002	0	2,844,238
Charges	16,635	143,365	4,504		164,504
Adjustment for hyperinnflation	226	63	157		446
Transfers		33	3		36
Disposals	-61	-19,070	-3,574		-22,705
Translation differences	5,776	32,452	856		39,084
Balance at 31 December 2018	350,538	2,591,117	83,948	0	3,025,603

CARRYING AMOUNT	Land and buildings	Technical installations and machinery	Other property, plant and equipment	Advances and property, plant and equipment under construction	TOTAL
Cost at 31 December 2016	831,028	3,882,624	88,535	159,152	4,961,339
Accumulated amortisation and impairment	-332,598	-2,475,879	-84,695		-2,893,172
Carrying amount at 31 December 2016	498,430	1,406,745	3,840	159,152	2,068,167
Cost at 31 December 2017	790,224	3,709,269	86,287	126,866	4,712,646
Accumulated amortisation and impairment	-327,962	-2,434,274	-82,002		-2,844,238
Carrying amount at 31 December 2017	462,262	1,274,995	4,285	126,866	1,868,408
Cost at 31 December 2018	816,162	3,818,777	88,950	192,621	4,916,510
Accumulated amortisation and impairment	-350,538	-2,591,117	-83,948		-3,025,603
Carrying amount at 31 December 2018	465,624	1,227,660	5,002	192,621	1,890,907

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

The difference between “amortisation and depreciation” that appears on the income statement and on the statement of cash flows, and the sum of the provisions reflected in the tables of property, plant and equipment, intangible assets and investment property is due to the hyperinflation adjustment made to all the profit and loss items of the Argentine entity and that, in the case of the provision for amortisation, amount to 13 thousand euros.

Investments

Investments in property, plant and equipment and intangible assets for the year amounted to 143,897 thousand euros. These include 87,851 thousand euros invested by the Spanish Group company Acerinox Europa mainly in a new cold-rolling mill and a fifth annealing and pickling line. Equipment that has the most advanced technological systems and a level of competitiveness that will generate new quality standards, while reducing costs and environmental impact. With this new line, Acerinox Europe offers thinner thicknesses (with a width of 1,500 mm) to its end customers, thus expanding its product range. Although during the year the lines were launched and production has begun, they have not yet been transferred to fixed assets nor have they begun to be amortised, since the appropriate production levels and the optimum quality of the products have not yet been reached. Therefore, the lines do not yet fulfil the necessary conditions to be considered as operating in the manner envisaged by management. The Group expects to reach optimal production levels in the first quarter of 2019. The impact on the income statement of the amortisation of the lines will be 680 thousand euros/month.

On the other hand, the Group company North American Stainless made investments in the year amounting to 32,771 thousand euros.

In 2017 the investments made amounted to 173,332 thousand euros, of which 111,109 thousand euros were made by the Spanish company of the Acerinox Europe Group and related mainly to the investment in a new rolling mill and a fifth annealing and pickling line and 44,297 euros by the North American Stainless Company. The work on the new rolling mill and the bright annealing (BA) line of the North American Stainless Company was completed in 2017 and started up at the end of this year.

Property, plant and equipment under construction

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

(Figures in thousands of euros)

	2018	2017
Buildings	37,811	34,344
Technical installations and machinery	154,474	92,383
Other property, plant and equipment	336	138
Advances		1
TOTAL	192,621	126,866

Of the total amount recognised under this heading, 174 million (115 million in 2017) stand out, corresponding to the aforementioned investments of Acerinox Europe, whose lines are expected to be launched in the first quarter of 2019.

In 2017, on completion of the start-up period, investments made by the company North American Stainless, were reclassified from work in progress to finished goods. The amount reclassified in this company totalled 131 million euros. The amortisation of the new lines amounts to approximately 6 million euros per year.

Fixed assets located outside Spain

Details of fixed assets located outside Spain are as follows:

(Figures in thousands of euros)

	2018		2017	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and buildings	578,037	-196,141	554,331	-175,710
Technical installations and machinery	2,657,862	-1,534,675	2,568,612	-1,396,765
Other property, plant and equipment	40,008	-38,439	38,294	-36,695
Property, plant and equipment under construction	15,790		10,942	
TOTAL	3,291,697	-1,769,255	3,172,179	-1,609,170

Changes in accounting estimates

As explained in **note 3**, the Group periodically reviews estimated useful lives based on the valuations made by experts. As a result of these analyses carried out over the past two years, the Group company Columbus Stainless (Pty), Ltd. has changed the useful lives of some of its assets. The technological improvements and maintenance plans implemented by the company have led us to forecast a lengthening of useful lives of between 5 and 10 years. The Group has accounted for the change in accounting estimates prospectively as stipulated in IAS 8. The impact of the change in accounting estimates on profit and loss at 31 December 2018 and 2017 was 659 and 2,265 thousand euros respectively, due to the reduction in provisions for this year.

Guarantees

At 31 December 2017 and 2018 none of the Group's assets has been pledged to secure loans and borrowings.

Commitments

At 31 December 2018 the Group had signed contracts to purchase new equipment and facilities amounting to 64,346 thousand euros, of which 40,615 thousand euros was for new investments made by Acerinox Europa for the completion of its investments in the new cold-rolling mill and the fifth annealing and pickling line. At 31 December 2017 the Group had signed contracts to purchase new equipment and facilities amounting to Euro 68,933 thousand, of which Euro 56,054 thousand was for new investments made by Acerinox Europa to complete its investments in the new rolling mill and the fifth annealing and pickling line.

Capitalised borrowing costs

Borrowing costs of only 48 thousand euros have been capitalised in 2017 for the company Columbus Stainless (2,317 thousand euros in 2016, mostly corresponding to the company Columbus Stainless). The capitalisation rate in 2018 was 8.57% (9.5% in 2017).

Disposals of fixed assets

The loss on the sale of property, plant and equipment or the removal of assets from service totals 2,250 thousand euros and is recognised under other operating expenses in the 2018 income statement (1.917 thousand euros in 2017). This balance primarily reflects the disposals of obsolete spare parts that were in the Group's warehouses.

The gain on the sale or withdrawal of property, plant and equipment recognised in the consolidated income statement in 2018 under "Other Operating Income" amounted to 560 thousand euros, relating mainly to the sale of two industrial plants in Spain classified as investment property (2,218 thousand euros in 2017 relating to the sale of a Group plot of land and warehouse in Malaysia and an industrial plant in Spain, also classified as investment property).

As a result of the disposal of fixed assets, there are also registered items of fixed assets with a carrying amount of 2,221 (5,660 thousand euros in 2017) that have been used for maintenance work.

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 2018 and 2017 are as follows:

(Expressed in thousands of euros)	2018		2017	
Nature and use	Gross value	Accumulated depreciation	Gross value	Accumulated depreciation
Water treatment	90,431	-62,621	86,613	-56,825
Acid neutralisation	59,398	-39,175	57,475	-37,320
Gas emission treatment	77,756	-66,481	74,769	-64,937
Automatic additions systems	8,353	-6,208	8,151	-5,890
Other items	115,415	-82,512	110,994	-75,620
Total	351,353	-256,997	338,002	-240,592

In 2018, the Group received an environmental grant of 2,552 thousand euros to offset the costs of indirect greenhouse gas emissions. 186 thousand euros were received in 2017 to offset the costs of indirect greenhouse gas emissions. Both grants have been recognized as income in the year under "other operating income".

In 2018 the Group incurred environment-related ordinary expenses of 98,241 thousand euros (113,442 thousand euros in 2017).

At 31 December 2017, Columbus Group company Stainless (Pty) Ltd recognised a provision relating to environmental activities for an amount of 45 thousand euros for the rehabilitation of land owned by it. The land is an area which is currently not used for the Group's production activities.

Property, plant and equipment not used in ordinary activities

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

Other information

At 31 December 2018 and 2017 there are no litigation cases, seizures or similar measures that may affect items of property, plant or equipment.

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

8.1 Impairment of assets

As established in IAS 36, and as mentioned in the accounting policies (**Note 2.11**), at the end of each fiscal year the Group assesses whether there are any indications of impairment of assets. The value of an asset is impaired when its carrying amount exceeds its recoverable amount. To assess indications of impairment, the Group considers both external sources of information (technological changes, significant fluctuations in market interest rates, market value of the assets) and internal sources of information (evidence of obsolescence, continued losses in the entity, substantial deviation from estimations, etc.).

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

SUBSIDIARIES	2018
ACERINOX EUROPA, S.A.U.	17.13%
ROLDAN, S.A.	1.04%
INOXFIL, S.A.	0.19%
NORTH AMERICAN STAINLESS INC.	37.26%
COLUMBUS STAINLESS PTY Ltd.	6.22%
BAHRU STAINLESS	32.28%
Rest of subsidiaries	5.88%
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 factories, the smallest cash-generating units that can be considered encompass each factory as a whole.

During this fiscal year there have been indications of impairment in the company's Bahru Stainless Sdn. Bhd. and S.C. Malaysia Sdn. Bhd. Both companies are on the Asian content, in Malaysia.

The indications of impairment are based on the continued losses recorded (in the case of SC Malaysia, 2017 obtained income, mainly due to the extraordinary positive result from the sale of a property) and on the substantial deviation with respect to the estimates made, especially in the case of Bahru Stainless.

Bahru Stainless Sdn. Bhd.

It is the most recently created factory of the Acerinox Group, located in Johor, Malaysia. It operates mainly in markets of the ASEAN area, where there is a significant price gap compared to other international markets largely due to the over-capacity in the Chinese market and the resulting pressure on international markets, especially in the Asia-Pacific region. In addition, the different ASEAN countries and, generally, in Asia, reacted to Chinese over-capacity by instituting anti-dumping or protectionist measures in their local markets

The progress of the Asian market has been characterised by excess supply in the region and a strong increase in Indonesian production. These two circumstances kept the prices in Asia far below the rest of the markets throughout the year.

Even so, from the demand point of view, the Asian markets in general had good behaviour, particularly in China, where the apparent consumption continued growing above production, at 7% and 3% respectively, reducing the surpluses of the Asian giant, as can be seen from the available statistics on exports decreasing for the first time in many years. However, one must consider the strong increase in exports from the Chinese productor Tsingshan from its new plant in Indonesia.

In the ASEAN area, Acerinox sales rose again thanks to the Bahru Stainless factory and backed by healthy demand. Even so, in this region the pressure on prices was noted by the sharp expansion of the Chinese manufacturer Tsingshan in Indonesia.

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

The situation described above had an impact on the income of Bahru Stainless, mainly in the second half of the fiscal year, recording income before taxes far below those budgeted for 2018.

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

Value in use of the assets was determined based on the estimated future cash flows the entity expects to obtain from the asset and the discount rate, understood to be the weighted average cost of capital (WACC).

To determine this discount rate, the structure of financing or leverage has been considered based on assumptions of market participants, the reference of the interest rates of Malaysian sovereign debt (10-year bond) and a capital structure, market risk premiums and coefficients of similar companies.

The calculated discount rate is therefore 8.5% (8.66% in 2017).

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 the information available on the analysis date.

b) Ten-year projections that reflect the financial and macroeconomic circumstances and the circumstances 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 fiscal year closed, as well as targets set by management. Other relevant assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the study.

c) Estimated projections for years beyond the period covered were calculated by extrapolating the previous projections using a perpetual growth rate of 2.5%, the same as in 2017. This rate has been estimated for the country and industry in which each CGU is present, in addition to the markets to which most of their output is exported.

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

KPMG ASESORES, S.L. has been hired to review the Bahru Stainless impairment test results as an independent expert, which, after analysing the information provided by the Company, has validated the conducted analysis.

The essential aspects of the impairment test conducted are detailed below:

1. Budgets

An explicit ten year period is budgeted. The budget attempts to reflect the fluctuations of the stainless steel market, replicating the upward and downward cycles based on observation of past price fluctuations (source CRU INTERNACIONAL, see comment below), removing the effect of volatility of prices of raw materials (these are assumed to be constant and no assumptions of variation are made due to their high volatility) and considering all the central premises and their likelihood of happening. To do so, two cycles are proposed; the first one, reflects substantial improvements compared with the present fiscal year, and in the second cycle, the increases in prices and the achieved margins are reversed, emulating a downward market cycle.

The commercial sales plan for the first five years is compared with two external, independent and expert sources:

1) SMR GROUP, STEEL & METALS MARKET INTELLIGENCE. This company has 25 years of proven experience in analysis and understanding of the stainless steel market. The Company sent the Bahru Stainless commercial sales plan for 2019 to 2023 to SMR Group for them to give their opinion. The following are their main conclusions:

- "Raw materials: The assumptions made by Bahru about the future costs of raw materials are basically realistic".

- "Sales prices of cold rolled products: SMR considers that the sales prices of Bahru's cold rolled stainless steel are realistic until 2023. We found that the planned prices for 2022 and 2023 are even conservative".

- "Volume of sales: Bahru's planned sales volumes are realistic and are in line with SMR's expected performance in international markets. The large increase in 2020 in the domestic market is ambitious but achievable. Despite a possible temporary market weakness in 2019-20, the international sales are in line with market shares that are achievable for Bahru Stainless. Sales in some regions could even be higher than planned".

"The development of sales by grades and thicknesses is considered realistic".

"Production at levels of capacity is achievable (sales of 400,000 t of flat, cold rolled and hot rolled combined stainless steel products include 100,000 t of hot rolled stainless steel coils)".

2) CRU INTERNATIONAL. This company has 50 years of experience and is a leading provider of analysis, prices and consulting in the mining, metal and fertiliser markets. CRU supplies its subscribers with an estimation of prices in different stainless steel markets that the Company has used to compare the idea that the estimations of future prices are in line with or even below CRU's assumptions, based on the geographical areas where Bahru Stainless operates.

The budget for 2019, the basis for understanding performance in coming years, is substantiated by returning to the income and margins reached up until May of 2018, based on the measures that the Group is adopting, focused on improving margins: redistribution of sales to markets with better margins, stabilisation of the prices of raw materials and the average value of inventory, and the recovery of the market, given the extremely low prices reached at the end of 2018.

From 2020 on, the budget is based on: increasing the volume of sales to reach the full capacity of Bahru Stainless' production lines; improving margins by readjusting thicknesses, taking into account those that have been shown to contribute to improving margins; optimising the variety of types of steel offered; and expanding the presence of cold rolled products in Europe, among others.

In the period between 2024 and 2028, the margin improvements achieved in the previous period decrease, following a downward market cycle.

Due to uncertainty regarding the Asian market, based on the current excessive capacity, the low prices maintained in recent years and the growing instability generated in international trade flows due to the numerous protective international measures, the Group has considered that the flows projected by Bahru are subject to high levels of uncertainty.

Therefore, as recommended in IAS 36, a probability assignment exercise was undertaken of the likelihood of attaining the budgeted margins for the projected period, as well as for the terminal value, with the aim of reflecting the aforementioned high levels of uncertainty.

2. Terminal value

The terminal year is calculated considering the flows obtained in the express ten year period, once the abovementioned attainment probabilities have been assigned to the key assumptions. As a consequence, the flow of the last year is considered to be consistent into the future, increased by the perpetual growth rate of 2.5%.

The terminal value in the calculations performed makes up 38% of the total discounted value.

3. Results of the impairment test

The impairment test conducted up to 31 December 2018 reveals an excess of recoverable value of 75.3 million euros (329.1 million euros in 2017, considering 100% of the assets, not only the part corresponding to Acerinox's stake in Bahru Stainless) over the carrying amount of 557.9 million euros (612.2 million euros in 2017). The discount rate (WACC), 8.50% (8.66% in 2017), the growth rate (g), 2.5% (2.5% in 2017), and the average budgeted EBIT margin, 3.2% (4.7% in 2017) 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 12.7% (37.5% in 2017). The growth rate (g) would have to fall to 0.3% (balancing out at 0% and increasing the WACC by 17.8% in 2017) for the carrying amount to begin to show impairment.

The average budgeted EBIT margin would have to fall by 18.4% (38.8% in 2017) to 2.6% (2.9% in 2017), with the other two assumptions remaining constant, for impairment to occur.

Acerinox S.C. Malaysia Sdn. Bhd.

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

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

Value in use of the assets was determined based on the estimated future cash flows the entity expects to obtain from the asset and the discount rate, understood to be the weighted average cost of capital (WACC).

To determine this discount rate, the structure of financing or leverage has been considered based on assumptions of market participants, the reference of the interest rates of Malaysian sovereign debt (10-year bond) and a capital structure, market risk premiums and coefficients of similar companies.

The calculated discount rate is therefore 8.96% (8.64% in 2017).

Five year budgets approved by management were used to estimate the future flows of this commercial subsidiary, considering those based on the information available on the date of carrying out the analysis to be reasonable assumptions and better estimates, versus the economic conditions that will occur throughout the remaining lifetime of the asset, as well as the objectives indicated by management.

The estimation of the projections for the fiscal years after the express five year period were extrapolated using a perpetual growth rate of 2.5%, the same as in 2017.

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

The impairment test conducted up to 31 December 2018 reveals an excess of recoverable value of 8.7 million euros (9.2 million euros in 2017) over the carrying amount of 27.8 million euros (27 million euros in 2017). The discount rate (WACC), 8.96% (8.64% in 2017), the growth rate (g), 2.5% (2.5% in 2017), and the average budgeted EBIT margin, 4.8% (3.2% in 2017) are considered key assumptions in the impairment test.

According to the sensitivity analysis performed, the discount rate (WACC) would have to increase by 3.5 times its current value (2.50 times in 2017), while simultaneously bringing the growth rate (g) down to zero, for the carrying amount to begin to see impairment.

The average budgeted EBIT margin would have to decrease by 76.1% (68.3% decrease in 2017), to 1.1% (1.0% in 2017), with the other two assumptions remaining constant, for impairment to occur.

Impairment tests performed in 2017

The companies presenting indications of impairment were the same as in the current fiscal year. The analyses performed last year determined that the recoverable value of their assets was higher than the carrying amount. Likewise, the sensitivity analyses performed also led us to conclude that a significant change to all assumptions would be necessary for impairment to occur.

NOTE 9 INVESTMENT PROPERTY

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

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

Details of movements in investment property in 2018 and 2017 are as follows:

(Figures in thousands of euros)

COST	2018	2017
Opening balance	22,165	22,417
Disposals	-1,529	-138
Translation differences	-25	-114
Balance at 31 December	20,611	22,165
ACCUMULATED DEPRECIATION AND IMPAIRMENT	**2018**	**2017**
Opening balance	4,445	4,181
Charges	337	368
Disposals	-702	-89
Translation differences	-4	-15
Cost at 31 December	4,076	4,445
CARRYING AMOUNT	**2018**	**2017**
Cost at 31 December	20,611	22,165
Accumulated depreciation	-4,076	-4,445
Carrying amount at 31 December	16,535	17,720

The Group has disposed of two warehouses that had been classified as investment property, the carrying amount of which was 827 thousand euros. The profit for the sale of these warehouses was 507 thousand euros.

In 2017, the Group sold two of its warehouses, which had been classified as investment property, generating a gain of 145 million euros. The carrying amount of that warehouse was 50 thousand euros.

Income from the lease of industrial bays amounted to 523 thousand euros in 2018 (486 thousand euros in 2017). The associated operating expenses, including maintenance and repairs, amount to 194 thousand euros (196 thousand euros in 2017).

At 31 December 2018 investment property has a total market value of 22,849 thousand euros (22,888 thousand euros in 2017). This valuation attends to observable variables in the market such as offers and prices per square meter of premises available in the geographical area of the real estate investments of the Group. Therefore, fair value measurement is classified within the hierarchy of LEVEL 2 in accordance with the policy established in **note 2.12.5**

NOTE 10 INVENTORIES

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

(Expressed in thousands of euros)

	2018	2017
Raw materials and other supplies	359,574	322,042
Work in progress	194,410	194,718
Finished goods	428,560	433,583
By-products, waste and recoverable materials	35,899	39,952
Advances	295	189
TOTAL	1,018,738	990,484

Raw materials and other suppliers include 7,951 thousand euros reflecting the valuation of the emission allowances held by the Group at the end of the year (7,911 thousand euros in 2017).

The change in finished goods and works in progress in the year, according to the balance sheet at 31 December 2018 and 2017 shown above, differs from the figure in the income statement owing to translation differences.

The cost of goods sold has been calculated in accordance with the policy defined in **note 2.13** and amounts to 4,368 million euros in 2018 (4,008 million euros in 2017).

In 2018 the Group wrote inventories down to net realisable value where this was lower than cost, with a total adjustment of 21,981 thousand euros. The adjustment recognised for 2017 amounted to 2,273 thousand euros.

Commitments

At 31 December 2018 the consolidated Group has commitments to purchase raw materials for 223,657 thousand euros (208,756 thousand euros in 2017). Although no firm sales commitments exist at these reporting dates, there are formal orders for which the Group does not foresee any circumstances that could prevent delivery by the agreed deadlines.

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

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

10.1 Emission allowances

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

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

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

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

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

Movement in emission allowances in 2018 and 2017 is as follows:

	Number of allowances	Value (in thousands of Euros)
Balance at 31/12/2016	1,069,910	8,357
Allocation for the year	256,310	1,568
Disposals	-258,773	-2,014
Balance at 31/12/2017	1,067,447	7,911
Allocation for the year	251,312	1,946
Disposals	-261,601	-1,906
Balance at 31/12/2018	1,057,158	7,951

In 2018, CO_2 emissions were made requiring 248,117 allowances, which will be surrendered in 2019 (259,918 in 2017, surrendered in 2018). The Group has not sold its surplus allowances.

The expense for the year in respect of CO_2 emissions totals 1,846 thousand euros in 2018 (1,926 thousand euros in 2017) and is included under "other operating expenses". This is the value of the allowances surrendered in the year, equivalent to the market value of these allowances when allocated.

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

Present conditions pose no significant risk of a shortfall in emission allowances for the 2018-2020 period. The Group does not hold any futures contracts for the acquisition of emission allowances.

No significant contingency exists in respect of fines over emissions.

NOTE 11 FINANCIAL INSTRUMENTS

11.1 General considerations

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

11.2 Categories of financial assets and liabilities

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

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Equity instruments		Debt securities		Loans, derivatives and other		Equity instruments		Debt securities		Loans, derivatives and other	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Loans and receivables					4,491	4,491					583,309	606,694
Equity instruments: - At fair value through other comprehensive income - At cost	11,227 287	14,474 289										
Assets at fair value through profit or loss											2,564	17,007
- Hedging derivatives												956
TOTAL	11,514	14,763	0	0	4,491	4,491	0	0	0	0	585,873	624,657

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

(Expressed in thousands of euros)

Classes / Categories	Non-current financial instruments						Current financial instruments					
	Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other		Loans and borrowings		Bonds and other marketable securities		Payables, derivatives and other	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Financial liabilities at amortised cost	951,842	862,328	74,450	74,350	3,556	2,652	374,254	241,488	1,635	51,592	860,370	941,476
Liabilities at fair value through profit or loss											1,566	28,048
Hedging derivatives					4,817	297					667	523
TOTAL	951,842	862,328	74,450	74,350	8,373	2,949	374,254	241,488	1,635	51,592	862,603	970,047

11.2.1 Financial assets at amortised cost

The detail of financial assets measured at amortised cost at 31 December is as follows:

(Expressed in thousands of euros)

	2018	2017
Trade receivables	524,695	552,058
Personnel	447	407
Public entities	39,773	38,143
Other receivables	10,263	6,709
Prepayments	7,435	9,131
Impairment of bad debts	-4,487	-4,831
TOTAL	578,126	601,617

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

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

(Expressed in thousands of euros)

	2018	2017
Initial balance	4,831	7,260
Charges	620	698
Application	-68	-1,870
Reversal	-851	-1,259
Translation differences	-45	2
Balance at 31 December	4,487	4,831

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

No interest was accrued on impaired financial assets in 2018 or 2017.

No allowances have been made for bad debts with related parties in 2018 or 2017.

At 31 December 2018, certain Group companies had receivables factored without recourse totalling 151,886 thousand euros with financial institutions in exchange for cash. This amount was equal to 85%-90% of the total amount of the factored invoices, depending on the conditions of the credit insurance coverage. (149,915 thousand euros in 2017). These amounts have been derecognised as they meet the conditions specified in NIIF 9 regarding the transfer of risks and rewards.

11.2.2 Trade and other payables

Details under this heading in the consolidated balance sheet at 31 December 2018 and 2017 are as follows:

(Expressed in thousands of euros)

	2018	2017
Suppliers and trade payables	784,927	857,635
Personnel	30,115	29,961
Suppliers of fixed assets	10,771	12,938
Tax and Social Security	26,555	31,684
Other payables	1,238	2,384
Current provisions	6,764	6,874
TOTAL	860,370	941,476

Most of the amount that appears under tax and social security payable corresponds to amounts payable for VAT settlements and with withholding personal income taxes. An amount of 4,176 thousand euros relates to social security payables (4,385 thousand euros in 2017).

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

	2018	2017
Average payment period to suppliers	69 days	70 days
Payments made ratio	70 days	72 days
Outstanding payments ratio	65 days	60 days

(Expressed in thousands of Euros)	Amount	Amount
Total payments made	1,697,685	752,101
Total outstanding payments	234,552	126,485

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

11.2.3 Loans and borrowings and bond issues

Details of financial debt in the consolidated balance sheet at 31 December 2018 and 2017, including loans and borrowings and bonds issued by the Group during the year, are as follows:

(Figures in thousands of euros)

	Non-current		Current	
	2018	2017	2018	2017
Bonds issued	74,450	74,350	1,635	51,592
Loans and borrowings	951,842	862,328	374,254	241,488
Total financial debt	1,026,292	936,678	375,889	293,080

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

During this period (December 2018), the bonds issued in 2014, totalling 50 million euros and with a maturity of 4 years, matured.

Details of the maturity of outstanding debt at 31 December 2018 are as follows:

(Expressed in thousands of euros)

	2019	2020	2021	2022	2023 and subsequent years	TOTAL
Financial debt	375,889	220,014	279,944	160,778	365,556	1,402,181
Total financial debt	375,889	220,014	279,944	160,778	365,556	1,402,181

2017 figures are as follows:

(Expressed in thousands of euros)

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

Debt by currency is as follows:

(Expressed in thousands of euros)

	Non-current loans		Current loans	
	2018	2017	2018	2017
EUR	1,026,292	898,917	311,994	240,604
USD		37,761	63,943	51,609
ZAR			2	6
MYR				861
TOTAL	1,026,292	936,678	375,889	293,080

Details of debt by interest rate are as follows:

(Expressed in thousands of euros)

	Non-current loans		Current loans	
	2018	2017	2018	2017
Fixed	523,333	350,000	16,667	115,000
Variable	502,959	586,678	359,222	178,080
TOTAL	1,026,292	936,678	375,889	293,080

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

The carrying amount of fixed rate loans and borrowings and private placements is 540,000 thousand euros, whose fair value is 580,313 thousand euros at 31 December 2018. The fair value of these borrowings at 31 December 2017 was 483,143 thousand euros (carrying amount of 465,000 euros).

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

The weighted average cost of financing instruments in euros at 2018 year-end was 1.40% before taking into account hedging instruments, for a total of 1,338 million euros at year-end and 3.87% for a total of 73 million USD financing. In 2017, the Group's euro-denominated borrowings, 1.141 million euros in total, bore an average cost of 1.63%, before taking into account hedging instruments, while the average cost of borrowings in US dollars, amounting to 109 million US dollars, was 3.37%.

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

At 31 December 2018 accrued interest payable which has not been paid in respect of loans and borrowings totals 1,513 thousand euros (1,918 thousand euros in 2017). In addition, accrued interest payable not paid on bonds issued totals 1,635 thousand euros at the 2018 reporting date (1,660 thousand euros in 2017).

Total borrowing costs calculated using the effective interest rate on loans at amortised cost amount to 1,636 thousand euros (2,808 thousand euros in 2017).

At 31 December 2018, the Group has credit facilities with financial institutions with a maximum available limit of 1,903 million euros, of which 1,402 million euros was drawn down at 31 December 2018. At the 2017 year end, the maximum available limit from credit facilities was 1,964 million euros and the amount drawn down on that date was 1,230 million euros.

Certain Group companies have contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables until they are settled or repaid or have expired. The Group uses confirming only as a payment instrument, but not as a financing instrument. Invoices are paid on due date without any advantage being gained from the use of confirming.

Main financing operations undertaken in the year

The most significant financing transaction in 2018 was the signing with the Spanish Official Credit Institute (ICO) of an eight-year 100 million euro loan. The loan was paid out at the end of June 2018 and matures in March 2026. It comes with a two-year interest-only repayment period and will be repaid in four half-yearly instalments of 5 million euro each, starting in September 2020, and eight half-yearly instalments of 10 million euro each, the last falling on the loan maturity date. The loan was awarded to Acerinox S.A. and the Group has undertaken to maintain, over the life of the loan, an annual financial compliance ratio between its consolidated net financial debt and its equity.

Meanwhile, the loan of 70 million euros that Acerinox S.A. signed with the European Investment Bank (“EIB”) in December 2017 was delivered in June.

Lastly, and taking advantage of good market conditions, Acerinox S.A. has renegotiated five existing loan contracts with Abanca, Banca March, Caixabank, Kutxabank and Banco Sabadell, for a total amount of 305 million euros, improving costs and margins and extending terms.

In the case of debt renegotiations, the Group assesses the significance of the modifications made to determine whether they are materially different, according to the criteria established in the valuation policy detailed in note 2.12.3, therefore the effects of the new agreement should be recorded as if it were a cancellation and, simultaneously, a new loan. According to the 305 million euros detailed in previous paragraph, 205 million euros correspond to new loans which belongs to the renegotiated loans with Banca March, Caixabank and Banco Sabadell. During the year, the amount of commissions recognised in profit or loss on renegotiated loans, which have been derecognised from the liability, was 447 thousand euros.

The most noteworthy financing operations during 2017 were:

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

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

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

  - The annex to amend an existing loan was signed with Banco Santander.

  - Loans signed with Banco de Sabadell, Bankia, Banco Santander, Banco Popular and Bankinter to cancel existing loans with the same entities, improving their conditions and extending their maturities.

  - New loan agreements signed with Banco Social de Crédito Cooperativo, Banco Bilbao Vizcaya Argentaria, Banca March and the European Investment Bank totalled 210 million euros. The loan signed with Banca March was transferred to a securitisation fund upon signing, through which an international investor took a position in the loan, with Banca March acting as the intermediary.

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

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

(Expressed in thousands of euros)

	2018	2017	2018	2017
Initial balance	862,328	812,699	241,488	279,961
Additions	439,930	570,000	204,025	124,502
Debt amortisation and interests	-200,594	-284,578	-225,076	-383,322
Current transfers	-153,250	-228,377	153,250	228,377
Translation differences	3,427	-7,416	567	-8,030
Balance at 31 December	951,841	862,328	374,254	241,488

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

The conciliation of long and short-term loans and borrowings movements, together with the consolidated statements of cash flows is as follows:

• External financing proceeds recorded in the consolidated statement of cash flow are detailed as follows:

(Expressed in thousands of euros)

	2018	2017
Grants	159	31
Bond issued		
Long-term loans and borrowings	439,930	570,000
Short-term loans and borrowings	204,025	124,502
Other debts	1,058	600
Total income fron external resources	645,172	695,133

• Repayments of interest-bearing liabilities reordered in the consolidated statement of cash flows are as follows:

(Expressed in thousands of euros)

	2018	2017
Grants		
Bond issued	-50,000	
Long-term loans and borrowings	-200,594	-284,578
Short-term loans and borrowings	-225,076	-383,322
Other debts	-172	-196
Total repayments of interest-bearing liabilities	-475,842	-668,096

Non-current borrowings subject to covenants

a) Ratios linked to profit and loss

Currently, no loan agreement signed by Acerinox has convenants linked to ratios that take into account the Group's results.

In 2017 there was a loan agreement signed by Acerinox in 2008 with the ICO (Spanish Official Credit Institute) which expired in July 2018, with a covenant linked to ratios that take into account the Group's results. Specifically net financial debt/EBITDA, and net financial debt/equity. At year end, the outstanding amount repayable on the ICO loan was16.3 million US dollars.

b) Ratios linked to equity

At the 2018 reporting date there are three financing contracts subject to covenants, relating to the maintenance of minimum consolidated equity levels. This is the loan signed in March 2017 with Banca March for 50 million euros and transferred to a Securitisation Fund at the time of signature, the loan signed with the European Investment Bank ("EIB") in December 2017 for 70 million euros and the loan signed in March 2018 with the Spanish Official Credit Institute ("ICO") for 100 million euros. This type of ratio is standard market practice in financing at these terms, as the loan signed with Banca March has a term of 7 years, the EIB one has a term of 10 years and the ICO one has a term of 8 years.

Additionally, the Group company Columbus Stainless has structured financing (Borrowing Base Facility) which is also subject to a ratio relating to the maintenance of minimum equity levels in that company. This facility is recognised in the balance sheet at the amount drawn down, under bank borrowings of current liabilities. At neither 31 December 2017 nor at the close of 2018 had any amount has been drawn down from this facility.

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

11.2.4 Measurement of fair value

As established in the accounting policies, the Group measures at fair value, financial assets at fair value through other comprehensive income and derivative financial instruments.

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: variables not observable in the market

The Group's position at 3s1 December 2018 and 2017 is as follows:

(Expressed in thousands of euros)

	2018			2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets	11,227			14,474		
Financial derivatives (assets)		2,564			17,963	
TOTAL	11,227	2,564	0	14,474	17,963	0
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial derivatives (liabilities)		7,050			28,868	
TOTAL	0	7,050	0	0	28,868	0

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

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

11.2.5 Financial assets at fair value through other comprehensive income

The shares that the Group does not intend to sell and that it has designated in this category at the initial moment are recognised in this section.

The value of financial assets at fair value through other comprehensive income total 11,514 thousand euros at year end, of which 11,227 thousand euros reflect Acerinox's investment in the Japanese Nisshin Steel Holding Co. Limited (Nisshin), company listed on the Tokyo Stock Exchange until 26 December 2018.

In March 2017, Nippon Steel & Sumitomo Metal Corporation (Nippon) acquired a significant stake in Nisshin, enabling them to improve their competitiveness. In May 2018, in order to finalise the synergies between the two Groups, the Board of Directors considered it necessary to acquire control of 100% of the shares of Nisshin in order to complete the consolidation process.

Thus, based on the agreements reached at the extraordinary General Meeting called by Nisshin Steel Co., Ltd. it was determined that effective 1 January 2019, a swap of the shares of Nisshin Steel Co., Ltd. would be carried out for shares of Nippon Steel & Sumitomo Metal Corporation (Nippon). As a consequence of these Acerinox agreements, Acerinox will receive 0,71 shares of Nippon Steel & Sumitomo Metal Corporation for every share in Nisshin Steel Co. Ltd. Nisshin's shares ceased trading on 26 December 2018.

The Group determined the fair value of the Nisshin shares at year-end to be the market value of the Nippon shares based on the number of shares that will correspond to it as from 1 January 2019. Acerinox owned 1,052,600 shares of Nisshin Steel, Co., which is equivalent, after the exchange equation, to 747,346 shares of Nippon Steel & Sumitomo Metal Corporation. The market value at 31 December 2018 of these shares was 1,892.5 JPY per share. The amount of the devaluation, recognized in other comprehensive income, amounted to -3,248 thousand euros in this year.

The Group has decided to maintain the classification of this portfolio of shares into financial assets at fair value through other comprehensive income, since this is a strategic holding that is not held with the intention of selling it. Nisshin Steel has, in turn, a 15.49% interest in Acerinox.

The market value at 31 December 2017 of Nissin was 1.852 JPY per share. Acerinox held 1,052,600 shares in this company, that represented a percentage ownership of 0.96%. The amount of the revaluation, recognised in other comprehensive income, amounted to 2,145 thousand euros in 2017.

Acerinox S.A. has not purchased or sold any shares in Nisshin Steel Holding Co. Limited neither in 2018 nor in 2017.

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

11.2.6 Derivative financial instruments

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

The Group classifies derivative financial instruments that do not qualify for hedge accounting as assets and liabilities at fair value through profit or loss. Those that qualify as hedging instruments are classified as hedging derivatives and are recognised by applying the measurement criteria defined in **note 2.12.4**.

Derivative financial instruments classified by category are as follows:

(Expressed in thousands of euros)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives		5,484	956	820
Derivatives at fair value through profit or loss	2,564	1,566	17,007	28,048
TOTAL	2,564	7,050	17,963	28,868

The following table has a breakdown of the Group's derivative financial instruments at 31 December 2018 and 2017 by type of hedged risk:

(Figures in thousands of euros)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Forward exchange rate contracts	2,564	1,566	17,007	28,066
Interest rate swaps		5,484		802
Cross-currency swaps			956	
TOTAL	2,564	7,050	17,963	28,868

As explained in **note 4.1.2**, this year the Group arranged interest rate derivatives amounting to 250 million, equivalent to the amount of the new loans arranged with Banca March, Caixabank, ICO and BEI.

Following the repayment this year of the loan granted by the ICO in USD, the cross currency swap derivative financial instrument has also been cancelled.

Currency risk

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

The Group hedges with derivative financial instruments a majority of the commercial and financial transactions carried out in a currency other than the functional currency of a country.

In accordance with the Group's hedging strategy, none of the derivatives arranged at 31 December 2018 were considered hedge accounting, since they are all used to hedge monetary assets and liabilities denominated in foreign currencies. Any exchange differences that may arise from translation are recognised in profit or loss. Using these instruments ensures that any fluctuation in exchange rates that could affect assets or liabilities denominated in foreign currency would be offset by a change of the same amount in the derivative contracted. Changes in the derivative are recorded in the same way in the income statement, offsetting any changes that occur in foreign currency monetary items.

At 31 December 2018 the effect of measuring these derivatives at market value was 12,878 thousand euros, which is recognised under remeasurement of financial instruments to fair value in the income statement (-29,836 thousand euros in 2017). The exchange gains obtained by the Group in the year amounted to 455 thousand euros (40,054 thousand euros of profits in 2017). The differences between the two amounts are mainly due to the interest rate differentials between the currencies involved in the exchange risk insurance contracted.

At 31 December 2018 all exchange rate insurance policies basically cover both receivables (assets) and payables (liabilities) and include both commercial and financing transactions between Group companies. At 31 December 2018, the fair value of the Group's exchange risk insurance totalled 998 thousand euros (-11,059 thousand euros in 2017), of which 2,564 thousand euros is recognised under assets and 1,566 thousand euros under liabilities. Of these, there is no forward exchange rate derivatives at year-end that has been recorded in accordance with hedge accounting (only 18 thousand euros, recorded in accordance with hedge accounting in 2017). In this year an amount of -154 thousand euros were transferred from the consolidated statement of comprehensive income to profit and loss for the year (-147 thousand euros in 2017).

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

At 31 December 2018 the Group has used contracts for foreign currency transactions amounting to 314 million euros for currency sales and 500 million euros for currency purchases. At 31 December 2017, 328 thousand euros were used for sales and 527 million euros for purchases. Details of these forward exchange contracts by currency are as follows:

(In thousands of euros)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
USD	187,229	562,119	212,376	582,519
EUR	67,977	9,058	87,362	9,886
GBP	11,308	10	16,922	10
SEK	70,441		23,690	
PLN			3,337	
AUD	15,105	13	11,866	13
NZD			48	
MYR	286,445		350,360	
JPY		38,903		1,080

At 31 December 2018 there were no loans with banks in currencies other than the functional currency and, therefore, the Group no longer has derivative financial instruments to hedge exposure to both currency risk and interest rate risk. At 31 December 2017, there were contracts of this nature, as explained in the section below.

Interest rate risk

In order to hedge the interest rate risk on a portion of its current and non-current bank borrowings, the Group has entered into the following swaps as of 31 December 2018:

	Notional value contracted	Outstanding amount	Maturity
Variable to fixed rate	EUR 76,13 million	EUR 13,43 million	2020
Variable to fixed rate	EUR 30 million	EUR 30 million	2023
Variable to fixed rate	EUR 70 million	EUR 70 million	2028
Variable to fixed rate	EUR 50 million	EUR 50 million	2022
Variable to fixed rate	EUR 100 million	100 million euros	2026

The average interest rate of euro-denominated financing hedged by a derivative financial instrument at year-end totals 263.4 million euros, is 1.97% (4% in 2017). The credit spread has been included in both cases.

At the end of 2018 there was no USD interest rate derivatives to hedge USD loans, while in 2017 the average rate for USD loans hedged by USD interest rates derivatives was 3.65%.

Details at 31 December 2017 were as follows:

	Notional value contracted	Outstanding amount	Maturity
USD variable to EUR fixed rate	USD 160 million	USD 16,33 million	2018
Variable to fixed rate	EUR 76,13 million	EUR 22,39 million	2020

The fair value of fixed interest rate swaps and cross-currency swaps is based on the market value of equivalent derivative financial instruments at the reporting date and amounts to -5,484 thousand euros (154 thousand euros at 31 December 2017), which included, in addition to the valuation of interest rate swaps, the valuation of a cross currency swap). These amounts are recognised in the Group's consolidated balance sheet under the following headings:

	2018		2017	
	Current	Non-current	Current	Non-current
Other financial assets			956	
Other financial liabilities	667	4,817	505	297
Net amount	-667	-4,817	451	-297

At 31 December 2018 and 2017 the derivatives contracted qualify as cash flow hedging instruments and therefore the unrealised loss of -6,243 thousand euros on their measurement at fair value has been recorded in the consolidated statement of comprehensive income (loss of 4,528 thousand euros in 2017).

In 2018, an amount of 2,072 thousand euros was transferred from the consolidated statement of comprehensive income to profit and loss for the year (6,138 thousand euros in 2017). Combined with the -154 thousand euros derived from the currency hedges referred to in the previous section, these totalled 1919 thousand euros, which appear in the consolidated statement of comprehensive income (-147 in 2017 and a total of 5,991 thousand euros).

The Group has documented the effectiveness of the derivatives contracted to be recognised as hedging instruments, as detailed in **note 2.12.4**. Hedging transactions have been contracted for periods and amounts equivalent to the cash flows derived from the loans associated with each instrument. The financial instruments that are considered hedge accounting were not ineffective at any point in 2017 or 2018.

NOTE 12 CASH AND CASH EQUIVALENTS

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

(Figures in thousands of euros)

	2018	2017
Cash in hand and at banks	114,826	141,548
Current bank deposits	735,287	478,988
TOTAL	850,113	620,536

During the year, the Group only made term deposits in US dollars. The effective interest rate on current bank deposits is 2.66% this year (1.20% for the US dollar in 2017). At year-end 2018 as well as 2017, 100% of all deposits had been made by the Group company North American Stainless. Deposits are placed for an average term of between one week and 90 days, deposited with banks of recognised solvency (between one week and 90 days in 2017).

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

NOTE 13 EQUITY

13.1 Subscribed capital, share premium and treasury shares

Movement of outstanding shares in 2018 and 2017 is as follows:

(Expressed in thousands of euros)

	Number of shares (thousand)	Ordinary shares (thousand)	Own shares (thousand of Euros)	Share capital (thousands of Euros)	Share premium (thousands of Euros)
Balance at 31 December 2016	276,067	276,067	-1	69,017	81,403
Capital increase (scrip dividend)					
Acquisition of own shares					
Disposal of own shares					
Balance at 31 December 2017	276,067	276,067	-1	69,017	81,403
Capital increase (scrip dividend)					
Acquisition of own shares			-3,416		
Disposal of own shares					
Balance at 31 December 2018	276,067	276,067	-3,417	69,017	81,403

a) Share capital

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

At 31 December 2018 and 2017, share capital is represented by 276,067,543 ordinary shares, with a par value of 0.25 euros each, subscribed and fully paid.

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

At 31 December 2018, the only holders of 10% or more of the share capital of Acerinox, S.A. are Corporación Financiera Alba, S.A., with 18.96%, in both 2018 and 2017, and Nisshin Steel Holding, Co. Ltd. with 15.49% in 2018 (15.49% in 2017).

In this year, as well as in 2017, there were no changes in share capital.

b) Share premium

There has been no distribution of the share premium in 2018 or 2017.

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

c) Treasury shares

In order to improve earnings per share by reducing the number of shares issued in the four years (2013-2016) for which the dividend was paid by means of a flexible dividend or scrip dividend, the Board of Directors of Acerinox, S.A. intends to approve successive share repurchase programmes.

The Board of Directors of Acerinox held on 19 December 2018, making use of the authorisation granted for a period of five years by the General Meeting of the Company held in June 2014, and pursuant to the provisions of article 17 of Regulation (EU) no. 596/2014 on Market Abuse, has approved a First Share Repurchase Programme with the aim of reducing the share capital of Acerinox, S.A. through the redemption of its own shares, if the General Meeting so approves, in order to improve earnings per share.

The maximum investment will be 66 million euros and the maximum number of shares to be acquired may not exceed 5,521,350, representing 2% of the Company's capital.

The shares must be purchased at market price and under the price and volume conditions set out in Article 3 of the Commission's Delegated Regulation EU 2016/1052 of 8 March 2016. The Company may not acquire shares at a price higher than the highest of the price of the last independent transaction or the highest independent bid at that time at the trading venue where the purchase is made.

The Company shall not buy on any trading day more than 25% of the average daily volume of the shares at the trading venue where the purchase is made. The average daily volume of the Company's shares for the purposes of the foregoing calculation shall be based on the average daily volume traded in the twenty business days prior to the date of each purchase. This limit shall apply for the entire duration of the programme.

The maximum term of the approved plan is from 21 December 2018 to 20 March 2019, both included.

Acerinox, S.A. reserves the right to terminate the Programme if, prior to its term limit, shares had been acquired for an acquisition price that reached the maximum investment price or the maximum number of shares covered by the Programme. It may also be terminated early in the event of any other circumstance that makes it advisable.

The Board of Directors of the Company will propose to the next Ordinary General Shareholders' Meeting of the Company a reduction in the share capital sufficient to redeem the shares acquired as a result of this Programme.

As of 31 December 2018, 368,320 shares had been acquired. The value of the shares in portfolio at year-end was 3,417 thousand euros.

In 2017 there were no movements regarding own shares.

13.2 Distribution of dividends

The Board of Directors of Acerinox, S.A. has decided to propose to the next Ordinary General Meeting of the Company an 11% increase in shareholder remuneration by increasing the dividend per share from 0.45 to 0.50 euros.

On 10 May 2018, at their General Meeting the shareholders approved the distribution of a cash dividend of 0.45 gross euros per share, charged to unrestricted reserves. The dividend was paid on 5 July 2018 and totalled 124,230 thousand euros.

13.3 Reserves

a) Retained earnings

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

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

There are no restrictions on the transfer of funds by any Group company in the form of dividends, except for the non-distributable reserves required by applicable legislation. At 31 December 2018, 35,352 thousand euros of the Group's reserves and retained earnings are subject to restrictions (27,037 thousand euros at 31 December 2017).

The Parent Company's legal reserve, which is included under retained earnings in the statement of changes in equity, has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires companies to transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. At 31 December 2018, the Company has appropriated an amount equivalent to 19.41% of its share capital to this reserve (18.25% in 2017), totalling 13,399 thousand euros in 2018 (12,599 in 2017).

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

b) Property, plant and equipment revaluation reserve

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

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

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

c) Hedging reserve

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

d) Fair value adjustment of financial assets

The Company has classified certain financial instruments as at fair value in comprehensive income. In accordance with the valuation standard, changes in the fair value of these instruments are recognised directly in the consolidated statement of comprehensive income. There is a detailed description of instruments classified as available for sale and their measurement in **note 11.2.5**.

e) Actuarial valuation reserve

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

13.4 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 2018 and 2017 reporting dates and the functional currencies of their respective financial statements is as follows:

(Figures in thousands of euros)

GROUP COMPANIES	Currency	2018	2017
ACERINOX (SCHWEIZ) A.G.	CHF	1,248	1,156
ACERINOX ARGENTINA S.A.	ARS	-5,323	-5,068
ACERINOX AUSTRALASIA PTY.LTD.	AUD	18	47
ACX DO BRASIL REPRESENTAÇOES, LTDA	BRL	-209	-181
ACERINOX CHILE S.A	CLP	-198	205
ACERINOX COLOMBIA S.A.S	COP	-100	-81
ACERINOX INDIA PVT LTD	INR	-43	-35
ACERINOX METAL SANAYII VE TICARET L.S.	TRY	-637	-363
ACERINOX MIDDLE EAST DMCC (DUBAI)	AED	44	17
ACERINOX PACIFIC LTD.	HKD	-4,871	-4,923
ACERINOX POLSKA,SP Z.O.O	PLN	-1,673	-921
ACERINOX RUSSIA LLC.	RUB	-115	-57
ACERINOX SCANDINAVIA AB	SEK	-5,184	-4,101
ACERINOX S.C. MALAYSIA SDN. BHD	MYR	-2,060	-1,811
ACERINOX (SEA), PTE LTD.	SGD	117	93
ACERINOX SHANGAI CO., LTD.	CNY	889	901
ACERINOX U.K., LTD.	GBP	-6,897	-6,684
BAHRU STAINLESS, SDN. BHD	USD	58,783	41,031
COLUMBUS STAINLESS INC.	ZAR	-149,122	-129,019
CORPORACIÓN ACERINOX PERU S.A.C	PEN	-25	-18
NORTH AMERICAN STAINLESS CANADA, INC	USD	4,436	2,393
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	USD	4,572	3,257
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS, LTD	USD	5	3
NORTH AMERICAN STAINLESS INC.	USD	220,336	117,281
SUBTOTAL		113,991	13,122
ASSOCIATES		2018	2017
BETINOKS PASLANMAZ ÇELIK A.S.	TRY		-49
SUBTOTAL		0	-49
TOTAL		113,991	13,073

The origin of the fluctuations that have occurred during this year and in 2017 are detailed below:

(Figures in thousands of euros)

	2018	2017
Initial balance	13,073	301,785
Equity translation difference	85,667	-275,230
Income tranlation difference	4,581	-8,003
Traslation difference of interests in Group companies	-7,273	-4,782
Transferred to income translation difference		-592
Acquisition of shares from non-controlling interests	18,180	
Other changes	-237	-105
Balance at 31 December	113,991	13,073

EThe increase in equities, as a consequence of translation differences, is primarily due to the 5% appreciation of the USD this year. (2017 depreciation of 13.3%). The EUR/USD exchange rate at the end of 2018 is 1.145, compared to 1.1993 at the end of 2017. The impact of the Rand, however, was negative due to depreciation. The South African Rand also fell by 11.2% this year, with the 2018 year-end exchange rate of 16.4594 while at the end of 2017 it was 14.8054.

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

At 31 December 2018 and 2017 details of the contribution of each of the consolidated companies to reserves and consolidated profit and loss are as follows:

(Expressed in thousands of Euros)	2018				2017			
	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	329,870	12,685			440,720	2,090		
ACERINOX (SCHWEIZ) A.G.	1,033	-131			936	97		
ACERINOX ARGENTINA S.A.	5,515	-504			5,187	-24		
ACERINOX AUSTRALASIA PTY. LTD.	52	130			-69	121		
ACERINOX BENELUX S.A. - N.V.	240	30			279	-39		
ACX DO BRASIL REPRESENTAÇOES, LTDA	25	136			-9	34		
ACERINOX CHILE, S.A	-2,328	221			-2,937	609		
ACERINOX COLOMBIA S.A.S	314	132			232	82		
ACERINOX DEUTSCHLAND GMBH	-20,065	-3,103			-15,578	-4,487		
ACERINOX EUROPA S.A.U	1,427	27,152			-53,612	55,039		
ACERINOX FRANCE S.A.S	-8,596	-417			-9,174	578		
ACERINOX ITALIA S.R.L.	-25,112	3			-16,582	-8,530		
ACERINOX INDIA PVT LTD	80	55			143	-63		
ACERINOX METAL SANAYII VE TICARET L.S.	241	755			670	428		
ACERINOX MIDDLE EAST DMCC (DUBAI)	360	293			136	224		
ACERINOX PACIFIC LTD.	-20,734	-26			-21,103	369		
ACERINOX POLSKA, SP Z.O.O	1,710	328			1,148	562		
ACERINOX RUSSIA LLC.	300	190			188	112		
ACERINOX SCANDINAVIA AB	-748	770			-1,583	835		
ACERINOX S.C. MALAYSIA SDN. BHD	-39,005	-508			-40,351	1,191		
ACERINOX SHANGAI CO., LTD.	529	1,122			406	1,228		
ACERINOX (SEA), PTE LTD.	149	603			-194	343		
ACERINOX U.K., LTD.	3,868	496			3,221	647		
ACEROL - COMÉRCIO E INDÚSTRIA DE AÇOS INOXIDÁVEIS, UNIPESSOAL, LDA.	-3,273	252			-3,900	627		
BAHRU STAINLESS, BDN. BHD	-231,359	-51,178	-23,831	-1,191	-150,222	-40,491	-20,118	10,922
COLUMBUS STAINLESS (PTY) LTD.	112,608	7,675	1,952	57,756	89,838	22,770	7,277	62,142
CORPORACIÓN ACERINOX PERU S.A.C	-111	-123			-139	28		
INOX RE, S.A.	28,898	1,991			26,874	2,024		
INOXCENTER CANARIAS S.A.U	1,564	125			1,447	117		
INOXCENTER, S.L.U	-12,753	2,667			-15,266	2,513		
INOXFIL S.A.	111	1,319	3	18	-1,029	1,140	3	15
INOXIDABLES DE EUSKADI S.A.U	4,070	246			3,524	544		
INOXPLATE - COMÉRCIO DE PRODUCTOS DE AÇO INOXIDÁVEL, UNIPESSOAL, LDA.	1,602	122			1,386	216		
METALINOX BILBAO S.A.U	13,486	539			17,730	755		
NORTH AMERICAN STAINLESS CANADA, INC	-1,691	6,555			17,070	7,512		
NORTH AMERICAN STAINLESS MEXICO S.A. DE C.V.	3,835	2,615			2,117	1,717		
NORTH AMERICAN STAINLESS FINANCIAL INVESTMENTS LTD.	-9,833	9,831			-12,390	12,388		
NORTH AMERICAN STAINLESS INC.	1,410,193	199,664			1,219,061	164,977		
ROLDAN S.A.	17,449	14,354	32	114	11,588	5,861	13	82
SUBTOTAL	1,563,921	237,086	-21,844	56,697	1,499,763	234,144	-12,825	73,161
ASSOCIATES								
BETINOKS PASLANMAZ ÇELIK A.S.					-264			
SUBTOTAL	0	0	0	0	-264	0	0	0
TOTAL	1,563,92	237,086	-21,844	56,697	1,499,499	234,144	-12,825	73,161

13.6 Adjustment for hyperinflation

Since 1 July 2018, Argentina has been declared a hyperinflationary economy by meeting the qualification requirements set out in NIC 29. The Acerinox Group has an entity in Argentina, which is dedicated solely to the commercialization of stainless steel in this country, so the amount of its assets, liabilities and its contribution to the Group's results are not significant. The Group has not re-expressed the comparative figures for the previous period since the impacts are not significant for the Group.

In any case, the financial statements of Acerinox Argentina related to 2018 have been expressed in terms of the current unit of measure at the closing date of the reporting period. The cost re-expressed of each non-monetary party of the financial statements, has been determined by applying the historical cost of such items and the accumulated depreciation, the variation of a general price index from the date of acquisition until the end of the period on which advises. The revaluation of non-monetary assets has amounted to 248 thousand euros.

In this year, which is the first period of application of this standard, the components of the owners ' patrimony, except the accumulated earnings and surplus of asset revaluation, have been re-expressed by applying a general price index to the different items, from the dates in which they were contributed, or from the moment they arose by any other route. Accumulated earnings re-expressed they are the result of the application of these indexes to the rest of the financial status amounts. The impact on reserves has reached 351 thousand euros, as reflected in the state of changes in equity.

All items in the global outcome state have also been expressed in the current currency unit at the end of the reporting period. All amounts have been re-expressed by applying a calculated index based on the variation experienced by the general price index, from the date when the expenses and income were collected in the financial statements. The amount recognised in the income statement for this concept amounts to 199 thousand euros.

13.7 Non-controlling interests

At the end of this year, two companies with non-controlling interests are Columbus Stainless, Ltd. (Columbus) 24% of which is held by the South African group IDC (Industrial Development Corporation) and Bahru Stainless Sdn. Bhd. (Bahru) whose minority interests have been reduced to 3% owned by Hanwa, Co. Ltd.

As explained in **note 5.2**, at the close of this financial year, Acerinox, S.A. acquired from Nisshin Steel Co, Ltd. its 30% stake in Bahru Stainless Sdn, Bhd. Since the purchase was made at year-end, the Group recognised the results corresponding to the 30% ownership interest up to the acquisition date as results attributed to non-controlling interests.

There are no rights to protect non-controlling interests that may restrict the entity's ability to access or use assets and to settle the entity's liabilities.

Neither of these companies distributed dividends in 2018 or 2017.

The detail of the main items in the financial statements of Columbus, which is the only Group company with significant non-controlling interests at year-end, is as follows:

Columbus

(Figures in thousands of euros)	2018	2017
Non-current assets	119,806	135,838
Current assets	278,140	388,060
Total Assets	397,946	523,898
Non current liabilities	26,597	31,269
Current liabilities	130,699	233,701
Total Liabilities	157,296	264,970
Income statement	**2018**	**2017**
Income from ordinary activities	831,677	906,283
Profit for the year	8,134	30,319
Cash flow	**2018**	**2017**
Cash flows from operation	-26,048	74,892
Investment cash flows	-13,841	-10,659
Financing cash flows	-176	-41,595
Total generated cash flows	-40,065	22,638

When Columbus Stainless was founded, Acerinox signed in December 2001 a Shareholder´s Agreement, with the three South African partners, Highveld Steel and Vanadium Corporation Ltd., Samancor Ltd. and IDC , which had a stake in it.

Clause 9 of the contract stipulated that, in the event of a change of control in Acerinox S.A., the contract would be terminated , by virtue of which a shareholder acquired shares of Acerinox S.A. that granted it a majority of votes in the Meeting or in the Board, the partners could exercise an option to sell their shareholding to Acerinox.

In the 17 years that have passed, two of the three partners who signed the agreement, Highveld and Samancor, have renounced the shareholding, and the third, IDC , a state entity to support industrial development in South Africa, has increased its participation from 12% to 24%, given its interest in supporting the creation of wealth, the maintenance of employment, and the consideration of Stainless Steel as a strategic sector for the country. It has recently declared itself to be its strategic, and long-term involvement.

It is for this reason that the exercise of this option, in the assumption of the mentioned hypothesis, is highly unlikely for the only minority shareholder of Columbus Stainless, since its permanence is not determined, as it was in the other shareholders, by the presence of Acerinox, but by the support to the national industry.

Bahru

The total assets of Bahru Stainless, Sdn. Bhd., its total assets at the end of 2017 amounted to 861 million euros, of which 617 million were non-current.

13.8 Distribution of profits

The distribution of earnings of the Parent Company, Acerinox, S.A. for 2018, as proposed by the Board of Directors, to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

	2018
Basis of allocation:	
Profit for the year	-125,599,654
Application:	
Prior years' losses	-125,599,654

At their General Meeting held on 10 May 2018, the shareholders agreed that the Parent Company's profit for 2017 should be distributed as follows:

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

13.9 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

(Figures in thousands of euros)	2018	2017
Profit attributable to the Group	237,086	234,144
Weighted average number of ordinary shares outstanding	276,067,543	276,067,543
Earnings per share (in Euros)	0,86	0,85

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

NOTE 14 DEFERRED INCOME

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

(Expressed in thousands of euros)	2018	2017
Balance at 1 January	6,947	7,798
Grants awarded	5,108	2,482
Application to results	-5,179	-3,333
Balance at 31 December	6,876	6,947

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

The breakdown of the aid received this year is detailed below:

(Expressed in thousands of euros)	2018	2017
R&D	147	16
Environment	2,552	183
Allocation of CO2 rights	1,945	1,570
Training	290	713
Other	174	
Total	5,108	2,482

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

NOTE 15 PROVISIONS AND CONTINGENCIES

Details of non-current provisions included in the balance sheets for 2018 and 2017 are as follows:

(Expressed in thousands of euros)

	2018	2017
Employee benefits	9,376	12,264
Other provisions	10,429	16,138
TOTAL	19,805	28,402

15.1 Employee benefits

15.1.1 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 8,099 thousand euros has been recognised for the year under “personnel expenses” in the consolidated income statement in respect of such plans (7,545 thousand euros in 2017).

15.1.2 Defined benefit plans

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

(Expressed in thousands of euros)

	2018	2017
Pension plans		2,701
Early retirement benefits	415	386
Supplements	725	686
Post-employment benefits	8,236	8,491
TOTAL	9,376	12,264

In relation to the amount recorded in 2017 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 had thus recorded an asset for the same amount. In this year, the Group netted the liability with the amount of the assets at fair value assigned to the plan, in the same way as for the other benefits, and as indicated in the accounting policies (**note 2.16**)

In addition, there are obligations under from certain retirement contractual covenants agreed with senior management in the amount of 11.5 million euros (9.9 million euros in 2017). These obligations were properly insured in both 2018 and 2017, and their estimated amount covered by cash flows arising from the insurance policies contracted. As a result, no liability in this connection is recognised.

The assumptions used in calculating the fair value are detailed below:

Mortality table	PERM / F2000 P
CPI	1.50%
Wage growth	1.50%
Social Security growth	1.50%
Retirement years	65 years
Accrual accounting method	Projected Unit Credit

ost-employment obligations reflect post-retirement medical care plans provided by Columbus Stainless to specified plan members. No new members have joined the plan. The Company performs actuarial valuations of the obligations every two years. The most recent valuation was performed in 2017. The assumptions used were: discount rate of 9,5% (9% according to the previous valuation performed in 2015) and 6,75% inflation of medical services (7% in the prior valuation). The opening balance for the period reconciles with the closing balance as follows:

(Figures in thousands of euros)

	2018	2017
Balance at 1 January	8,491	8,896
Contributions paid	-287	-311
Service cost recognised in the income statement	174	212
Interest cost	712	768
Actuarial loss recognised in comprehensive income		-865
Translation differences	-854	-209
Balance at 31 December	8,236	8,491

The discount rates applied are based on expected growth rates of health insurance. Any change in such fees may have an impact in the recognised obligations or in comprehensive income. An increase of one percentage point in the discount rate would increase the obligation by 1.6 million euros (1.2 in 2017). In contrast, a decrease of one percentage point in the discount rate would reduce the obligation by 1.1 million euros in both 2018 and 2017.

15.1.3 Share-based payment transactions

The Board of Directors of Acerinox, S.A. held on 22 March 2018 approved a multi-year remuneration plan, or long-term incentive plan (LTIP), which will allow the executive board member and senior managers of the Acerinox Group to receive part of their variable remuneration in shares in Acerinox, S.A. The target amount is 30-50% of their base salary, subject to a personal limit of 200% of the respective target. This plan was subsequently submitted to the Acerinox Shareholders' Meeting held on 10 May 2018, which approved the First Cycle of said Plan.

The now approved LTIP features three three-year cycles. The first cycle of the plan runs from 1 January 2018 through to 31 December 2020, the second from 1 January 2019 through to 31 December 2021 and the third from 1 January 2020 through to 31 December 2022.

Under the remuneration plan, employees receive shares o the parent company at the end of each cycle ("Performance Shares"). Delivery of the shares and the number to be delivered are conditional on certain vesting requirements, relating to the employee remaining in service and attaining certain individual corporate objectives. The Group presumes that the services are to be provided over the irrevocability or vesting period as consideration for the future delivery of the shares. Accordingly, the services rendered are reported on a straight line basis over the period in which the rights to receive those shares become irrevocable.

The Group measures the assets or services received, and the corresponding increase in equity, at fair value, on the date of the concession agreement for the equity instruments to be awarded. The Group uses the evaluation of an independent expert to do this, who uses an evaluation method accepted by standard market techniques

The associated expense accrued in this year was 613 thousand euros, with a balancing entry under Other equity instruments.

When calculating this theoretical number of shares, the shares of Acerinox, S.A. will be measured at their quoted price 30 trading days prior to the start of the plan. The resulting number of Performance Shares will be used as the basis for determining the effective number of shares in Acerinox, S.A. to be delivered (if any) on reaching the end of each cycle, depending on attainment with objectives and subject also to compliance with the requirements set out in the regulations governing each plan.

The number of shares to be delivered will be calculated by reference to the value of the Acerinox share at the start of the plan in question. Any subsequent increase or decrease in the value of those shares will be assumed by the employee.

A maximum of 185,303 shares will be delivered under the first cycle of the plan, representing 0.07% of the share capital of Acerinox, S.A. This number of shares is based on the initial value of the shares calculated in accordance with the regulations governing the LTIP and the maximum theoretical remuneration under the plan, as well as the number of beneficiaries at 1 January 2018 and the fact that the number of beneficiaries may increase in future if the Board of Directors increases the size of the senior management team.

15.2 Other provisions

Movement in 2018 is as follows:

(Expressed in thousands of euros)

	Litigation	CO2	Other provisions	Total
Balance at 31 December 2017	13,781	1,916	441	16,138
Charge to provision	619	1,846	2	2,467
Application		-1,906		-1,906
Reversal	-6,261			-6,261
Translation differences			-9	-9
Balance at 31 December 2018	8,139	1,856	434	10,429

CO2

These are provisions for CO2 emissions during the year for which the emission allowances have not yet been surrendered at the year-end (see **note 10.1**).

Applications for the year are mainly due to the derecognition of emission allowances for 2018, totalling 1,906 thousand euros (2,014 thousand euros in 2017) (see **note 10.1**).

Litigation

With regard to the tax-related lawsuits that have been ongoing between the Group and the tax authorities in Germany and Italy since 2011, due to transfer pricing adjustments imposed in both countries, which are explained in detail in note 18.5, the Group decided for 2017 to make a provision of 6,092 thousand euros for any amounts payable arising from the inspection in Germany and 7,195 thousand euros for adjustments arising from the inspection in Italy. In November 2017, the Group received notification from the Spanish and German authorities of the resolution through the mutual agreement procedure. After the agreement reached between the two countries, the transfer pricing adjustments initially imposed on the Group were reduced by 40%. However, the agreement only covered transactions between Spain and Germany and, therefore, in view of the uncertainty regarding the treatment that the German inspection would give to the adjustments derived from third countries for stainless steel purchases made by Acerinox Deutschland, GmbH, the Group decided to provide for the possible risk arising from these adjustments, as well as the tax rate differential between Spain and Germany due to the agreements finally reached by the Authorities of both countries. During the year, following the resolution of the mutual agreements and the agreements reached between Acerinox Deutschland Gmbh, the Group recognised all the impacts arising from the completion of the inspection and therefore reversed the provision. Note 18.5 details all the impacts recognised by the Group.

With respect to Italy, although negotiations between both countries (Spain and Italy) are yet to begin, the Group decided to treat this in the same way as Germany. Therefore, it made a provision for the maximum amounts that it could have to pay for adjustments originating from third countries (non-members of the European Union), and the difference in tax rates between both countries. This year, the Group re-evaluated this provision and decided to increase it by 620 thousand euros as a result of new assessments received corresponding to 2013, which are also explained in **note 18.5**.

Other provisions

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

15.3 Guarantees provided

At 31 December 2018 the Group has provided guarantees to third parties, mainly government bodies, totalling 23 million euros (20 million euros in 2017). This amount includes the guarantee provided to the Italian taxation authorities as a result of the assessments arising from the inspection for an amount of 1.8 million euros as explained in note 18.5. Group management does not expect any significant liabilities to arise from these guarantees.

15.4 Contingencies

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

NOTE 16 INCOME AND EXPENSES

16.1 Revenue

Details of revenue in 2018 and 2017 are as follows:

(Figures in thousands of euros)

	2018	2017
Sale of goods	5,005,612	4,622,304
Services rendered	5,165	4,551
Self-constructed assets	18,293	16,829
Operating lease income	663	585
Gains on disposal of fixed assets	560	2,218
Income from grants and subsidies	3,235	1,407
Income from emission allowances	1,944	1,926
Other income	6,206	8,297
TOTAL	5,041,678	4,658,117

The item “self-constructed assets” basically includes the capitalisation of expenses of the investments carried out in Acerinox Europa, S.A.U corresponding to the new rolling mill and the new annealing and pickling lines.

16.2 Personnel expenses

Details of personnel expenses in 2018 and 2017 are as follows:

(Expressed in thousands of euros)

	2018	2017
Salaries and wages	301,928	299,719
Social Security	72,522	70,891
Contributions to employee benefit plans	8,099	7,545
Termination benefits	770	686
Change in the provision for employee benefits	1,022	1,065
Other personnel expenses	11,587	11,797
TOTAL	395,928	391,703

The average headcount in 2018 and 2017, distributed by category, is as follows:

	2018	2017
University graduates	877	851
Administrative staff	902	900
Manual workers	5,159	5,180
TOTAL	6,938	6,931

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

		2018	2017
Board members	Male	12	11
	Female	3	4
Senior management personnel	Male	4	4
	Female		
University graduates	Male	633	620
	Female	247	242
Administrative staff	Male	485	496
	Female	417	410
Manual workers	Male	4,935	4,985
	Female	167	180
TOTAL		6,903	6,952

This figure includes 180 employees that have taken partial retirement (196 in 2017).

At 31 December 2018 the number of employees in Spain with a disability of at least 33% is 61 (57 male and 4 female), 58 in 2017 (54 male and 4 female).

All of the Spanish companies comply with the provisions of the General Law on the Rights and Social Integration of Disabled Persons.

16.3 Other operating expenses

Details are as follows:

(Figures in thousands of euros)

	2018	2017
Rentals	11,237	9,816
Trading costs	186,722	185,935
Utilities	225,695	220,873
Maintenance	66,566	68,730
External services	81,645	84,269
Insurance	15,403	14,176
Bank services	4,492	4,178
Other operating expenses	23,445	23,433
Taxes other than income tax	18,753	17,704
Change in current provisions	1,573	1,203
Losses on disposal of fixed assets	2,250	1,917
Other extraordinary expenses	1,156	2,465
TOTAL	638,937	634,699

NOTE 17 NET FINANCE COST

Details of the net finance costs are as follows:
(Figures in thousands of euros)

	2018	2017
Interest and other finance income	18,141	8,123
Income from dividends	118	160
Reversal of impairment of investments		3
Gains on disposal of investments in consolidated companies		593
TOTAL FINANCE INCOME	18,259	8,876
Interest expense and other finance costs	-33,677	-38,415
Loss on hedging instruments		
Loss on liquidation of investments in consolidated companies		
TOTAL FINANCE COSTS	-33,677	-38,415
Negative exchange losses	455	40,054
Profit/loss on remeasurement of financial instruments to fair value (exchange risk insurance)	12,878	-29,836
FINANCIAL NEGATIVE OF EXCHANGE LOSSES	13,333	10,218
NET FINANCE COST	-2,085	-19,321

Interest income includes mainly those arising from the Group's forward cash placements (note 12), as well as 2.205 thousand euros derived from tax refunds obtained in both Spain and Germany as a result of the mutual agreements reached between the two countries, which are explained below in **note 18.5**.

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

Lastly, income from translation differences arise in the Group's trade, financial operations and investments. The Group hedges with derivative financial instruments a majority of the transactions carried out in a currency other than the functional currency of a country. Using these instruments ensures that any fluctuation in exchange rates would be offset by a contrary change of the same amount in the derivative contracted. The differences between the two amounts are mainly due to the interest rate differentials between the currencies involved in the exchange risk insurance contracted.

NOTE 18 TAXATION

18.1 Legislative amendments

Tax reform in the United States

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

The impact in 2018 of the reduction in the federal tax rate from 35% applicable until 2017 to the current 21% was 23,241 thousand euros (27,425 thousand USD).

The impact of this reduction in the tax rate on deferred tax liabilities was recognised in 2017 as detailed in last year's annual accounts and is set out in the following table:

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

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

- 69,107 thousand euros (78,098 USD) corresponded to the reduction in deferred tax liabilities arising mainly from the different tax and accounting treatment of amortisation and depreciation of assets.

- A negative amount of 1,671 thousand euros (-1,888 USD) corresponded to the reduction in deferred tax assets arising from temporary differences for provisions that are not tax-deductible. The company also made a provision of 1,695 thousand euros (-1,916 thousand USD) for the tax on undistributed accumulated income of investees.

At the same time, the reform includes a number of other measures. The impact on the Group, after calculating its effects on income tax in 2018, is as follows:

- "Bonus depreciation": allows a tax deduction of 100% of the value of qualifying assets, put into operation between 27 September 2017 and 1 January 2023, whose useful life is equal to or less than 20 years. NAS has applied reduction of 25 million USD (equivalent to 21,834 thousand euros) has been applied to the tax base, resulting in a tax reduction of 5.25 million USD (4,585 thousand euros). This deduction leads to a temporary difference liability and reduces the tax payable in the United States, but does not affect the Group's earnings.

- "Global intangible low-taxed income" (GILTI): This is an expansion of the international tax transparency regime in the United States of a percentage of the income obtained from the exploitation of intangible assets through subsidiary companies located in third countries. The impact on the Group of this measure has not been significant (38 thousand USD, equivalent to 32 thousand euros).

- "Foreign derived intangible income" (FDII): this introduces a new preferential regime (foreign-derived intangible income) on earnings from the exploitation of American intangible assets abroad. This preferential arrangement consists of a 37.5% reduction in export earnings. Carried out by North American Stainless Financial Investments Ltd. The deduction applied in 2018 by North American Stainless was 8.6 million USD (7,288 thousand euros), which meant a reduction in tax expense of 1.8 million USD (1,525 thousand euros).

- "Deemed repatriation toll charge": 100% exemption has been introduced for the investee companies of American companies, in exchange for an additional, mandatory toll charge. This charge is calculated according to the cumulative earnings in the American company's investee companies since 1986. The tax rate applicable ranges from 8% to 15.5%, payable in 8 years. The applicable rate depends on whether or not the reserves are in the form of liquid assets. The company North American Stainless made a provision of 1,695 thousand euros for an amount payable in 8 years, for its accumulated reserves in the investee company in Canada. In exchange, this year the North American Stainless Company was able to distribute a dividend of 31 million USD from its subsidiary in Canada without having to pay tax in the United States.

- "Base erosion anti-abuse tax" (BEAT): this is a minimum tax of 5% on payments made to foreign affiliates (excluding payments for purchases), provided that they exceed 3% of total operating expenses. In the case of the Group, the payments currently being made by the American company to the rest of the Group's companies do not exceed the set limits so this measure has had no impact on the Group.

- In addition, the deduction established for American manufacturing companies ("section 199 - domestic manufacturing deduction"), which NAS has thus far been applying, has been eliminated by the tax reform. Despite the negative effect that this could have, it is clearly offset by the effect of the reduction in the tax rate.

Other measures introduced, but which have no impact on the Group are:

- Offsetting of tax loss carryforwards: it will be possible to offset these with 80% of the income generated in future years. This eliminates the time limit and the possibility of offsetting with profits from previous years. This measure has no impact on the Group as it does not have any tax loss carryforwards yet to be offset.

- Limitation of interest expense deductibility: all interest may be deducted up to a limit of 30% of EBITDA+financial income. Any interest not deducted in a year may be used in future years, without any time limit. This limit will be 30% of EBIT from 2022. This measure has no impact on the Group as the American company has no external financing.

In addition, in 2018, a modification has been approved for the state tax of Kentucky, the state in which one of the Group's main subsidiaries, North American Stainless, is located. The main change is a lower tax rate of 5% (down from 6%) and the change made to the factor used to determine the tax base attributable to the State. This measure has led to an additional reduction in deferred tax liabilities and deferred tax assets, which has led to an income of 3,769 thousand euros in this year's tax, but at the same time, it has led to a reduction in the tax credits capitalised by North American Stainless derived from the tax credits established in this state and explained in section 18.3.2 of this note. The impact of this credit reduction amounted to 8,683 thousand euros.

Spain

A number of changes were approved in this year in relation to local corporate income tax law for the regions of Álava, Vizcaya and Guipúzcoa. The main changes affecting the Group are a reduction in the tax rate from 28% (hitherto in effect) to 26% applicable in 2018 and then 24% starting 2019. The Group has recognised in this year the impact the rate reduction will have on its deferred tax assets and liabilities. Since the Group companies based on those regions have capitalised tax credits, the change has had a negative impact on their earnings. The Group has recognised an associated expense of Euro 497 thousand. Further developments include restrictions on the recovery of prior years' tax losses, which are now limited to 50% of the positive tax base generated in the year, while extending the recovery period to 30 years. Despite this limitation, the Group is confident that it will continue to recover prior years' tax losses within a period of 10 years.

There have been no significant tax changes in 2017 in Spain that alter the Group's tax burden.

Legislative amendments in other countries

In 2018 and 2017, the following tax rates applicable to certain Group companies were amended pursuant to local legislation:

- Malaysia: for tax years beginning on or after 1 January 2019, the main amendment adopted is the time limit on the application of tax loss carryforwards. This limitation is established for a period of 7 years from 1 January 2019. The limitation does not apply to investment tax deductions or to non-applied temporary differences arising from different accounting and tax depreciation criteria. However, the Group has 294 million euros of unrecovered tax losses in that country, the associated tax credits are not capitalised and, therefore, the Group has not had to recognise any impairment arising from this limitation. On the other hand, the company Bahru Stainless has tax aid for investments made in the country during 2009-2014 amounting to 1,806 million Malaysian ringgits (381 million euros) that can continue to be applied indefinitely and also non utilised capital allowances for an amount of 371 million euros.

- France: A progressive reduction of taxes has been approved for fiscal years beginning on or after 1 January 2018. The general rate applicable until this year was 33.33%. The reform establishes that for tax benefits not exceeding 500,000 euros (after deduction of tax losses) the applicable rate will be 28% in 2018 (33.33% for the excess), 31% in 2019, 28% for all results generated in 2020, 26.5% in 2021 and 25% from 2022. The Group has known tax credits in this country and has updated them in accordance with the new rates. The negative impact recognised in the income statement for this year amounted to 1,207 thousand euros.

- Sweden: A reduction in the applicable tax rate from the current 22% to 21.4% by 2019 and 20.6% from 2020 has been approved. The Group has known tax credits in this country and has updated them in accordance with the new rates. The negative impact recognised in the income statement for this year amounted to 255 thousand euros.

As far as 2017 is concerned:

- Luxembourg. The tax rate was reduced from 29.22% to 26.01%. This rate reduction led to revenues of 1.2 million euros for the Group in that year, as the entity owned by the Group in this country has liabilities of 10 million euros from temporary differences.

18.2 Income tax expense

Details of the income tax expense are as follows:

(Figures in thousands of euros)

	2018	2017
Current tax	71,959	103,846
Deferred tax	17,750	-31,714
Total income tax	89,709	72,132

Under heading "other taxes" of the income statement there are recognised withholding taxes at source either from interests paid to Group companies and also from dividends. In 2018 the Parent Company received dividends from some of its foreign subsidiaries amounting to 17.2 million euros (13.5 million euros in 2017). Under the corresponding double taxation conventions, some of these dividends were subject to withholdings at source amounting to 1,174 thousand euros (1,351 thousand euros in 2017). At the same time, this heading includes other withholdings at source made mainly in the payment of interest to Group companies, which are deductible on the income tax as a result of the application of the double taxation conventions and reduce the income tax expense.

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

(Figures in thousands of euros)

	2018		2017	
Net profit for the year		237,086		234,144
Non-controlling interests		-21,844		-12,825
Income tax		89,709		72,132
Other taxes		5,059		5,180
Profit (loss) before tax		310,010		298,631
Income tax at the local tax rate	25%	77,503	25%	74,658
Effects on tax payable:				
Effect of tax rates of foreign operations		-2,865		23,672
Non-deductible expenses		3,603		4,189
Tax incentives not recognised in the income statement		-8,330		-11,763
Non-taxable income		-159		-539
Prior year adjustments		-1,099		-378
Adjustment of tax rates, deferred taxes		6,862		-66,445
Provision of litigation, assessments and tax agreements		-1,334		13,287
Unrecognised tax credits and impairment		16,894		9,889
Recognition of deferred taxes for investments in subsidiaries		-963		26,695
Other		-403		-1,133
Total income tax		89,709		72,132

The tax incentives not recognised in the income statement relate to tax credits for R&D&I activities and tax credits for the elimination of double taxation. In 2017, the deduction established for U.S. manufacturing companies ("Section 199 deduction") was also included.

The Group's tax expense has been affected by some extraordinary factors, although to a lesser extent than in 2017. Deferred tax assets and liabilities were adjusted this year to bring them into line with the new applicable tax rates, as explained in **note 18.1**. The combined impact of these adjustments has led to higher expenditure of 6.8 million euros. At the same time, the impact of the agreements reached as a result of the tax inspections completed during the year were recognised, which together amounted to 1.3 million euros in income tax. The details of these settings are explained in **note 18.5**.

With regard to 2017, there has been a positive impact from the tax adjustment for its deferred tax assets and liabilities in the United States as a result of the tax reform in that country, totalling 67.4 million euros. At the same time, the Group recognised provisions of 13.3 million euros as a result of tax assessments, as detailed in note 15.2. Finally, as explained in the section on deferred tax liabilities (note 18.3.1), the Group recognised a liability for the repatriation of reserves from its subsidiaries, totalling 26.7 million euros (1.7 million euros for the charge imposed in the United States for the non-distributed reserves of the American company's subsidiaries. (See **note 18.1**) and 25 million are explained in **note 18.3.1**). Without these effects, the tax rate for this year would have been 35%.

18.3 Deferred tax

Movement in deferred tax assets and liabilities is as follows:
(Expressed in thousands of euros)

	2018		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Balance at 1 January	170,602	174,401	178,774	228,275
Expense/income for the period	-32,897	-15,147	-19,757	-51,471
Taxes recognised directly in equity	1,025	-866	-5,822	564
Exchange rate fluctuations	-71	3,150	71	-20,131
Transfers	3,287	3,287	17,338	17,338
Other changes		52	-2	-174
Balance at 31 December	141,946	164,877	170,602	174,401

The origin of deferred tax assets and liabilities is as follows:
(Expressed in thousands of euros)

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Goodwill			-10,388	-9,379	-10,388	-9,379
Property, plant and equipment	3,872	4,710	-141,532	-150,320	-137,660	-145,610
Financial assets	2,822	1,778	-7,130	-10,987	-4,308	-9,209
Investments in subsidiaries			-25,572	-26,470	-25,572	
Inventories	2,672	4,735	-763	-1,062	1,909	3,673
Other assets	548	5		-549	548	-544
Provisions	7,195	7,084	-652	-208	6,543	6,876
Employee benefit plans	5,227	4,844		4	5,227	4,848
Financial liabilities	134	184	-224	-308	-90	-124
Other liabilities			-11,094	-10,369	-11,094	-10,369
Non-deductible finance costs	15,114	21,139			15,114	21,139
Other tax deductions	13,304	24,877			13,304	24,877
Unused tax losses	123,536	136,493			123,536	136,493
Deferred tax assets/liabilities	174,424	205,849	-197,355	-209,648	-22,931	22,671
Offsetting of deferred tax assets and liabilities	-32,478	-35,247	32,478	35,247		
Deferred tax assets/liabilities	141,946	170,602	-164,877	-174,401	-22,931	22,671

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

As laid down in the income tax measurement criteria (note 2.18), the Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to do so, the assets and liabilities correspond to the same taxation authority and it plans to realise current tax assets or settle current tax liabilities on a net basis. The compensation of 32 million euros shown in the table above (35 million in 2017) corresponds mainly to the compensation of deferred tax liabilities of the Spanish consolidated tax of 20.6 million euros (24 million in 2017), as well as temporary differences of assets of the companies North American Stainless for 4.8 million euros (5.7 million in 2017) and Columbus Stainless 4 million euros (4.4 million euros).

18.3.1 Deferred tax liabilities

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

With respect to the liability recorded as investments in subsidiaries, certain companies in the Consolidated Group have reserves that could be subject to tax if distributed, since there are withholdings at source in certain legislation affecting the payment of dividends. The Group recognises the tax effect in this connection only when it considers that the distribution of these reserves in the form of dividends will be necessary in the foreseeable future, which will mean the reversal of the temporary difference. That is, when the parent entity has estimated that such gains will not be distributed in the foreseeable future, and therefore does not estimate that the temporary difference will reverse in the foreseeable future, it does not recognise a deferred tax liability.

Until 2017, Acerinox S.A., as the parent company of the Acerinox Group, did not consider it necessary to repatriate the reserves of its subsidiaries since it had sufficient reserves to meet dividend payments to its shareholders.

The Group has a shareholder dividend policy whereby the dividends are approved every year at the shareholders' general meeting, not subject to any criteria whereby a percentage of net benefit is distributed ("pay out"). The criteria adopted by Acerinox has always been to set remuneration levels in euros per share. This criterion has always been followed, even in years when losses were made. In the last twelve years, shareholder remuneration has remained at 0.45 euros per share, although during the 2013-2016 period, those shareholders who so requested were able to avail themselves of a "scrip dividend", receiving shares with an equivalent value from Acerinox. In addition, during the year, as explained in **note 13.1**, the Board of Directors of Acerinox, S.A. decided to propose to the next Ordinary General Meeting of the Company an 11% increase in shareholder remuneration by increasing the dividend per share from 0.45 to 0.50 euros.

An analysis of the holding company's financial position shows that in 2017, having distributed dividends over the last six years and charged them to reserves, it would be able to cover a repatriation of reserves from its subsidiaries for an amount of 250 million euros. This repatriation of reserves, combined with the holding's existing reserves, ensures that it can continue to cover share dividends for the next five years.

Although the Group does not have a policy of distributing dividends from subsidiaries to the parent company, every year the Group analyses the net worth of all its subsidiaries, also taking into account existing taxes, in order to determine the advisability of repatriation of dividends or reserves. As far as possible, the Group seeks to avoid the additional tax burden that may result from the distribution of dividends from countries outside the European Union. The amount of accumulated reserves in countries where there is no tax on their distribution is 345 million, most of it corresponding to Acerinox Europe, whose current investment and operational needs make their distribution unfeasible.

At year-end, the only two companies with distributable reserves, whose distribution in the form of dividends could be subject to withholding, are North American Stainless and Columbus Stainless. The double taxation agreement between the United States and Spain establishes a withholding tax on distributed dividends of 10%, while the agreement between South Africa and Spain establishes a withholding tax of 5%.

In the case of Columbus, where Acerinox's stake is 76%, the amount of distributable reserves amounts to 81 million euros, but given its equity situation and the liquidity necessary to cover its operating and investment needs, it does not seem reasonable to believe that these profits will be distributed in the foreseeable future.

As far as the North American Stainless company is concerned, it has accumulated reserves of 1724 million euros. However, it does not consider that repatriation is necessary beyond the estimated 250 million and the Group therefore recognised a deferred tax liability of 25 million euros in 2017. This year the estimated amount has been re-evaluated, considering it appropriate to maintain it since, in view of the forecasts made over five years, the Group considers that any need beyond this time period analysed, can be covered by the results that the subsidiaries generate in the future. It does not seem likely that, beyond the current five-year period, it will be necessary to repatriate additional reserves from North American Stainless, so preferably, for the purpose of financial and tax optimisation, the Group will also try to cover its needs through dividends from subsidiaries that do not entail any additional tax burden.

18.3.2 Deferred tax assets

At 31 December 2018 and 2017, the Group has unused tax credits from tax losses available as follows:

(Figures in thousands of euros)

	2018	2017
1 to 5 years	252	387
6 to 10 years		
11 to 20 years		3,688
21 to 30 years	2,962	
No prescription date	120,322	132,418
TOTAL	123,536	136,493

The distribution by country of these capitalised tax credits is detailed below:

(Figures in thousands of euros)

	2018	2017
Spain	106,363	106,546
Germany		10,006
France	3,443	4,952
Italy	8,293	8,564
Sweden	3,751	4,428
Other	1,686	1,997
TOTAL	123,536	136,493

With regard to the tax credits available in Spain, the Group estimates that 3.3 million euros will be used this year, although the mutual agreements reached between Spain and Germany, which are explained in the **note 18.5**, have led to an increase in tax credits in Spain of 3.6 million euros. Additionally, as explained in **note 18.1**, changes in local tax laws, have led to a reduction of capitalised tax credits amounting to 0.5 million euros.

The tax credit reduction in Germany it's also a consequence of the Mutual Agreement Procedures reached between Germany and Spain.

The Group also has uncapitalised tax credits totalling 74,764 thousand euros in respect of certain Group companies' tax losses of euros 319 million (uncapitalised tax credits of 66,429 thousand euros in 2017 equivalent to losses of 284 million euros), which have not been recognised as they did not meet the necessary criteria. From this amount, 70,507 thousand euros have had a recovery period of 7 years, due to the tax reform approved in Malaysia and detailed in note 18.1. The rest have an unlimited recovery period.

The Group has assets for unrecognised temporary differences as a result of untaxed accounting impairment losses of 48.3 million euros (9.4 million euros the previous year), due to the recording of the impairment loss on the investment of Acerinox, S.A. in Bahu amounting to 155 million euros, which is explained in **note 5.4** of these annual accounts.

On 22 June 2015, the Group company Bahru Stainless received confirmation from the Malaysian Ministry of Economy of approval of fiscal aid in respect of investments made in the country from 2009 to 2014. This aid consists of income tax deductions for an amount equal to the investments made in certain items of property, plant and equipment, which amount to 1,806 million Malaysian ringgits (381 million euros). As with tax credits relating to tax loss carryforward, the Group has not recorded a deferred tax asset as it cannot yet estimate their recoverability. Additionally, the Company has non utilised deferred tax liabilities available, due to the different tax and accounting depreciation criteria (capital allowances), for an amount of 371 million euros. These temporary differences have an unlimited utilisation period. Both aids will allow Bahru, not to pay taxes, once it generates tax profits, even considering the limitation introduced to compensate tax losses.

The Group company North American Stainless also has tax credits for investments in assets that contribute to recycling. These credits are deducted from the calculation of the Kentucky state tax and amounted to 511 million euros at the year end. During 2017, the Group obtained further tax credits of 50.8 million as a result of the new investments made in 2017, many of which qualified for tax relief. Of all the tax credits, 13.5 million euros expire in 2020, 20.8 million euros expire in 2028 and the rest are unlimited. Application of these credits is limited to 50% of the tax payable in the state of Kentucky, or an amount of USD 2.5 million/year. The Group only recognises a deferred tax asset for investment tax credits that expire and relate to a specific credit programme approved in 2005 by the state of Kentucky (Major Credits Program).

Given the limits established for their application, a portion of the deferred tax assets from investments which the Group had capitalised at 31 December 2016 (15 million euros) and which corresponded to those maturing in 2020, in view of the limitations established for their application, an amount of 5.2 million euros was irrecoverable at that date and, therefore, the Group recognised this amount against reserves.

With the estimates made at the close of 2017 to 10 years, the Group estimated that it could use an amount of 15.8 million euros and therefore recognised an asset for the difference. In 2018, following the approval of the Kentucky state tax reform and the reduction in the state tax rates, the amounts payable are reduced, which has forced the Group to re-estimate the recoverable amounts until 2028. The Group considers that of the 15.8 million USD it had capitalised at the end of 2017, only 5 will be recoverable and, therefore, it recognised an amount of 10 million USD (9 million euros) against profit for the year.

18.3.3 Analysis of the recoverability of deferred tax assets

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

During the year the Group has continued to recover part of the capitalised tax credits and has not increased their amount in any of its subsidiaries.

In the preparation of budgets, the Group takes into account the financial and macroeconomic circumstances and those of the stainless steel market itself, adapted to the operating environment of each entity. Parameters such as expected growth, use of installed production capacity, prices, etc. are therefore projected considering historical figures, particularly the last year closed, as well as targets set by management. Key assumptions such as exchange rates and raw material prices are extrapolated using highly conservative criteria, referring at all times to the most recent market values at the time of the analysis.

The key hypotheses of the budgets are based on the recovery of the markets, especially the European one that has suffered a decrease of prices and increase of imports without precedents in the last half of the year 2018, due to the announcement (July 18) on the part of the European Commission of the provisional safeguard measures and the consequent called effect and acceleration of imports, which have reached 30%, being the historical maximum of market share.

In this context, the factors that have influenced sales prices have not been marked by the fluctuations of raw materials and their consequent effect of cyclicity on apparent consumption, but by the consequences of tariff barriers in different markets, which have affected the import flows in different markets, mainly in Europe, as we have said. However, a normalization of the supply-demand balance is expected due to the reaction adopted by the European Union.

The entry into force, on February 2, 2019, of the definitive safeguard measures (tariffs of 25%, according to quotas by importing countries, until June 2021) imposed by the European Commission, in response to the recently imposed US tariffs (Section 232), already from the beginning, suppose a correction of several percentage points on the level of imports.

Regarding the growth of the apparent consumption of stainless steels, according to the estimates of the ISSF (International Stainless Steel Forum), in their last revision of October 2018, they continue to be positive for the year 2019: Europe and Africa, +1.7 %, America + 3.6%, China + 6.4%, rest of Asia + 5.3% and the world + 5.0%.

With all these considerations, the estimates made for future years maintain operating margins with a positive trend, in line with those budgeted in the 2017 estimates and following the evolution of the global market for stainless steels, which, in 2018, continues to consolidate its historical growth rate with 5.9% in the period 1950-2018.

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

On the basis of these estimates, sensitivity analyses are performed to determine the risk that a change in the assumptions may determine a need to impair part of these assets for deferred taxes.

With regard to the capitalised credits of the Spanish consolidated tax and which account for 84% of the capitalised tax credits of the Group, it is estimated that the projected results would have to worsen by more than 8% (7% over the 2017 budgets) in order for the recovery period to increase to 11 years. In addition, the estimation would have to be reduced by 18% (16% with budgets prepared in 2017) for the recovery period to increase to 12 years. The Group has also taken into account the possible impact in Spain of the increase in the tax losses pending application as a result of the mutual agreements reached as a result of the inspections opened in Italy, since those arising from the inspections in Germany have already been incorporated into the Spanish tax group since the results of the agreements reached have been notified by the Spanish tax authorities (both explained in **note 18.5**).

The Spanish consolidated tax group comprises Acerinox, S.A., Acerinox Europa, S.A.U., Roldan, S.A., Inoxfil, S.A., Inoxcenter, S.L.U. and Inoxcenter Canarias, S.A.U.

On regard to the Spanish companies not included in the tax consolidation scope which have tax credits of 3 million euros, and despite the limitations introduced by the new provincial laws approved, the Group has estimated its recoverability: In accordance with the 10-year budgets prepared for these companies the Group considers it is still probable that they will be recovered with future tax benefits in a reasonable period of less than 10 years.

Regarding Italy, while the Group considers that based on the 10-year budgets the recovery of the capitalised tax credits is possible, it is still uncertain the result of the mutual agreements to be reached between Spain and Italy, which will determine the amounts to be recovered in each country.

The Group has analysed the recoverability of other capitalised tax credits and reached conclusion that all are recoverable in a reasonable period of less than 10 years.

18.4 Current tax

At 31 December 2018 the Group has a current tax asset of 19,093 thousand euros (20,717 thousand euros in 2017) and a current tax liability of 23,576 thousand euros (21,212 thousand euros in 2017).

18.5 Tax inspections and years open to inspection

18.5.1 Tax inspection

Developments in 2018

- The most significant advance during this fiscal year was the finalisation of the mutual agreements between Spain and Germany, which enable the complete elimination of double taxation between the two countries. An agreement was also finalised between the Acerinox Deutschland, Gmbh Group entity and the German tax authorities, which allows the adjustments arising from transactions with related entities from other countries to be reduced under the same conditions as those of the agreements reached with Spain. The Group has recognised in this period the impacts arising from the agreements that caused a tax receivable in Spain of 3.8 million plus 1.4 in interest. The Group has also recognised a total of Euro 3.7 million in tax credits recoverable in Spain. All these amounts has been recognised as income in this year. In Germany, the tax credits that were capitalised for 10 million euros were eliminated; 0.3 million euros was reversed from receivables, recorded for amounts previously paid; and the tax provision provided in the previous year was reversed, which amounted to 6 million euros. The net impact of all these adjustments has been a positive result of 4.6 million euros, of which 2.3 million euros appear as financial income.

In this period, in addition, the Bilateral Advanced Pricing Agreement between Spain and Germany was signed, covering the period from 2013 to 2021 and providing all the security to the Group in relation to the transfer pricing policy to be applied to the transactions of purchase and sale between the Spanish factories and the German subsidiary, thus eliminating the risks for transfer prices with this country.

- In the case of Portugal, the Portuguese tax authorities have paid a total of 678 thousand euros, which includes the outstanding principal plus interest. Since the Group had already recognised the amounts to be recovered, the payment has had no significant impact on the accounts.

- In Italy, new assessments have been received for the financial year 2013 from which adjustments amounting to 3 million euros and a payable amount of 1 million euros are derived.

The Group has followed the same procedures as in the past: the corresponding appeals have been lodged in Italy, the suspension of the debt has been requested and the requests for the elimination of double taxation have been submitted in both Spain and Italy. In addition, in December 2018, the request for the elimination of double taxation with South Africa was presented in Italy for the procedures opened for the years 2011 to 2013.

This year the amount of the provision has been re-estimated and as a result of the last minutes received it has been necessary to increase it by 620 thousand euros. The provision therefore amounts to 7.8 million euros.

- In Spain, it has been notified the commencement of verification and investigation inspections in the companies Acerinox, S.A, Acerinox Europa, Inoxcenter and Roldan. Tax audit is currently in progress.

The situation with regard to each of the tax inspections that are underway or which have concluded but are being disputed and appealed against at the end of 2018 is detailed below:

Spain

On 17 October 2018 it has been notified of the commencement of verification and investigation inspections in the companies Acerinox, S.A, Acerinox Europa, Inoxcenter and Roldan of the following taxes and periods:

Income tax	2013 to 2016
Value added tax	10/2014 to 12/2016
Personal income tax	10/2014 to 12/2016
Withholdings on account taxation for non-residents	10/2014 to 12/2016

So far all the required information has been submitted.

On 26 July of 2017, notification was received of the start of customs-related inspection proceedings (VAT import duties) in relation to 2015. On 3 November the assessment was approved and signed without any adjustments, bringing the procedure to an end.

On 7 January 2016, the Economic-Administrative Tribunal issued a ruling upholding in full the submissions filed by Acerinox, S.A. against the assessment decisions arising from the inspection of rights, anti-dumping and VAT for 2009, 2010 and 2011. On 27 April of the same year, agreements to enforce the rulings were received for the amounts of 925 thousand euros in respect of anti-dumping, which had previously been guaranteed, 649 thousand euros for VAT on imports (which had been deducted by Acerinox at the time) and 41 thousand euros in respect of payable external tariffs. The Company filed an appeal against the assessment decisions, contesting the interest calculation. 61 thousand euros relating to guarantee expenses were also recovered. On 26 September 2018 we are notified of the payment of 10 thousand euros of additional interest, which ends the procedure.

Portugal

In the year 2011, tax inspections were conducted in the Group company Acerol Ltda., in Portugal, on taxes for the years 2007 and 2008. They resulted in a transfer pricing adjustment for sale and purchase transactions between the company Acerol, Ltda and Group companies, primarily Acerinox, S.A. and Roldán, S.A in Spain. The adjustment to taxable income amounted to 10 million euros. However, as the subsidiary had tax losses of 6.7 million euros pending offset, the amount paid totalled 708 thousand euros. On 31 July 2012 an application was submitted to the Directorate-General for Taxation through the European Arbitration Convention based on Convention 90/436/EEC of 23 July 1990. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union.

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

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

On June 2017, the Spanish Tax Agency executed the Mutual Agreement Procedure (MAP) reached by which the Group recovered in Spain the amounts provided for, plus 254 thousand euros of interest, which were recognised as income in the year.

In 2018, the Portuguese tax authorities have paid a total of 678 thousand euros, which includes the outstanding principal plus interest. Since the Group had already recognised the amounts to be recovered, the payment has had no significant impact on the accounts.

Germany

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

The amount payable in Germany, as a result of the assessments, was 2,804 thousand euros for income tax plus the solidarity surcharge and 489 thousand euros in interest. All negative tax loss carryforwards yet to be offset were also eliminated. These amounts were paid in 2014. Subsequently, since the adjustments arising from the assessments eliminated all existing tax loss carryforwards, the authorities have claimed taxes on the results generated in all subsequent years. The total amounts paid amount to 8.8 million euros which were recognised in Germany as accounts receivable as they were considered likely to be recovered following the request for elimination of double taxation.

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

On 5 October 2017, we were informed of the finalisation of the mutual agreement procedure and the agreements reached for the years 2007-2010. These agreements entailed a 40% reduction in adjustments relating to transactions between Spain and the German subsidiary. The tax recovered in Spain this year, as a consequence of the agreements, has amounted to 3.8 million euros, plus 1.4 million euros in interest, all of which has been recognised as income. The Group has also recognised a total of Euro 3.7 million in tax credits recoverable in Spain. With regard to Germany, the agreements reached with Spain have been executed, but without extending the same criteria to transactions with third countries, which entails a recovery in Germany of 6.4 million euros, previously recognised as an account receivable, and the elimination of all the tax losses pending recovery for which tax credits amounting to 10 million euros had been capitalised.

In a meeting with the German tax authorities on 10 December, it was agreed to transfer the agreements reached with Spain in the MAP to transactions with third countries, leading to an additional reduction in adjustments of 1.6 million euro in Germany. The Group estimates that it will recover an additional 2 million euros after these agreements.

The execution of the last agreements reached is pending, although the Group has already acknowledged all the impacts, as explained under note of developments in 2018.

On the other hand, on 29 November 2016, notification was given of the commencement of tax inspections for the years 2011-2014. The authorities decided to postpone their proceedings on transfer prices until the proposed mutual agreement has been settled. Following the meeting held in December, it is agreed to close these exercises without making any additional adjustments.

A bilateral pricing agreement has also been signed this year between Spain and Germany, covering the period running from 2013 to 2021. If offers the Group complete security in relation to the transfer price policy it is to apply to purchase and sale transactions between the Spanish factories and the German subsidiary, thus eliminating transfer price risks with Germany. Under this agreement, the Grupo has had to present additional tax returns in Spain for 2013 to 2016, in which it has increased its tax bases by Euro 1.2 million. These adjustments have generated an additional Euro 124 thousand payable in taxes. Meanwhile, the German authorities have made the same adjustment, but this time to lower the tax bases declared in the country. As a result, a total of Euro 498 thousand in taxes has been repaid in Germany.

Italy

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

Between 2012 and 2014 the assessment notices for the three years were received, primarily indicating transfer pricing adjustments in relation to sale and purchase transactions between the Company and the Group's factories. The resulting payable tax amounted to 16 million euros, plus 3.5 million euros in interest. No penalties were imposed.

There have been the following developments in relation to the assessments: The company challenged these assessments in appeals filed by the respective deadlines before the provincial tax commission of Milan, in which it was also requested that stays be placed on the tax debt until completion of the proceedings. These stays were accepted by the Italian authorities, subject to the pledging of bank guarantees for an initial amount of 7.9 million euros. Furthermore, on 9 December 2013 an application was submitted to the Spanish authorities requesting the elimination of double taxation based on Convention 90/436/EEC of 23 July 1990. This Convention guarantees the elimination of double taxation due to transfer pricing adjustments within the European Union. Following negotiations between the Spanish and Italian taxation authorities, or an arbitrator's ruling if necessary, this initial adjustment, or whichever adjustment is agreed, will therefore be offset by a counter-adjustment in the other member state. The Spanish Directorate-General for Taxation and the Italian authorities have confirmed their acceptance of the initiation of the procedure. The initiation of the mutual agreement procedure allows the taxpayer to reduce the bank guarantees provided. The Group has reduced the guaranteed amounts to 1.3 million euros.

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

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

Likewise, in November 2017, with no prior notification of the commencement of tax inspections, the company Acerinox Italia received a further assessment of transfer prices relating to 2012, giving rise to adjustments to the tax base of 4.9 million euros and an amount payable of 1.6 million euros, plus interest. Also in this year new assessments have been received for the financial year 2013 from which adjustments amounting to 3 million euros and a payable amount of 1 million euros are derived.

The Group has followed the same procedures as in the past: the corresponding appeals have been lodged in Italy, the suspension of the debt has been requested and the requests for the elimination of double taxation have been submitted in both Spain and Italy. In addition, in December 2018, the request for the elimination of double taxation with South Africa was presented in Italy for the procedures opened for the years 2011 to 2013.

In view of the agreements reached concerning Germany, the Group, based also on the opinion of the independent experts who advise it in these proceedings, considers it probable that after the negotiation of the agreements, there will be some amount to be regularised by Italian taxation authorities to adjust certain amounts, mainly resulting from tax rate differences between both countries and the transfer pricing adjustments originating from transactions made in third countries. The Group therefore considered it necessary to provide for an amount of 7 million euros, corresponding to the maximum risk resulting from the proposed adjustments and relating to the financial years 2007 to 2012. This year the amount of the provision has been re-estimated and as a result of the last minutes received it has been necessary to increase it by 620 thousand euros. The provision therefore amounts to 7.8 million euros.

The Group is awaiting the start of negotiations between the Italian and Spanish authorities, which will eventually enable the Group to eliminate the double taxation deriving from the transfer price proceedings for 2007 through to 2013.

Poland

On 2 December 2016 notification was received of the commencement of tax inspections at the Acerinox Group company Polska Sp. Zoo for income tax for 2015. The corporate income tax inspection was completed this year without any significant adjustments for the Group. The company is required to pay additional tax of Euro 90 thousand this year, plus Euro 16 thousand in interest.

Malaysia

On 24 and 28 December 2014, notice was received of the start of a tax inspection of the Group company Bahru Stainless Sdn. Bhd. for the years 2010 and 2011. Subsequently, on 4 March 2015, notification was received that the inspection was to be extended to 2012 and 2013. All requested information has been submitted to date. On 23 February 2017, notification was received of the resumption of the tax inspections, but for the years 2010-2014, without there having been any request for additional information since then.

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

South Africa

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

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

France

On 29 November 2016 the Group company Acerinox France, S.A.S was notified of the commencement of a verification of the tax returns for 2014 and 2015. The procedures were completed in 2017 without significant adjustments.

Switzerland

During 2017, inspections were carried out in the Switzerland subsidiary for the years 2012-2015. The inspection was concluded without any adjustments.

18.5.2. Years open to inspection

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

Spain

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

At 31 December 2018 and 2017, Acerinox, S.A. and the companies in the consolidated tax group have all the main applicable taxes open to inspection by the tax authorities for the following years:

Tax rate	2018	2017
Income tax	2008 to 2017	2008 to 2016
Value added tax	2015 to 2018	2014 to 2017
Customs duties	2016 to 2018	2016 and 2017
Personal income tax	2015 to 2018	2014 to 2017

Other countries

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

NOTE 19 RELATED PARTY BALANCES AND TRANSACTIONS

19.1 Identity of related parties

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

- Equity-accounted associates;
- Key management personnel of the Group and members of the 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.

19.2 Related party balances and transactions

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

a) Associates

No transactions were carried out with associates in 2018 or 2017.

b) Directors and key management personnel

Remuneration received by the seven members of Senior Management (four last year, as three have been appointed as Senior Management in 2018) and who do not hold positions on the board of directors of Acerinox, S.A. amounts to 3,748 thousand euros. 1,971 thousand euros of this amount correspond to salaries, 131 thousand euros are for allowances and 1,588 thousand euros correspond to variable remuneration relating to profit for the previous year and 58 thousand euros of remuneration in kind. In 2017, the four senior management personnel received 1,677 thousand euros, of which 991 thousand euros were for salaries, 90 thousand euros were for allowances and 596 thousand euros were for variable remuneration relating to profit for the previous year.

In 2018, members of the board of directors of Acerinox, S.A., including those that hold key management positions and sit on the boards of other Group companies, received 2,731 thousand euros in fixed remuneration for attending board meetings and fixed and variable salaries (the latter based on the results from the prior year), of which 1,448 thousand euros were for salaries and fixed board member remuneration, 504 thousand euros were for allowances, 773 thousand euros were for variable remuneration relating to results from the prior year and 6 thousand euros of remuneration in kind. In 2017, the remuneration received totalled 2,221 thousand euros, of which 1,314 thousand euros were for salaries and fixed remuneration, 398 thousand euros were for allowances and 509 thousand euros were for variable remuneration relating to results from the prior year.

There are obligations under from certain retirement contractual covenants agreed with senior management in the amount of 11.5 million euros (9.9 million euros in 2017). These obligations are properly insured also in 2018 and in 2017 and in 2018 the amount of 1,418 thousand euros (1,133 thousand euros in 2017) was contributed. No commitments have been contracted with directors representing shareholders or independent directors of Acerinox, S.A. At 31 December 2018 no advances or loans have been granted to the members of the board of directors or senior management and the Company has no balances receivable from or payable to these executives.

In relation to the Multi-Year Compensation Plan or Long-Term Incentive Plan (ILP), the terms and conditions of which are detailed in the note 15.1.3, the expense accrued in the financial year corresponding to the Chief Executive Officer and Senior Management, the balancing entry of which is recorded as other equity instruments amounts to 613 thousand euros (of which 172 thousand euros correspond to the Chief Executive Officer).

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

The Group has a civil liability insurance policy in effect, with coverage extending to board members and members of the senior management, as well as Group employees. The premium paid this year amounts to 149 thousand euros (155 thousand euros in 2017).

c) Significant shareholders

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

- Reverse factoring facilities for 2.8 million euros, 0.02 million that had been drawn down at the end of the half year.
- Non-current loan of Euro 30 million, which had been drawn down in full.
- Factoring facilities for 70 million euros, of which 26.71 million euros has been drawn down.

In 2017 the Group arranged the following financing transactions with Banca March, all of which were under fair market conditions:

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

Details of the Group's transactions with Banca March in 2018 and 2017 are as follows:

(Figures in thousands of euros)

	2018	2017
Interest	1,862	808
Commissions	1	
TOTAL	1,863	808

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

Furthermore, insurance premiums and other transactions have been brokered for the Group through March J.L.T. Correduría de Seguros (a March Group company). 13,841 thousands of euros (11,846 thousands of euros in 2017).

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

(Figures in thousands of euros)

	2018	2017
Dividends	118	158
Sales of goods	2,531	12,373
Services rendered	462	1,061
Purchases of goods	22	
Trade and other receivables	832	639

NOTE 20 AUDIT FEES

The appointment of PricewaterhouseCoopers Auditores, S.L. as auditors for the years 2017-2019 was approved by the shareholders at their annual general meeting held on 1st June 2017.

Details of fees and expenses accrued for services rendered by the auditing firms that audited the Acerinox Group's accounts in the years 2018 and 2017, and their associate firms, are as follows:

(Figures in thousands of euros)

	2017			2017		
	PWC Auditores, S.L.	PWC International	TOTAL	PWC Auditores, S.L.	PWC International	TOTAL
Audit services	256	569	825	253	528	781
For audit-related services	61	6	67	79	6	85
Other services		7	7		2	2
TOTAL	317	582	899	332	536	868

Other audit-related services include the limited review of the summarised consolidated interim financial statements as of 30 June 2018 and 2017, the report on agreed procedures of the system of Internal Control over Financial Reporting (ICFR) and the report of agreed procedures on compliance of the financial ratios required by the "Borrowing Base Facility" of Columbus Stainless. 2017 also includes a review of the indicators of the Annual Corporate Social Responsibility Report.

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

Other audit firms invoiced the Group fees and expenses for audit services amounting to 100 thousand euros (76 thousand euros in 2017).

NOTE 21 EVENTS AFTER THE REPORTING PERIOD

Exchange of shares of Nisshin Steel Co, Ltd

As explained in **note 11.2.5**, as of 26 December 2018, Nisshin Steel Co, Ltd. is no longer listed on the Tokyo Stock Exchange following its acquisition by Nippon Steel & Sumitomo Metal Corporation. The shares owned by Acerinox, S.A. in Nisshin Steel Co, Ltd. (1%) will be exchanged effective 1 January 2019 for shares of the acquiring company at an exchange rate of 0,71 shares of Nippon Steel & Sumitomo Metal Corporation for each share of Nisshin Steel Co, Ltd.; i.e. Acerinox, S.A. will receive 747,346 shares of the acquiring company.

The exchange will result in the derecognition of the shares held by Acerinox, S.A. at fair value through other comprehensive income, and a recognition of the new shares for the same amount. The amount recognised in other comprehensive income, which at 31 December 2018 amounted to -5,023 thousand euros, will not be reclassified to the income statement, as required by the new IFRS-9, but will be transferred to a distributable reserves account.

Safeguard measures on steel imports adopted by the European Union

On 1 February, the European Commission announced the definitive safeguard measures, with some relevant changes with respect to the provisional measures which entered into force on July 2018 and that all together should have an impact on the European market.

Firstly, these measures include more types of products, which referring to stainless steel entails the inclusion of plates, being thus included in the measures all the finished products, both flat and long.

Secondly, quotas are not global but rather tax quotas by country for the main origins have been applied, what supposes a relevant limitation of Asian imports which are the ones having a worse effect on prices; it should be as well considered the possibility of some countries not covering their quotas, such as it is the case of the USA, affected by the reprisal measures of the EU.

Thirdly, the boarding clause which gave place to a relevant increase of imports in the summer 2018, in line with the increase of boardings in anticipation to the measures, is no longer applicable.

Considering the established quotas, which depart from the imports average for 2015-2017, we estimate an imports correction around 15% with which we would retrieve back to 2016 levels, what in addition to a sustained growth of European demand would help European manufacturers recovering part of their market share, reducing the imports quota in a 25% for flat product in comparison with the nearly 30% reached in 2018.

It is worth noting that in November 2018 the Commission announced the exclusion of South Africa from the measures, reason why Columbus Stainless won't be affected by them.

Acquisition of Treasury shares

The Board of Directors of Acerinox held on 19 December 2018, making use of the authorisation granted for a period of five years by the General Meeting of the Company held in June 2014, and pursuant to the provisions of article 17 of Regulation (EU) no. 596/2014 on Market Abuse, has approved a First Share Repurchase Programme with the aim of reducing the share capital of Acerinox, S.A. through the redemption of its own shares, if the General Meeting so approves, in order to improve earnings per share.

At the preparation date of this financial statements, the Company has acquired, under the First Share Repurchase Programme, 3,979,471 shares for an amount of 36.7 million euros.

Bahru Stainless's capital increase.

The Board of Directors, at its session held on 26 February, has resolved to increase Bahru Stainless Sdn, Bhd capital, without cash injection, through the capitalization of 335.5 million USD from the loan granted by Acerinox, S.A to its subsidiary. This solution has been adopted after Acerinox, S.A. acquired, last December 30% of shareholding held by Nisshin Steel in Bahru. Acerinox currently holds a 97% of Bahru Stainless shares.


ACERINOX

Non-Financial Information Record

1. Business Model

The contents of this Non-Financial Information Record have been collected following the principle of materiality and the contents of the International Reporting Guide: The Global Reporting Initiative (GRI), and specifically its standards, covering the sections on Acerinox S.A.'s Business Model, the Environment, Human and Social Rights matters, as well as the six large plants belonging to the Group with regards to Personnel, covering over 90% of the total workforce.

Acerinox is one of the world's most competitive stainless steel manufacturers and the most global company in the market. Its business objective is the production and sale of stainless steel and, with this purpose, from its very foundation, the company has developed a continuous investment programme, often with the development of its own technological innovations which, in certain cases, have involved real milestones in the field of stainless steel technology.

Acerinox is one of the largest manufacturers worldwide thanks to its six plants in four different continents in which flat and long products are manufactured. Three plants are integral (including steelworks, hot rolling and cold rolling). These are Acerinox Europe (Campo de Gibraltar, Spain), North American Stainless (Kentucky, USA), and Columbus Stainless (Middelburg, South Africa). The fourth big plant, Bahru Stainless (Johor Bahru, Malaysia) has a cold rolling mill.

In addition, for the manufacturing of long products, Acerinox also has the plants at Roldan (Ponferrada, Spain) and Inoxfil (Igualada, Spain).

Inoxfil Factory in Igualada (Spain)

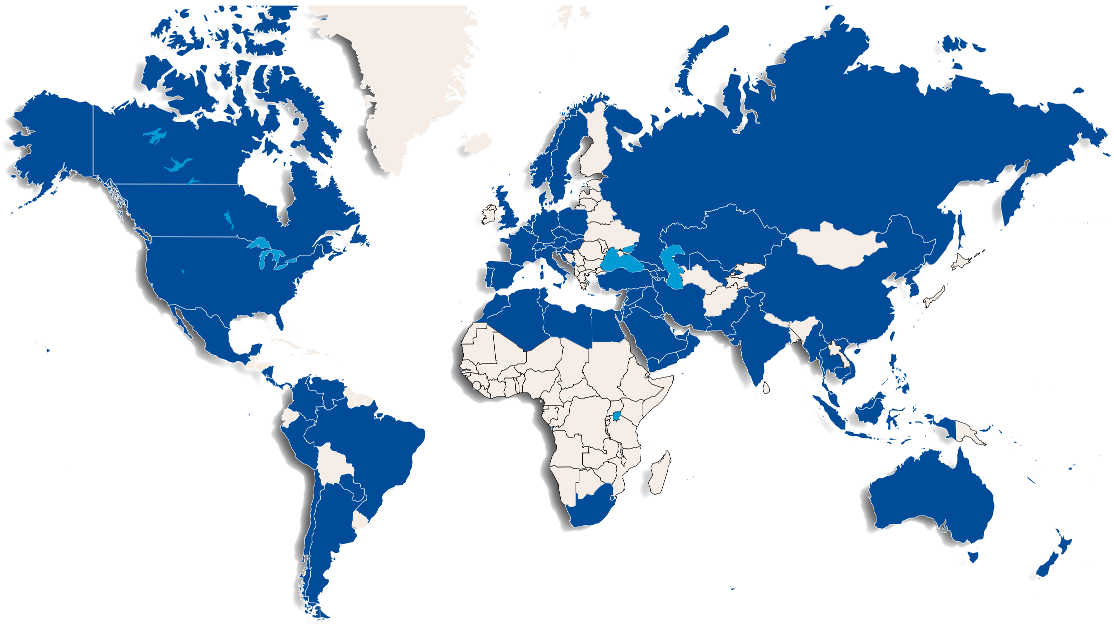
The main shareholders of the Acerinox Group are Corporación Financiera Alba (18.96%), Nisshin Steel Co. Ltd (15.49%), Omega Capital (5.0%), and IDC (Industrial Development Corporation) (3.19%).

The Acerinox Group has a sales structure which is present in 56 countries, from which it sells stainless steel to a total of 86 countries across 5 continents. This structure is made up of 18 service centres, 26 warehouses, and 35 sales offices, not to mention the countless sales agents in various countries which do not have a permanent office.

Thanks to this structure and to the excellence in operations and product quality, the Acerinox Group is the leader in one of the continents, Africa, in addition to being the largest producer in the world's largest economy, the United States, and having large market shares in all the geographical areas in which it operates.

Acerinox employees have good working conditions, higher than the industry average pay, 93% of workers have permanent contracts, stable and high-quality jobs, training courses, international projection and a wide range of possibilities to develop a long and rewarding professional career within the company.

Countries in which Acerinox is present throughout the world:



1.1 Risks and their Management

Acerinox has a Risk Management Model for identifying, classifying, and evaluating any possible event that could affect all the units and significant functions of the organisation as well as establishing the control and responsibility mechanisms derived from each one of them. The Model has as the ultimate objective of providing reasonable security for attaining objectives, whether strategic, operational, compliance, or reporting.

For the correct implementation of the measures and the strict monitoring of its fulfilment of them in each of the possible risks, in 2015 the Group approved the Risk Management Control Policy of Acerinox, S.A., and their Group of Companies.

Through the Policy, the mechanisms and basic principles are established for the management of opportunities and risks that allow them to:

- Achieve the strategic objectives determined by the Group.
- Provide full guarantees for the shareholders.
- Protect the Group’s results and reputation.
- Defend the interests of the key Interest Groups of the Company.
- Ensure business stability and financial solidity in a sustained manner over time.

Any business activity generally has a series of risks associated to it and, in the case of steel making, Acerinox recognises and classifies the uncertainties characteristic of the industry in which it operates.

Moreover, the substantial risks facing the Company on a daily basis requiring full-time management and special surveillance are inter-related and can be summarised in the following diagram:

The main risks are as follows:

- Competition: Business risks related to competition and trade barriers in the various international stainless steel markets.
- Overcapacity Business risks related to production overcapacity, especially in China and its impact on reduction of prices.
- Raw Material Prices: Big variations, especially in short periods of time.
- Economic Cycles: Demand for products in light of developments in the markets.
- Financial: Lack of liquidity, restricted access to funding sources, increasing funding costs, the volatility of exchange rates, the volatility of interest rates and credit risks.
- Regulatory: Presence in the international arena with activities in numerous countries, regulatory frameworks, and business environments.

1.2 General Policies

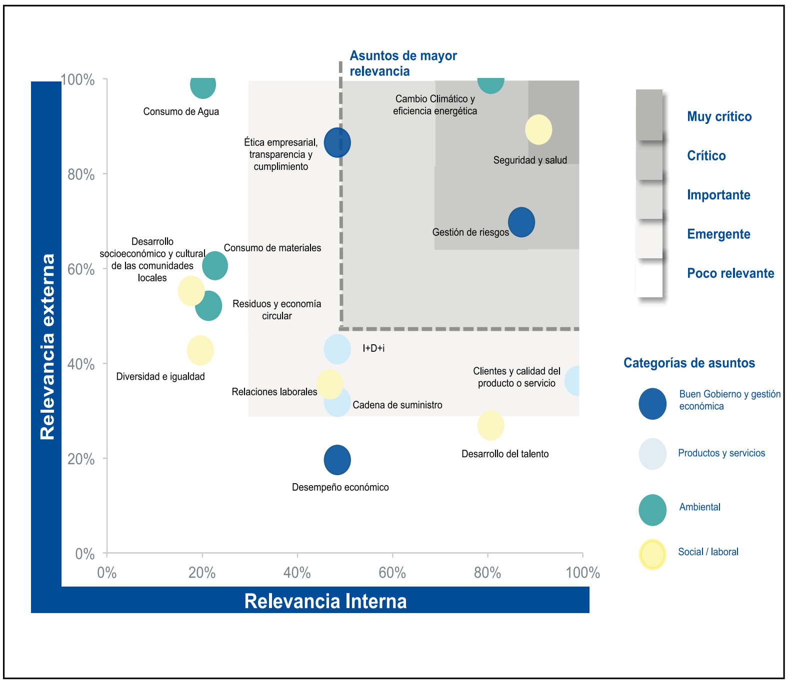
Acerinox has eight general policies that define the general guidelines of the Company and its Group of companies in the following matters which correspond to their heading and content:

- General Policy for Selection of Directors
- General Policy of Corporate Social Responsibility
- General Policy for the Remuneration of Directors
- General Policy for Risk Management and Control
- General Policy for Communication and Contact with Shareholders and Investors
- General Tax Policy
- General Corporate Governance Policy
- General Treasury Stock Policy

All these policies are available on the Company's website so that they can viewed and compared by any interested party and can be found within the Corporate Governance section / General Policies.

2. Materiality Analysis

The result of the analysis of the relevant issues identified in 2018 is represented in the following materiality matrix:



This exercise is the second materiality analysis conducted by the Acerinox Group to identify and prioritise, among others, the environmental, social and governance issues that are relevant for the company and for the design and the definition of the contents of its Sustainability Report for the 2018 financial year. This analysis follows the new legal requirements under Spanish legislation on the subject of non-financial information reports and the requirements of the latest version of the GRI standards (SRS Standards of the GRI) that establish the principle of materiality as one of the key aspects in order to determine the content to report with regards non-financial information.

Within this process, the material aspects have been prioritised in two areas: internal and external. To do this, we have received the valuation from various professional profiles and managers of the Group from various departments and countries, and on the external side, the identification of relevant issues has been considered through a study of influencers (such as the World Bank, the World Economic Forum, UNESID, among others) in the industry and renowned analysts in ESG aspects.

3. Environmental Matters

3.1 Environmental Matters

Sustainability and taking care of the environment are among the priorities of the company, and Acerinox understands their importance for an organisation that has the intention to maintain its position and endure into the future.

Acerinox is committed to the environment and its surrounding areas, to reducing environmental impact during the production process, to collaborating with the communities in which it operates and, of course, to its employees and stakeholders.

This effort has been recognised by organisations such as FTSE4Good, which includes the Acerinox Group in its global assessment index of responsible companies that demonstrate their application of solid environmental measures and corporate social responsibility and recognises companies who work towards environmental sustainability.

During the development of production and waste management, the precautionary principle against environmental risks is applied along with measures to prevent and, if necessary, react quickly to a potential hazard to health or the environment.

The environmental risks are contained in the operational risks section of Acerinox, S.A.'s Risk Control and Management Policy.

Acerinox's activity requires large energy consumption and emissions are linked to its productive capacity. Therefore, the company's efforts are aimed at reducing emissions and putting the most suitable filters in place before allowing these emissions to be released. In this task, the reduction of CO2 emissions implies a constant commitment, both from Acerinox itself, and from a sustainable industry which is committed to the fight against climate change.

Additionally, stainless steel is a metal that is recycled almost in its entirety and indefinitely, so it is indefinitely reusable and requires much less energy to manufacture than other similar materials, such as aluminium or titanium; also, it does not require chemicals for its correct storage.

The main raw material for the manufacture of stainless steel in our plants comes from scrap; therefore, Acerinox is one of the largest recyclers of this waste product in all the countries in which it has steelworks.

The areas of application of stainless steel are almost unlimited and demand has steadily and increasingly grown in recent decades, with rates of increase of an average of approximately 6% each year, it is also a fundamental pillar of the circular economy.

The applications of stainless steel include quite a few utilities related to the environment such as generating clean energy and saving on energy consumption, providing clean air, water treatment, producing healthy food, avoiding hazardous chemicals and limiting environmental pollution.

With regards to the environmental provisions, the Group has not registered any environmental provisions for 2018.

Stainless Steel reinforced bars in the construction of the “Sagrada Familia”

3.2 Climate Change

As mentioned in the first point of this report, Acerinox is recognised in the global Carbon Disclosure Project (CDP) and is included in the B List of leading companies in the fight against climate change through the implementation of activities to reduce emissions and minimise the risks of the organisation in relation to climate change.

The Group is well-aware of the Sustainable Development Goals of the European Union, including the fight against climate change and the effects resulting from it.

At Acerinox we are committed to maintaining scrupulous care of the environment surrounding our production facilities and offices, to continue investing in research and technology to reduce energy consumption and emissions from our activities and waste as much as possible, to defend and promote respect for biodiversity in all its aspects and to strengthen the role of Corporate Social Responsibility within the Group and the companies which form it.

3.3 Pollution

The manufacturing process for stainless steel requires an intensive use of energy. The Acerinox Group is strongly committed to reducing energy consumption and CO2 emissions. To do this, all operations are characterised for their operational excellence, in pursuit of technological efficiency and continuous optimisation of the facilities, making Acerinox one of the most efficient companies in its commitment to the reduction of emissions, according to the International Stainless Steel Forum (ISSF).

The Acerinox Group plants have strict measures in place to prevent, avoid, and resolve spillages from tipping or storing substances.

The Group's production activities are subject to strict emission controls, as well as the fulfilment of yearly objectives. In 2020, the period for recording the Greenhouse Gas Emissions (GHG) comes to an end in Europe and over the next few years the rights to free emissions are going to be reduced. By following the recommendations from the various international regulations, the Acerinox Group can calculate the direct and indirect emissions.

Acerinox has control, measurement, and gas filtering systems in all of its equipment and takes special care to comply in this field. Proof of this is found in the fact that in order to reduce NOx emissions, the plants have catalytic towers, where NOx vapours are converted into molecular nitrogen, so that the NOx emissions are well below the strict legal limits.

NOx emissions

Acerinox	Nas	Columbus	Bahru
2017 = 298 Mt	**2017** = 382 Mt	**2017** = 98 Mt	**2017** = 46 Mt
2018 = 240 Mt	**2018** = 367 Mt	**2018** = 115 Mt	**2018** = 71 Mt

The company is aware that through its *Zero Emissions Target* programme, a conception of environmental policy entails the constant target of reducing all emissions to the extent possible, in absolute terms and in relative terms or specific ones. The ZET is a constant battle which stems from the Company's own initiative, rather than from a regulatory imperative.

Table 1 *Scope 1 Direct GHG emissions in metric tonnes of CO2 equivalent:*

Plant	**EMISSIONS** **Direct emissions (Scope 1)**
Acerinox Europe	222,638 Mt of CO2 eq
NAS	349,390 Mt of CO2 eq
Columbus	204,535 Mt of CO2 eq
Bahru	52,061 Mt of CO2 eq

Table 2 *Scope 2 Indirect GHG emissions in generating energy in metric tonnes of CO2 equivalent:*

Plant	**EMISSIONS** **Indirect emissions (Scope 2)**
Acerinox Europe	355,028 Mt of CO2 eq
NAS	672,091 Mt of CO2 eq
Columbus	611,090 Mt of CO2 eq
Bahru	88,343 Mt of CO2 eq

The new production systems come with the most advanced technologies and emission reduction systems incorporated in them. Thus, in Acerinox Europe investments totalling €9 million were approved for the acquisition of a ladle furnace and a refrigerated vault to reduce the consumption by the refractory, electrodes, emissions and increase in the availability time of the furnace.

Meanwhile, Columbus Stainless spent more than €14 million on the installation of a cutting line and ladle furnace, which as in the aforementioned case, reduce energy consumption and CO2 emissions.

Table 3 Environmental investments and expenditure by the Acerinox Group:

	2018	2017
Environmental investments (€)	€ 5,741,148	€ 6,859,522
Environmental expenses (€)	€ 98,241,433	€ 88,994,572
Total amount of money invested in the environment (€)*	€ 103,982,581	€ 95,854,094

The plants have implemented the following specific measures with the aim of reducing emissions:

- Replacing the conventional burner with an oxy-fuel burner AOD-1 and AOD-2.
- Increase in the continuous loads and direct annealing, installation and economiser of boiler 3.
- Saving electricity in stoppages for the application of protocol in the Steelworks, Hot Rolling, and Cold Rolling.
- Replacement LEDs, replacement ZM-3 motors and regulation of the Laminar Flow pump.
- The “Green Weekend” which represents a reduction in the load based on unused units has meant a reduction in scope 1 emissions of 820 MtCO2, and 7,261 Mt CO2 eq. in scope 2 emissions.
- Varied fan speed system in the Induction Air fans of the filter room which has thereby reduced to 13,726 Mt CO2 eq.
- Optimisation programme for gas consumption processes and other services which have obtained a reduction of 194 Mt CO2 eq. in Scope 1 emissions.
- Optimisation of power consumption and LED project through which group 2 emissions have been reduced by 5,553 Mt CO2 eq.

Acerinox Europe also shows its commitment to reducing light pollution by replacing their conventional lighting to one with greater energy efficiency and which causes less impact. To do this, the fluorescent ceiling lights have been changed for LED screens in offices and laboratories, and the metal halide projectors have been replaced with LED projectors in the light towers of the port. A similar process has been undertaken at the Roldan plant where the existing halide light fixtures were changed for LED downlights and projectors in all the transit roads and external manufacturing workshop areas.

Equipments for the Production of Ethanol made in Stainless Steel

3.4 Circular Economy

As a leading company in the metal industry in general, and in particular in the stainless steel industry, Acerinox, is one of the most noteworthy examples in practising circular economy.

Acerinox plays an active role within the Spanish Covenant on the Circular Economy, which it signed (along with other companies in the industry) in 2017, becoming the first industry in Spain in which all companies are committed to the transition towards a sustainable model. This commitment means maintaining the value of products, materials, and resources for as long as possible, minimising the generation of waste and promoting the proper treatment and recycling of this waste.

The Acerinox Group plants have strict measures in place to prevent, avoid, and resolve spillages from tipping or storing substances. All the plants have neutralisation plants for treating acidic and basic waste water as well as emergency dams and other security mechanisms for containing any possible spillages. Similarly, the tanks are also equipped with a rigid inner tank, with an emergency stop function and an emergency cleaning service.

The manufacturing process of stainless steel at Acerinox begins with the melting of scrap (primarily) which, after treatment and the application of the necessary processes, becomes a metal which has many different applications in various industries and, with proper maintenance, it has a useful lifespan which can last for centuries and which leaves a considerably smaller footprint than other alloy emissions. In economic terms, it converts a product of little value into one of great value that will be recycled once again at the end of its useful life, creating jobs in the process, taking care of the environment and thereby polluting the planet even less, thereby closing the perfect economic circle.

Shopping Mall “Leon Space” with Stainless Steel finish coloured electrochemically.

Table 4 Main Waste Products Managed in the plants in 2018:

	Amount of waste products (Mt)	
	2018	**Destination**
Recovered refractory bricks	8.028 Mt	Recovery
Recovered grinding residue	3.511 Mt	Recovery
Recovered mill scale	14.760 Mt	Recovery
Slag	783.089 Mt	Landfill
Neutralisation Sludge	94.862 Mt	Landfill
Refractory bricks	24.028 Mt	Landfill
Scale	10.953 Mt	Landfill
Grinding residue	5.185 Mt	
Sludge from water plant	2.407 Mt	Landfill
Used shot blasting material	7.384 Mt	Recovery
Total non-hazardous waste	**954.206 Mt**	
	-	
Percentage of recycled non-hazardous waste	2.69%	
Recovered smoke dust	21,214 Mt	Recovery
Recovered PRA powder	0 Mt	Recovery
Oily paper	8,479 Mt	Recovery
Smoke dust	44,628 Mt	Landfill
PRA powder	2,296 Mt	Landfill
Total hazardous waste	**76,616 Mt**	
Percentage of recycled hazardous waste	38.76%	
Total waste	1,030,822 Mt	
Total non-recycled waste	**975,475 Mt**	
Total recycled waste	55,347 Mt	
Percentage of recycled waste	**5.37%**	

Since the creation of the Group, tens of millions of tonnes of scrap have been recycled in the Acerinox Group melting shops, which in 1970 had already created a Circular Economy with its associated benefits.

In promoting the circular economy in its processes, the Acerinox Group signed an agreement with the General Foundation of the Spanish National Research Council (FGCSIC in its Spanish initials) based on the ComFuturo programme to encourage excellence in youth research aimed at achieving progress and improvements in stainless steel production processes. Together, they are developing a project involving the revaluation of slag metal by applying a treatment to it in order to use it in various building materials which allows harmful gases to be converted into harmless ones.

Within the aim to promote a circular economy and in relation to the use and waste management, it is essential to assess the impact of the entire product life cycle, from the manufacturing process to the end of its useful life.

To do this, the Company participates in the *Life Cycle Inventory* (LCI) promoted by Eurofer (*European Steel Association*). This is an internationally recognised, structured method to quantify the emissions, the resources consumed as well as the impact on the environment and health, related to the products placed on the market. The scope of the method encompasses the extraction of the raw materials right through to the useful life of the product.

3.5 Sustainable Use of Resources

The activities developed by the Acerinox Group require a considerable amount of both solid and liquid materials and resources.

One of the most abundant and noteworthy of these is water consumption. Given the large amount of water needed for production, Acerinox invests major resources and efforts in reducing consumption and therefore costs, recovering suspended metals which are derivatives of the production processes and returning as much water as possible back to the environment, in the same condition of purity, quality, and temperature in which it was taken.

Consumption varies substantially between plants due to the differences in air temperature, the different refrigeration requirements of the equipment, and the products which are manufactured.

The volume of water catchment in areas with no shortages in the four main plants are as follows:

***Table 5** Volume of water catchment in areas with no shortages:*

Volume (m^3)	2018
Surface water	5,702,066 m^3
Third-party companies’ water	294,592 m^3
Total	5,996,658 m^3

***Table 6** Volume of catchment in areas with water shortages:*

Volume (m^3)	2018
Surface water	3,417,818 m^3
Third-party companies’ water	233,352 m^3
Total	3,651,170 m^3

All the plants have neutralisation plants for treating acidic and basic waste water as well as emergency dams and other security mechanisms for containing any possible spillages. Similarly, the tanks are also equipped with a rigid inner tank, with an emergency stop function and an emergency cleaning service.

The proliferation of control systems and efforts in the monitoring of any toxic materials or pollutants has allowed the Group to reach high levels of management in this area.

A vast percentage of the components that make up the stainless steel manufactured by Acerinox comes from recycled materials. A fact that shows the value of the decision to install electric-arc furnaces for melting the scrap, not only for being a decision which is more environmentally advanced but also for being economically more efficient: scrap is raw material which receives a major discount on the aggregate value of the metals that it incorporates. If there is an example of how being environmentally responsible can be more economically beneficial to the Company, this is it.

The total fuel consumption from renewable and non-renewable sources at the four main plants according to the type of fuels used during 2018 has been as follows:

***Table 7** Energy consumption:*

	Natural Gas GJ	Diesel GJ	Electricity GJ (non-renewable)	Electricity GJ (renewable)
	2018	**2018**	**2018**	**2018**
ACERINOX	3,456,783 GJ	35,027 GJ	2,972,324 GJ	0 GJ
NAS	5,128,713 GJ	79,331 GJ	4,803,322 GJ	0 GJ
COLUMBUS	2,716,911 GJ	--	2,222,146 GJ	--
BAHRU	1,030,363 GJ	10,262 GJ	425,750 GJ	0 GJ

The report on indirect energy consumption is being worked on as systems for the collection of this information are not yet available.

Materials used:

Ferroalloys
712,421 Mt

Gases
339,797 Mt

Recycled Materials
2,207,467 Mt
Recycled Acid
16,841 Mt

Acids
41,417 Mt

3.6 Protecting Biodiversity

The activity carried out at all of the Acerinox plants surpasses the environmental legislation of each country in which it produces while demonstrating an attitude of scrupulous care for the environment.

The Acerinox plants in Europe, North American Stainless, and Bahru Stainless have their facilities based at sea or river ports which have direct access to their waters. Acerinox only pours pre-treated water, which has had all of the waste that may be unsafe removed from it, into these waters.

Therefore, the activities and operations carried out by Acerinox have no direct influence on biodiversity and protected areas.

4. Personnel

4.1 Employment

As at 31 December 2018, the six plants belonging to the Acerinox Group (Acerinox Europe, North American Stainless, and Columbus Stainless and Bahru Stainless, Roldan and Inoxfil), which are included in this report, have 6,237 employees. Distributing these employees by continents, 46% are in Europe, 24% in America, 21% in Africa and 9% in Asia.

***Table 8** Total number of employees:*

	2018		
	Men	Women	Total employees
Number of employees	5,601	636	6,237

***Table 9** Number of employees according to their age range:*

	2018		
	Men	Women	Total employees
< 30 years	907	135	1,042
30 - 50 years old (inclusive)	3,347	380	3,727
> 50 years	1,347	121	1,468
Total	**5,601**	**636**	**6,237**

***Table 10** Number of employees according to their professional category and gender:*

	2018		
	Men	Women	Total employees
Graduates	1,021	213	1,234
Administration	379	280	659
Plant workers	4,201	143	4,344
Total	**5,601**	**636**	**6,237**

***Table 11** Number of employees per country:*

	2018
	Total employees
Spain	2,897
U.S.	1,480
South Africa	1,296
Malaysia	564
Total	**6,237**

Acerinox generates quality and stable employment, as shown by the data provided in the following tables, and practically all the people who are linked to the Group have a full-time, permanent contract.

***Table 12** Number of employees by contract type:*

	2018
	Total employees
Permanent contract	6,012
Temporary contract	225
Total	**6,237**
Part-time contract*	194

**Part-time employees may have either permanent or temporary contracts*

***Table 13** Number of employees by contract type and gender:*

	2018		
	Men	Women	Total employees
Permanent contract	5,404	608	6,012
Temporary contract	197	28	225
Total	**5,601**	**636**	**6,237**
Part-time contract*	179	15	194

**Part-time employees may have either permanent or temporary contracts.*

Table 14 Number of employees by contract type and age range:

	2018			
	<30 years	30 - 50 years old (inclusive)	> 50 years	Total
Permanent contract	939	3,626	1,447	6,012
Temporary contract	103	101	21	225
Part-time contract*	**18**	**3**	**173**	**194**

**Part-time employees may have either permanent or temporary contracts*

Table 15 Number of employees by contract type and professional category:

	2018			
	Graduates	Administration	Plant workers	Total
Permanent contract	1,207	652	4,153	6,012
Temporary contract	27	7	191	225
Part-time contract*	**3**	**44**	**147**	**194**

**Part-time employees may have either permanent or temporary contracts*

The Group is committed to the economic well-being, diversity, and development of the people who work for it. For this reason, Acerinox guarantees transparency with regards to remuneration between employees and non-discrimination in salary issues based on gender, establishing an effective remunerative equality between men and women.

Stainless Steel cladding of Torre Europa

The remunerations within the company are above the industry average. As for the minimum wages in each of the plants, Acerinox Europe pays a minimum of €1,300.00, well above the legal minimum of €900; NAS reaches US$1,256; in Columbus it is 3,200 South African rand and in Malaysia it reaches 1,100 ringgits.

Table 16 Average salary remuneration according to gender (€)

	2018	2017*
	Average remuneration	
Men	25,088.00	29,629.88
Women	25,589.35	25,283.92

**In 2017, the remuneration of employees at the Palmones plant is not included.*

It should be noted that the average remuneration of women corresponding to 2018 is higher than that of men, because the majority of the female employees occupy qualified administrative posts. In addition, approximately 50% of the female workforce work in the NAS and Columbus plants where the average wage is higher.

Regarding the segmentation of the workforce by age at the four main plants, the largest group is between 30 and 49 years, with a total of 3,727 employees in this age range.

Table 17 Average salary remuneration according to age range (€):

	2018	2017*
	Average remuneration	
< 30 years old (up to but not including 30)	15,976.55	15,203.89
30 - 50 years old (inclusive)	25,999.94	29,393.28
> 50 years	29,444.02	38,981.97

**In 2017, the remuneration of employees at the Palmones plant is not included.*

Table 18 Average salary remuneration according to professional category (€):

	2018	2017*
	Average remuneration	
Graduates	44,897.03	43,829.21
Administration	16,941.57	17,088.50
Plant workers	20,767.20	23,556.01

**In 2017, the remuneration of employees at the Palmones plant is not included.*

With regard to the average remuneration data by job category, it should be noted that most of the administrative staff work at the Barhu plant.

The “know-how” and knowledge of Group’s employees represent a competitive difference for Acerinox. The years of experience and training are essential to achieve a product of the highest quality, optimise production, and reduce costs. This is why the company is committed to training new recruits in a constant process aimed at excellence, the assimilation of the Group’s values and its competitive nature.

Acerinox does not have any specific measures in place with regards to disconnecting from work out-of-hours

Table 19 Average Remuneration of Directors and of Senior Management:*

	2018	
	Men	**Women**
Senior Management	3,748,000	N/A

**Senior Management is composed of the Chief Financial Officer, the Commercial Director, the Director of Production, the Secretary-General, the CEO of NAS, the CEO of Columbus and the CEO of Bahru.*

The average remuneration of the Directors can be consulted in the Consolidated Annual Accounts of the Acerinox Group under note number 19.2.

Table 20 Number of dismissals according to professional category and gender:

	2018	
	Men	**Women**
Graduates	23	3
Administration	1	4
Plant workers	84	3
Total	**108**	**10**

Table 21 Number of dismissals according to age range:

	2018	
	Men	**Women**
< 30 years old (up to but not including 30)	33	3
30 - 50 years old (inclusive)	44	4
> 50 years	31	3
< 30 years old (up to but not including 30)	108	10

Acerinox's care and respect towards its employees the conditions in which they undertake their activity can also be noted with regard to its personnel with disabilities.

At the Acerinox Europe plant there are 40 employees who have an officially recognised permanent disability.

A total of 29 employees are recognised as having a Total Permanent Disability according to the resolution of the National Institute of Social Security and the other 11 cases through the Andalusian Institute of Social Services. Such circumstances therefore affect about 2% of the workforce. In the case of Spain, Acerinox also complies with the Law on Social Integration of the Disabled (LISMI in its Spanish initials).

Industrial Equipment made in stainless steel

Table 22 Ratio of base salary and remuneration of female employees compared with that of male employees:

		2018							
		ACX S.A.	ACX EU (Service Centres)	ACX EU (Palmones Plant)	NAS	Columbus	Bahru	Roldan	Inoxfil
Graduates	Base salary for women (€)	28,834.37	19,513.76	31,631.28	57,957.61	42,189.46	14,145.50	26,794.64	47,348
	Base salary for men (€)	28,560.72	19,513.76	43,737.97	70,609.90	39,083.62	11,003.11	52,612.50	70,061
	Ratio of base salary men/women	1.01	1	0.72	0.82	1.08	1.29	0.51	0.68
Administration	Base salary for women (€)	18,848.68	19,500	15,405.84	27,779.07	21,598.28	3,739.74	26,167.46	27,626
	Base salary for men (€)	20,957.52	19,500	16,976.95	28,823.59	24,896.66	3,679.38	33,505.06	45,072
	Ratio of base salary men/women	0.90	1	0.91	0.96	0.87	1.02	0.78	0.61
Plant workers	Base salary for women (€)	N/A	14,764.31	13,264.52	26,771.66	17,452.42	1,749.38	N/A	26,112
	Base salary for men (€)	N/A	14,764.31	16,679.84	29,602.72	22,581.21	1,470.40	28,332.34	31,007
	Ratio of base salary men/women	N/A	1	0.80	0.90	0.77	1.19	N/A	0.84

The salary ratio has been calculated as the average of the salaries earned according to the professional category and plant.

Stainless Steel Waste Classifier Container made from Stainless Steel

4.2 Organisation of the Working Schedule

The organisation of the working schedule for over 85% of the Acerinox staff is to cover the activity carried out at the plants. At the large production centres, the shifts are divided into three groups of eight hours each or two groups of 12 hours (at NAS), depending on the agreement with the workers' representatives, so that the activity at the plants (unless in exceptional cases) does not stop completely at any time and there are always managers present to ensure the safety and proper functioning of the processes.

The opportunities, training and employee remuneration are designed to promote the competitive nature of the organisation, regardless of gender or any other characteristics that are not related to the professional criteria.

The company is continuing to work on encouraging the conciliation personal and professional lives of the employees of the Group, as well as to incorporate new practices which allow them to disconnect from work during non-work hours. Similarly, pregnancy periods, maternity and paternity leave and the entitlement to breastfeeding breaks are respected beyond the applicable laws and their application is facilitated based on the employee's needs.

***Table 23** Occupational illnesses of employees at the six main plants of the Group and the parent company:*

	2018		
	Men	**Women**	**Total employees**
Number of employees who have had the right to parental leave	5601	636	6237
Number of employees who have used their right to parental leave	184	41	225
Number of employees who have returned to work after parental leave	184	41	225
Number of employees who have returned to work after parental leave and who were still remained as employees after returning to work 12 months later	178	40	218

4.3 Health and Safety

The Board of Directors, the Senior Management at Acerinox, and the Management teams of each of the plants and the Health and Safety Committees allocate the necessary means to ensure the best safety conditions for the employees carrying out each of the activities. Given that the activity of the company is not without risks, the aim is to reduce these risks and mitigate their consequences. For this reason, Acerinox applies its own rigorous regulations that go far beyond that required by the law in force.

Therefore, the company makes an effort to comply with the regulations in this field, paying particular attention to any incident and keeping updated with regards to information on any developments in this field. If any incident should occur, the Group applies the relevant protocols, carefully studying the reasons and, if necessary, immediately applying the necessary corrective measures to prevent the incident from reoccurring. As a result of this rigorous risk monitoring, the number of accidents occurring at all of the group's plants has steadily decreased in the last few years.

Moreover, Acerinox requires that the subcontracted companies working in its facilities accept the requirements established by the Group. Thus, Acerinox determines the models, standards, and certifications applicable to the workers in all its centres.

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 any existing factors that could cause them. All incidents are investigated and analysed, and the best solutions are sought in order to prevent them from reoccurring.

At the plants, Acerinox Europe exceeds compliance with the legislation that is required from the Group, giving thousands of hours of training in health and safety and the ACero campaign, designed to raise awareness of the legislation and enforcement of Health and Safety rules. As regards the NAS plant, it continues with its Zero Tolerance policy. Columbus also applies its own Safety Management System, while also complying with the standards contained in the Occupational Health and Safety Law.

Bahru Stainless has a Health and Safety Committee that inspects and assesses the potential risks with its General Safety Induction programme in the prevention or treatment in the event of an accident.

Table 24 *Calculation of accident rates for Group's own employees at its six main plants:*

	2018		
	Men	**Women**	**Total employees**
Number of fatal accidents (victims)	1	0	1
Total number of accidents (with absence from work, without absence from work and fatal accidents)	234	14	248
Number of accidents with absence from work	143	2	145

Table 25 *Frequency rate (No. of accidents with absence from work / No. of hours worked)*1,000,000*

2018		
Men	**Women**	**Total employees**
12.93	1.47	11.68

Table 26 *Severity rate (No. of days lost / No. of hours worked)*1,000*

2018		
Men	**Women**	**Total employees**
0.57	0.11	0.52

Table 27 Hours of Absenteeism

2018		
Men	**Women**	**Total employees**
69,462	11,572	81,034

** Absenteeism is understood as absences which correspond to: unpaid leave, unjustified absences, strikes, gap years and accidents occurring during the commute to or from work.*

Table 28 *Occupational illnesses of employees of the six main plants of the Group and the parent company:*

	2018		
	Men	**Women**	**Total**
Number of work-related illnesses	0	0	0
Number of fatalities for work-related illnesses	0	0	0

4.4 Social Relations

Acerinox advocates and facilitates the right of free association of employees and maintains constructive relations with its workers and their representatives in each of its centres.

The agreements and agreed working conditions were fundamental to traverse the toughest years of the economic recession and are being very useful in trying to reach guarantees with regards to the future challenges facing the company.

Health and Safety Committees have been set up in each of the plants with whom workers can clarify any doubts they might have and that report and monitor regulatory compliance.

The number of employees of the main plants of the Group, plus those based at the parent company (Acerinox S.A.), which are covered by some form of agreement, are shown in the following table. It should be noted that in Spain, the collective agreement applicable to the metal industry is applied.

Table 29

	2018	
	No. of employees	%
Acerinox S.A	64	100%
Acerinox Europa, S.A.U*	2,152	93%
Roldán	412	100%
Inoxfil	113	100%
Bahru	174	31%
Columbus	701	54%
NAS**	0	0%

**Includes the Palmones plant.*

*** In the case of NAS plant, this indicator does not apply because it has no union representation.*

Stainless Steel Furniture for Catering

4.5 Training

Professional development is a basic right for the individual and a need for the company. Acerinox believes that the development of its professionals is a priority, given that without adequate training there is neither quality nor innovation, and for that reason it promotes training courses for employees.

Some training courses are compulsory, necessary, and periodical, such as those related to security and prevention of risks. Others are strongly encouraged by the company, including those through systems arising from collective negotiations.

During 2018, the Training Plan was one of the sections of the Strategic Plan approved by the Board of Directors, thus reaffirming the company's commitment to this key matter.

Table 30 *Hours of training received by professional category and gender at the six main plants of the Group and the parent company:*

	2018		
	Men	**Women**	**Total employee training hours**
Higher education qualifications	23,401	5,161	28,561
Administration	52,516	6,679	59,195
Plant workers	271,651	8,836	280,487
Total	**347,567**	**20,676**	**368,243**

4.6 Accessibility

All the Acerinox facilities and workplaces are enabled to facilitate and improve access for employees, customers, suppliers and whoever might need to access them. In addition to the mandatory compliance with the applicable regulations for that purpose, Acerinox facilitates the carrying out of any necessary reforms, studying improvements to its buildings and workplaces.

4.7 Diversity and equal opportunities

At its meeting in December 2018, the Acerinox Board of Directors approved the company's new Diversity Plan in which the principles on this matter and the measures for ensuring equal conditions and defending diversity in the activities of the Group are set forth.

The Acerinox Board of Directors is a true reflection of the international character of the company and the success of the Appointments and Remuneration Committee when it comes to applying diversity guidelines which the Selection of Directors Policy supports.

Starting with gender diversity, currently three of its fifteen members are women. The figure would be even higher if it was not for the recent resignations of two female directors, who have had to submit to the guidelines of their new companies on the matter of compatibility of duties or that have demanded greater dedication due to corporate movements. It must be said previously two other female directors to give up their mandates before the planned time period set due to the same circumstances. The Board of Directors decided to assume a conducive policy that by 2020 at least 30% of the Board members should be women.

However, despite gender being an important matter, diversity also extends to other areas. Other forms of diversity must contribute to the process of creating value and that of decision-making at the heart of the organisation and that this should be a melting pot in which a wide range of experience, skills and knowledge merge together and take form.

Four different continents are represented on the Board of Directors thanks to the diverse nationalities of its members. Europe is of course the most represented continent, but we can also find an American, a South African and two Japanese board members.

Three members, plus the non-director Secretary, began their careers in Public Administration or at university before moving to the private sector. Seven of them have a strong industrial nature for having undertaken, or still undertaking various positions both in the metal industry itself, as well as others such as the chemical, pharmaceutical, food, automotive, paper, new technologies and energy industries. Some of them have worked in more than one of these industries. Five of them come from the financial world, including investment banking, savings banks, and the insurance sector.

Composition of the Board of Directors as at 31 December 2018:

15	53.3%	26.6%	20%	80%	20%
Members	Independent Directors	Foreign	Women	Over 50 years old	Between 30 and 50 years of age

Manufacture of Stainless Steel train wagons for the transportation of Biomass.

Since 2016 the largest part of the group is that of the independent directors, made up of eight members, followed by the six proprietary directors, and one executive director. The aim has been to repeat this proportion in the Executive Committee (four independent, one executive, and three proprietary directors). In the Appointments, Remuneration and Corporate Governance Committee, the distribution is three independent and a proprietary member and the same can be said of the Audit Committee. Both in the Board itself as well as the Committees, the chairperson's position is occupied by an independent director.

The Acerinox Group is present in five continents and is made up of people of different cultures, of the most commonly-practised religions in the world and with very diverse beliefs, orientations, and traditions. Diversity is, therefore, a consequence of the international nature of the company.

The prevention of sexual and gender harassment in the workplace is regulated in our Code of Conduct, which contains essential statements regarding the prohibition and prevention of harassment of any kind in the workplace. Moreover, Acerinox has enabled a complaints system in the companies which form the group. Any worker who is considered to have been affected has the possibility of requesting precautionary measures to be adopted and these will be implemented automatically while the investigation takes place.

The measures to prevent and suppress harassment have been incorporated into the collective agreements through reference to the Code of Conduct. The Group has had no record of any reports of harassment through the normal channels that the company has established for this purpose throughout 2018.

Palmones Beach next to our Mill

5. Human Rights

5.1 Due Diligence

The Group provides the necessary complaints channels for any breaches of the Code and other inappropriate behaviour to be made known to the Code of Conduct Monitoring Committee.

These channels, provided by Acerinox, guarantee the confidentiality of the complainant and, if necessary, the Group guarantees its cooperation with the relevant authorities.

5.2 Risk Prevention

Since 2015, the Acerinox Group has had a General Policy for Risk Management and Control, establishing the basic principles and framework for the control and management of risks of any nature that the companies of the Group may face.

The Governance Bodies of the Group have implemented a Risk Management Model to identify, manage, and mitigate risks. The heads of the units draw up a report of any event involving a potential risk to the Company and whose response measures are analysed and assessed by the Director of Corporate Risk Management, who reports directly to the Chief Executive Officer.

The current Risk Management Model is based on an event identification methodology applied to all of the business units and, once the risks have been inventoried and analysed they are assessed according to their probability of occurrence and impact.

Currently, the Risk Management Model is evolving to improve the methodology in measuring the risks to complete the expert judgement and allow the definition of tolerance limits accepted by Acerinox to be updated. New metrics and Key Risk Indicators (KRIs) are being developed which allow the monitoring process to be improved and the monitoring of risks in the entity, by recording the events, causes, and impacts caused.
This evolution of Risk Management Model is based on a methodology for assessing the expected loss of each risk by the experts responsible for managing this risk, analysing the probability (frequency) and economic impact (average scenario) of each of the events.

The identified risks are quantified in terms of impact and probability of occurrence in order to allow them to be compared, aggregated, and prioritised. The risk events which have occurred and recorded are compiled in order to calculate the probability of them happening again. Worst-case scenarios as regards their economic impact are also recorded.

5.3 Complaints

Throughout 2018 there have been no complaints or claims of an infringement of human rights in the Group.

5.4 Promotion and Compliance with the Provisions of the Agreements

Ethical behaviour is one of the cornerstones of the Group and is regulated by the Code of Conduct and Best Practices applicable to all professionals in the Company. The principles contained therein also apply to all relationships with third parties who work for them, or on their behalf.

100% of the employees of Acerinox Europa, Columbus Stainless, and Bahru Stainless are covered by collective agreements agreed between the Group and the employees' representatives of each of the plants.

The Group supports the principles of the United Nations Global Compact and promotes that explicitly stated: that businesses must support the elimination of all forms of forced labour, child or compulsory labour, and during 2018 the Group has not identified any operations or activities this type.

"Clud Gate" Sculpture in Chicago made of Stainless Steel

6. Corruption and Bribery

6.1 Measures Adopted to Prevent Corruption and Bribery

Information and measures to combat corruption and bribery within the Acerinox Group is included within the Acerinox Code of Conduct and Best Practices as well as the Crime Prevention Model, which are the main tools for compliance and crime prevention used by the Group. Both of these have been the subject of a training programme divided into three phases, directed towards the employees and managers of the Group in Spain.

Additionally, in the framework of crime prevention, the Acerinox Group has adopted a number of policies and internal standards designed to prevent criminal offences from being committed in general and more specifically, crimes by the legal entity itself:

- Adherence to the UN Global Compact initiative.
- Internal instructions on the chain of authorisations and rules of conduct for the representatives of the Group.
- The credit institutions with whom the group works are of renowned prestige, and are based in countries which are not classified as tax havens, therefore, cash payments or the use of payment methods different to the one authorised are prohibited.
- Non-participation in business that is dependent on decisions of public authorities, regarding aid or subsidies, and the non-funding of political parties, or associations or foundations promoted, recommended or used by political parties.
- Workers and managers of the group are prohibited from unduly influencing political or administrative decisions.
- The receiving or offering of hospitality, advantages, gifts, or improper benefits in respect of people or entities with whom the Acerinox Group will hold or maintain a business relationship is prohibited.
- The obligations of these essential principles contained in the Acerinox Code of Conduct and its commitment to fight against corruption in all its variants are incorporated into contracts with third parties.

Acerinox has not made any contributions to sectoral organisations.

6.2 Measures to Combat Money Laundering

Transfers of money made by the Company to its employees, contractors, suppliers, customers or any other related group are carried out by people who are 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 in the regulation.

6.3 Contributions to Foundations and Non-Profit Entities

Acerinox is collaborating with institutions related to corporate social responsibility as well as with NGOS, educational initiatives and actions for the promotion of stainless steel.

The parent company of the Group, Acerinox S.A. centralises the Group's participation in organisations of an environmental nature such as the Carbon Disclosure Project, the Global Compact, and the Global Reporting Initiative. The activities developed by Cedinox (the Association for Research and Development of Stainless Steel) are also financed by the parent company; as well as representation in institutions such as the Elcano Royal Institute, the Association for the Advancement of Management (APD in its Spanish initials) and the Seres Foundation, among others.

Acerinox Europe finances non-governmental, cultural, educational, and social organisations. These included local NGOs, while the Company Group as a whole (whose financing involved both employees at the plant as well as the company itself) collaborates with social community projects. Acerinox Europe allocated €45,000 to the Rafael Naranjo Awards that reward projects presented by plant workers in the categories of Quality in Progress, Safety, and the Environment

The Acerinox Europe plant also collaborates in various projects with the Los Barrios Town Council, granting aids to the Neighbourhood Association of Bahia de Palmones, working with the Non-Profit Organisation, FEPROAMI in its work experience intern programme and making financial contributions through its Social Commission to various local NGOs. Although this has been the only plant that has taken part in participation programmes during the carrying out of the environmental impact assessment,

the US plant, NAS has allocated more than €108,000 to these items, divided between Corporate Social Responsibility projects and charitable organisations in the community in which the plant is located. NAS has a tax reduction agreement in place which provides the community with US$180,000 a year. Among the noteworthy donations are those made to the following initiatives and programmes: River Sweep, State Parks, Carroll County Big Brothers/Big Sisters Club, Scholarship Donations, American Foundation for Suicide Prevention, Employee Tender Loving Care Group, Leadership Development Program, and the Carroll County Memorial Hospital Grand Opening.

In the case of Columbus Stainless in South Africa, the company allocated €2,000,000 to the Broad-Based Black Economic Empowerment (BBBEE), a government programme which promotes equal opportunities for employees regardless of race. Within this figure, certain salaries and purchases of goods and services are included.

In addition to other CSR activities, Columbus develops a major campaign against AIDS, which includes medical analyses, educational courses, distribution of condoms, and other measures to contain the spread of the disease, which has been sent across the whole workforce.

As regards Bahru Stainless, it celebrates World Steel Safety Day and collaborates with both Pasir Guidang's Department of Welfare as well as the Malaysian Investment Development Authority (MIDA), to which it has allocated more than €6,000.

In the case of Acerinox Europe, it has carried out a review of the facilities that have participated in programmes during the course of environmental impact assessment, and at Columbus there have been three. In the other plants, no such review has been carried out.

Reinforced Concrete Crate with reinforcement of stainless Steel reinforced bar for the Monaco Harbour

The main affiliations with entities in the industry or other associations and organisations to defend interests at both a national and international level of the companies with active participation of the Acerinox Group through its membership fee, are detailed below:

Acerinox S.A. / Acerinox Europa
International Stainless Steel Forum (ISSF)
European Steel Association (EUROFER)
The Spain-US Advisory Foundation
National Union of Iron and Steel Companies (UNESID)
The Association of Large Industries of Campo de Gibraltar
The Association for Research and Development in Stainless Steel (CEDINOX)
Real Instituto Elcano Association of Large Energy Consumption Companies (AEGE)
Institute of Internal Auditors Association
Spanish Institute of Engineering
Spanish Network of the United Nations Global Compact
CDP Worldwide (Europe) Gmbh
Risk Management Initiatives (IGREA)
Management Progress Association (APD)
Círculo de Empresarios Asociación de Emisores Españoles (Association of Spanish Issuers Business Circle)
Hispanic-Malaysian Business Association
Association of Large Energy Consumption Companies (AEGE)
Círculo Empresarios (Business Circle)
SERES, Society Foundation and Responsible Business
Comillas University
Asociación Española de Codificación Comercio (Spanish Trade Encryption Association)
Instituto de Oficiales de Cumplimiento (Institute of Compliance Officers)

NAS
American Iron and Steel Institute
Employers Resource Association
Concrete Reinforcing Steel Institute
Kentucky Chamber of Commerce
Carroll County Chamber of Commerce
Northern Kentucky Chamber of Commerce
Kentucky Association of Manufacturing
National Association of Manufacturers
Metal Service Institute
Central Ohio River Business Association
Kentucky Industrial Utility Customers
Kentucky Excellence in Environmental Leadership
International Stainless Steel Forum
US Chamber of Commerce
World Steel Association
ASTM Standards Committee
National Association of Corrosion Engineers
SASFT (Strategic Alliance of Steel Fuel Tanks)

COLUMBUS
South African Stainless Steel Development Association (SASSDA)
Manufacturing Circle
South African Iron and Steel Institute (SAISI)
National Association of Automotive Component and Allied Manufacturers (NAACAM)
Steel and Engineering Industrial Federation of South Africa (SEIFSA)
Middelburg Chamber of Commerce (MCCI)
International Stainless Steel Forum (ISSF
Mpumalanga Stainless Initiative (NPO)
Steve Tshwete Local Municipality Local Economic Development Forum

BAHRU
Malaysian Iron & Steel Industry Federation (MISIF)
Federation of Malaysian Manufacturers (FMM)
Malaysian Employers Federation (MEF)
Malaysian International Chamber of Commerce & Industry (MICCI)
Malaysian Steel Institute (MSI)
International Stainless Steel Forum (ISSF)

7. Social action programmes

7.1 The Company's Commitment to Sustainable Development

The Acerinox Group supports and contributes to the sustainable development of local communities as a valuable contribution to society to maintain a state of well-being in all the countries in which it operates. In order to do this, Acerinox maintains a continuous and two-way dialogue with public bodies and authorities, governments and other local concerned parties, following the guidelines set out in the Code of Conduct and Best Practices of the company.

With regards to job creation, during 2018 there have been 598 new incorporations bringing the Group's workforce to a total of 6,709 employees.

The impact of the activity of our company on employment and local development in the areas in which it operates is very significant, it being one of the main generators of stable and quality employment. The payment of salaries, amounts paid in taxes and social security and the indirect activity generated by its plants are one of the leading producers of wealth and a social stabiliser.

Each of the companies which make up the Group has its own established communication channels through which it can apply to cooperate with social action programmes. In each of these there are managers for this department whose telephone numbers and email addresses are available in order for them to be able to answer these requests.

Following the internal regulations, any request that requires processing must be submitted in writing, specifying the amount of the request, the object for which it is intended, the organisation that has requested it and the channels through which it can be undertaken. In each case, a commission is responsible for assessing all the requests and for the granting of those considered most necessary.

Workers in the Acerinox Europa Mill

7.2 Subcontracting and Suppliers

In order to ensure a stable, sustainable supply chain, the company has fundamental tools such as the Code of Conduct and the accreditation processes of each factory, in order to verify the requirements they must meet in respect of health and safety, employment and environmental practices, among others.

All subcontractors or suppliers of goods that wish to work with the Acerinox Group must pass such accreditation processes, which include the express acceptance of the General Conditions for the procurement of supplies and goods, which are honest and fair, and they must fulfil criteria such as quality, price, product performance, suitability, and performance with regard to sustainability.

These General Conditions include recruitment and compliance with employment regulations (they must accredit and guarantee that they comply with all tax and social obligations with regard to their workers), respect for the environment, contribution to sustainable development and innovation in products and processes, while always taking the applicable legal requirements into account. Additionally, they include the priorities, management style, and behaviour that the Acerinox Group expects from its suppliers, and in order to be part of the network of suppliers, it is compulsory to respect the principles of the Global Compact initiative regarding the protection of human rights, minimum working conditions, environmental responsibility, and prevention of corruption.

The supplier must also guarantee its utmost repulsion and rejection of any type of corruption, and its firm commitment to prevent conduct of this type from occurring in its organisation and in its relations with the Company.

Tank made out of Stainless Steel

The Acerinox Group works with a total of 4,934 suppliers throughout all the regions in which it operates.

***Table 31** Acerinox Europe:*

	2018	2017
Total active suppliers	1,150	1,120
Number of active local suppliers	160	140
Number of active approved suppliers	1,150	1,120

100% of the new suppliers selected during the financial year, 72 in total, have gone through filters in accordance with environmental and social criteria.

With regards to the NAS plant, a total of 1,235 active suppliers registered in 2018, representing a slight decrease of -2.3%, compared to 1,264 who were registered in 2017. The expenditure made by NAS through these active suppliers amounts to €757,181,798, whilst spending with local active suppliers has risen to €245,588,338. This represents 32% of the total expenditure.

Table 32 NAS:

	2018	2017
Total active suppliers	1,235	1,137
Number of active local suppliers	642	161
Number of active approved suppliers	32	32

It is necessary that all suppliers comply with the general contract terms and conditions and present their services in accordance with the quality standards required by the Group contained in the Code of Conduct and which are consistent with international human rights declarations.

The Columbus plant registered a total of 1,972 active suppliers in 2018. The active expenditure made by the plant with these active suppliers amounted to €733,323,039. The number of local suppliers is 1,752, this being 35.6% higher than in the previous year. The expenditure made with local active suppliers amounted to a total of €165,188,557 in 2018.

***Table 33** Columbus:*

	2018	2017
Total active suppliers	1,972	1,486
Number of active local suppliers	1,752	1,270
Number of active approved suppliers	35	1,290

In 2018, the number of new suppliers that have been evaluated following the social criteria was 131.

Finally, in Bahru a total of 577 approved active suppliers where registered in 2018. The active expenditure made by Bahru with these active suppliers amounted to €24,913,832, 12.5% higher than in 2017. The expenditure made with local active suppliers amounted to a total of €20,055,290 in 2018. A total of 391 approved active suppliers where registered in 2018.

Table 34 Bahru:

	2018	2017
Total active suppliers	577	374
Number of active local suppliers	486	323
Number of active approved suppliers	391	367

Although the Malaysian legislation does not require that suppliers have to go through filters according to environmental and social criteria, the Group imposes the general contract conditions in order to comply with the standards of conduct contained in the Code of Conduct, as well as then acting in such a way that is consistent with the international human rights declarations.

7.3 Clients

All the plants and workplaces of Acerinox Group comply with all the quality and environmental controls that are required by the laws of each country. In Spain, both the three plants and other workplaces are fully compliant with the national and EU standards aimed at improving the environment.
The said Acerinox Europe plant holds the following certificates:

- Quality Certification - ISO 9000.
- Quality Management System ISO 9001:2015.
- Pressure Equipment Directive 97/23/EC (PED) and AD 2000-Merkblatt W 0/TRD 100.
- CE marking in accordance with the EN 10088-4, according to the Construction Products Regulation.
- Lloyd's Register Certificate for marine uses.
- BIS Certification from the Indian Government.
- NORSOK M-650 QTR.
- Management of radioactive equipment.

It also has the following accreditations with regards to environmental standards:

- Environmental Management System ISO 14001:2015.
- Chemical Laboratory Accreditation in accordance with the ISO 17025:2005, for testing liquid samples in the environmental sector.
- Energy Management System ISO 50001:2011.
- Occupational Health and Safety Management OHSAS 18001:2007.

It is also important to note that it has the Integrated Environmental Authorisation granted by the Ministry of Environment of the Andalusian Regional Government in force, and in the field of Safety, it has the statutory audit certificate in Occupational Health and Safety, under the Regulations for Prevention Services (Royal Decree 39/1997).

Moreover, despite being the oldest plant of the group, the Roldan plant (Ponferrada, León) was already producing steel before the constitution of Acerinox and has always offered its customers excellent levels of quality and service. Currently it manufactures various products of wire rods and round/hexagonal bars, angles, and reinforcement bars for the reinforcement of concrete, with various finishes depending on each product and holds the certificates for the following quality standards:

- Quality Management System ISO 9001:2015.
- Pressure Equipment Directive 2014/68/EC, Annex I, Section 4.3 and the AD2000-Merkblatt W 0.
- CE marking in accordance with the EN 10088-5, according to the Construction Products Regulation.
- Ü marking in accordance with the general building inspection approval.
- Z-30.3-6: for "Products, structural components and fasteners made of stainless steel."
- The CARES mark in accordance with the BS 6744 for reinforcement bars for reinforced concrete.

With regards to environmental standards, Roldan SA holds the Environmental Authorisation issued by the Ministry of Environment of the Castile and León Regional Government, and in the field of Safety, it holds the statutory audit certificate in Occupational Health and Safety, according to the Regulations for Prevention Services (Royal Decree 39/1997).

The Inoxfil plant in Igualada (Barcelona) manufactures stainless steel wire with various applications, diameters, and finishes. INOXFIL S.A.U holds the following certifications:

- Quality Management System ISO 9001:2015.
- Environmental Management System ISO 14001:2015.
- CE marking in accordance with the standard EN 10088-5, according to the 305/2011 EU Construction Products Regulation (CPR).
- Ü marking in accordance with the general building inspection approval under the Z-30.3-6 standard: of the DIBt (Deutsches Institut für Bautechnik) “Products, structural components and fasteners made of stainless steel.”
- Certificate in accordance with the VdTÜV 1153 standard for welding consumables, the approval of filler metals according to this standard.
- DB Certification for using filler metals and welding consumables for connection joints and filling, in accordance with the DB (Deutsche Bahn) VA 918 490.
- CE marking for welding consumables and filler materials in accordance with the ISO 14343-A standard, according to the Construction Products Regulation (CPR) 305/2011 EU System 2+. Construction Products Regulation (CPR).

As proof of this excellence, the Group has not been made aware of any significant impact on the health and safety of the products produced by the Group during 2018.

Acerinox undertakes to offer its customers high-quality products, as well as efficiency and continuous improvement in the processes and services it offers. To do so, it has established various channels of communication and information gathering for its customers through the company’s own sales network.

In each subsidiary there is a manager for each technical department who is responsible for receiving the technical complaints from the customers and who transmits this to the head of quality at the plant who is ultimately in charge of dealing with the complaint.

Bus shelter made of Stainless Steel

In order to find out the opinion of the customers and their degree of satisfaction regarding the service they have received, the range, the quality and presentation of the product, deadlines, etc., satisfaction surveys are sent to customers on a regular basis by the commercial subsidiaries.

With regards to complaints and claims, the systems for collecting information does not allow the information to be gathered at a global level for the Group.

7.4 Tax Information

The aggregated results before tax obtained by the companies of the Group in each of the continents amounts to €182.76 million (€305.35 million in 2017). After deducting the consolidation adjustments, the consolidated result before taxes of the Acerinox Group, amounts to €310 million in 2018 (€299 million in 2017).

The Acerinox Group breaks down the tax information by continent and not by country as it considers this to be information of a strategic nature.

Table 35 Result before tax by continents (in thousands of euros):

	2018	2017
Europe	-73,054	112,942
Americas	315,109	207,905
Africa	10,611	41,490
Asia	-70,036	-57,106
Oceania	130	121
Total	**182,760**	**305,352**

Table 36 The subsidies received during the 2018 financial year by the various companies of the Group are as follows (in thousands of euros):

thousands of euros	2018			2017	
	Acerinox Europa	**Columbus**	**Roldán**	**Shangai**	**Total**
I+D+i	147	-	-	-	**147**
Environmental matters	2,552	-	-	-	**2,552**
Asignación derechos C02	1,756	-	189	-	**1,945**
Training	12	278	-	-	**290**
Other	-	-	-	174	**174**

Table 37 Payment of taxes by continents (thousands of euros):

	2018	2017
Europe	6,950	17,091
Americas	74,557	48,355
Africa	4,679	11,170
Asia	511	292
Oceania	0	0
Total	**86,697**	**76,908**

Taxes on benefits paid by the Group in the 2018 financial year amount to €86.70 million (€76.91 in 2017).

Stainless Steel Coil in BA finish at NAS Mill

KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on the Consolidated Non-Financial Information Statement of Acerinox, S.A. and subsidiaries for the year 2018

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

To the shareholders of Acerinox, S.A.:

Pursuant to article 49 of the Spanish Code of Commerce, we have provided limited assurance on the Non-Financial Information Statement Consolidated (hereinafter NFIS) for the year ended 31 December 2018, of Acerinox, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) which forms part of the Group's 2018 consolidated Directors' Report.

The consolidated Directors' Report includes additional information to that required by prevailing mercantile legislation on which it is not possible to provide assurance as it was not prepared using adequate criteria. In this regard, our assurance work was limited only to providing assurance on the information contained in table "Correspondence contained in Law 11/2018 and GRI indicators" of the consolidated Directors' Report attached hereto.

Directors' responsibilities

The Directors of the Parent are responsible for the preparation and presentation of the NFIS included in the Group's consolidated Directors' Report. The NFIS has been prepared in accordance with prevailing mercantile legislation and selected Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards), in accordance with that mentioned for each subject area in table "Correspondence contained in Law 11/2018 and GRI indicators" of the aforementioned Group's consolidated Directors' Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFIS is free from material misstatement, whether due to fraud or error.

The Directors of the Parent are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for preparing the NFIS was obtained.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report, referring solely to 2018, based on the work performed. The data for previous years were not subject to assurance according to the mercantile legislation in force.

We conducted our review engagement in accordance with International Standard on Assurance Engagements, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Performance Guide on assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management and of the different units of the Parent that participated in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS and in the application of certain analytical procedures and sample review testing described below:

– Meetings with the Parent personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.

– Analysis of the scope, relevance and completeness of the content of the NFIS based on the materiality analysis performed by the Parent and described in the section "materiality analysis" considering the content required in prevailing mercantile legislation.

– Analysis of the processes for compiling and validating the data presented in the NFIS for 2018.

– Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFIS for 2018.

– Corroboration, through sample testing, of the information relative to the content of the NFIS for 2018 and whether it has been adequately compiled based on data provided by internal and external information sources or third party reports.

– Procurement of a representation letter from the Directors and management.

Basis of the qualified conclusion

The NFIS included in the Consolidated Directors´ Report does not include the information regarding the contents established by the mercantile legislation in relation to the profits earned by country.

Conclusion

Based on the assurance procedures performed and the evidence obtained, except for the effect of the matter described in the paragraph "Basis of the qualified conclusion", nothing else has come to our attention that causes us to believe that the NFIS of Acerinox, S.A. and subsidiaries for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and the content of the selected GRI Standards, in accordance with that mentioned for each subject area in the table "Correspondence contained in Law 11/2018 and GRI indicators" of the aforementioned consolidated Directors' Report.

Use and distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on original in Spanish on 26 February 2019)

Patricia Reverter Guillot

18 March 2019

Annex 1

Correspondence contained in Law 11/2018 and GRI indicators

Information required by the Law on Non-financial Information	Link with GRI indicators	Non-financial Information Record Page No.
General Information		
Business Model		
Brief description of the business model of the group (business environment and organisation).	102-2 Activities, brands, products and services 102-7 Size of the organisation	Page 184-185
Geographical presence	102-3 Location of headquarters 102-4 Location of operations 102-6 Markets served	Page 184-185
Objectives and strategies of the organisation.	-	Page 185
Main factors and trends that may affect its future development	102-15 Main impacts, risks and opportunities	Page 186
General		
Mention in the report regarding the national, European and international reporting framework used for the selection of non-financial key performance indicators included in each of the sections.	102-54 Declaration of the preparation of the report in accordance with the GRI standards	Page 184

Information required by the Law on Non-financial Information	Link with GRI indicators	Non-financial Information Record Page No.
Environmental Matters		
General Information		
A description of the policies applied by the group concerning such matters, which will include the due diligence procedures applied to the identification, evaluation, prevention and mitigation of significant risks and impacts, and on their verification and control, as well as the measures that have been adopted.	103-2 The management approach and its components	Page 188
The results of these policies, which must include relevant non-financial key performance indicators which allow the monitoring and evaluation of the progress made and which promote the comparability between companies and industries, in accordance with the national, European or international reference frameworks used for each matter.	103-2 The management approach and its components 103-3 Evaluation of the management approach	Page 188-195
The main risks related to these issues related to the activities of the group, including, among others, when relevant and proportionate, their business relationships, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to detect and evaluate them according to national, European or international reference frameworks for each matter. Information on the impacts that have been detected must be included, offering a breakdown of the said impacts, in particular on the main short, medium, and long-term risks.	102-15 Main impacts, risks and opportunities	Page 186 and Page 188
Detailed information		
General Information in detail		
Current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety.	-	Page 189-190
On the environmental evaluation and certification procedures.	-	Page 216-218
On the resources dedicated to the prevention of environmental risks.	-	Page 188
On the application of the precautionary principle.	102-11 Precautionary principle or approach	Page 188

Non-financial Information record

Information required by the Law on Non-financial Information	Link with GRI indicators	Non-financial Information Record Page No.
Environmental Matters		
On the provisions and guarantees for environmental risks.	-	Page 188
Pollution		
Measures to prevent, reduce or repair carbon emissions that seriously affect the environment, taking into account any form of air pollution specific to an activity, including noise and light pollution.	305-7 Nitrous Oxides (NOx), Sulphur Oxides (SOx) and other significant air emissions	Page 189-190
Circular Economy and Waste Prevention and Management		
Prevention measures, recycling, reuse, other forms of recovery and waste disposal; actions to combat food waste.	301-1 Materials used by weight or volume. 301-2 Recycled supplies.	Page 191-197
Sustainable use of resources		
Water consumption and water supply in accordance with the local restrictions.	303-1 Water interactions as a shared resource. 303-2 Water management and impacts resulting from the discharges. 303-3 Water catchment. 303-4 Water discharges. 303-5 Water consumption.	Page 194
Consumption of raw materials and the measures adopted to improve the efficiency of their use.	301-1 Materials used by weight or volume	Page 195
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Measures implemented to increase energy efficiency.	302-4 Reduction of energy consumption	Page 190-192
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